

**ANNUAL REPORT**

# **2012**

**MINISTRY OF  
FINANCE AND PLANNING  
SRI LANKA**



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# **MINISTRY OF FINANCE AND PLANNING**

(AS AT 31ST MARCH 2013)

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His Excellency Mahinda Rajapaksa  
**President of the Democratic Socialist Republic of Sri Lanka**  
**Minister of Finance and Planning**

Hon. Dr. Sarath Amunugama, MP  
**Minister (Senior) of International Monetary Cooperation &  
Deputy Minister of Finance and Planning**

## **PRINCIPAL OFFICIALS**

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**Deputy Secretaries to the Treasury**

E.M.S.B. Ekanayake  
**Director General (Corporate Management)**

Ms. H.M.N.S. Gunawardana  
**Project Director**  
**Fiscal Management Efficiency Project**

**Auditor**  
H.A.S. Samaraweera  
**Auditor General**

# **HEADS OF TREASURY DEPARTMENTS**

(AS AT 31ST MARCH 2013)

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Ms. M. Gamage - Director General

## **Department of National Budget**

Ms. G.D.C. Ekanayake - Director General

A.K. Senevirathne - Additional Director General (Acting)

## **Department of Public Enterprises**

Ms. D.M. A. Harasgama - Director General

## **Department of External Resources**

M.P.D.U.K. Mapa Pathirana - Director General

K.Kumarasiri - Additional Director General

## **Department of Management Services**

Ms. N. Godakanda - Director General

A.M.A. Dayaratne - Additional Director General (Acting)

## **Department of Fiscal Policy**

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## **Department of Trade and Investment Policy**

N. Goonewardena - Director General

## **Department of Development Finance**

D.S. Jayaweera - Director General

## **Department of Public Finance**

P. Algama - Director General

## **Department of Legal Affairs**

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R.M.A. Rathnayake - Additional Director General (Acting)

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## **Department of Project Management and Monitoring**

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W.I. Tissera - Additional Director General

V.M. Ameen - Additional Director General

## **Department of Management Audit**

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D.U.S. Wickramaarachchi - Additional Director General (Acting)

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P.A. Dias - Director General



# **HEADS OF DEPARTMENTS UNDER THE PURVIEW OF THE MINISTRY OF FINANCE AND PLANNING**

(AS AT 31ST MARCH 2013)

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## **Department of Inland Revenue**

Ms. M. Samarasekara - Commissioner General

## **Department of Customs**

J.P. Wijeweera - Director General

## **Department of Excise**

D.G.M.V. Hapuarachchi - Commissioner General

## **Department of Import and Export Control**

D.S.P. Senarathne - Controller

## **Department of Valuation**

R.A.R.M.N. Rajakaruna - Chief Valuer

## **Department of Census and Statistics**

D.C.A. Gunawardena - Director General

# **HEADS OF STATUTORY BOARDS/ STATE BANKS/ OTHER INSTITUTIONS UNDER THE PURVIEW OF THE MINISTRY OF FINANCE AND PLANNING**

(AS AT 31ST MARCH 2013)

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## **Central Bank of Sri Lanka**

A.N. Cabraal - Governor

B.D.W.A. Silva - Deputy Governor

Ms. C. Premaratne - Deputy Governor

P.N. Weerasinghe - Deputy Governor

## **Securities and Exchange Commission of Sri Lanka**

N. Godahewa - Chairman

H. Dissabandara - Director General

## **Insurance Board of Sri Lanka**

Ms. I. Sugathadasa - Chairperson

C. Gunawardhana - Director General

## **Bank of Ceylon**

M.R. Zarook - Chairman

D.M. Gunasekara - General Manager

## **People's Bank**

G. Senarath - Chairman

N. Vasantha Kumar - Chief Executive Officer/General Manager

## **National Savings Bank**

S.S. Sirisena - Chairman

H. Bandara - General Manager

**Lanka Puthra Development Bank**

Ms. K. Kulathunga - Chairperson  
L. Amarasekara - General Manager

**Sri Lanka Savings Bank**

A. Dahanayake - Chairman  
A. Weerasekara - General Manager

**Housing Development Finance Corporation Bank**

Ms. S.N. Wickramasinghe - Chairperson  
N.J.B. Mamaduwa - General Manager

**Regional Development Bank**

Ms. J.G.V.K.R. Jayawardana - Chairperson  
R. Siriwardhana - General Manager

**State Mortgage and Investment Bank**

J. Wellawatta - Chairman  
Ms. W.J.K. Geeganage - Acting General Manager

**National Lotteries Board**

C. Athaluwage - Chairman  
Ms. M. S. Karunarathna - General Manager

**Development Lotteries Board**

C. Pathiraja - Chairman  
M. Dewasurendra - General Manager

**Lady Lochore Loan Fund**

Ms. G.K. Wimalaweera - Chairperson  
W.N.A. Perera - Managing Trustee

**Sri Lanka Insurance Corporation**

A.M.M. de Alwis - Managing Director

**National Insurance Trust Fund**

D. Widanagamachchi - Chairman

**Employee's Trust Fund Board**

K.M.A. Godawatta - Chairman  
M.C.H. Gunarathna - Additional General Manager

**Sri Lanka Accounting and Auditing Standards Monitoring Board**

P. Samarasiri - Chairman  
A.S. Rathnayake - Director General

**Public Utilities Commission of Sri Lanka**

J. de Costa - Chairman  
D. Kumarasinghe - Director General

**Sri Lanka Export Credit Insurance Corporation**

D.P. Mendis - Chairman  
D.H.J. Ranasinghe - General Manager

**Local Loans and Development Fund**

R.A.K.K. Ranasinghe - Chairman  
B.A.T. Rodrigo - Acting Chief Executive Officer

**Agriculture and Agrarian Insurance Board**

K.D.P.R. Weerasinghe - Director General

**Institute of Policy Studies**

W.D. Lakshman - Chairman  
S. Kelegama - Executive Director

**Academy of Financial Studies (MILODA)**

Ms. M. Gamage - Senior Human Resource Executive

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## SRI LANKA AT A GLANCE - 2005 & 2012

	2005	2012		2005	2012
<b>GDP</b>			<b>TOTAL GOVERNMENT DEBT (US\$ Mn)</b>	22,115	47,023
GDP at Market Prices (Rs.Bn.)	2,453	7,582	Total Debt Service (GDP %)	14.3	13.4
GDP at Market Prices (US\$ Bn.)	24.4	59.4	Total Government Debt (GDP %)	90.6	79.1
Per Capita GDP at Market Prices (Rs.)	124,709	373,001	Domestic (GDP %)	51.6	42.6
Per Capita GDP at Market Prices (US\$)	1,241	2,923	Foreign (GDP %)	39.0	36.5
Inflation - GDP Implicit Price Deflator (%)	10.4	8.9			
Inflation - CCPI (%) (Annual Average)	11.0	7.6	<b>PROVINCIAL BUDGET</b>		
Unemployment (%)	7.7	4.0	Revenue (Rs.Bn)	16.1	49.2
Labour Force Participation Rate (%)	48.3	47.2	Tax Revenue (Rs.Bn)	13.8	41.0
			Expenditure (Rs.Bn)	73.0	159.5
<b>STRUCTURE OF THE ECONOMY</b>			Central Government Transfers (Rs.Bn)	59.7	112.1
GDP (Percentage change))	6.2	6.4			
GNP (Percentage change))	6.0	5.5	<b>MONETARY SECTOR DEVELOPMENTS</b>		
			Narrow Money (Rs.Bn.)	592.9	450.0
<b>Share of GDP (%)</b>			Broad Money (Rs.Bn)	822.9	2,593.2
Agriculture	12.5	11.1	Money Growth (M2b) (%)	19.6	18.3
Industry	28.1	31.5			
Services	59.4	58.5	<b>ACCESS TO BANKING &amp; FINANCE</b>		
			Domestic Commercial Banks	11	12
<b>Sectoral Growth (%)</b>			Branches	1,090	1,627
Agriculture	1.8	5.8	Foreign Commercial Banks	11	12
Industry	8.0	10.3	Branches	35	49
Services	6.4	4.6	Specialized Banks (Excluding RDBs)	8	8
			Branches	170	287
<b>EXTERANL TRADE</b>			Regional Development Bank	6	1
Exports (US\$ Mn.)	6,347	9,774	Branches	199	240
Imports (US\$ Mn.)	8,863	19,183	ATMs	n.a.	2,384
Trade Balance (US\$ Mn.)	-2,516	-9,409	Domestic Commercial Banks	n.a.	2,181
Worker Remittances (US\$ Mn.)	1,918	5,985	Foreign Commercial Banks	n.a.	45
Current Account Balance (US\$ Mn)	-650	-3,915	Specialized Banks	n.a.	158
Overall Balance of Payment (US\$ Mn)	501	151			
			Insurance Companies	14	22
<b>GOVERNMENT FINANCE</b>			Registered Finance Companies	28	47
Revenue (Rs.Bn)	380	1,051	Specialized Leasing Companies	18	13
Tax Revenue (Rs.Bn)	337	909	Student Savings Units	244	188
Non Tax Revenue (Rs.Bn)	43	142	Credit Cards Issued	181,857	173,017
Revenue (US\$ Mn.)	3,779	8,240	Credit Cards In Use	629,740	952,256
Tax Revenue (US\$ Mn)	3,352	7,123			
Non Tax Revenue (US\$ Mn)	427	1,117			
Total Expenditure and Lending (Rs.Bn)	592	1,556			
Current Expenditure (Rs.Bn.)	443	1,131	<b>EXCHANGE RATE</b>		
Public Investment (Rs.Bn.)	149	444	Annual Average		
Current Account Deficit / GDP %	-2.6	-1.0	Rs/US\$	100.50	127.60
Budget Deficit / GDP %	-7.0	-6.4	Rs/SDR	148.45	195.38
Total Expenditure (US\$.Mn)	5,819	12,198			
Current Expenditure (US\$ Mn.)	4,412	8,864	Year End		
Public Investment (US\$ Mn.)	1,479	3,479	Rs/US\$	102.12	127.16
Budget Deficit (US\$ Mn.)	-1,716	-3,832	Rs/SDR	145.95	195.31

## SRI LANKA AT A GLANCE - 2005 & 2012

TARIFF REGIME AS AT 31 DECEMBER			
2005		2012	
Duty free items	778	Duty free items	3,024
Duty below 2.5%	2,169	Duty 5%	410
Duty below 6%	479	Duty 15%	1,587
Duty between 15%	1,646	Duty 30%	1,504
Duty between 28%	1,445	Duty 75%	4
Duty between 50%	1	Duty 100%	5
Duty between 75%	2	Specific	84
Duty between 100%	5	Specific & Advelorum	200
<b>Total</b>	<b>6,525</b>	<b>Total</b>	<b>6,818</b>

### SRI LANKA AT A GLANCE - 2005 & 2012

	2005	2012		2005	2012
<b>SOCIAL DEVELOPMENT</b>			<b>ACCESS TO BASIC INFRASTRUCTURE</b>		
Growth of Population	1.1	1.0	Electricity to Households (%)	77	93
Life Expectancy at Birth	67.9	75.1	Pipe-borne Water (% of Population)	30	43.5
Infant Mortality (Per 1,000 Live Births) - (2009)	11.2	9.4	Access to Safe Drinking Water (% of Population)	75	84
Maternal Mortality Rate (Per 100,000 Live Births-(2009)	11.9	7.2	<b>Telecommunications</b>		
Crude Birth Rate (Per 1,000) - (2011)	18.9	17.4	Fixed Access Services (No.'000)	1,244	3,449
Crude Death Rate (Per 1,000) - (2011)	6.7	5.9	Cellular Phones (No. of Subscribers '000)	3,362	20,324
Literacy Rate (%) (2006 and 2011)			Internet & E-mail Subscribers (No.'000)	115	423
Average	90.8	92.2	<b>Postal</b>		
Male	92.7	93.5	Public Post Offices	4,043	4,062
Female	89.1	91.1	Private Post Offices	654	676
Literacy Rate - Computer (% of Population) (2011)	n.a.	35	<b>Roads</b>		
Dependency Ratio (%) (2011)	48.3	48.4	Total Road Length (Km)	111,436	115,179
			Road Density (Km2)	1.70	1.76
<b>MOTOR VEHICLE IMPORTS</b>			<b>Ports</b>		
Motor Bicycles	193,411	186,372	Vessels Arrived	4,139	4,178
Three-Wheelers	39,154	93,284	Total Container Handled (TEUs '000)	2,455	4,187
Tractors	26,106	18,967	Total Cargo Handled- ('000MT)	37,300	65,030
Motor Vehicles for Transport of Goods	18,423	45,560	Transshipment (TEUs '000)	1,716	3,167
Passenger Van and Buses	2,229	3,245	<b>MEGA IRRIGATION SCHEMES</b>		
Motor Cars	15,944	26,312	(Extent to be newly cultivated)-ha.		
Other	661	435	Deduru Oya Reservoir	-	11,000
			Heda Oya Reservoir	-	5,200
			Yan Oya Reservoir	-	600
			Rambukkan Oya Reservoir	-	1,400
			Moragahakanda & Kalu Ganga	-	5,624

## SRI LANKA AT A GLANCE - 2005 & 2012

	2005	2012		2005	2012
<b>PROFESSIONALS (PROVISIONAL)</b>			<b>PRINT MEDIA</b>		
Doctors	12,692	18,252	<b>Newspapers (No.)</b>	90	191
Nurses	20,332	30,217	Sinhala Newspapers	63	115
Public Health Inspectors (PHI)	1,581	1,654	Tamil Newspapers	07	25
Attendants	6,705	8,375	English Newspapers	20	43
			Bilingual	-	8
<b>ACCESS TO BASIC NEEDS</b>			<b>ELECTRONIC MEDIA</b>		
<b>HEALTH</b>			<b>Television Services</b>		
Public Hospitals	606	593	Government	13	24
Private Hospitals	n.a.	197	Sinhala	4	6
Central Dispensaries	397	480	Tamil	2	2
Beds	61,937	73,437	English	1	2
			Private	9	18
			Sinhala	5	11
			Tamil	1	3
<b>EDUCATION</b>			English	3	4
Government					
Schools	9,723	9,931			
Students ('000')	3,937	3,997	<b>Radio Services</b>	32	64
Teachers	189,234	219,788	Government	20	25
Private			Sinhala	13	19
Schools	85	98	Tamil	5	4
Students ('000')	106	126	English	2	2
Teachers	5,000	6,114	Private	12	39
Pirivenas			Sinhala	6	22
Schools	653	734	Tamil	1	06
Students ('000')	55	65	English	5	11
Teachers	5,481	6,086			
			<b>CAPACITY OF ON- GOING HYDRO POWER/ THERMAL PLANTS (MW)</b>		
<b>WOMEN PARTICIPATION</b>			Norochcholai Coal Fired Plant (Phase 11) (MW)	-	600
Women Population ('000) (2005 & 2010)	9,862	10,431	<b>INSTALLED CAPACITY (MW)</b>		
			Total	2,411	3,312
Employed Women ('000) (2005 & 2010)	2,383	2,941	CEB	1,758	2,214
Women Participation in the Labour Force (%) (2005 & 2010)	30.9	31.2	Hydro Power	1,207	1,357
Women in the Public Service ('000) (2010)	n.a.	445	Thermal Power	548	854
Unemployed Women (%) (2005 & 2010)	11.9	7.0	Other	3	3

## SRI LANKA AT A GLANCE - 2005 & 2012

	2005	2012		2005	2012
			Private Sector	653	1,098
<b>POVERTY</b>			Hydro Power	84	227
Poverty Gap Index-PGI or PI (2006/2007 and 2009/2010) (%)	3.1	1.7	Thermal Power	567	784
Poverty Head Count Index - HCI (%) (Household Income and Expenditure Survey 2006/2007 and 2012/2013)	15.2	6.5	Other	2	87
Average Daily Calorie Intake (Both Poor and Non - Poor) (2006/07) and (2009/10)	2,118	2,094	<b>STOCK MARKET</b>		
			Market Capitalization (Rs.Bn)	584	2,168
Gini Coefficient of Per Capita Expenditure (Household Income and Expenditure Survey 2002 and 2009/2010)	0.40	0.36	Average Daily Turnover (Rs.Mn)	482	884
			All Share Price Index (ASPI)	1,922	5,643
			Milanka Price Index (MPI)	2,451	5,119
			Market Price Earning Ratio- End of the Year (%)	12.4	15.9
			Turnover to Market Capitalization (%)	23.7	9.9

Personal Income Tax (%)			
2005		2013	
First Rs.300,000	Free	First Rs. 500,000	Free
Next Rs. 300,000	5	Next Rs 500,000	4
Next Rs. 200,000	10	Next Rs.500,000	8
Next Rs. 200,000	15	Next Rs. 500,000	12
Next Rs. 200,000	20	Next Rs.500,000	16
Next Rs. 200,000	25	Next Rs.1,000,000	20
Balance	30	Balance	24

## SRI LANKA AT A GLANCE - 2005 & 2012

	2005	2013		2005	2013
<b>Corporate Tax (%)</b>			<b>Excise Duty</b>		
Standard Rate	32.5	28	<b>Cigarettes (Rs. Per 1,000)</b>		
Taxable Income Less Than Rs.5.0 Mn.	20	12	Length below 60mm	1,640	4,612
Export Income	15	12	Length 60-67mm	3,137	9,258
			Length 67-72mm	5,088	12,100
<b>Economic Service Charge (ESC) (%)</b>			Length 72-84mm	5,904	14,963
ESC Rate	0.5-1%	0.25%	Length Exceeding 84mm	6,150	18,500
(Any ESC Paid is Deductible from any Income Tax / Corporate Tax Payable)			<b>Motor Vehicles (%)</b>		
			Passenger Transport	0	0
<b>Value Added Tax (VAT) (%)</b>			Three - Wheelers		
Standard Rate	15	12	Petrol	4	45
Exports	0	0	Diesel	14	45
Luxury Rate	18	-	Other Vehicles	15-115	14 -173
<b>Nation Building Tax (NBT) (%)</b>	-	2	<b>Liquor Duty Structure</b>		
<b>Ports and Airports Development Levy (%)</b>	1.5	5	<b>(Rs. Per Proof Liter)</b>		
<b>Telecommunications Levy (%)</b>	-	20	Coconut Processed/Molasses Arrack	336	1,043
<b>Share Transaction Levy (%)</b>	0.2	0.3	Country Made Foreign Liquor	490	1,183
<b>CUSTOMS DUTY (%)</b>			Malt Liquor (Beer) above 5% in Strength	43.50	116
Inputs / Raw Material	0-2.5	0 - 5	Malt Liquor Less than 5% in Strength	27.50	100
Intermediate Goods	6 or 15	5-15	Wine	200	898
Finished and Luxury Goods	28	30	Aerated Water (Per Liter)	6	8



01

# ECONOMIC PERSPECTIVES: SRI LANKA

## 1.1 Overview

The year 2012 being the third year of the 2010-2012 three year fiscal framework within the 2010-2015 second five year development plan, 'The Emerging Wonder of Asia - The Development Policy Framework of the Government', was yet another challenging year to the Sri Lankan Economy. Unusual and extreme weather conditions were witnessed in late 2011 and throughout 2012, with heat waves that seared through the country coupled with a severe drought, as well as massive showers which caused floods that affected many parts of the country, demonstrating the susceptibility of several growth sectors of the economy particularly agriculture and power generation, as well as wildlife and bio diversity, to climate change.

The rapid deterioration in global economic conditions particularly in major export markets in Europe and in the US also posed a challenge to sustain the growth momentum generated in 2010 and 2011 affecting export led economic activities. The rise in imports owing to higher oil prices that remained in the range of US\$ 90 -110 per barrel and the excessive demand for oil imports for power generation stemming from the prolonged drought undermined the stability of the Balance of Payments in 2011, due to the widening trade deficit. High international oil prices that exceeded domestic administered prices of petroleum products, electricity, water and transport led to an accumulation of large losses in several state enterprises such as CPC, CEB and SriLankan, compelling the Government and state banks to finance such losses, in addition to their increased

exposure to finance oil imports. The private sector credit growth of 24.9 percent in 2010 and 34.5 percent in 2011 in the backdrop of a high economic growth of 8 percent in both years was excessive. In this context, 'securing stability' became the strategic economic priority, while protecting welfare expenditure and planned public investments. Balancing such a trade-off involved corrective policy actions through re-alignment of prices, interest and exchange rates, the cost of living and business operations. Hence, the Government initiated a series of policy actions to secure stability commencing from the presentation of the 2012 Budget in November 2011 in the interest of the medium term high growth scenario.

The Government policy stance in the wake of a large trade deficit encouraged greater flexibility in exchange rate movements, imposition of high tariffs on high demand motor vehicle imports, prescription of credit ceilings in the banking system, increasing policy interest rates and revision of administered prices on petroleum, electricity, water and transportation, to correct emerging imbalances in both external trade and the domestic economy. The unavoidable implication of these policy actions which resulted in creating a dampening impact on the import demand and economic activities in the immediate term was also a challenge since it affected Government finance, mainly revenue flows as reduced imports compressed Customs based revenue in 2012. The Euro Zone financial crisis and the US Fiscal - Cliff caused worries in the global financial outlook affecting foreign investments.



## Overall Performance

Amidst such challenges, the Sri Lankan economy generated a 6.4 percent annual growth in 2012 pursuant to an 8 percent annual growth in the two preceding years. This moderation of growth in 2012 was the combined outcome of subdued external demand, tightened domestic policies and the effects of adverse weather conditions that impacted agriculture and hydropower generation. The severe drought in the second and third quarters of 2012 limited agriculture sector growth to 5.8 percent. The services sector growth moderated to 4.6 percent, despite the expansion in tourism and related services mainly due to lower domestic and external demand. The industry sector performed well in 2012 largely supported by the thriving construction activities. The development strategy of the Government continued to focus mainly on the development of maritime, energy, aviation, education, tourism, agriculture, rural development and export industries without allowing them to suffer from short term adjustment effects. A significant expansion of productive capacity has been created through the development of infrastructure facilities, which have already been completed or nearing completion including 3 new sea ports, several fishery harbours, a new international airport, power plants, new roads and irrigation schemes, to support continued economic expansion.

As per World Bank's Doing Business Survey 2013, Sri Lanka further improved its position to the 81st from the 89th position in the previous year underpinning the continued progress in the creation of a supportive business environment

in the country. The gross investment /GDP ratio exceeded 30 percent in 2012, after remaining at low levels for 3 decades. The disparity between the urban and the rural further narrowed. The overall poverty level declined from 15.2 percent in 2006/07 to 6.5 percent in 2012 (provisional), with a rapid decline in multifaceted poverty demonstrating that the rural centric development strategy of the Government has been effective. With continued economic expansion, the unemployment rate also declined further to 4.0 percent in 2012. Despite price adjustments, the monetary policy was able to curtail the growth in money and credit expansion and contain the annual inflation at around 8 percent. The single digit inflation achieved was further strengthened by the agriculture policy of the Government that recognizes food security as an explicit objective and also encourages generation of a greater surplus in food production.

The country's per capita income reached near US\$ 3,000 level in 2012, underscoring sustained positive movements in the per capita growth that was witnessed since 2005, in which year the per capita income was US\$ 1,200. Increasing domestic demand, along with expected improvement in the global economic outlook, prospects remain strong to return to a high growth path of 7.5 - 8.0 percent in the medium term. Hence, the year 2012 can be reckoned as the year in which the economic transformation that is in place in Sri Lanka was facilitated having put in place the required adjustments towards securing stability, to ensure reaching the upper middle income economy status by 2016, without compromising the US\$ 4,000 per capita income target.

## Fiscal Policy

Continuing to maintain a consistent downward trend in the reduction of the Budget deficit remained a challenge. In spite of the setback in revenue, the Government was able to contain the fiscal deficit at 6.4 percent for the third consecutive year, encouraging the commitment to direct the fiscal deficit towards a manageable level in the medium term. Revenue from Custom based taxes, such as VAT, NBT, Import Duty and Excise Tax moderated due to the decline in imports, particularly motor vehicle imports. Despite the moratorium on loan repayments and interest payments on the loans provided to Ceylon Electricity Board, deferred payments by the Water Supply and Drainage Board due to its tight liquidity situation, non-compliance by certain state owned business enterprises on the payment of PAYE tax, a contraction in domestic economic activities and the decline in excisable commodities such as liquor and cigarettes, the Government's steadfast efforts for fiscal consolidation resulted in containing the fiscal deficit at 6.4 percent of GDP in 2012. This is a continued progress in the reduction of the deficit from 9.9 percent in 2009 and 6.9 percent in 2011, with a slight departure from the targeted 6.2 percent for 2012.

However, comprehensive tax reforms introduced in 2010 and 2011, simplified the tax structure and broad based the tax system, brought down the corporate income tax from 35 percent to 28 percent, unified the VAT rate at 12 percent, abolished several multiple taxes, and enabled the tax system to consolidate in a low tax regime to improve medium term compliance and promote a buoyant revenue growth in line with other fast growing economies. These reforms are yet to spawn its intended outcomes. The unfavourable global and domestic economic sentiments had a somewhat cloudy impact on the positive effects so far witnessed and made an economic contraction in 2012. The drop in revenue was offset to some extent by the containment of

recurrent expenditure, which declined from 18.2 percent in 2009 to 14.9 percent of GDP in 2012. This mainly reflected the moderate growth in salaries, transfers and subsidies, and interest payments. The Government was able to maintain public investment which was above 6 percent of GDP in recent years at 5.9 percent of GDP in 2012, mainly due to time slicing of capital expenditure in the backdrop of reduction in revenue. Moving further forward, the Government also committed to reduce the fiscal deficit to 5.8 percent of GDP in 2013 and below 5 percent by 2016 through revenue improvements projected to increase to 16 percent of GDP over the medium term in line with the expected economic growth of around 7 percent in 2013 and 7.5 to 8 percent thereafter, along with the expansion in the tax base and improvements in profit and dividend income from state enterprises.

## Taxation

The recent tax reforms focused on creating an enabling environment for investment and growth while promoting the medium term revenue base. Accordingly, tax incentives were realigned under the Inland Revenue Act and Strategic Development Projects Act to expedite the approval process and to rationalize tax incentives, to prevent possible erosion of the future tax base. Steps have already been taken to bring the wholesale and retail sectors under the VAT system to further broaden the tax base. A moratorium is being applied to prevent the grant of ad-hoc concessions. The Government has placed greater emphasis on improving the tax administration to perk up compliance and intensified tax audits and revenue collection measures with greater focus on the large and corporate tax payers. A Tax Appeals Commission and a Tax Interpretation Committee have been set up to minimize long delays experienced in resolving tax disputes. Measures are under way to move towards payment of taxes on a self-assessment basis, to ensure greater coordination among Sri

Lanka Customs, Excise, and Inland Revenue Departments and to provide facilities to make tax payments on-line, with a view to promote tax compliance, timely filing of tax returns and effective enforcement. The human resource skills required to manage an advanced tax administration are being strengthened. Institutional modernization including the transition to an IT based processes is in progress. These measures together with the already established relatively low tax regime are expected to increase both income tax as well as VAT revenue, to assist the over 15 percent GDP tax effort in the country over the medium term fiscal framework.

## **Debt Reduction Strategy**

The Government debt to GDP ratio, which has been declining consistently from 105.6 percent in 2002, increased slightly from 78.5 percent in 2011 to 79.1 percent in 2012, largely reflecting the impact of the Rupee depreciation and the appreciation of Yen denominated foreign Debt but underpins the positive impact of the continuously reducing Budget deficit and the relatively strong GDP growth that is being maintained, both of which are essential in the effort to reduce debt in proportion to GDP. The sustained fiscal consolidation coupled with the high economic growth in the range of 7 - 8 percent over 2013 -2015, is expected to bring down the debt to GDP ratio to around 70 percent by 2016. The country's external debt service indicators have remained well within the target of less than 18 percent denoting less indebted country status, which is confirmed as per the recently published UN- ESCAP's country comparison.

## **Monetary Policy**

The concerted efforts being made by the Government to improve financial management and improvements witnessed in food production and supply conditions have helped to maintain inflation at a single digit level

continuously since 2009, despite adverse domestic and external supply side-shocks. The year-on-year headline inflation recorded as low as 2.7 percent in February 2012 but gradually increased to the upper boundary level of 9.8 percent by July 2012, mainly reflecting the impact of upward adjustments in energy prices, supply disruptions due to adverse weather conditions, the pass-through effects of the rupee depreciation as well as underlying demand pressures associated with credit expansion in the past two years. Inflation has moderated since then to 6.4 percent in April 2013 and a further deceleration is expected in the coming months in response to a relatively stable money and credit growth as well as supply side improvements in food production and distribution. The Central Bank's 'Road Map: Monetary and Financial Sector Policies for 2013 and Beyond' assures the commitment to maintain inflation at mid-single digit levels over the medium term.

In response to tight policy measures adopted at the beginning of 2012, the credit growth decelerated rapidly to 17.6 percent from 34.5 percent in the previous year. In 2012, the reserve money and money supply growth also decelerated to 10.2 percent and 17.6 percent respectively. These developments together with the declaration of inflation, improvements in budgetary operations and adjustments made to administered prices by state enterprises to phase out borrowings from the banking system, created new space for the Central Bank of Sri Lanka to moderately ease monetary policy. The Central Bank has reduced policy rates by 25 bps in December 2012 and proceeded to further reduce by 50 bps in May 2013 to facilitate the liquidity growth required for the revival of the economy. Towards this end, the Central Bank has also taken steps to allow greater flexibility to commercial banks in managing their day-to-day liquidity and reserves and raise funds from abroad. Foreign exchange transactions have also been further relaxed to promote exports and capital inflows.

## Exchange Rate Flexibility

Greater flexibility has been allowed in the exchange rate since November 2011, by limiting Central Bank's intervention in the domestic foreign exchange market. The intervention of the Central Bank during 2012 was limited only to the extent needed to settle a portion of petroleum import bills, mainly during the first six months of the year, while surplus foreign exchange liquidity in the market was absorbed as and when appropriate. The rupee depreciated vis-à-vis the US\$ by 11.6 percent during 2012. Consolidating on the successful completion of the 3 year Stand By Arrangement (SBA), external stability was further strengthened in 2012. Gross external reserves increased to US\$ 7.1 billion by end 2012 from US\$ 6.7 billion by end 2011. In terms of months of imports, the gross official reserves were equivalent to 4.4 months by end 2012, a significant improvement compared to the import coverage of 4.0 months recorded in 2011. The limits on the Net Open Positions (NOPs) and forward transactions of commercial banks were relaxed in January 2013 and are expected to be relaxed further along with market developments. The improved external reserves also covered 100 percent of short term commercial debt.

## Financial System Stability

The Central Bank has continued to strengthen its regulatory supervision of the financial system to address systemic vulnerabilities and risks, to further consolidate financial system stability. Despite challenging global and domestic market conditions, the overall soundness of the financial sector showed improvements with higher levels of capital, adequate liquidity buffers, strengthened corporate governance, risk management priorities and healthy earnings. These were achievable primarily due to improved supervisory and regulatory frameworks and integrated risk management arrangements promoted by the Central Bank. The public

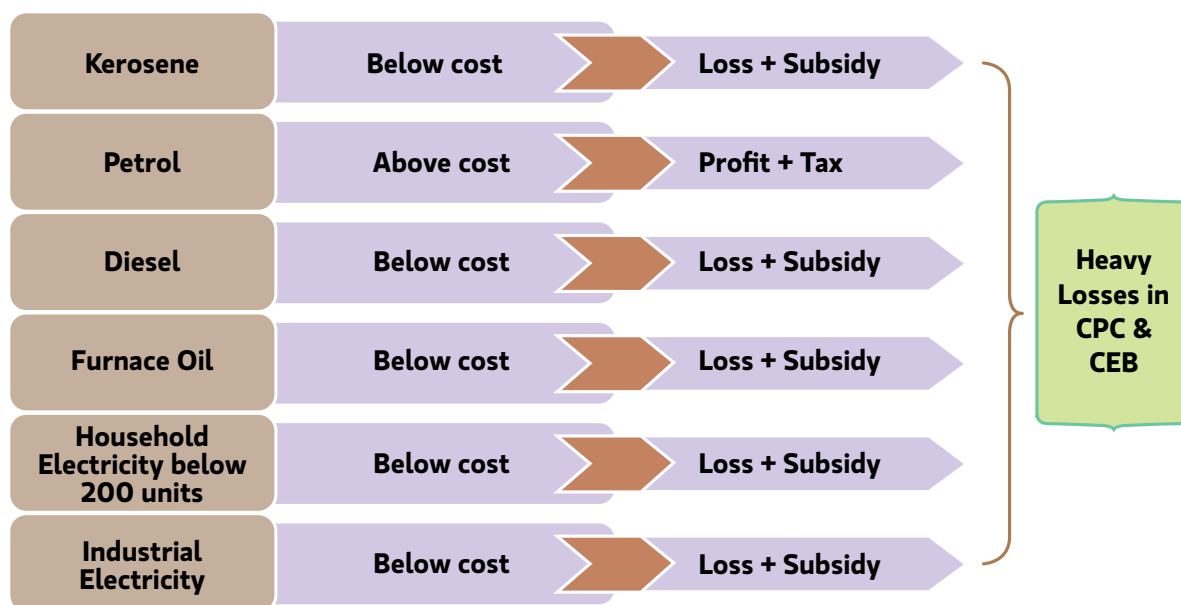
confidence in the financial system improved with the financial safety net mechanisms that were put in place such as mandatory deposit insurance schemes. To create greater awareness of mutual responsibilities, obligation of customers and banks were published in the form of a Customer Charter. The access to finance increased with the extension of branch networks, especially benefitting those in distant regions and conflict affected areas.

Constant close supervision and timely guidance helped to sustain the credit quality amidst the sharp credit growth witnessed in 2010 and 2011, although continued close surveillance is necessary on banking and financial institutions in the wake of adjustments to low interest rates and in view of risks associated with property mortgages and gold pawning. The challenge ahead is to facilitate the banking and financial institutions to elevate themselves to be able to meet the demands of an emerging middle income country that demands institutional capacity building, innovating new financial instruments and developing modern financial infrastructure to deepen country's financial market. Monitoring fiscal consolidation has been further strengthened to support development with stability.

## Enterprise Reforms

Having recognized the urgent need to address financial difficulties confronted by the Ceylon Petroleum Corporation (CPC) and the Ceylon Electricity Board (CEB) in the backdrop of the widening gap between international cost price and domestic selling price of oil, the Government allowed upward adjustments of energy prices both in 2012 and 2013, in addition to operationalizing low cost power generation plants and reducing transmission losses to move closer to cost reflective pricing. Accordingly, the prices of petroleum products were raised by 37 – 51 percent in February 2012 and further adjustments were done in

## Pricing in December 2012



December 2012 and in early 2013. Moreover, sale of heavy fuels to the CEB below the cost price, which is a major source of CPC's losses, was discontinued from April 2013. With regard to the CEB, a tariff increase of around 24 percent was implemented from April 20, 2013, while continuing with the Fuel Adjustment Charge (FAC) which together reflects 25 - 40 percent of a monthly bill, was implemented from February 2012, excluding however those households consuming electricity less than 60 units per month. Steps are being taken to improve operational efficiency and financial management by drawing professional inputs, raising productivity through long term supply contracts, improving treasury operations and modernizing the production and distribution capacity of both enterprises. With the low cost 600 MW coal power plant being commissioned in 2013 and having re-negotiated the 15 year old power purchase agreements while giving weightage to prevailing circumstances and recognising the need to adopt a stable power

generation mix, it is expected that these entities will reach a breakeven level in their operations during 2013/14.

## Public Financial Management

The focus of public financial management is placed on key aspects of Budget preparation, Budget controls and execution, accounting, reporting and internal/ external audits. The budget preparation in recent years has adopted a broad based approach, involving wider consultations not only with line ministries and devolved as well as decentralized administration units of the Government but also with the private sector, the self-employed and even trade unions. The process has mobilized the political leadership, technocrats and the civil society into the process before the Budget is ultimately submitted to the legislature for approval. The use of supplementary provisions and passing adhoc revenue legislations has been minimized,

although variations of actual outcomes still exist in revenue and expenditure estimates due to systemic weaknesses and unpredictable events that affect Budget outcomes.

Fiscal transparency and accountability have been improved with the disclosure of information as required in terms of the annual Appropriation Act and the Fiscal Management (Responsibility) Act. The Government has also encouraged Development Partners to support policy based budgeting by sharing a part of Budget expenditure instead of accommodating isolated projects, particularly in education, health, poverty reduction, social sector, agriculture and disaster management areas in which policy based budgeting is evolving. As part of ongoing improvements in Budget controls and execution, project management and monitoring, procurement, cadre management, commitment and imprest controls have been prioritized for further improvements. Work is in progress to replace Financial Regulation (FR) of 1992 that had subsequently already undergone certain amendments, with a new Financial Regulation, to ensure greater effectiveness in public finance management, while simplifying the processes. While the internal audit responsibility is being strengthened, a risk based audit systems is also being introduced to ensure greater accountability. However, greater supervision and controls are warranted with regard to field level distribution of the fertilizer subsidy, the procurement of pharmaceutical products which cost the National Budget over Rs. 100 billion and the use of fuel and electricity in Government establishments, for more effective results.

## External Trade

Sri Lanka has one of the most open and least restrictive trade regimes in the region in terms of tariff and non-tariff barriers

supported with a market driven exchange regime. It has progressed well, with required adjustments to correct ill effects of unfair trade practices and protective actions of trading partners, as well as to safeguard the environment, health and security concerns, food security and the SMEs, in recent years. A composite tax on selected agricultural products, imposed at the point of import was introduced to maintain stable remunerative prices for farmers, especially those engaged in farming in hitherto untapped agricultural areas that were opened for cultivation having completed demining in the conflict affected areas and new areas in which agriculture is being incrementally promoted having brought them under the cover of new irrigation systems. Hence, with regard to certain agricultural items, tax at the point of import and on wholesale trade are increased during the harvesting season and decreased during the off-season, to ensure that prices remain stable within a range throughout the year, in a bid to balance benefits between both farmers and consumers. Further, the supply of these commodities by exporting countries is sometimes subject to unpredictable trade restrictions, and such situations make the domestic market vulnerable to those events. Since such trade is largely done by small traders, a simple, single and transparent instrument has become effective also to ensure effective tax administration. This mechanism has in fact encouraged food security, through the transformation of paddy agriculture to a level that can generate a buffer stocks with a possible export surplus, improved the production of liquid milk, maize, onion, green gram, black gram and soya beans thereby contributing to reduce imports and has also improved domestic supply conditions and livelihood of farmers engaged in small holder agriculture in the country.



While focusing on food and energy security which has considerable export and import substitution potentials, external trade regime has been further strengthened with the full implementation of Free Trade Agreements with India and Pakistan, being two large South Asian economies. Opportunities are being explored to promote exports from Sri Lanka in these two countries as trade balances still remain unfavourable to the country. Bilateral discussions with Japan, China and South Korea also focus on trade and tourism activities to allow them increased market access by relaxing both tariff and non-tariff barriers, to promote exports from Sri Lanka on the same scale that Sri Lankan trade and payments system provides market access to such countries. The Government has also increased market access to branded products of global repute in addition to allowing upto 40 percent of production of export industries to be sold in the local market to promote global trade, tourism and investment activities.

## Infrastructure

The rapid development of basic infrastructure is a key policy objective of the 2006-2016 Government's development policy framework. The annual public investments on average have been targeted at 6 percent of GDP since 2005 in the National Budget accommodating investment expenditure in physical infrastructure and human resources development. Investments in power generation and distribution, port and airport development, expressways and the national highway network, water supply and urban facilities, irrigation and agricultural infrastructure and downstream development activities and improvements in railway infrastructure which are detailed in Chapter 3 of this report have facilitated private investments in many sectors. The uninterrupted supply of electricity covering

almost 93 percent of the population in the country and the expanded transportation and communication connectivity have encouraged private investments in IT and BPO services, aviation services, integrated tourism, urban property development, ports and logistic facilities, telecommunication services, renewable energy, basic industries such as cement, steel, and ceramics and the construction industries. Domestic and private investments in such areas have gathered momentum in recent years. Foreign Direct Investments (FDIs) have reached US\$ 1,000 million per year, since 2010. In addition to Government's continued public investment drive through the National Budget, state owned enterprises have also been encouraged to expand their investments in infrastructure facilities, particularly in petroleum refinery and storage and in solid waste management. The private sector has also been incentivized to enter infrastructure development and expressway maintenance, renewable energy sources, solid waste management and urban housing construction, to augment country's infrastructure facilities by complementing the public investment drive. The improved business climate, fiscal incentives, new infrastructure facilities, improved access to finance and relaxation of capital account transactions, will help to increase export oriented investments.

## Human Resource Development

The progress made in Human Resource Development (HRD) in Sri Lanka is ahead of many developing economies. This has placed the Government in a more advantageous position to steer forward country's education system with focus on advanced skills development and higher learning opportunities, while also ensuring that health services will improve healthy living and longevity. Accordingly, public expenditure

on education and health has increased to Rs. 235 billion in 2012 from Rs.108 billion in 2005, accounts to around 22 percent of Government revenue in 2012. This scale of expenditure has enabled the engagement of around 250,000 teachers and academic staff and around 100,000 health sector employees to improve the service delivery for the development of human resources while networking the entire country to ensure access to all. The improvements shown in the United Nations HRD Index to 0.7 in 2012, and the earning capacity of the work force in newly emerging sectors of the economy and the large number of overseas employees that generated around US\$ 6,000 million in 2012, in comparison to US\$ 1,918 million in 2005, signify the benefits derived through improved HRD in the country. The continuously reducing unemployment, improved livelihood opportunities including such prospects in self-employment activities in technical and professional services and the high employee demand prevailing in the construction, tourism, IT and high tech manufacturing and commercial services, suggest that the country should sustain its HRD endeavours while also expanding into new areas involving multifaceted skills. The 1000 Mahindodaya schools developed throughout the country, networked with 5000 feeder schools and the remaining primary schools would provide child-friendly modern infrastructure to the schools network, over the medium term. This is facilitated with teacher training programs and curricula development in mathematics, English, science and IT as part of improving general education. The expansion of vocational education is tilted towards improving high skills that are in demand in an emerging

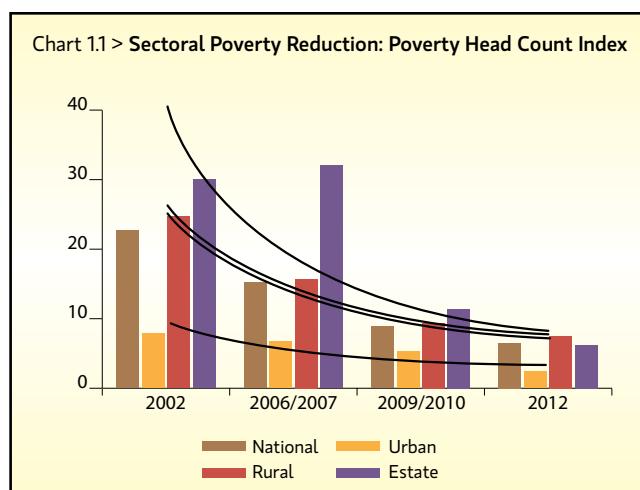
economic environment. University townships nourished with motivated academic commitments focussing research and technology initiatives, will facilitate to place country's higher education on par with its parallels in other emerging economies. The ongoing modernization of country's healthcare network with around 1,000 hospitals including dispensaries in the rural areas, with required staff and equipment will improve preemptive as well as curative health services. The expansion of Government facilities while encouraging private sector involvement in skills and higher education and in quality health services, has enabled the country to divert enhanced expenditure for human resource development which was around 4.5 percent of GDP to over 6 percent of GDP and consolidate country's advantage to attract knowledge based industries and services into the economic progress.

## Poverty Reduction

The Central focus of Government's overall development strategy is to reduce poverty beyond targets set in Millennium Development Goals (MDGs) by 2015. Reflecting this priority to promote rural development with an inclusive growth, a well-integrated rural livelihood development strategy that embraces households (Divi Neguma/ Samurdhi), and provides welfare benefits and promotes community empowerment (Gama Neguma) through the development of required infrastructure such as access roads, rural electricity, community water and sanitation, minor irrigation systems, market centers have been implemented by the Government.



Sri Lanka has made a steady progress in reducing poverty through these initiatives during the recent years and is well poised to meet the Millennium Development Goal of halving the incidence of Income Poverty before the target year of 2015, from the 2005 level. The number of poor living below the poverty line has reduced from 15.2 percent in 2006/07 to 8.9 percent in 2009/10 and has further declined to 6.5 percent in 2012 (preliminary results of HIES 2012/13). The most encouraging outcome of this process is that the reduction of poverty levels has taken place among all geographical areas and across all sectors. Poverty in the estate areas, which has been strongly higher than in rest of the country has reduced from 32 percent to 11.4 percent between 2006 and 2010 and has further dropped to 6.2 percent in 2012. During the same period, inequality has also reduced from 0.4 to 0.36 as reflected in the Gini Coefficient as per the said HIES.



The overall development and poverty reduction initiatives that have been implemented has helped the country to perform equally well with regard to the Multi-dimensional Poverty Index (MPI). The multi-dimensionally poor in Sri Lanka is 1.9 percent (preliminary results of Household and Income Expenditure Survey (HIES) 2012/13), since Sri Lanka has performed better compared to many other countries in relation to child mortality, nutrition, schooling, access to safe drinking water, sanitation, cooking fuel, and housing and assets, indicating the effectiveness of the Government poverty reduction strategy by effectively reaching targetted poverty segments in the society. Consolidating these gains, His Excellency the President declared in the Budget 2013, the goal to create a poverty free Sri Lanka by 2015 by intensifying poverty reduction efforts based on evidence reflected in the HIES of 2012/13, having addressed the remaining facets of poverty connected

#### Access to Basic Facilities (2012)

Electrification Level	93%
Access to Safe Drinking Water	84%
Paved Roads of the Total Road Network	85%
International Roughness Index (IRI) - less than 5mm/km of National Roads	61%
Telephone Density - including Cellular Phones per 100 persons	116.9
Primary School Entrolment Ratio	98.3%
Student/ Teacher Ratio (Governement Schools)	18
Life Expectancy (years)	75.1
Maternal Mortality Rate (per 100,000 live births)	41.6

with malnutrition, disabilities, housing and sanitation conditions, school - dropouts, non - communicable diseases and natural disasters.

## 1.2 Challenges

### Taxation in a Service Economy

Sri Lankan economy has gone through a fundamental structural transformation over the last 3 decades, despite it being trapped in a costly terrorist conflict for 3 decades. Agriculture including primary commodity exports which accounted for 26 percent of GDP in 1982 has declined to 11 percent by 2012. The decline is linked with the substantial shift in ownership in production. The small holder plantation accounted for 75 percent of tea, 90 percent of rubber and 95 percent or more of all other plantation crops. Non plantation agriculture has remained essentially a small holder operation. The production structure of the fishery and livestock industry is relatively balanced between large scale operators and SMEs. The manufacturing sector in the economy which has increased from 26.3 percent of GDP in 1982 to 31.5 percent in 2012 with a larger concentration on manufacturing of food, beverages and textiles and the apparel industry. Manufacturing of machinery, industrial rubber goods, building material and heavy industries have also emerged in this process. All of them which operated in a restrictive economic framework prior to trade reforms done in the mid 1980s have since then adjusted and positioned themselves in the competitive market economic framework with a scale of operations sustainable to cater to export markets. The service economy which was 47 percent of GDP in 1982 has increased to 58 percent with a substantial expansion of employment in the professional categories.

Within this structural transformation, taxation has been confronted by multifaceted challenges. The gradual liberalization of imports through the reduction in custom duties, as a part of the process of easing tariff barriers in line with global trends, the promotion of Free Trade Agreements (FTA) such as Indo-Sri Lanka Free Trade Agreement, Pakistan - Sri Lanka Free Trade Agreement as well as Regional Trade Agreements have reduced the revenue generation capacity from imports, to a limited range of products such as motor vehicles.

The overall impact of the country moving away from the use of export taxes since 1982 and the gradual reduction of primary commodity exports, has drastically reduced the generation of revenue from the export of primary commodities that was onetime a strong tax handle, from 2.5 per cent of GDP in 1982 to 0.04 per cent of GDP by 2012. Currently, revenue from trade taxes has declined from 8 percent of GDP in 1982 (out of 51 percent of total tax revenue) to 3 percent of GDP in 2012 (out of 24 percent of total tax revenue). Turnover tax which had a cascading effect and generated 5 percent of GDP has been replaced by VAT and NBT which generate 3.5 percent of GDP. In this backdrop a strict comparison of the Tax/GDP ratio of the 1980s with the current level will invariably reflect a misleading conclusion.

Further, the promotion of several industries through the Board of Investment (BOI) framework since the opening of the economy in 1977, that extended long term tax holiday on a liberal basis, had excluded a considerable share of the economy from taxation. The accommodation of a large range of commodities for exemption from various taxes on considerations of socio-economic grounds undermined the scope of expansion of the tax base. The scope for 'sin tax' which has been a

steady source of revenue from Excise taxation on cigarettes and liquor are no longer remain buoyant with the decline in consumption of such products. The rapid expansion of the service economy with the increased use of electricity, water, transport, gas and public services remain largely outside taxation.

In the context that international practices permit exports and related activities of goods and services to be taxed only in the consuming country, the emerging economic structure requires the country to focus primarily on Income Tax and Value Added Tax. The recent reforms that were adopted based on the recommendations of the Presidential Commission on Taxation had laid the foundation for such a taxation regime. Income Tax rates and Value Added Tax rates have been reduced from excessive levels although they are still higher in comparison to countries competing with Sri Lanka. Nevertheless, the direction towards maintaining low tax rates and continued expansion of the scope of activities which will be liable to taxation are essential to maintain a buoyant tax to GDP ratio in the medium term. Towards this end, the recent move to include public sector employment income into the PAYE system and the expansion of Value Added Tax to retail level activities are steps in the right direction.

The moratorium that has been introduced as an alternative to extending tax holidays and limiting tax concessions only to those investments involving long gestation periods need to be further consolidated. Irrespective of this move, the continued absorption of PAYE Tax by many state enterprises in which minimum personnel emoluments are reasonably high - well in excess of Rs. 50,000 per month, remains a concern. A sizable number of the self-employed, professionals such as doctors, lawyers, teachers, and consultants and several

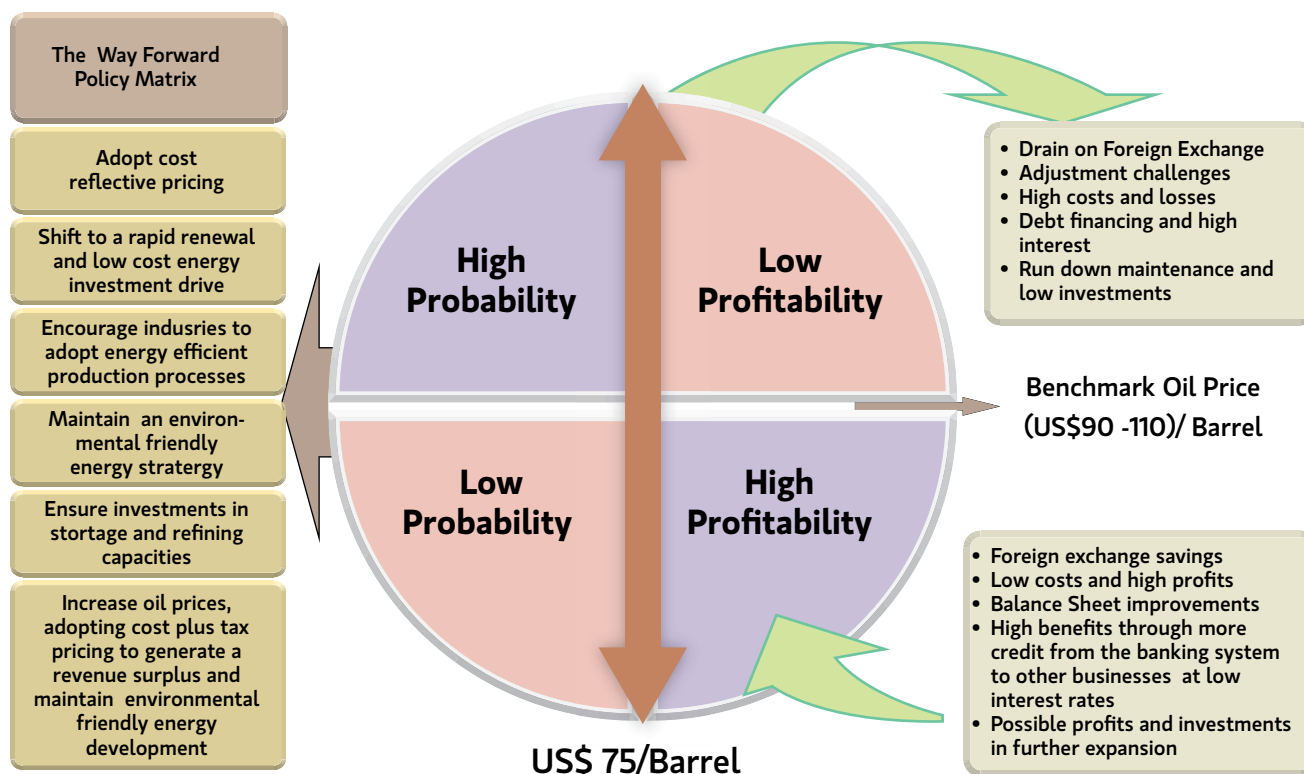
other services still being outside the tax net remains a challenge. In this backdrop, the wide range of exemptions permitted in the country's tax regime need to be re-examined to justify their relevance since tax rates have been reduced within a relatively simple tax structure.

### **Revenue from State Owned Business Enterprises**

The maintenance of a high revenue effort in the country also depends on sustained high non-tax revenue efforts, particularly when the state commands a strong commercial asset base. In this context, the substantially large state owned business enterprise sector has a greater role through the generation of more commercial activities that could expand not only the indirect tax base but also their profitability that will enable the payment of a higher share of income tax, as well as profit and dividend income to the Government. With regard to payment of profit and dividend taxes of the 55 SOBEs, payments have been largely made only by state owned banking and financial institutions and few other enterprises, while all the other large enterprises have refrained.

The sub optimum operations of some of the SOBEs cannot be overlooked considering their asset base in comparison to their counterparts in the private sector. Therefore, improvement in the financial performance of SOBEs and their shift from a loss making status to a profit making status will have a double benefit to the Budget by having lower loss financing through budget transfers as well as through higher Government revenue. Such an improvement in state enterprises will also result in promoting private sector economic activities since a reduction of short term borrowings by these enterprises from the banking system could enable the release of a considerable volume of financial savings into the hands of households, SMEs and entrepreneurs for capital formation,

## Pricing Dynamics and the Way Forward



income generating and asset creation, which in turn will support the growth of the tax base. The analysis undertaken with regard to SOBEs indicates that their capacity to generate a higher contribution to the Government by way of profits and dividend could be as high as 2 percent of GDP in the medium term as opposed to 0.5 percent as at present.

State enterprises have a strategic role in country's capital formation, production, employment creation and income generation. While recognizing the fact, that most of the enterprises have not had adequate investments to expand their services till the present Government placed trust in public investments and SOBEs. It is encouraging to note that ongoing efforts in capacity expansion have enabled these enterprises to reach a viable scale of operations. The recent initiatives to adopt cost reflective

pricing strategies have enabled these enterprises to phase out their losses. However, the expansions in the state enterprises should also be supported with other vital reforms such as allowing greater commercial freedom, ensuring the appointment of competent managerial staff and improving corporate best practices and accountability through the Boards of Directors and senior management personnel. Despite improvements in governance, operational aspects and in the timely submission of Annual Accounts, primarily due to the close scrutiny by the Committee On Public Enterprises (COPE) and the intense monitoring by the Treasury, the performance of many of the state enterprises needs to be strengthened to break from the past era of sub optimal operations and to move on with efficient and profitable scale of operations, since the Government has invested heavily on many of these SOBEs in recent years.

## Policy Reorientation

In the context of Sri Lanka being a rapidly developing middle income country, adopting continuous changes through policy reforms parallel with changes taking place in other parts of the world is essential to improve efficiency and productivity, explore new potentials and sustain a high growth in the economy, in a highly competitive global economic environment. Such reforms would invariably involve the Government taxation policy, the management of exchange rates and interest rates, trade and payment systems and tariffs through which the real economy could be influenced to be guided in the desired direction of development. In the real economy, the productive use of land and other natural resources is vital in the context of resource limitations and in view of the bio diversity and environmental dimensions. Labour being the primary source of income to a majority of the people, continuous transformations in education, skills development, and development of the human capital are required to be able to create gainful opportunities for the labour force. Adequate flexibility in labour related regulatory arrangements is needed to sustain skills diversity, labour mobility and the productive deployment of labour resources, particularly in energizing the IT/BPO industries.

The Public Service being in the forefront in providing universal access to education, health, social security and welfare, and also being the service provider to the primary sectors of the economy and the general public, in particular to the needy segments in the society, requires being re-oriented to be able to meet emerging challenges of a middle income economy. This is particularly important in the backdrop of Government's commitment to go beyond Millennium Development Goals (MDGs) and reach a poverty free country status. State Owned Business Enterprises (SOBES) being strategic in the area of critical infrastructure development and in the provision of essential services such as roads, electricity, petroleum,

water and irrigation, ports in the real sector and banking, insurance and leasing in the financial sector, requires to be cost efficient while also being reliable market leaders.

The private sector which has been supported with peace and stability, the necessary infrastructure, required policy reforms etc., needs to be more pro-active in business development, Investments and improving their governance practices to capitalize development opportunities to meet changing demands of a middle income country. The SMEs being the bedrock of the economy, need to be well integrate both to the upstream corporate economy as well as to the downstream household economy, to be able to sustain inclusive development and improve country's competitiveness. Underscoring these, the Government has progressed with multifaceted reform initiatives as evident in the improvements in the Doing Business Index published by the World Bank as well as in the country ratings done by international rating agencies.

## Public Service Delivery Cadre

Having completed the cadre rationalization process that commenced in Provincial Councils in 2012, a comprehensive cadre review of public institutions is being carried out in other agencies as well, to ensure that adequate staff is in place. The cadre of the public services is determined taking in to consideration the evolving policy strategies, development needs and financing cost of public services. The government spends almost one fourth of its revenue to pay salaries of public servants to provide a wide range of public services. Optimum results of this expenditure depends on the size, quality and deployment of cadres. Hence, undertaking a comprehensive cadre review helps to improve the performance of public servants and to provide finances required for them in an effective manner. However, it is important to recognize that best outcomes of cadre



deployments can be reaped only if persons so recruited are engaged in suitable positions with assigned duties and under sufficient supervision to ensure the required service is delivered. Although these are inherent responsibilities of Heads of institutions to ensure a cost effective service delivery mechanism, it has to be noted that such responsibilities are often overlooked, causing an uneven distribution of work among employees in the cadre. Non implementation of the transfer policy, placements not being made according to skills and work involvements, lack of re-organization and re-orientation within agencies and the absence of on-the-job knowledge and skills development, are weaknesses commonly observed in the cadre review process that is being carried out and during annual budget discussions.

The country's public service, although appears large in terms of the cadre size, occupies a special place in country's development considering country dynamics. A total of 239,000 employees serve in state enterprises such as banks, utility enterprises and in infrastructure development activities and around another 300,000 are engaged in national security services. A wide range of public services comprising of civil administration, education, health, agriculture and irrigation, economic and social services engage about 700,000 employees. The public service as a whole has shown its institutional and managerial capacity in disaster management, resettlement, poverty reduction, and provision of basic needs of the population as evident in relevant social and economic indicators. However, further improvements are necessary to make it a client friendly service particularly when addressing the remaining facets of poverty, managing challenges with regard to wide spread non-communicable diseases and the aging population, needs in the promotion of the 'backyard economy' and SME development,

meeting challenges in achieving high productivity in food crop production in small holder agriculture, exploitation of business development opportunities in the private sector and reorienting education to meet the demands of skills and knowledge based economic activities. Managing these challenges warrant changes in attitudes, institutional setups, systems and procedures, deployment of cadre, delegation of work, effective supervision and control and managerial accountability with regard to performance. A shift from a simplistic micro compliance audit system to a performance and risk based macro approach to audit will complement such a transformation.

Public servants have a challengeable task in the management of post conflict development and administration particularly in the context of Government's commitment to promote food security, self-sufficiency in food production, and the determination to go beyond MDGs and to make the country free of poverty by 2015. Hence, the Government has committed to ensure better remuneration, pension rights, a decent work environment, skills development and employment security to those in the Public Service. In this backdrop, a new Pay Commission is to be appointed as announced in the 2013 Budget, to re-examine the overall salary structure of the public sector and formulate a National Wage Policy that would address concerns of the public sector work force, considering the multidimensional responsibilities that are entrusted to the Public Service while giving due recognition to service costs and affordability.

### **Trade Imbalance**

Country's annual import cost having the value of almost double the size of its annual exports reflects a fundamental mismatch in

the economic structure, and the resulting trade deficit remains a major challenge in the country's economic management. The persistently high oil prices that prevailed over the last several years and the lagged and inadequate adjustments of domestic prices, and the adoption of appropriate technology changes have increased country's oil import dependency. Similarly, the reliance on import sourced food supply at the cost of domestic agriculture and the ineffective use of domestic resources due to availability denial of a vast area of sea and land resources for agriculture, livestock and fishery, consequent to the 30 year conflict has increased dependency on imports for food security. The country's annual import cost of milk, sugar, fish, grain etc, shows the nature and scale of production mismatches.

The capacity expansion in basic industries such as cement, steel, building materials, sanitary ware, furniture etc., has been neglected due to incentives provided to import such material instead of providing incentives for the expansion of existing and new industries to produce such material in the country. Export oriented industries to manufacture items such as pharmaceuticals, surgical gloves etc., which cater to globally reputed market destinations have not been given incentives to commence domestic production. The reliance had been to import such products, with emphasis on exports of goods and services, tourism and foreign investments, reliance on a limited product range and traditional markets which have reached saturation in their growth.

While the large trade deficit that exists is a major concern, the external trade account provides a road map to diversify the economy through a range of products as well as diverse market destinations. Country's

export industries provide scope for a greater value addition in apparels and textiles, designer footwear products, Sri Lankan branded high value tea, high value industrial and consumer products from natural rubber, light engineering, gem and jewellery, machinery and equipment, solar and renewable energy, mineral products and in IT /BPO industries, to name a few. The rapid progress in rice and other grain production provides scope for food exports. Investments in infrastructure, urban properties, tourism, and industrial establishments provide investments in basic industries to cut down imports through domestic value creation.

This transformation in export – import trade structure which is the core of Government's development strategy requires to be driven not only by the flexibility in the exchange rate, macroeconomic policy instruments and a competitive tax and trade regime but also by a concerted productivity drive by both Government and private sector enterprises through industry specific business strategies, with farm level adjustments towards improving cost efficiency and competitiveness in the economy. In this regard, it should be noted that, the yield levels of many crops remain well below those of Sri Lanka's competitors of such products. For instance, the average paddy yield in Sri Lanka is 4,353 kg./ha. which is below the yield levels of China, Vietnam, and Indonesia that are in the range of 4,980 - 6,686/ha. Similarly, the productivity of maize at 3,400kg./ha. is below Indonesia, Malaysia, Thailand, China and Vietnam that is in the range of 4,293 -5,748 kg./ha. Big onion, potato, ground nuts, soya beans and tomatoes also require greater productivity improvements compared to the corresponding levels in competing countries. Similar concerns are also observed in respect of several industry categories due to mismatches in the wage costs, technology and output levels. The

removal of these productivity differentials and inherent inefficiencies demand industry specific structural changes to produce a high volume of quality products, having respected country's dynamics in labour markets and expansion in the service economy.

The operational efficiencies in ports, customs and regulatory agencies, need to be improved through regulatory reforms to make them efficient. The removal of the remaining barriers for exports should be rigorously pursued to enable Sri Lanka to have greater market access to be able to raise the share of exports of goods and services including, tourism to about 35 percent of GDP. This will enhance external demand for the expansion of the domestic economy.

## **Fertilizer Usage**

The implementation of the fertilizer subsidy scheme in 2006 with a subsidized price of Rs. 350/50 kg bag for paddy agriculture has increased the fertilizer usage from 178,609 Mt in 2006 to 415,403 Mt in 2012. The fertilizer usage in all other crops has also increased to 380,829 Mt in 2012 from 170,020 Mt in 2008, following the expansion of the fertilizer subsidy scheme to all crops. The quantum increase in the use of fertilizer and cost incurred by the Government as well as farmers are substantial. The financial cost alone in terms of foreign exchange amounted to US\$ 311 million in 2012 and over US\$ 400 million in 2011, while the total expenditure accounted for about 1 percent of GDP. It should be noted that primary agriculture production in Sri Lanka accounts only for about 11-12 percent of country's GDP, indicating the need for greater productivity in the usage of fertilizer.

While the usage of fertilizer has certainly contributed to increase the average yield of paddy and other crops significantly, it is vital

to realize that the benefit of this important production subsidy could be fully realized in the interest of the national economy only if farmers could be made aware of the proper usage of fertilizer along with soil and water conservation, with the help of field level extension services. The Government is also making concerted efforts to increase awareness of farmers with emphasis on the benefits of using a better mix of organic varieties of fertilizer and the necessity of water and land use management, particularly in the context of challenges associated with climate change and health considerations due to the increased use of chemical fertilizer.

Sri Lanka's agriculture is serviced by numerous agencies such as the Department of Agriculture, Department of Agrarian Services, Tea Research Institute, Tea Board, Tea Small Holders Authority, Rubber Development Department, Rubber Research Institute, Coconut Development Board, Coconut Cultivation Board and Export Agriculture Department, in major agricultural areas. Since agriculture is more small holder driven and the Government spends a considerable volume of financial resources on fertilizer, seeds, credit through the interest subsidy, irrigation, research and salaries of public servants engaged in agriculture related activities to the tune of around Rs. 100 billion per annum, it is necessary that these agencies put in place an integrated input management system at farm level, so that agriculture productivity as well as the proper use of fertilizer could be ensured. Re-orientation of the agriculture agencies therefore is a pre-requisite to generate a surplus food production for food security and export.

## **Climate Change**

Sri Lanka is one among several countries that has been subject to frequent natural disasters and their impact has been sizable over the

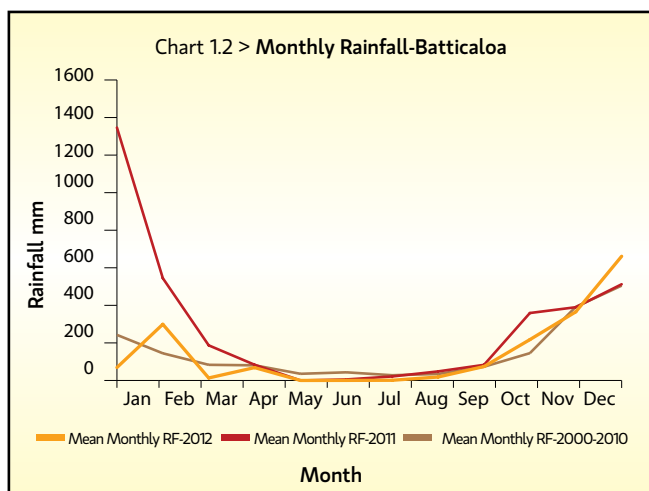


past decade. Moving away from the seasonal weather patterns usually experienced, the country witnessed either flooding or drought in quick succession. The floods in 2003, 2006, 2008, 2010, 2011 and 2012, the droughts in 2001, 2011 and 2012 and the 2004 Tsunami caused widespread impact on the economy. Frequent landslides and high winds, have caused severe damage to house and property. The country has also shown more susceptibility to cyclones. The burning of fossil fuel, the unplanned use of land, irresponsible reclamation of marshes, and the destruction of the forest cover have caused serious climate change.

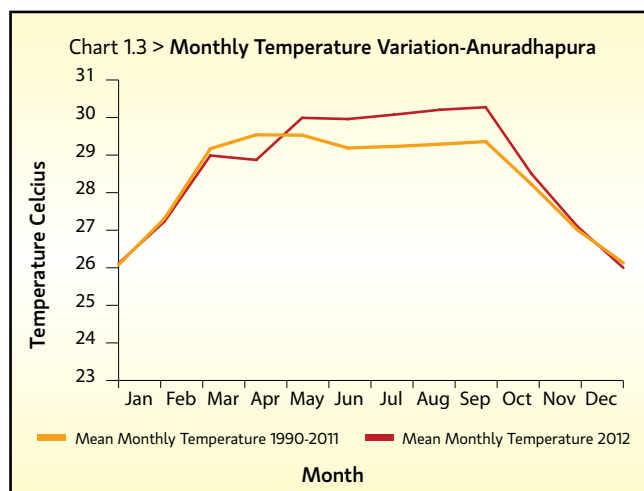
The period between 2000 and 2012 has also been reported as the hottest decade, and increased temperature was well felt throughout the country. The assessment of a more recent time band of 22 years has shown that air temperature has increased by 0.450C, assuming a rate of 0.20C - decade. The rate of increase of mean air temperature for the 1990-2011 period is in the order of 0.015 0C per year. The trend in rainfall indicates that it has declined over the past 30-40 years. There is also a drift towards one day heavy downpours. Heavy rainfall experienced in end 2010 and early 2011, resulted in floods that caused extensive damage to irrigation tanks, agriculture and livestock. It seriously disturbed biodiversity and the livelihood of people and even caused health concerns. The Eastern Province was the worst affected by the 2011 floods, with Batticaloa experiencing its highest level of rainfall in a single day of 317 mm, in the last 100 years. Apart from this, some parts of the Northern, North Central, North Western and Central provinces were also affected by heavy rainfall, resulting in 50 percent of agricultural lands of around 400,000 hectares being affected.

Heavy rains caused flooding again in end 2012 affecting seventeen districts in the country. The consequent loss of paddy production was 290,000 Mt in 2012/2013 Maha season. The damage caused to the livestock sector was estimated at Rs 160 million. This also caused death to 10 elephants, damaged crops and harmed biodiversity. Consequent damages required the Government to spend additional funds to rehabilitate 4,686 km of roads including national, provincial and rural roads and 188 structures such as bridges, culverts, drains and retaining walls. The Government allocated Rs 8,856 million for the implementation of a flood recovery programme.

On the other extreme, in May and September 2012, recorded a significant increase of the temperature. This caused a severe droughts coinciding with the 2012 Yala season in the Dry and Intermediate zones. Further, many areas in the Dry zone were affected in the 2011/12 Maha season as well disrupting livelihood of more than 1.3 million people. The North Western Province reported the highest loss of paddy which is over 50 percent. Apart from paddy, there were losses to field crops including fruits and vegetable and production was around 43 percent in intermediate and dry zones. Usually, more than 20-25 percent of water remains in small scale irrigation tanks during drought periods. However, due to the severity in the drought, all small scale irrigation tanks in the dry zone were completely dried out hindering normal life of the rural society. Due to shortage of water and fodder, milk production was reduced to 1 to 2 liters, in place of the usual 3 to 4 liters provided by a cow on a daily basis. Further, mortality among goats and chicken also increased due to heat stress. Drought also seriously affected wildlife and biodiversity. A serious consequence was the increased Human Elephant Conflict. Since fodder and water



Source: Department of Meteorology and Department of National Planning



Source: Department of Meteorology and Department of National Planning

becomes scares in Wildlife Parks during times of drought, in particular the wild elephants whose habitat are such park roam to nearby villages in search of food and water and end up destroying property and even human lives.

These losses in fact amounted to temporary shocks with permanent damages that affected the livelihood of small scale farmers. The agricultural and non-skilled daily wage labourers who are landless were also affected by reduced labour opportunities and decreased income levels. All this had prompted the rural community to diverge from agriculture which will cause a negative impact on food security, in the future.

Natural disasters also impact the national Budget. The annual Government expenditure on disaster relief and rehabilitation activities on average amounts to around Rs. 5,000 million. Since such expenditure is unpredictable, provisioning for related contingencies is a challenge in Budget making. It is an equally challenging task to provide funds in the immediate aftermath of such a disaster. The

regular Treasury operations are affected as line agencies such as District Secretariats and line ministries in charge of roads, irrigation, water and power that are connected to the process are compelled the extra work on top of routine responsibilities while having to keep to implementation schedules and costs, while also not compromising the quality of work. Despite the progress made by the Government in quantifying such contingent liabilities through the use of past experiences in allocating post disaster expenditure, further improvements are desired in managing such budget risks and adverse impacts particularly on those who rely on an agricultural livelihood, considering the vast destructions possible on agriculture, livestock and property.

In this backdrop the impact of climate change, particularly the changing pattern of rainfall and the temperature should be given serious consideration in economic development planning, so as to minimize the cost of climate change to the economy.

### Box 1.1 > **Saving the Environment**

- **Use solar power** – easy to use solar panels are available in the market for lighting and heating. Using solar power will reduce the usage of fossil and electricity.
- **Energy saving on the roads** – walking, cycling, using a car pool and fuel efficient cars, maintaining the car in good condition well maintained, driving at a lower speed or taking public transport, all will result in fewer emissions.
- **Designing Green buildings** – maximise the use of natural daylight, provides more ventilation to workspaces, and in the home environment.
- **Switch off electrical appliances** – rather than keeping them on the standby mode. Computers, monitors, printers, photocopying machines, televisions, VCRs, DVD players and microwave ovens should be properly switched off after use, to save energy.
- **Plant trees** – trees absorb CO<sub>2</sub> which will reduce global warming, while providing other benefits such as shelter, conserves the soil, retains water, supply food, wood and fuelwood.
- **Save rain water** – harvest rain water- place a barrel at the bottom of gutters and use water so collected for watering plants, washing etc. and design buildings in a manner that promotes harvesting rain water.
- **Be mindful when watering plants** – retain rain water in the garden by facilitating infiltration and reducing the surface flow which will reduce the need to water plants. If you have to water plants, do it during the coolest time of the day or at night, to minimize evaporation.

*Source: Based on Daily News Magazine, May 30, 2013*

*Prof. Hiran Amarasekera, Head – Department of Forestry and Environment Science. University of Sri Jayawardena-pura. Article prepared by Aditha Dissanayake*

### Box 1.2 > Irrigation – Adaptation to Climate Change

High intensity rainfalls, floods and droughts due to climate change have already become more frequent and severe in many parts of the country and are expected to further intensify in time to come. Localized high intensity rainfalls over a short period of time causing flash floods followed by long periods of dry weather experienced recently are examples of such adverse effects of climate change. Since the livelihoods of most people of the country depend on climate sensitive natural resources, these adverse effects, affect the economy and people.

**Table b.1.2.1 > Sectoral Water Demand in Sri Lanka by 2025**

Purpose	Water withdrawal		Target	
	1990*	2000*	2009	2025
Irrigation	96%	90%	83%	70-75%
Domestic use	2%	7%	7%	16-20%
Industry	2%	3%	6%	10-15%
Others			4%	5-7%

Source: \*FAO, Lanka Jalani (2009) Ministry of Irrigation and Power, Department of National Planning

As potential elements to mitigate the effects of climate change are limited, strategies are being incorporated into ongoing development programs and projects aiming at coping up with such vulnerabilities. The measures adopted in this regard include construction of new reservoirs, increasing capacity of existing reservoirs, improving water management and improving the efficient usage of irrigated water as well as productivity.

**Adaptation through Increasing surface water storage capacity** - The irrigation sector target is to increase surface water storage capacity

by 21,500 MCM by 2020, reducing the escape of water to the sea from an estimated 65 percent as at present to around 50 percent. While the construction of multi-purpose reservoirs costing Rs. 117 billion during the period from 2005 to 2012 has enhanced water storage capacity by 2,125 MCM, the government's medium term investment plan 2013-15 targets the completion of a further 19 major reservoirs in 42 ongoing medium and major irrigation projects. Among the major ones to be so completed are Moragahakanda & Kaluganga, Uma Oya Diversion, and Deduru Oya and Rambukkan Oya projects.

**Trans-basin diversions** - Trans – basin diversions of water is one of the solutions for the problem of water shortage, where such potential for diversion exists. Positive impacts of such diversions were clearly seen during the 2012 drought, from the works already done in the Hambantota District which includes Mau-Ara, Weli Oya and Weheragala (Menik Ganga) diversions. Currently more such projects including the construction of Uma Oya, Yan Oya and Deduru Oya to divert water across basins to water short areas are in progress and the feasibility studies of Gin-Nilwala diversion and North-Central Province (NCP) Canal Project are being explored.

**Enhancing capacity by de-silting of tanks and raising spillways** - As a drought mitigation strategy, the government implemented a special programme for capacity enhancement of tanks and reservoirs by clearing and de-silting during the country-wide drought that prevailed through the Yala season of 2012. This programme targeted the removal of about 10,000 Ac. ft. of silt from around 1,300

existing reservoirs and tanks that supported the cultivation of more than 10,000 Acres. The de-silting programme had a significant impact on increasing the capacity of minor tanks which have lost their capacity due to silting over a period of time and increased the capacity of larger tanks at their critical storage levels, to improve water security during droughts. It is now planned to carry out these projects country-wide as annual programmes during off rainy seasons, in view of the success seen.

### **Adopting new structural and technological measure to enhance the capacity of reservoirs**



*Fig 1. Giritale - Existing Spillway being replaced with a New Piano-Key Weir Type Spillway*

The “21st Century Innovation” of spillway design called the “Piano-Key Type Weir” is being adopted for the first time in Sri Lanka to increase the capacity of existing reservoirs

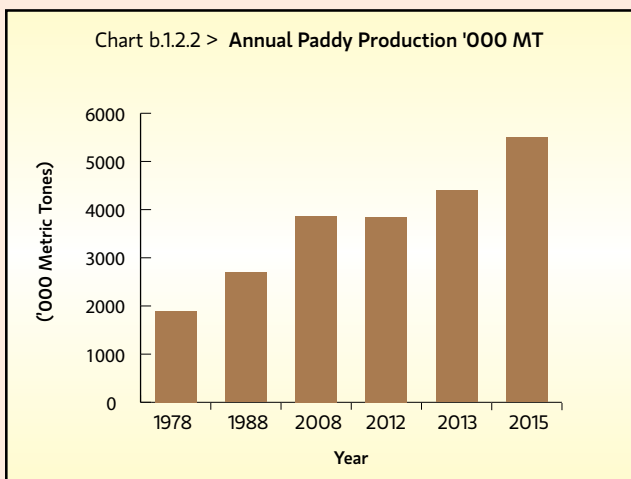
without much inundation which has been a serious limitation that exist when using conventional spillways. Work of constructing a Piano-Key Weir Spillway at the Giritale Tank, by replacing the existing conventional spillway is underway. It will be ready with an additional 2,800 Ac. ft. of storage against the current 19,000 Ac. ft. in Giritale.

**Improve Dam Safety** - Safety of dams is a vital concern in increasing storage, to avoid climate related disasters that could affect public safety. As such under the ongoing Dam Safety & Water Resources Planning Project, 32 high risks large dams are being fully rehabilitated by improving basic safety facilities of 80 other selected dams island wide are being done. Over 100 Hydro meteorological stations are being upgraded under this project to facilitate the collection of climate related data, improve water resource planning and enable early warning systems among such other measures. This project is being implemented with the funding arrangements from the World Bank.

**Rehabilitate minor tanks adopting the cascade system approach** - adopting the small tank cascade system to manage river basin units, along with water sheds, is considered to be helpful to face water related problems in a more sustainable manner. Nearly 4,000 minor tanks & anicuts have already been rehabilitated under the 10,000 minor tank rehabilitation programme which commenced in 2004 with a target of irrigating over 200,000 ha. This programme is being continued and nearly 1,000 tanks are being rehabilitated every year giving due attention to the cascade system approach contributing directly towards improving the rural economy (Gama Neguma).

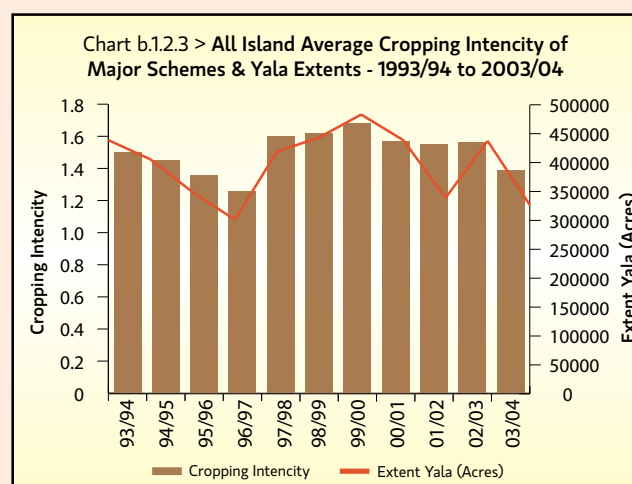
**Increasing Efficiency & Productivity of Water Use - Potential New Interventions** - Water use efficiency of the irrigation sector in Sri Lanka can be further improved when compared to certain Asian countries (Accepted average water requirement to cultivate one Acre of paddy in Sri Lanka is about 3-4 Acre feet, farmers currently use about 5-7 Acre feet) though the water use efficiency has been on the increase during the last decade in major reservoirs of Mahaweli areas.

On-farm water management improvement with shallow water depth practices in paddy is one of the most effective methods to increase water use efficiency. It has a potential for over 20 percent reduction of water use with reduced fertilizer use while giving high yields. The practice is extensively adopted in countries such as China and is pilot tested in Sri Lanka. It will only require modernization of field canals which can be easily done with funds currently allocated for rehabilitation.



**Change in Cropping Systems** - Adoption of short maturing varieties (3-3 1/2 Month) of paddy for Maha in place of 4 1/2 month varieties starting from 1996/97 in most parts irrigated in Sri Lanka has shown a significant improvement in crop enhancement and paddy intensity and paddy production while saving a substantial amount of water (25 percent)

during Maha enabling the use of such water during next Yala season. Continuous attention and monitoring is essential to maximize the water usage.



### Re-charge and Regulate Ground Water Resources

Steps are being taken to manage ground water table by establishing a ground Water Management Network in the country collecting real time data for ground water management and regulate unlimited ground water extractions. Restoration of “Kulu Wew” system which enables recharging of catchment and trapping silt is considered as a timely need.

**Rain Water Harvesting** - This has become a large relief particularly for providing drinking water and other domestic uses in the short Dry Zone. There are about 14,000 rain water harvesting systems have been provided mainly in areas with water shortage.

The adaptation to climate change in irrigation and water resources sector is a priority in Mahinda Chintana -Vision for the Future, the Development Policy Frame work of the government. High vulnerability of all sectors to climate change impact requires the country to invest much time, effort and funds for adaptation measures to manage climatic change related vulnerabilities.



### 1.3 Prospects of New Opportunities

Since the early 1980s Sri Lanka has lagged behind many countries which were on par or behind Sri Lanka's Per Capita income, and also in terms of the relative scale of the economy. While countries such as Singapore, Japan and South Korea had already gained momentum in their economic progress. Japan and Singapore reached even a Per Capita income level comparable with the Western and North American advanced economies.

Despite, India, China and Sri Lanka having adopted market economic reforms in the

late 1970s and in early 1980s, Sri Lanka could not progress on par with India and China since Sri Lanka was confronted with a terrorist conflict which spanned over nearly 30 years and ended only in 2009. The LTTE led terrorist conflict, cost the economy heavily denying 2-3 percent of growth in GDP and 50-60 percent capacity use in tourism and related industries, agriculture, fisheries and livestock industries. It destructed infrastructure, invaluable human lives and in a way even human resource skills. Hence, Sri Lanka spent long years to move its Per Capita income of US\$ 263 in 1982 to US\$ 1,000 in 2002.

Chart 1.4 > Per Capita GDP Comparison (Current US\$)

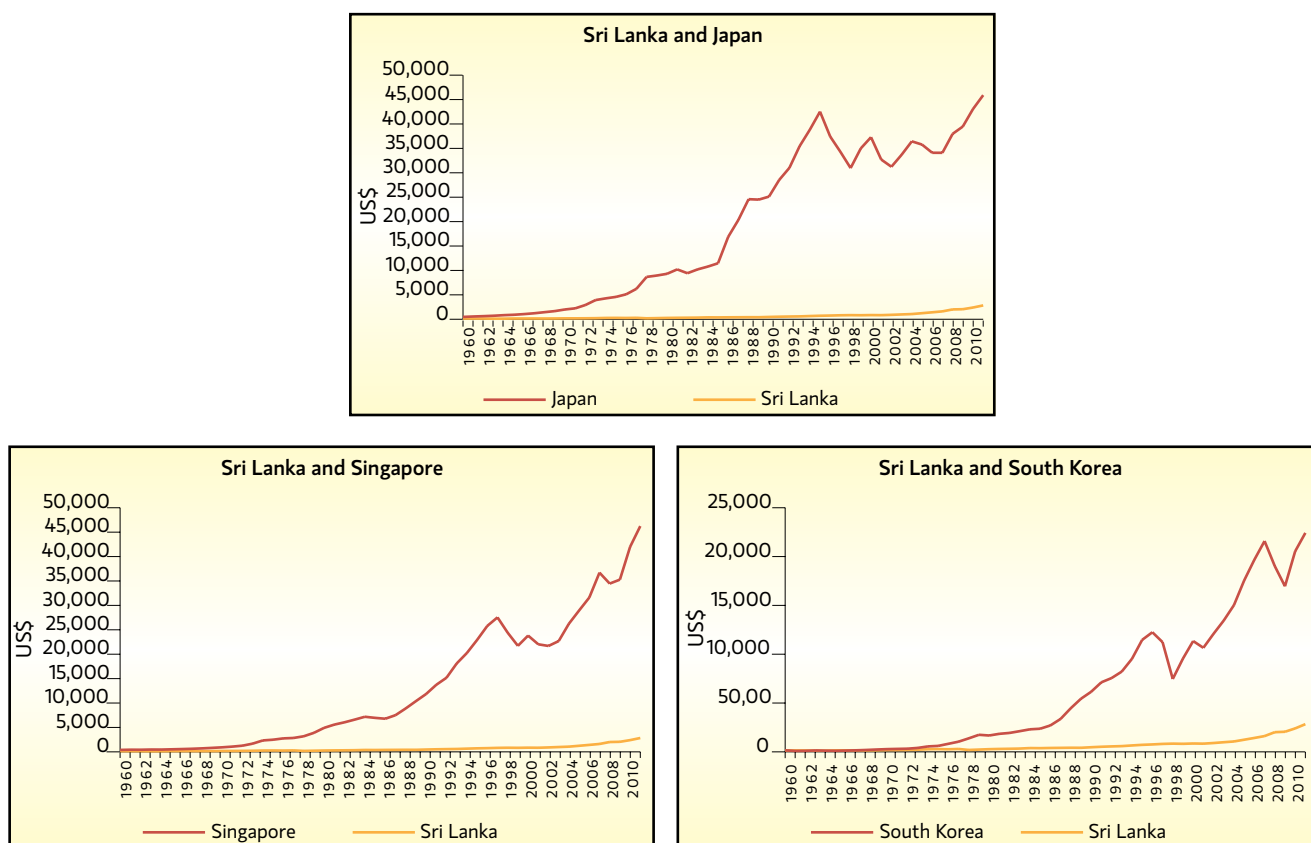
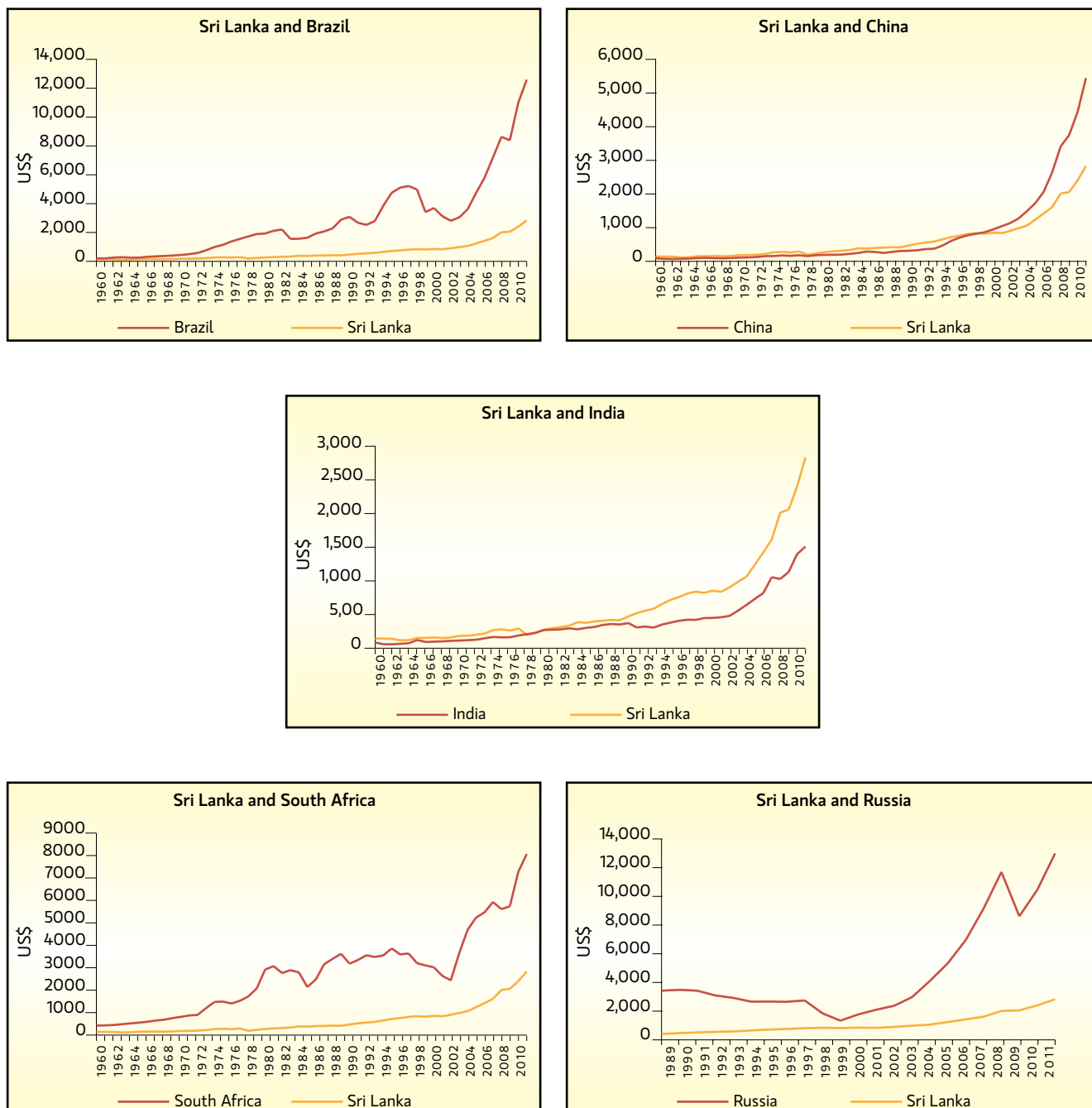


Chart 1.5 &gt; Per Capita GDP of BRICS (Current US\$)





The economy of China corresponds virtually to the world's second largest GDP, next to the United States. Similarly, India has also reached global economic recognition parallel with Brazil, Russia, China and South Africa. The Scale of expansion in these economies have raised their status to be members in the G-20 being able to strongly influence the IMF, the World Bank and the regional development banks and also gave a new beginning to the global economic landscape with the formation of BRICS which commands 21 percent of the global GDP and 43 percent of the global population.

The sustained investments made since 2006 to construct the required infrastructure, ending the conflict in 2009, continued progress made in the overall economic management and establishing a legal framework conducive to position the country in the global trade map to promote the export of goods and services, have brought about a unique opportunity to regain country's

lost opportunities during the 30 year conflict. The past 7 years have moved the country from a per capita income of US\$ 1,000 to US\$ 3,000, with a much stronger growth performance since the end of the conflict in 2009.

Despite many challenges which had to be managed, the past 7 year experience points at strong growth prospects, with Sri Lanka being situated in close proximity to 3 high-tech East Asian nations namely Japan, South Korea and Singapore and 4 out of 5 BRICS members namely India, China, Russia and South Africa. Sri Lanka is also well connected to the growing Middle Eastern nations and the emerging East Asian economies. Its traditional market links with Europe and the US make the economy stronger, with diversity in global trade and tourism. Hence, Sri Lanka is well positioned to capitalize on the bouyant regional economies to expand the country's economy and capture the opportunities lost during the 30 year conflict.

*The sustained investments made since 2006 to construct the required infrastructure, ending the conflict in 2009, continued progress made in the overall economic management and establishing a legal framework conducive to position the country in the global trade map to promote the export of goods and services, have brought about a unique opportunity to regain country's lost opportunit during the 30 year conflict.*

### Box 1.3 > Opportunities for Sri Lanka in the Changing Global Economic Architecture

#### Global Structural Change

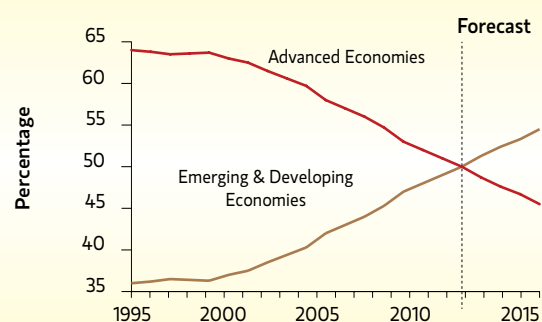
The global economy has undergone a prominent structural change over the past three decades. This is evident from the fact that the share of advanced economies in the global economy, in Purchasing Power Parity (PPP)<sup>1</sup> in Gross Domestic Product (GDP) terms, has declined to 50.1 percent (in 2012) from 68.9 percent (in 1982) with the steady rise of emerging market economies, notably China, India, Russia, Brazil, Mexico, Indonesia, Turkey and Argentina. In line with this, it appears that high performing emerging economies are becoming global growth centers by acquiring a bigger and increasing share of global production and international as well as intra-regional trade.

#### Rise of China and India

The most profound feature of this phenomenal change is the rise of China and India, the most populated two nations

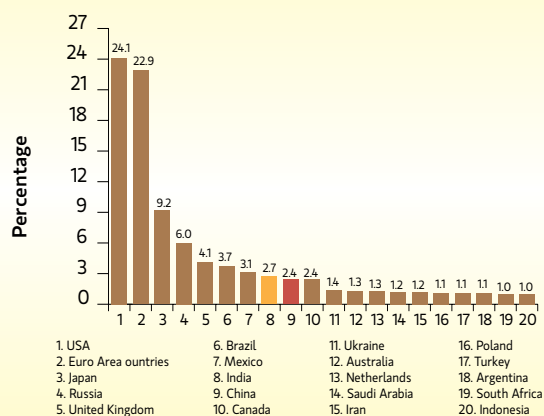
commanding an aggregate population of 2.6 billion. These two economies have outpaced in many ways several countries during the past few decades. The Chinese economy has already reached the 2<sup>nd</sup> place in PPP in GDP terms from 9<sup>th</sup>, three decades ago while India also has risen to the 4<sup>th</sup> from the 8<sup>th</sup> place in the early 1980s. It is expected that these two countries will continue to improve and become the world's largest economies.

Chart b.1.3.2 > Share in World PPP in GDP Total



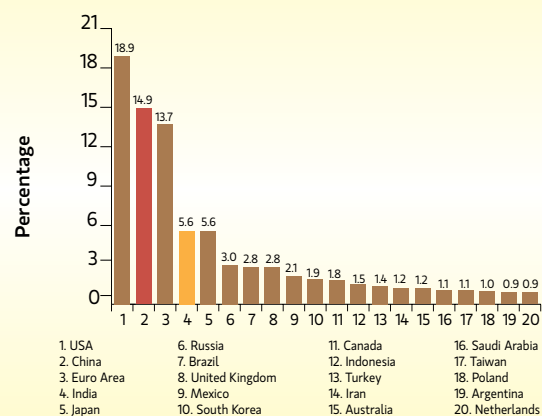
Sources: IMF and The GailFosler Group LLC

Chart b.1.3.1 > Share in World PPP in GDP-1982



Source: ECONSTATS; <http://www.econstats.com/weo/CAFG.htm>

Chart b.1.3.3 > Share in World PPP GDP in 2012



Source: IMF World Economic Outlook Database, April 2003

<sup>1</sup>PPP is an implicit foreign exchange rate and is generally used to compare the value of products across countries using a basket of goods to compare purchasing power, excluding the impact of exchange rates.

## Changing Status of Emerging and Advanced Economies

The high growth in emerging economies has been driven by many factors. The faster growth, particularly in Asia, is mainly attributable to large-scale capital investments (financed by large domestic savings and foreign investment), the rapid productivity growth and the use of resources so far untapped. The creation of new global production and supply chains that have emerged incorporating inputs from many different countries, the ability to produce goods and services cheaply, them being more efficient than their counterparts in advanced economies and the new ways of doing business have helped emerging market economies to be transformed into centers of business innovation. They have also changed the international finance architecture while elevating to be important players in the global financial system. Over the years, these countries have been able to enhance their foreign exchange reserves while establishing Sovereign Wealth Funds. Consequently, emerging market economies, who used to be borrowers and debtors, are increasingly becoming creditors and lenders to advanced economies. Those who used to be savers, creditors and lenders, are now increasingly becoming debtors and borrowers, reflecting a shift, mainly consequent to the global financial crisis.

It appears that emerging market economies have learned lessons from the past crisis situations which now occur more frequently and have thereby become more resilient. This has been complemented by relatively sound financial systems, lower public and external debt, more flexible exchange rates, and sound

macro-fiscal-monetary frameworks although the creation of meaningful jobs to meet the demands of the large number of young people in their economies would be an issue in the near term.

In contrast, many advanced economies are performing below expectations in relation to their economic growth and are experiencing growing unemployment. At the same time, pension and healthcare financing have become serious intergenerational issues with regard to their social balance sheets. The debt crisis has posed serious social and political issues in most pronounced and advanced economies. Particularly in the Eurozone countries, debt ratios have become very high, posing threats to the sustainability of traditional social welfare systems, thereby raising concerns with regard to the ageing population, thereby requiring structural reforms.

With the continuation of globalization, the world has become more inter-dependent and hyper-connected than ever before and the integration process is continuing with the advancement of information and communication technology while allowing faster and instantaneous transactions among countries across the globe. In the backdrop of these developments coupled with increased economic growth, the shift of the global economic landscape is continuing towards large emerging economies such as China, India and Brazil. Therefore, the advanced economies may no longer be the largest, fastest-growing and the most dynamic economies in the global perspective. Nevertheless, they would continue to be the richest countries in terms of per capita income for many decades to come.

Table b.1.3.1 > **Selected Global Trends 2030**

Item	Description
Individual Empowerment	Individual empowerment will accelerate owing to poverty reduction, growth of the global middle class, greater educational attainment, widespread use of new communications and manufacturing technologies, and health-care advances.
Diffusion of Power	There will not be any hegemonic power. Power will shift to networks and coalitions in a multipolar world.
Demographic Patterns	The demographic arc of instability will narrow. Economic growth might decline in “aging” countries. Sixty percent of the world’s population will live in urbanized areas; migration will increase.
Food, Water, Energy Nexus	Demand for these resources will grow substantially owing to an increase in the global population. Tackling problems pertaining to one commodity will be linked to supply and demand for the other.

Source: *Global Trends 2030: Alternative Worlds*, National Intelligence Council, USA, December 2012; [www.dni.gov/nic/globaltrends](http://www.dni.gov/nic/globaltrends)

## Opportunities for Sri Lanka

The Asian countries, like India and China, have been able to develop and prosper with the understanding, realization and application of market as a guide, advancement in science and technology, pragmatism in cultural transformation, promoting peace and reconciliation, strengthening rule of law and improvement in education. It is expected that the regional economic integration involving these large emerging markets would be much higher in the future.

The emerging world offers many opportunities for small economies like Sri Lanka. It provides scope for partnership. Hence, Sri Lanka’s present strategy to position the country as a navigation and aviation hub will enable the country to link emerging market economies as well as established advanced economies.

### References:

“Global Trends 2030: Alternative Worlds”, December 2012, National Intelligence Council, United States, [www.dni.gov/nic/globaltrends](http://www.dni.gov/nic/globaltrends)  
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02

# TRENDS IN THE GLOBAL ECONOMY

## 2.1 Overview

The global economic situation improved in 2012, as short-term risks for the stability mitigated with decisive policies adopted by advanced economies, especially the commitments by European members to defuse concerns over the integrity of Euro area and the decision by the United States to avert “fiscal cliff”, the policy package to raise taxes while curbing expenditure. The pace of growth in emerging market and developing economies was relatively strong in 2012 with solid policy actions, even though economic prospects of advanced economies deteriorated by several downside risks; large stocks of government debt, soaring unemployment rates, high financial fragmentation and weak bank balance sheets, which made their growth vulnerable.

Among the crucial policy actions taken by Euro members are; the European Central Bank (ECB)’s Outright Monetary Transactions (OMT) or the programme to buy short-term bonds of the member economies in the secondary market, establishment of European Stability Mechanism - a permanent international financial institution that assists in preserving the financial stability of the European monetary union by providing temporary stability support to Euro members, single supervisory mechanism and the bailout programme to Greece. However, advanced economies relied more on unconventional monetary policies in 2012, given the OMT by ECB, the quantitative easing - a programme to purchase treasury bonds directly by the Federal Reserve of the United States and bold monetary policy

framework of the newly elected Japanese government to quit deflation and to achieve higher inflation within two years. Although the near-term results seem to be favourable, the risks to the financial stability in the future need close monitoring. The high-performing emerging economies like China, India, Brazil and South Africa also affected by shrinking exports to advanced economies as slowdown continued and by high oil prices related with geo-political uncertainties in oil producing economies and the embargo on Iranian oil.

*Based on the speed of recovery, the IMF observes the world recovery as an emergence of a “three-speed” global economy for 2013, namely the first speed group consisting of the economies that are doing well, the second speed group of economies who are on the mend and the third speed group comprising the economies that still have some distance to travel.*

<sup>1</sup> This chapter is mainly based on World Economic Outlook Update in January 2013 of the IMF, World Economic Outlook in April 2013 of the IMF, Fiscal Monitor in April 2013 of the IMF, Global Economic Prospects in January 2013 of the World Bank, World Economic Situation and Prospects 2013 of United Nations and Food Outlook in November 2012 of the Food and Agriculture Organization.

Table 2.1 > **Key Economic Indicators in Selected Countries - 2012**

	<b>GDP Growth (Annual Percent Change)</b>	<b>Inflation (Percent)</b>	<b>Unemployment (Percent)</b>	<b>Fiscal Deficit (Percent of GDP)</b>	<b>Gross Debt (Percent of GDP)</b>
Argentina	1.9	10.0	7.2	-4.3	44.9
Australia	3.6	1.8	5.2	-2.9	27.2
Brazil	0.9	5.4	6.5	-2.8	68.5
Canada	1.8	1.5	7.3	-3.2	85.6
Chile	5.5	3.0	6.5	0.6	11.2
China	7.8	2.6	4.1	-2.2	22.8
France	0.0	2.0	10.2	-4.6	90.3
Germany	0.9	2.1	5.5	0.2	82.0
Greece	-6.4	1.0	24.2	-6.4	158.5
India	4.0	9.3	....	-8.3	66.8
Indonesia	6.2	4.3	6.2	-1.3	24.0
Italy	-2.4	3.3	10.6	-3.0	127.0
Japan	2.0	0.0	4.4	-10.2	237.9
Korea	2.0	2.2	3.3	1.9	33.7
Malaysia	5.6	1.7	3.0	-4.3	55.5
Mexico	3.9	4.1	4.8	-3.7	43.5
Russia	3.4	5.1	5.5	0.4	10.9
Singapore	1.3	4.6	2.0	5.6	111.0
South Africa	2.5	5.7	25.2	-4.8	42.3
Spain	-1.4	2.4	25.0	-9.3	84.1
Sri Lanka	6.4	7.6	4.0	-6.4	79.1
Thailand	6.4	3.0	0.5	-1.7	44.3
United Kingdom	0.2	2.8	8.0	-8.3	90.3
United States	2.2	2.1	8.1	-8.5	106.5
Vietnam	5.0	9.1	4.5	-5.2	52.1

Sources: World Economic Outlook, IMF, April 2013

Fiscal Monitor, IMF, April 2013

Annual Report 2012, Central Bank of Sri Lanka

Based on the speed of recovery, the IMF observes the world recovery as an emergence of a “three-speed” global economy for 2013, namely the first speed group consisting of the economies that are doing well, the second speed group of economies who are on the mend and the third speed group comprising the economies that still have some distance to travel.

The first speed group, especially emerging market and developing economies is projected

to grow at higher rates with an average of 5.3 percent in 2013 than the growth achieved in 2012. The key challenges of these economies are loose monetary policies that might affect the handling of capital flows and exchange rate pressures together with creating high asset prices alongside rapid growth of credit and disturbances to macroeconomic and financial stability due to the volatility in capital flows. The defensive policies on strengthening banking regulation and supervision, limiting credit

growth, imposing capital requirements and monitoring foreign exchange exposures should be among the priorities of policy makers.

The second speed group consists of the economies that are exhibiting positive developments in addressing crisis led policy issues. For example, the United States economy is satisfactorily recovering with the reviving private sector demand amid the largest fiscal adjustment in a single year within past three decades; the sequester or a range of spending cuts which is estimated to cut half of the GDP away. Reduction of government debt to a sustainable level along with budgetary savings and extra revenue could further support the revival in private demand.

The third speed group includes Euro area and Japan, the economies that have to travel a long distance. The daunting challenges to be faced by the crisis hit European Union in 2013 are country level fiscal consolidation measures, stimulation of economic growth and employment, building firewall against contagion, restoring confidence in the European banking sector and further extension of monetary easing. The arduous way towards achieving them lies in the midst of mounting public debt levels, declining investments, rising unemployment and financial fragmentation. Japanese economy is

heading a growth driven by fiscal and monetary stimulus together with structural reforms. Necessity to take prudent decisions to lower the debt in medium-term is further emphasized.

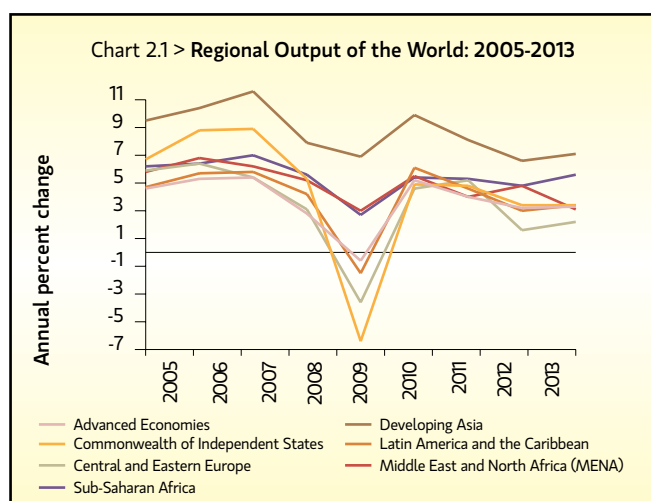
## 2.2 World Output

Global economy recorded a modest 3.2 percent growth in 2012 bolstered by the higher than anticipated growth of 2.2 percent of the United States and revival in activities in emerging market and developing economies generating a growth of 5.1 percent. Asian economies contributed significantly in driving global growth by sharing 2/3 of the global growth during the post – crisis period of 2008-2013, largely supported by the growing middle income population and large domestic market in every country in the region.

Having ended 2012 with 6.6 percent growth, the Asia expects to grow by 7.1 percent in 2013, supported by the flexible domestic demand together with accommodating macroeconomic policies.

The improved private demand and fixed investment contributed largely to the modest growth in the U.S. economy in 2012 and the below trend projection of 1.9 percent for 2013 is based on the expected slow recovery that is assumed by the reduction in consumer and business confidence in consequence with delayed debt ceiling increases and spending restraints; the sequester. However, the U.S. economy is showing some improving signs with strong private sector demand and healthy credit and housing market recovery with the anticipation of low policy rates under the monetary policy reforms. The robust performance of the private sector seems to be offsetting the impacts of fiscal consolidation and the growth in 2014 is expected to exceed 3 percent thereby.

Having contracted by 0.6 percent in 2012 compared to the expansion of 1.4 percent in the previous year owing to still ongoing double-dipped recession, the Euro zone is predicted to



Source: World Economic Outlook, IMF, April 2013



be contracted by 0.3 percent further in 2013, alongside the uncertainties in achieving fiscal targets and reduction in public debt levels. Weaker periphery economies like Spain and Italy are still under the shadow of the crisis as they are suffering from the combined effects of high sovereign debt and bank stress. IMF forecasts the crisis to be continued in Euro area throughout the year 2013 and growth to be revamped gradually in 2014.

The expansionary macroeconomic policies adopted by newly elected Japanese government caused a sharp depreciation of yen over 20 percent during the second half of the year and a revival in export earnings and output growth are expected with the help of weaker yen. Japan grew at a moderate rate of 2.0 percent in 2012 and the expected expansion in 2013 is 1.6 percent under the fiscal stimulus, structural reforms and the quantitative easing. The economy slowed in the final three quarters of 2012 as a result of widened trade deficit and fallen business confidence.

Economic activities in emerging market and developing economies slowed due to reduced demand from advanced economies together with the measures taken to adopt tightened policies. However, China expanded at 7.8 percent in 2012 and expects further expansion of 8.2 percent in 2013, supported by the accommodative fiscal and monetary policy measures. Government increased fiscal spending and central bank reduced 1-year benchmark lending rate in mid 2012. Chinese household expenditure is rising with the boosting private consumption alongside the wage gains and positive developments in construction and trade sectors. The significant drop in India's growth from 7.7 percent in 2011 to 4.0 percent in 2012 was resultant from reduced private consumption and investment, as the inflation was rising. Anticipated economic gains in South Asian countries dampened by elevated inflationary pressures. Brazilian economy underperformed in 2012, with a sharp drop in growth to 0.9 percent from 2.7 percent in 2011

Table 2.2 > **World and Regional Output**

	Annual percent change			
	Actual		Forecast	
	2011	2012	2013	2014
<b>World Output</b>	<b>4.0</b>	<b>3.2</b>	<b>3.3</b>	<b>4.0</b>
<b>Advanced Economies</b>	<b>1.6</b>	<b>1.2</b>	<b>1.2</b>	<b>2.2</b>
United States	1.8	2.2	1.9	3.0
Euro Area	1.4	-0.6	-0.3	1.1
Germany	3.1	0.9	0.6	1.5
France	1.7	0.0	-0.1	0.9
Italy	0.4	-2.4	-1.5	0.5
Spain	0.4	-1.4	-1.6	0.7
Japan	-0.6	2.0	1.6	1.4
United Kingdom	0.9	0.2	0.7	1.5
Canada	2.6	1.8	1.5	2.4
<b>Emerging Market and Developing Economies</b>	<b>6.4</b>	<b>5.1</b>	<b>5.3</b>	<b>5.7</b>
Developing Asia	8.1	6.6	7.1	7.3
China	9.3	7.8	8.2	8.5
India	7.7	4.0	5.7	6.2
ASEAN-5*	4.5	6.1	5.9	5.5
Commonwealth of Independent States	4.8	3.4	3.4	4.0
Russia	4.3	3.4	3.4	3.8
Latin America and the Caribbean	4.6	3.0	3.4	3.9
Brazil	2.7	0.9	3.0	4.0
Central and Eastern Europe	5.2	1.6	2.2	2.8
Middle East and North Africa (MENA)	3.9	4.7	3.1	3.7
Sub-Saharan Africa	5.3	4.8	5.6	6.1
Sri Lanka	8.2	6.4	7.5	8.0

Sources: World Economic Outlook, IMF, April 2013

Annual Report 2012, Central Bank of Sri Lanka

\*Indonesia, Malaysia, Philippines, Thailand and Vietnam

and being the largest economy in the region, this turning down affected the Latin American regional growth via trade linkages. The expected lift up in growth to 3.0 percent in 2013 is in consequence with anticipated high infrastructure investment in advance of FIFA World Cup and Olympics to be held in the country in 2014 and 2016, respectively.

Even though Middle East and North African economies grew at 4.7 percent in 2012, the performance within the region was mixed. The robust growth of oil exporting economies was mostly driven by the restoration of Libya's oil production activities and the expansion of Gulf Cooperation Council. Oil importing economies suffered from sluggish growth aggravated by political transitions. The growth projected for the region in 2013 is lowered to 3.1 percent, affected by estimated relatively low-oil demand. The growth in Sub-Saharan Africa was strong in 2012 and expected to continue at a strong pace supported by robust domestic demand.

The projected global and regional growth for 2013 is lower than the pre-crisis level and the level achieved in 2010, immediately after the crisis. The growth prospects of developing Asia is facing downside risks from economic slowdown in the United States, uncertainty over Euro zone sovereign debt crisis and possible spillover of recession to core Euro members from the periphery and volatile capital flows. Policy makers are adopting loosened monetary policies and fiscal stimulus in order to achieve more inclusive growth.

Global growth is predicted to be 3.3 and 4.0 percent in 2013 and 2014 assuming the recovery in euro zone will be resumed in the second half of 2013. This projection is mainly based on the anticipated growth of 5.3 and 5.7 percent in the emerging market and developing economies in 2013 and 2014 respectively, while the expected growth in the United States is 1.9 and 3.0 percent alongside the supposed contraction of 0.3 percent in Euro area in 2013 followed by a revival of 1.1 percent in 2014.

## 2.3 Inflation

As World Economic Outlook, IMF of April 2013 outlines world inflation has reduced to 3.2 percent from 3.7 percent recorded at the beginning of 2012, supported by stabilizing commodity prices. The 2013 outlook for

Table 2.3 > **Inflation**

	percent			
	Actual		Forecast	
	2011	2012	2013	2014
<b>Advanced Economies</b>	<b>2.7</b>	<b>2.0</b>	<b>1.7</b>	<b>2.0</b>
United States	3.1	2.1	1.8	1.7
Euro Area	2.7	2.5	1.7	1.5
Germany	2.5	2.1	1.6	1.7
France	2.1	2.0	1.6	1.5
Italy	2.9	3.3	2.0	1.4
Spain	3.1	2.4	1.9	1.5
Japan	-0.3	0.0	0.1	3.0
United Kingdom	4.5	2.8	2.7	2.5
Canada	2.9	1.5	1.5	1.8
<b>Emerging Market and Developing Economies</b>	<b>7.2</b>	<b>5.9</b>	<b>5.9</b>	<b>5.6</b>
Developing Asia	6.4	4.5	5.0	5.0
China	5.4	2.6	3.0	3.0
India	8.9	9.3	10.8	10.7
Commonwealth of Independent States	10.1	6.5	6.8	6.5
Russia	8.4	5.1	6.9	6.2
Latin America and the Caribbean	6.6	6.0	6.1	5.7
Brazil	6.6	5.4	6.1	4.7
Central and Eastern Europe	5.3	5.8	4.4	3.6
Middle East and North Africa (MENA)	9.2	10.7	9.6	9.0
South Africa	5.0	5.7	5.8	5.5
Sub-Saharan Africa	9.3	9.1	7.2	6.3
Sri Lanka	6.2	7.6	7.9	7.1

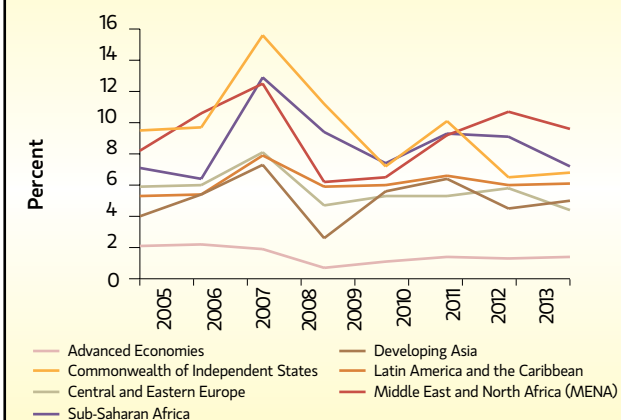
Sources: World Economic Outlook, IMF, April 2013

Annual Report 2012, Central Bank of Sri Lanka

advanced economies is further eased at 1.7 percent from 2.0 percent in 2012, while relatively low and stable 5.9 percent average of 2012 is expected to continue further in Emerging Market and Developing Economies in 2013.

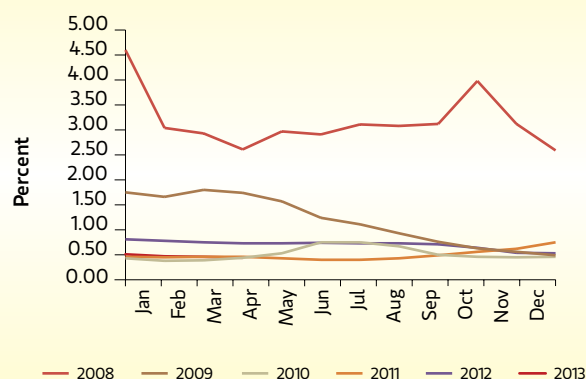
The inflation in the United States and Euro area is projected to reduce to 1.8 and 1.7 percent from 2.1 and 2.5 percent respectively. Japan is taking actions to quit from historic deflation

Chart 2.2 &gt; Regional Inflation of the World: 2005-2013



Source: World Economic Outlook, IMF, April 2013

Chart 2.3 &gt; Monthly Movements of Six Months LIBOR



Source: Money Café.com

and hence zero inflation is anticipated to be elevated temporarily to 0.1 percent in 2013 and 3.0 percent in 2014 in consequence with consumption tax increase from 5 to 8 percent from April 2013 and aggressive monetary policy measures to generate positive inflation offsetting the nominal depreciation.

The controlled level of inflation of emerging market and developing economies is due to low food and energy prices alongside the global slowdown. However, inflation in Middle East and North African economies rose to 10.7 percent from 9.2 percent in 2011 owing to fuel and food price shocks and considerable easing is not expected amidst of cutbacks in commodity price subsidies. The inflation in oil exporting Middle East and North African economies is predicted to moderate at around 9.6 percent, helped by decreasing food inflation and benign global inflationary conditions together with relatively low increase in rents in some Gulf Corporation Council countries.

The Latin American and Caribbean economies are expected to be reasonably contained at 6.1 percent in 2013, which is slightly higher than the 6.0 percent rate of 2012. The inflationary pressures of Sub-Saharan African economies are expected to be eased further in 2013 in the absence of price shocks.

## 2.4 Interest Rates

London inter-bank offered rate (LIBOR) on six-month U.S. dollar deposits averaged at 0.7 percent in 2012 with a slight increase from 2011 average of 0.5 percent. It recorded the highest level within 28 months in January 2012, reaching 0.8 percent after recording 0.9 percent in August 2009. The rate fluctuated around 0.7 percent from February to September 2012. Then a gradual decline was observed since October, until reaching 0.4 percent in April 2013. IMF projects LIBOR on six-month U.S. dollar deposits to be averaged at 0.5 and 0.6 percent in 2013 and 2014 respectively. LIBOR on three-month Euro deposits averaged at 0.6 percent in 2012 and projected to be averaged at 0.2 and 0.4 percent in 2013 and 2014 each. LIBOR on six-month Japanese yen deposits averaged at 0.3 percent in 2012 and the forecast for 2013 and 2014 is to be stabilized at 0.2 percent.

The interest rates in advanced economies are projected to be increased in 2013 with sharp increase in public debt levels. The policy rates in periphery economies of the Euro area are still at high levels. These economies have to pursue prudent macroeconomic policies to keep market confidence in order to avoid a sudden rise in interest rates. According to the IMF, the risk of rising advanced economy interest rates

from persisting low levels is due to faster than expected recovery in the U.S. economy, less than expected excess capacity in G3 economies (Euro area, Japan and the United States) and rising concerns about the fiscal sustainability.

The credit growth of the United States is increasing in consequence with easing bank-lending conditions whereas in Euro area, rate of credit growth is lowering as bank-lending conditions are tightening. Most of the emerging market and developing economies have cut down their policy rates or kept them constant below pre-crisis levels.

## 2.5 Unemployment

An elevated unemployment situation continued in advanced economies where European Union reached record high levels being aggravated by slow recovery in investment and consumption fuelled by policy uncertainty in consequence of still persisting double-dip recession. Greece and Spain topped the charts at 24.2 and 25.0 percent respectively, while France and Italy ended at 10.2 and 10.6 percent each. However, unemployment in Germany was exceptionally low at 5.5 percent owing to healthy developments in the economy together with labour related structural reforms. Unemployment level of the United States declined from 9.0 percent in 2011 to 8.0 percent in 2012, as a result of increased job creation with the pickup in construction activities. The unemployment rate of the United Kingdom was 8.1 percent while Japan remained at 4.4 percent which was slightly higher than the average of advanced Asia, 4.2 percent. Emerging market and developing economies entertained comparatively low unemployment rates and the reported rates in Brazil, China and Russia continued at 5.5, 4.1 and 6.0 percent, respectively.

The advanced economies are at a risk to be affected adversely by structural unemployment issues and reduced quality in employment, as a higher proportion of workers are trapped in unemployment for a longer period of time. Sluggish economic growth in those economies

Table 2.4 > **Unemployment**

percent

	Actual		Forecast	
	2011	2012	2013	2014
<b>Advanced Economies</b>	<b>7.9</b>	<b>8.0</b>	<b>8.2</b>	<b>8.1</b>
United States	9.0	8.1	7.7	7.5
Euro Area	10.2	11.4	12.3	12.3
Germany	6.0	5.5	5.7	5.6
France	9.6	10.2	11.2	11.6
Italy	8.4	10.6	12.0	12.4
Spain	21.7	25.0	27.0	26.5
Greece	17.3	24.2	27.0	26.0
Portugal	12.7	15.7	18.2	18.5
Japan	4.6	4.4	4.1	4.1
United Kingdom	8.0	8.0	7.8	7.8
Canada	7.5	7.3	7.3	7.2
<b>Advanced Asia</b>	<b>4.3</b>	<b>4.2</b>	<b>4.0</b>	<b>4.0</b>
China	4.1	4.1	4.1	4.1
Russia	6.5	6.0	5.5	5.5
Brazil	6.0	5.5	6.0	6.5
Sri Lanka	4.2	4.0	....	....

Sources: World Economic Outlook, IMF, October 2012 and April 2013  
Annual Report 2012, Central Bank of Sri Lanka

makes it more uncertain to create pre-crisis level job creation until 2016 as predicted by the United Nations. However, most Asian and Latin American developing economies managed unemployment rates below pre-crisis level. African unemployment continues to remain high with structural issues and labour conflicts, despite strong economic growth.

## 2.6 Fiscal Situation

### 2.6.1 Fiscal Deficits

Fiscal deficits narrowed in advanced economies from an average of 4.5 percent in 2011 to 4.3 percent of GDP in 2012 in contrast to relatively low deficits in emerging market and developing economies which widened marginally from 1.7 percent to 2.1 percent of GDP in 2012.

The deficits declined in almost all countries to half of the values recorded during the peak of the crisis in 2009, announcing the achievement of one milestone in the fiscal adjustment pathway. Measures taken to improve fiscal institutions aiming a more efficient fiscal consolidation process was common in many advanced and emerging market and developing economies in 2012.

Table 2.5 > **Overall Fiscal Balance**

	Percent of GDP			
	Actual		Forecast	
	2011	2012	2013	2014
<b>World</b>	<b>-4.5</b>	<b>-4.3</b>	<b>-3.5</b>	<b>-3.0</b>
<b>Advanced Economies</b>	<b>-6.6</b>	<b>-5.9</b>	<b>-4.7</b>	<b>-3.8</b>
United States	-10.0	-8.5	-6.5	-5.4
Euro Area	-4.1	-3.6	-2.9	-2.6
Germany	-0.8	0.2	-0.3	-0.1
France	-5.2	-4.6	-3.7	-3.5
Italy	-3.7	-3.0	-2.6	-2.3
Spain	-9.4	-10.3	-6.6	-6.9
Greece	-9.4	-6.4	-4.6	-3.4
Ireland	-13.4	-7.7	-7.5	-4.5
Portugal	-4.4	-4.9	-5.5	-4.0
Japan	-9.9	-10.2	-9.8	-7.0
United Kingdom	-7.9	-8.3	-7.0	-6.4
<b>Emerging Market and Developing Economies</b>	<b>-1.7</b>	<b>-2.1</b>	<b>-2.2</b>	<b>-2.2</b>
Developing Asia	-2.6	-3.2	-3.2	-3.0
China	-1.3	-2.2	-2.1	-1.8
India	-8.4	-8.3	-8.3	-8.4
Russia	1.5	0.4	-0.3	-1.0
Latin America	-2.4	-2.5	-1.6	-1.8
Brazil	-2.5	-2.8	-1.2	-1.7
Middle East and North Africa (MENA)	-8.7	-9.7	-9.2	-7.2
South Africa	-4.0	-4.8	-4.8	-4.2
Low-income countries	-1.7	-3.3	-3.2	-3.1
Sri Lanka	-6.9	-6.4	-5.8	-5.2

Sources: *Fiscal Monitor*, IMF, April 2013

Annual Report 2012, Central Bank of Sri Lanka

Although the ‘fiscal cliff’ has been avoided by the U.S. authorities, a further reduction in fiscal balance from 8.5 to 6.5 percent of GDP is anticipated with automatic spending cuts on estimated budgetary expenditure for 2013. Most Euro area advanced economies expect to achieve fiscal consolidation with reduced deficits through revenue reforms including the hikes in selected taxes in France, personal income taxes and property taxes in Portugal, property taxes in Ireland and revenue administration reforms in Greece. However, slowing economic activities in Germany and Italy could reduce the extent of regional success in achieving desired level of consolidation. Japan wants to reduce the overall fiscal balance from 10.2 percent of GDP in 2012 to 9.8 percent in 2013 with the recently introduced stimulus packages and further tightening to 7 percent is expected in 2014 following the consumption tax hike and the completion of reconstruction activities.

The deficits in emerging market and developing economies remained low compared to advanced economies, although they are facing with escalating spending pressures mainly in the areas of energy subsidies. Hopes for the attaining of fiscal targets in most of the economies depend on the efforts in spending reductions together with tax reforms.

## 2.6.2 Government Debt

The debt to GDP ratios in advanced economies reached much higher levels in 2012, averaging at 110.2 percent in 2012 from 105.5 percent in the previous year, in contrast to the drop recorded in emerging market and developing economies from an average of 36.7 percent to 35.2 percent, owing to low interest rate-growth differentials. However, IMF forecasts the debt to GDP ratio in advanced economies will stop rising further in 2013, pausing a while from the continuous escalation since 2007 and will reduce slightly to 109.3 percent as fiscal tightening procedures have been adopted by many advanced economies and financial market conditions are

becoming favorable. But, debt to GDP ratios are still rising in 10 advanced economies with severe fiscal problems, namely the United States, Japan, the United Kingdom and seven Euro members France, Italy, Spain, Belgium, Greece, Ireland and Portugal that account for 40 percent of global GDP.

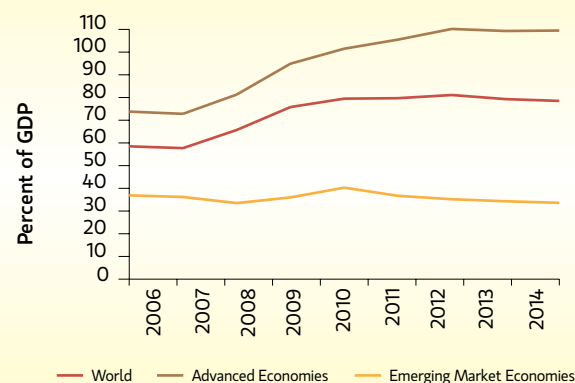
Table 2.6 > **General Government Gross Debt**  
Percent of GDP

	Actual		Forecast	
	2011	2012	2013	2014
<b>World</b>	<b>79.7</b>	<b>81.1</b>	<b>79.3</b>	<b>78.6</b>
<b>Advanced Economies</b>	<b>105.5</b>	<b>110.2</b>	<b>109.3</b>	<b>109.5</b>
United States	102.5	106.5	108.1	109.2
Euro Area	88.1	92.9	95.0	95.3
Germany	80.5	82.0	80.4	78.3
France	86.0	90.3	92.7	94.0
Italy	120.8	127.0	130.6	130.8
Spain	69.1	84.1	91.8	97.6
Belgium	97.8	99.6	100.3	99.8
Greece	170.6	158.5	179.5	175.6
Ireland	106.5	117.1	122.0	120.2
Portugal	108.0	123.0	122.3	123.7
Japan	230.3	237.9	245.4	244.6
United Kingdom	85.4	90.3	93.6	97.1
Canada	83.4	85.6	87.0	84.6
<b>Emerging Market and Developing Economies</b>	<b>36.7</b>	<b>35.2</b>	<b>34.3</b>	<b>33.6</b>
Asia	34.4	32.2	31.0	30.0
China	25.5	22.8	21.3	20.0
India	66.4	66.8	66.4	66.7
Russia	11.7	10.9	10.4	11.8
Latin America	51.7	52.4	50.9	50.3
Brazil	64.9	68.5	67.2	65.9
Mexico	43.7	43.5	43.5	43.9
Middle East and North Africa (MENA)	70.1	74.9	78.8	77.1
South Africa	39.6	42.3	42.7	43.7
Low-income economies	41.4	42.5	42.0	41.7
Sri Lanka	78.5	79.1	75.0	71.1

Sources: Fiscal Monitor, IMF, April 2013

Annual Report 2012, Central Bank of Sri Lanka

Chart 2.4 > **General Government Gross Debt: 2005 - 2014**



Source: Fiscal Monitor, IMF, April 2013

Greece, Italy and Spain of Euro area failed in servicing debt obligations and in March 2012, the largest bailout package in the history worth 130 billion Euros was signed by Euro zone finance ministers as the second rescue for Greece as a mechanism to prevent the country from public debt driven collapse. A clear and credible policy action to bring down the public debt through a medium-term debt sustainability programme is one of the urgent priorities of the United States and Japan with a debt stock approaching 108 and 245 percent of GDP respectively in 2013. The emerging market and developing economies face favourable public debt levels because of low interest rate-growth differentials. However, the recovery of Latin American and Caribbean economies are constrained by large debt levels and reduced competitiveness.

## 2.7 Capital Flows

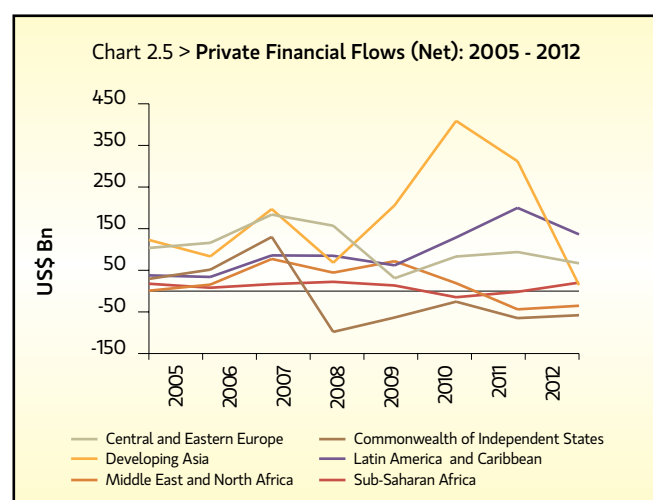
The volatility in capital flows to emerging market and developing economies is a major concern as their macroeconomic management has become more challenging with an indication of vulnerabilities in external financial position. As given in World Economic Situation and Prospects 2013 by the United Nations, this



Table 2.7 > **Private Financial Flows (Net)**

	US\$ Billions							
	Actual						Forecast	
	2007	2008	2009	2010	2011	2012	2013	2014
Emerging Market and Developing Economies	691.0	278.8	320.9	600.0	495.3	144.9	336.3	413.2
Central and Eastern Europe	183.8	157.1	30.9	83.1	93.9	66.8	62.2	64.6
Commonwealth of Independent States	130.2	-98.0	-63.4	-25.4	-64.9	-57.9	-56.7	-36.0
Developing Asia	197.1	68.2	206.2	409.0	311.9	14.4	193.3	210.7
Latin America and Caribbean	85.8	84.9	61.9	128.9	200.0	136.3	126.0	134.2
Middle East and North Africa	77.2	44.4	71.9	19.0	-43.8	-35.2	-10.0	-0.4
Sub-Saharan Africa	16.8	22.3	13.5	-14.7	-1.7	20.4	21.7	40.0

Source: World Economic Outlook, IMF, April 2013



Source: World Economic Outlook, IMF, April 2013

volatility is fuelled by the fragility in financial markets and quantitative easing policies of advanced economies. The April, 2013 issue of World Economic Outlook of IMF indicates a 70.7 percent drop in net private financial flows (which includes direct investment, portfolio investment and other long and short-term investment flows) to emerging markets in 2012 mainly due to changing nature of risk perceptions.

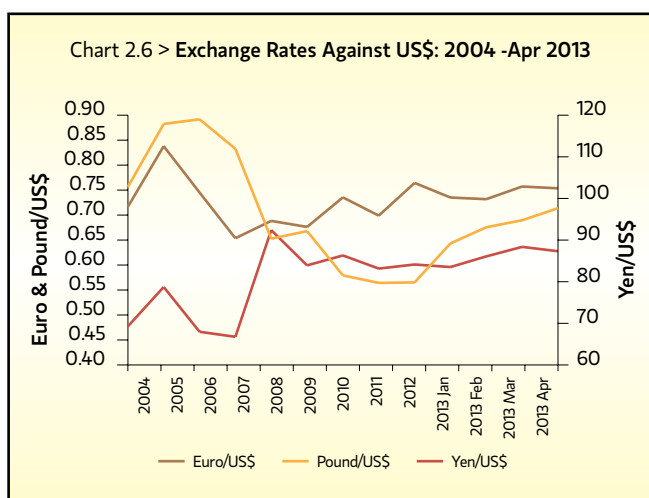
The largest regional reduction of financial flows in 2012 was to developing Asia by 95.4 percent, mainly due to the uncertainties associated with

the exchange rate adjusted rate-of-return expectations. The fall of 31.8 percent to Latin American and Caribbean economies was a result of newly introduced capital account regulations to limit short-term capital inflows. The recorded drop in capital flows to Central and Eastern European economies was 28.9 percent. However, net flows to Sub-Saharan Africa increased in 2012 to US\$ 20.4 billion.

The prospects in capital flows to emerging market and developing economies for 2013 are not favourable as there is a high risk of capital reversals with the need for deleveraging of advanced economy banking system and uncertainties on the projected growth of large developing economies. The policy reforms in advanced economies including monetary easing will stabilize financial market for some extent, mitigating risk aversion of the investors. However, macroeconomic policies of emerging market and developing economies should focus on managing upward pressure on exchange rates avoiding a competitive devaluation. At the same time, the recent trend in capital flows to emerging markets as foreign currency denominated debt and foreign holdings of local currency sovereign bonds should be closely monitored to avert risks on financial stability.

## 2.8 Currency Movements

The Euro depreciated against the U.S. dollar during the first half of 2012 in consequence with the aggravating debt crisis in Euro area. After a continuous depreciation until July 2012, Euro rebounded during the final half of the year after new policy reform initiatives to reduce financial market tensions and European Central Bank's intention on Outright Monetary Transactions (OMT) bond purchase programmes had been announced by the European authorities. The U.S. dollar weakened against currencies of both advanced economies and emerging market and developing economies with the announcement of the third round of the quantitative easing programme by Fed Reserve. British pound depreciated a little in mid 2012, but appreciated till the end of the year.



Source: X-rates.com

Japanese Yen weakened sharply by about 20 percent in real effective terms during the final months of 2012 alongside domestic and international policy actions. The yen was continuously appreciating throughout the years and hence, the import export composition became unfavourable to obtain a sustainable growth in the country. In the domestic front, the extension of asset purchase programme two times by Bank of Japan and aggressive monetary easing with strong fiscal expansionary

measures announced by the new government are behind this weakening. In the international front, OMT programme of the Euro zone and third quantitative easing programme of the United States play major roles. The fall of Yen against U.S. dollar during the period from July 2012 to February 2013 is about 16 percent and this is after a steady appreciation of about 40 percent during the five year period prior to it. The yen depreciated by 20 percent against Euro during the same period.

The emerging market and developing economy currencies depreciated further against the U.S. dollar in the first half of 2012 after falling at the end of 2011. The sharp reductions in capital flows and lower than anticipated growth expectations contributed largely for this depreciation. However, during the latter part of the year, most currencies stabilized and some started to rebound with the introduction of quantitative easing policies in the advanced economies. Nevertheless, the volatility of bilateral exchange rates of emerging market and developing economies against major advanced economy currencies continues with price uncertainties and global financial market conditions.

## 2.9 Trade

World trade volumes rebounded in 2010 by 12.5 percent following a 10.6 percent plunging in 2009 recession. However, this momentum did not continue as the growth in volume of trade lowered sharply to 6.0 percent in 2011 followed by a further contraction of the growth to 2.5 percent in 2012 as a result of drop in imports demand in crisis hit Europe and weak aggregate demand in the United States and Japan. The growth of imports volume in advanced economies fell to 1.0 percent in 2012 from 4.7 percent in 2011. The imports demand started to decline in Greece, Italy, Portugal and Spain in the latter part of 2011 and this was spread to France and Germany in 2012. The United States and Japanese demand for imports started falling during the second half of 2012.



Table 2.8 > **Trade Volumes**

	Annual percent change					
	Actual			Forecast		
	2009	2010	2011	2012	2013	2014
<b>World Trade Volume (Goods and Services)</b>						
Volume	-10.6	12.5	6.0	2.5	3.6	5.3
<b>Imports</b>						
Advanced Economies	-12.1	11.5	4.7	1.0	2.2	4.1
Emerging Market and Developing Economies	-8.3	14.8	8.6	4.9	6.2	7.3
<b>Exports</b>						
Advanced Economies	-11.6	12.1	5.6	1.9	2.8	4.6
Emerging Market and Developing Economies	-7.9	13.3	6.4	3.7	4.8	6.5

Source: World Economic Outlook, IMF, April 2013

Since trade of emerging market and developing economies highly linked with European Union and the United States through exports, they were largely affected by the shrinking demand for their exports as evidenced by the fall in growth of exports volume to 3.7 percent in 2012 compared to the growth of 6.4 percent in 2011. These global developments shifted Asian exports to different destinations like Middle East, Africa and Latin America.

## 2.10 Commodity Prices

Relatively weaker global demand and economic uncertainties caused commodity prices to drop

during 2012, after peaking at record high levels in April 2011. Agricultural prices dropped as the prices of all three categories, food, beverages and agricultural raw materials decreased following excess supplies even though some cereals affected by supply constraints caused by adverse weather conditions. According to IMF, oil prices soared by 1.0 percent with increased demand from emerging market and developing economies and decreased supply from Organization of Petroleum Exporting Countries (OPEC). Metal prices also decreased by 16.8 percent as Chinese demand lowered and stocks increased with the high production. Commodity prices are projected to be declined by 2 percent in 2013.

Table 2.9 > **Trade Prices (in US \$)**

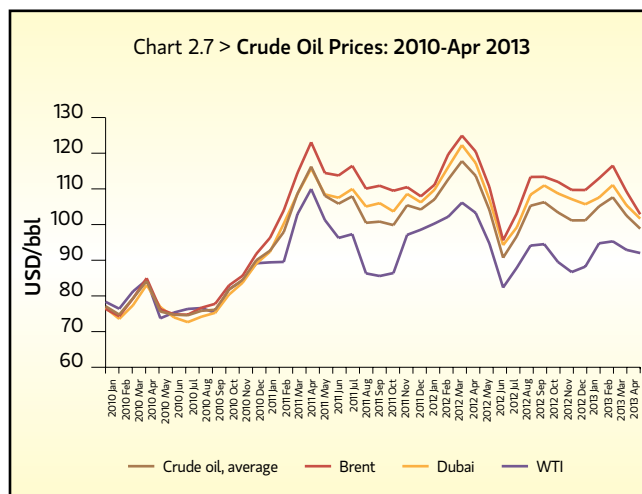
	Annual percent change							
	Actual						Forecast	
	2007	2008	2009	2010	2011	2012	2013	2014
Manufacturers	5.7	6.3	-6.4	2.4	6.7	-0.5	1.0	0.5
Oil	10.7	36.4	-36.3	27.9	31.6	1.0	-2.3	-4.9
Nonfuel Primary Commodities	14.0	7.5	-15.7	26.3	17.8	-9.8	-0.9	-4.3
Food	15.2	23.4	-14.7	11.5	19.7	-1.8	-2.4	-6.1
Beverages	13.8	23.3	1.6	14.1	16.6	-18.6	-11.9	1.1
Agricultural Raw Materials	5.0	-0.7	-17.1	33.2	22.7	-12.7	-1.1	-0.9
Metals	17.4	-7.8	-19.2	48.2	13.5	-16.8	3.2	-4.3

Source: World Economic Outlook, IMF, April 2013

## 2.10.1 Energy Prices

Spot crude oil price averaged at US\$ 105 a barrel in 2012 with a slight increase from 2011 average of US\$ 104 as demand from emerging market and developing economies increased and OPEC supply fell while geopolitical concerns heightened. As per the World Bank data, the price of a barrel of Brent crude oil averaged at US\$ 112, of a barrel of Dubai crude oil at US\$ 109 and of a barrel of West Texas Intermediate at US\$ 94 in 2012. The average spot price in the first quarter was US\$ 113 and gradually declined to US\$ 102 by the end of the year. The early rise was caused by the supply shortages driven by geopolitical uncertainties in many oil producers in the Middle East and North Africa, European Union and the United States led oil embargo on Iran and unexpected outages at oil facilities in North Sea. The average spot price stabilized at low values during the final three quarters of the year, as demand got weakened by slowing global economic activities alongside reduced U.S. demand with the build-up of U.S. oil stocks from rapidly increasing shale-liquids production in states of Texas and North Dakota and rising crude oil supply from Canada through Keystone pipeline since 2011.

World oil demand went up by 1 percent or 0.9 million barrels a day (mbd) over 2011, supported by positive developments in emerging market and developing economies including Brazil, China and other Asian and Middle Eastern economies. The increase in the second half alone was 1.6 mbd. The demand from Organization for Economic Cooperation and Development (OECD) countries declined by 0.6 mbd in contrast with the growth of 1.5 mbd in non-OECD countries. But, the only exception was Japanese demand which went up by 1 mbd mainly for the oil related power generation as nuclear capacities were reduced. World oil supply rose by 2.5 mbd in 2012 with OPEC being the main contributor with 1.9 mbd as supply from Libya, Saudi Arabia and



Source: World Bank, Development Prospects Group

Iraq grew. However, the fourth quarter supply fell in consequence with Iranian embargo, Nigerian outrages and Saudi Arabian shortage in supply. Oil supply from Non-OPEC countries increased by 0.6 mbd over 2011 in consequence with the increased production in the United States, Canada, Russia and China.

The change in natural gas prices varied regionally and US average price declined, while European and Japanese natural gas prices increased in 2012. However, 2013 US price is expected to be elevated compared to the projected low prices for European and Japanese varieties. Price of a metric ton of Australian coal faced a sharp decrease from US\$ 121.4 in 2011 to US\$ 96.4 in 2012 and further decrease is projected to US\$ 93 in 2013.

A decline of 3 percent is forecast on world energy prices and the average spot crude oil price is expected to be about US\$ 102 a barrel in 2013 assuming a higher supply from non-OPEC producers and decreasing OECD consumption owing to efficiency improvements in transport industry with substitution away from oil in to natural gas and electricity.

## 2.10.2 Agricultural Prices

Agricultural prices showed a much eased performance in 2012 as food prices declined by 1.8 percent, beverages by 18.6 percent and agricultural raw materials by 12.7 percent over 2011 global prices. Maize and wheat production in 2012 largely affected by extreme heat conditions caused by the heat wave across the United States and severe drought conditions prevailed in Eastern European and Central Asian economies whereas rice prices stayed steady with strong supplies.

World cereal production went down by 2.8 percent while wheat production reduced by 5.7 percent in 2012. The 2012 price of a metric ton of Thai rice (5%), increased by 3.7 percent from US\$ 543 to US\$ 563 as the extension of government pledging programme further in 2012 guaranteed attractive prices for paddy farmers. Maize prices strengthened by 2.8 percent over 2011 annual average of US\$ 292 a metric ton following adverse weather conditions in the United States and South America. Improved palm oil supply from East Asia made a price decline from US\$ 1,125 a metric ton in 2011 to US\$ 999 in 2012.

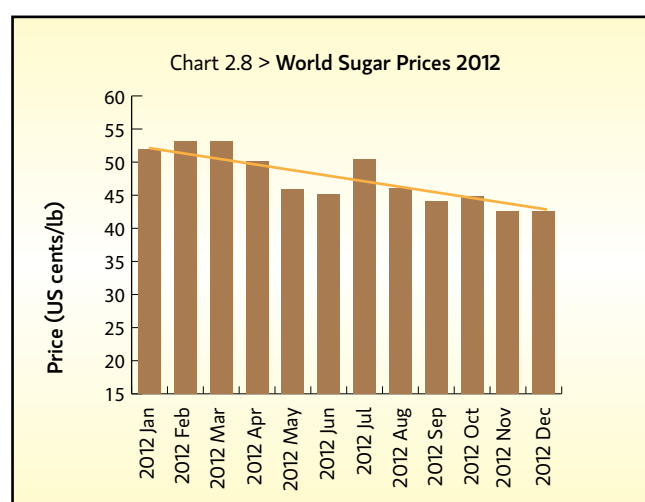
The significant drop in beverage prices was fueled by the decline in the price of Arabica coffee by 31.3 percent amid higher than anticipated yields in Brazil, 19.8 percent fall in cocoa due to both reduced demand from Europe together with improved production in Côte d'Ivoire and marginal decrease in average price of tea from US\$ 292 a kilogram to US\$ 290 in 2012.

Agricultural raw material prices decreased in 2012 as cotton prices went down by 40.8 percent following an increase in supply, natural rubber prices reduced by 29.9 percent owing to both improved production and weakening Chinese demand for tire production and Malaysian timber prices reduced by 7.7 percent. The 2013 IMF forecast for agricultural commodity prices is

further reduced: food by 2.4 percent, beverages by 11.9 percent and raw materials by 1.1 percent. However, the agriculture market prices are subject to weather risks and energy risks from ongoing unrest in Middle East.

## 2.10.3 Sugar Prices

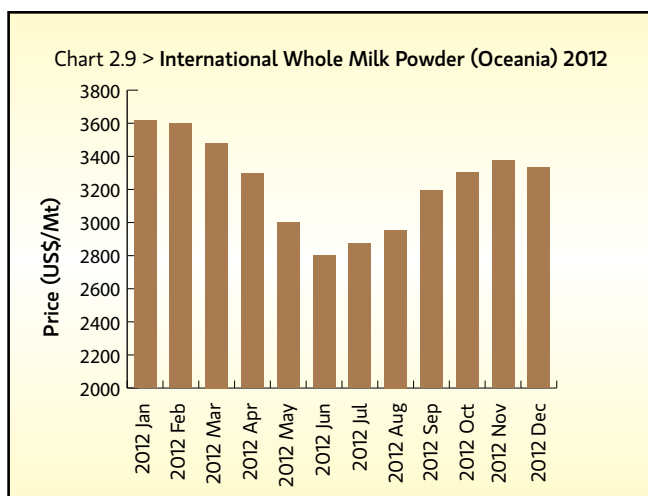
World sugar prices dropped by 17.1 percent to US\$ 47.5 a kilogram in 2012 from US\$ 57.3 in the previous year, supported by the surplus production in the world's largest sugar exporter, Brazil and in Australia, offsetting the lower production from the European Union, India and Thailand. On the other hand, the Chinese demand reduced as the domestic production increased with the expansion of planting and with higher yields. Prices were under upward pressure in July as unfavourable weather conditions were recorded in Brazil and India, after reaching the highest price of the year in February at US\$ 53.2. However, prices eased in November heading for a gradual decrease until March 2013 and expectations for a high global consumption are increasing with the hope of large world production surplus in 2013 and lower prices. World Bank projects the world sugar price to be lowered further to US\$ 45.0 in 2013.



Source: Average of mid-point of price ranges reported bi-weekly by Dairy Market News (USDA)

### 2.10.4 Whole Milk Powder Prices

Whole milk powder prices fluctuated throughout 2012, recording the lowest in June at US\$ 2,800 a metric ton which is 28.9 percent lower than the corresponding price in the previous year. The gradual decline from January price of US\$ 3,691 per metric ton was based on more than anticipated availability for exports in Southern markets-New Zealand and Australia. This trend was disturbed by uncertainties created by extreme weather conditions in Northern markets-European Union and the United States and prices began to rise from July reaching US\$ 3,375 in November with an increase of 20.5 percent.



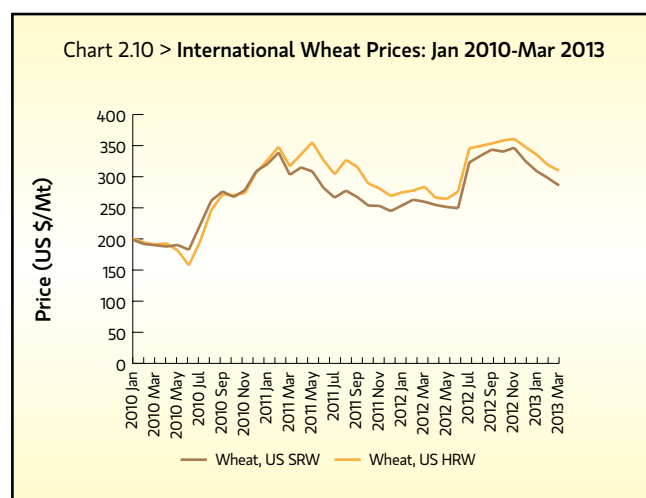
Source: World Bank, Development Prospects Group

### 2.10.5 Wheat Prices

The global wheat prices have been under upward pressure in 2012, with the decline in supply under severe drought conditions prevailed in CIS (Commonwealth of Independent States) producers; Russia, Kazakhstan and Ukraine and extreme weather conditions affecting winter wheat in some regions of the United States. Another reason

behind this was the supply-demand mismatch created from increased feed use of wheat in the United States amid very tight supply conditions of maize. However, the global wheat utilization as feeds is declining. The annual average price of US Hard Red Winter variety dropped to US\$ 313 a metric ton in 2012 by 1 percent following US\$ 316 a metric ton in 2011. Nevertheless, the highest monthly average price for US Hard Red Winter variety in 2012 recorded as US\$ 361 in November which is 28.4 percent higher than in the same period of the previous year and 1.6 percent higher than the highest monthly average of US\$ 355 recorded in May 2011. In contrast a metric ton of US Soft Red Winter variety averaged at US\$ 295, with a growth of 3.3 percent in the 2011 price of US\$ 286.

Food and Agriculture Organization forecasts a 690 million tons of world wheat production in 2013 which is 4.3 percent higher than the 2012 estimate of 662 million tons driven by the expected increase in the production by the European Union and CIS economies with favourable weather conditions and the assumed expansion in planting by the farmers incentivized by high prices.



Source: World Bank, Development Prospects Group

## 2.10.6 Fertilizer Prices

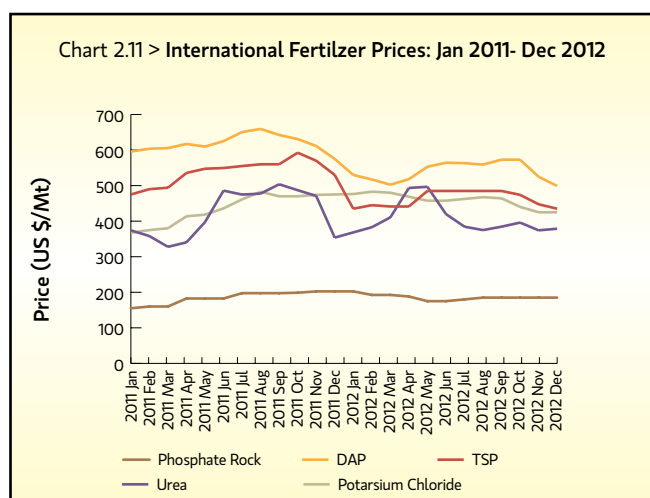
A mixed performance was observed among the prices of various types of fertilizer in 2012 in consistent with the fluctuations in global economic environment. In 2011, the world fertilizer prices sky rocketed in consequence with upward movement of energy prices and high demand from farmers who incentivized to invest more in agriculture inputs like fertilizers with the peak in global agricultural prices. The growth in the price of a metric ton of phosphate rock, di-ammonium phosphate (DAP) and tri-super potash (TSP) in 2011 was 50.3, 23.6 and 40.9 percent respectively while the corresponding increase recorded for urea and potassium chloride was 45.9 and 31.2 percent each. However, this momentum slowed in 2012 as food prices started moving down, energy prices getting eased and due to unfavourable weather conditions that affected crop planting.

The price of a metric ton of phosphate rock increased marginally by 0.5 percent in 2012 from US\$ 185 to US\$ 186 while the increase in potassium chloride was 5.4 percent from US\$ 435 to US\$ 459. However, the annual average

price of a metric ton of DAP, TSP and urea decreased from all-time peak prices by 12.8, 14.2 and 3.7 percent respectively. The decline in DAP to US\$ 540 from US\$ 619 a metric ton in previous year was due to weak demand and high stock levels in major markets. The average price of a metric ton of TSP went down from US\$ 538 to US\$ 462, while price decrease of urea was to US\$ 405 from 421 a metric ton. The World Bank assumes the reason behind the decline of fertilizer prices is the moderation of natural gas prices which is a raw material of some fertilizers. Further decline of 5 percent is expected for 2013 followed by a further 5 percent decrease in the next couple of years.

## 2.10.7 Metal Prices

Metal prices are projected to be increased by about 3 percent in 2013 assuming a higher demand from China together with rebounding of global economic activities. The prices fell by about 17 percent in 2012 in consistent with slow Chinese consumption and related stock increases with the excess production. Copper prices declined sharply to US\$ 7,962 from US\$ 8,828 per metric ton in the previous year as consumers started to substitute away from copper owing to high prices and as the recycling of scrap copper accelerated. Average price of a metric ton of aluminum declined to US\$ 2,043 from US\$ 2,401 in 2011 due to production surplus and increase in stocks. World aluminum production is expected to be benefitted from the decreased consumption of copper as the price ratio of two metals is nearly 1:4. The significant decline in a metric ton of nickel from 2011 average price of US\$ 22,910 to US\$ 17,548 was supported by the slow-moving stainless steel market and rapid nickel pig iron production in China. The forecast growth in price of aluminum and nickel in 2013 is 3 percent, while copper price is expected to be declined by 2 percent.



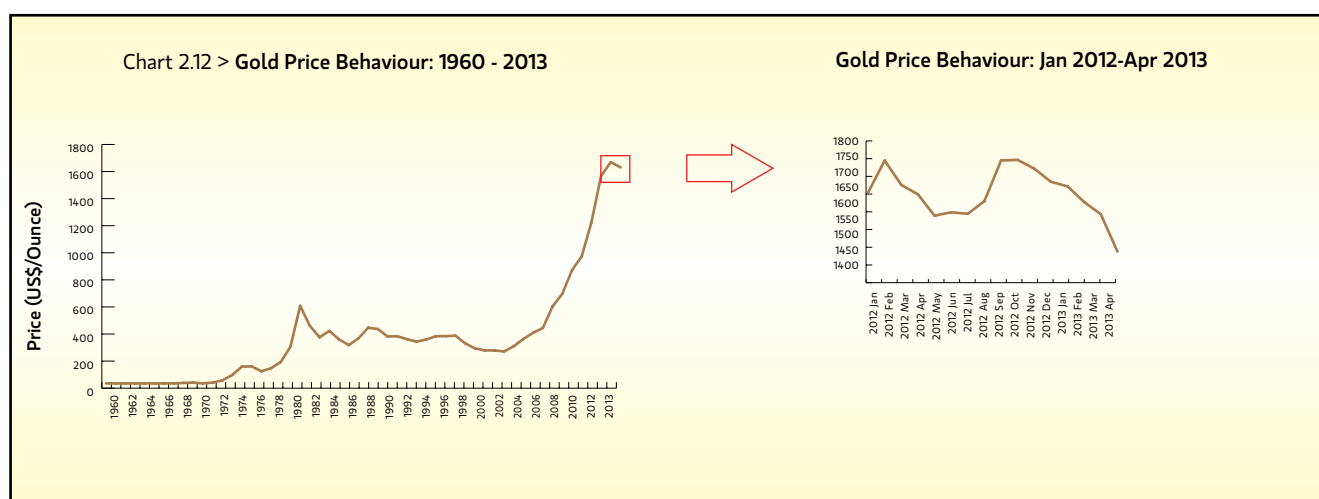
Source: World Bank, Development Prospects Group

## 2.10.8 Gold Prices

The world gold prices recorded a growth of 6.4 percent in 2012 following a significant increase of 28.1 percent in 2011. The price of this precious yellow metal had been increasing for the twelfth consecutive year in 2012, driven by the increased demand from emerging market and developing economies in consequence with the accumulated wealth as a result of the regulatory reforms and the rapid economic growth, escalating demand from the central banks as a measure in diversification of reserve assets and self-regulation by mining companies. Gold price reached highest ever monthly average in September 2011, topping at US\$ 1,772 an ounce and averaged at US\$ 1,569 in 2011. The global economic and political situations caused two spikes in 2012, arriving at US\$ 1,745 in February as intensified situation upon Iranian embargo on oil by the U.S. and European Union and again

reaching US\$ 1,746 in September – October as a result of third quantitative easing of the United States.

However, the price is sliding steadily from November 2012 and the World Bank forecast the price of a troy ounce of gold to be averaged around \$1,600 in 2013 from an average of US\$ 1,670 recorded in 2012. Even though gold price is completely driven by the investor sentiment, there are several assumptions behind recent sharp drop including expectations on adoption of tight monetary policies by the U.S. Federal Reserve while stopping quantitative easing programme, doubts over selling of the gold reserves by Cyprus, Spain and Italy and the imposition of 50% import tax on gold by India, the world's biggest importer of the metal.



Source: World Bank, Development Prospects Group

03

# THE 2012 MACROECONOMIC REVIEW



## 3.1 Overview

The Sri Lankan economy grew by 6.4 percent in 2012, following 8.2 percent growth in 2011 and 8.0 percent growth in 2010. The average growth during the last three years was 7.5 percent in comparison to 6.6 percent during the preceding 8 years underscoring that the economy has shifted to a high growth momentum benefiting from post conflict peace and reconciliation, new capacity generated in the economic infrastructure through public investment and enhanced private investments in the real economy. The growth in 2012 was achieved in the midst of multi-pronged policy measures introduced to strengthen macroeconomic stability, adverse climatic conditions, and subdued global and domestic demand all of which impacted to moderate the economic performance.

The growth was primarily driven by the robust momentum in the Industry sector, which was strongly sustained by the improvement in construction activities. The Agriculture sector rebounded with 2011/12 Maha season during the first half but suffered a setback in Yala season, towards the second part of the year due to adverse weather conditions. The Services sector growth moderated due to the slowdown in Banking & Finance, and Export & Import but sustained through the expansion in Tourism. For the fourth consecutive year, the inflation remained at single digit level. The rate of inflation, as measured in terms of Gross Domestic Product deflator, was 8.9 percent in comparison to 16.3 percent recorded in 2008. Unemployment rate moved to a range of 4 percent. Responding to the tight monetary policy adopted by the Central Bank, market interest rates increased. Lending rates moved to a range of 16.0 percent resulting in a real rate for lending to increase to around 7.0 percent. This, coupled with exposure limits on banks to expand credit, reduced the credit demand significantly.

The commitment to contain budget deficit within the medium term deficit reduction targets was consolidated further in 2012 with the budget deficit keeping at 6.4 percent of GDP against the target of 6.2 percent while maintaining public investment at a moderate level of 5.9 percent in a challenging economic environment. However, the reliance on borrowings by state owned business enterprises enhanced despite the upward adjustment in administrative prices in 2012 as domestic price adjustments continued to lag behind international prices.

The overall performance of the external sector improved consequent to the adoption of greater flexibility in exchange rate, tightened credit policies and raising customs based taxes on motor vehicle and selected imports to narrow the widening trade deficit. However, the external sector had to perform while facing uncertainties created in the global environment by the fiscal crisis in the Euro Zone area, relatively high energy prices, geo political tensions in the Middle East, declining international capital flows and slowdown in the growth in many advanced and emerging market economies, which impacted the activities in external trade and finance in the country. As a combined effect of these internal and external developments, the imports, in absolute terms, declined more than the decline in exports thereby lowering the trade deficit marginally to US\$ 9.4 billion. However, sustained inflows from overseas employment, tourism and export of services and capital inflows generated a Balance of Payments (BOP) surplus. Consequently, the official reserves increased to US\$ 6.9 billion by end 2012, which provide sufficient safeguard to manage short term capital requirements.

Towards the end of 2012, the economy re-stabilized the signs of recovery benefits of reform initiatives by witnessing 6.3 percent growth in the 4<sup>th</sup> quarter and inflation turning downwards to



9.2 percent, year-on-year basis. In this context, the Central Bank relaxed its monetary policy stance by reducing policy interest rates while allowing the ceiling on credit expansion to expire in the light of expected moderation in inflation towards the second quarter of 2013 and the need to support the economy to realize its growth potential in 2013 and beyond.

## Real Economy Moderated

The primary agriculture sector, which accounts for 11 percent of GDP, grew by 5.8 percent in 2012 recovering from the modest growth of 1.4 percent in 2011 although the severe drought and floods in the second half of 2012 affected the primary agriculture activities. This sector provided employment opportunities, particularly for the people in the rural areas.

The Industry sector recorded a 10.3 percent growth, as in the previous year, supported by the growth in all the sub sectors, particularly the notable growth in the construction industry with the expansion of the private and public construction activities. The decline in both domestic and external demand adversely affected the growth in the industry sector.

The Services sector, which accounts for 58.5 percent of GDP, grew by a moderate rate of 4.6 percent in 2012 in comparison to 8.6 percent recorded in 2011. Slowdown in external trade due to the decline in non-oil imports and export was mainly attributable for this decline. Nevertheless, the positive growth in domestic trade, hotels and restaurants, transport and communication, banking, insurance and real estate subsectors, helped maintaining a moderate growth in the Services sector during the year.

## Managing a Single Digit Inflation

Inflation, as measured by the year on year change in the Colombo Consumers' Price Index (base=2006/07) (CCPI), was maintained at single digit level for the fourth consecutive

year and was 9.2 percent by the end of 2012. Although the inflation dropped to a lowest level in February 2012, the one off impact of the upward adjustment of administrative prices of petroleum products, electricity and transport, in February 2012 and the surge in food prices, particularly the vegetable prices, caused by supply disruptions due to adverse weather conditions resulted in an increasing trend since then, which was moderated somewhat towards the end of the year with supply side policy actions, particularly in import substitution agriculture. Consequently, the annual average inflation, as measured in overall consumer prices, was managed at 7.6 percent and the GDP deflator produced 8.9 percent in 2012.

## Market Interest Rates Moved Up

In 2012, market interest rates increased with the tight monetary policy stance adopted by the Central Bank by increasing its policy interest rates i.e. Repurchase and Reverse Repurchase rate, in February 2012 as a part of the policy package introduced to strengthen the external reserves as well as domestic price stability.

Reflecting the upward revision of policy interest rates and the ceiling on the credit extended to the private sector, interbank call money rates increased until mid-December 2012 when the policy rates were reduced and saw a beginning of a policy regime easing. The deposit rates also increased mainly responding to the tight liquidity conditions in the market. Accordingly, the Average Weighted Deposit Rate (AWDR) of the commercial banks showed an overall increase of 286 basis points in 2012 to 10.10 percent. The Average Weighted Lending Rate (AWLR) also increased to 15.98 percent from 13.44 percent in the previous year as commercial banks adjusted their lending rates upwards given increased market interest rates and corresponding adjustments in deposit rates. The yield rates of government securities across all maturities in the primary market increased until December 2012 where there was a stabilization of the rates.

## Consolidating Sri Lanka's International Financial Position

The fifth international sovereign bond issue of US\$ 1,000 million, with a maturity period of 10 years, was completed in July 2012 at a lowest interest rate of 5.875 percent, reflecting a progressively lower interest rate compared to the previous four issuances. The improved domestic economic conditions coupled with the post conflict development prospects in the country and the successful continuation of the 3 year Stand-By Arrangement (SBA) facility with the International Monetary Fund (IMF) mainly attributed to the enhanced investor confidence on this bond issue. In 2012, investments by non-residents in rupee denominated government securities increased significantly reflecting the confidence on the prospects of Sri Lankan economy and the interest rate advantage for foreign investors. Meanwhile, the yield margins for Sri Lanka Development Bonds (SLDBs) issued by the government were also increased marginally.

## Unemployment Declined

In the backdrop of around 7.5 percent average growth in GDP during 2010-2012, the continued expansion in construction, tourism and services in 2012, the unemployment rate declined to 4.0 percent from 4.2 percent in 2011. The major contributory factors for this improvement were the broad based economic growth, growing employment opportunities, particularly in Industry and Services sectors, and increase in overseas employment opportunities for Sri Lankans.

## External Sector Improved Amidst Challenging Environment

The external sector performance improved in 2012 amidst a challenging global environment responding to the policy initiatives introduced in early 2012 to strengthen the macroeconomic stability of the country. Reflecting high interest

rates, depreciation of the rupee and the ceiling on the credit, the demand for imports declined to US\$ 19.2 billion in 2012 from US\$ 20.3 billion in 2011. Exports also declined due to subdued international demand. This resulted in a lower trade deficit of US\$ 9.4 billion although import cost of US\$ 19.2 billion continued to threaten the external finance as well as domestic liquidity. As the private inflows increased at a healthy rate, the deficit in the current account also narrowed to US\$ 3.9 billion from US\$ 4.6 billion in 2011. With the increased inflows to the capital and financial account, the Balance of Payments (BOP) recorded a surplus of US\$ 151 million in 2012 and external reserves increased to US\$ 6.9 billion while the reserve adequacy, as measured by the ratio of gross official reserves to short-term external debt (with remaining maturity of one year or less), was 63 percent by end 2012 as against 60.6 percent in the previous year.

## Growth in Monetary Aggregates Decelerated

Responding to the increase in policy interest rates and the ceiling on credit growth, which was introduced to manage the underline demand pressures, the growth in private sector credit and monetary aggregates declined in 2012. Private sector credit growth, which accelerated by a higher rate of 34.5 percent in 2011, moderated to 17.6 percent reflecting the deceleration in domestic economic activity, high market interest rates and depreciation of the rupee, which resulted in a drop in imports. This is reflected in the decline in advances by commercial banks to such categories as Industry, Services and Personal Loans and Advances. Meanwhile, the growth in both reserve money and broad money also decelerated. As the exchange rate policy focused on limiting the Central Bank intervention in the market and allowing a greater flexibility in the exchange rate, the rupee depreciated by 10.4 percent against US\$ in 2012 in comparison to the depreciation of 2.6 percent in 2011.

## Financial System Stability Strengthened

The financial system of the country continued to improve in 2012 while remaining stable in a challenging domestic and global environment thereby reinforcing the public confidence.

There was an improvement in the overall soundness of the financial sector in terms of capital and liquidity levels. During the year, the risk absorption capacity of financial sector improved as reflected in the increased capital levels, adequate liquidity and healthy earnings. The widened branch network helped raising savings and broadened the asset base. With the permission granted to raise funds from abroad, the sources of funding of financial institutions diversified thereby strengthening their balance sheets further. The supervisory and regulatory framework continued to strengthen to ensure the safety of the financial system.

## Fiscal Sector Continued to Improve

The government commitment to contain budget deficit within the medium term fiscal framework was further consolidated in 2012 by keeping the budget deficit at 6.4 percent of GDP compared to the target of 6.2 percent. This reflected a continuous decline of the budget deficit for the third consecutive year in comparison to 6.9 percent of GDP in 2011, 8.0 percent in 2010 and 9.9 percent in 2009. This improvement was achieved by realignment of the government expenditure in line with the government revenue which was lagging behind the growth in GDP due to the slowdown in both domestic economic activity and significant reduction of the dutiable imports and items liable to VAT and Special Excise Taxes reflecting the contractionary impact of the high duties introduced in early 2012 to address the widening trade deficit. In 2012, the overall fiscal operations confronted with several challenges, including the decline in the import based tax revenues and high market interest rates. The high oil prices continued to pose pressure on government fiscal operations underscoring the

still prevailing vulnerability of the fiscal system to increases in the international oil prices and global economy.

## Revenue Lagged

Total government revenue grew by 8.6 percent in 2012 to Rs. 1,052 billion. The revenue from excise duties decreased marginally to 3.0 percent of GDP due to a combined impact of increase in domestic taxes and moderated demand for excisable items, such as motor vehicles, cigarettes and liquor. The revenue from income taxes declined to 2.3 percent of GDP reflecting moderate growth in the economy and continued adjustments to a lower tax regime. The revenue from Value Added Tax (VAT) declined to 3.0 percent of GDP showing the reduction in vatiable imports and high exemptions in the VAT system. Meanwhile, non-tax revenue remained at 1.9 percent of GDP as in the previous year supported by higher profits and dividends of government institutions and increased profit transfers by the Central Bank. As a percentage of GDP, total revenue in 2012 accounted to 13.9 percent in comparison to 14.8 percent in the previous year.

## Managed Current Expenditure

In 2012, current expenditure of the government increased by 10.4 percent to Rs. 1,131 billion over the previous year. However, as a percentage of GDP, current expenditure declined to 14.9 percent from 15.7 percent in 2011 helping to manage the budget in the backdrop of declined revenue. Expenditure on salaries and wages increased by 8.8 percent due to the increase on special non-pensionable allowance and other upward revisions alongside new recruitments in various categories to fill carder needs. Interest payments declined as a percentage of GDP to 5.4 percent from 5.5 percent in 2011 although the relatively high market interest rates, high domestic borrowings, particularly in the second half of 2011 and the exchange rate depreciation resulted in an increase in the interest cost of the government debt in absolute terms.

Meanwhile, the non interest expenditure as a percent of GDP contained at 9.5 percent in 2012 compared to 10.2 percent recorded in 2011 reflecting their manageability in line with medium term deficit reduction path.

## **Sustained Public Investments**

The public investment in 2012 was managed at 5.9 percent of GDP in comparison to the budgetary target of 6.6 percent of GDP despite many challenges faced in fiscal management front. Consequent to the sustained expenditure on public investment, the country witnessed a steady progress in expanding the capacity of power generation, as well as transmission and distribution, expressways, ports, airports, irrigation systems, water supply and sanitation systems and schools, vocational training and health facilities as well as rural centric infrastructure development. This reflected the continuous commitment of the government to maintain public investment at a higher level to resolve infrastructure bottlenecks of the country to stimulate economic activities through enhanced private investment.

## **Deficit Financing**

The revenue deficit increased to 1.0 percent of GDP in 2012 in comparison to 0.9 percent in the previous year as a combined outcome of the lower than expected revenue and more than anticipated interest expenditure. The overall budget deficit was contained at 6.4 percent of GDP compared to the target of 6.2 percent but steadily maintaining a downward trend in deficit reduction. The budget deficit, which contained to Rs. 489 billion in 2012, was financed by domestic borrowings amounting to Rs. 308 billion (63 percent) and the balance Rs. 181 billion (37 percent) by foreign borrowings. The borrowings from the banking system declined to Rs. 132 billion in comparison to Rs. 191 billion in the previous year as non-bank financing and the foreign investments in Treasury bills and bonds increased considerably to Rs. 71 billion

and Rs. 106 billion, respectively. The targeted deficit in 2013, which is 5.8 percent of GDP, in the context of last three years' achievement in deficit reduction, reflects government commitment in making further progress in fiscal consolidation towards lowering the deficit to below 5.0 percent of GDP by 2015. The debt service impact on the budget, which has required addressing debt management concerns in fiscal reforms have also given the special attention. Meanwhile, the government debt to GDP ratio increased to 79.1 percent in 2012 from 78.5 percent in 2011 and in comparison to 90.6 percent in 2005.

## **Policy Reforms Continued**

Financial difficulties due to large losses of key state owned business enterprises (SOBES), mainly Ceylon Petroleum Corporation (CPC) and Ceylon Electricity Board (CEB), are being addressed on a priority basis to reduce the demand for borrowing and pressures on two state banks. Accordingly, upward adjustments were made to energy prices in 2012 and 2013 while taking measures to improve their operational efficiency and financial management. The prices of Petrol were raised by Rs. 10 per litre in February 2012 and further adjustments were made in December 2012. Moreover, sale of heavy fuels to CEB at below cost, which was a major source of CPC losses amounting to Rs. 33 billion or 40 percent of total loss in 2012, was discontinued from April 2013 along with further increase in petrol and diesel prices by Rs.3 per litre and Rs. 6 per litre, respectively to eliminate losses in CPC in 2013. With respect to CEB, around 18 percent tariff increase was introduced in 2012 followed by another tariff increase of around 24 percent from 20 April 2013. A fuel adjustment charge (FAC) ranging between 25-40 percent of the monthly bill, which was implemented from February 2012, was moderated in 2013 for an eventual removal after the completion of the on-going low cost power generation plants. Meanwhile, the National Water Supply and

Drainage Board (NWSDB) also revised its water tariffs upwards with effect from 01 October 2012. Accordingly, the average water tariff for domestic users increased by 60 percent. The tariff increase for commercial and industrial users was 15.4 percent and 9.4 percent, respectively. This has helped improve the financial position of the NWSDB further.

## Medium Term Fiscal Policy Strategy

The government is committed to strengthen the deficit reduction path in the medium term, 2013-2015. Appropriate measures have been taken to strengthen the revenue base and improve Public Financial Management. The revenue is expected to increase benefiting from the new tax regime, introduced in 2011 and consolidated and streamlined through various measures since then, including the expansion in VAT base further to retail level from 2013, as well as the medium term reforms in the institutional capacity building in revenue administration, human resource development and technology development in tax administration. Strong effort is being made to keep the operational expenditure on check while protecting public investment at around 6 percent of GDP to sustain the capacity growth in the economy both in terms of physical infrastructure and human resource skills. In addition, adjustments in energy prices in line with medium term reforms to improve operational and financial management of key SOBEs together with required capital infusion will help to improve their financial viability and reduce downside risks on the budget and the banking system.

## Overall Macroeconomic Policy Direction

Continued measures are being taken to strengthen macroeconomic stability further and build sufficient buffers to improve resilience of the economy to external and domestic shocks. With the continuation of the infrastructure development, improved business climate,

political stability and appropriate policy setting, the economy is expected to regain its growth momentum in exports as well as import replacement activity, supported by continued optimism in the global economy. Accordingly, the economy is expected to rebound to a 7 percent growth in 2013 and further move up towards 8 percent in 2014. Consequent to the success in inflation management in last two years, supported by continued reduction in budget deficit, inflation is projected to moderate to 6 percent in 2013.

## Major Challenges

**High Trade Deficit:** The high trade deficit continues as a major challenge in managing the country's economy. The policy changes with greater flexibility in exchange rate and external finance introduced in early 2012 has produced results to a certain extent. However, there is a need to reduce the trade deficit further to a more sustainable level through the enhancement of the dynamism in the export sector and import replacement initiatives while making efforts to conserve energy to reduce the country's oil bill. Investments in dairy, sugar, food crops, pharmaceutical, light engineering and renewable energy provide significant import replacement opportunities. In this context, high value chain export activities are also necessary as such activities are likely to get benefited from greater flexibility in exchange rate, lower income taxes, emerging investment climate in the country and new capacity expansion in port related services, which would promote both export and import replacement industries.

**Promoting Exports:** In the context of exports, the government Budgets, particularly since 2011, have provided various incentives through reforms in the tax system and the incentives regime. The maximum utilization of these concessions will help reduce the trade deficit through both exports and import replacement in the future enabling the economy to withstand against adverse implications while

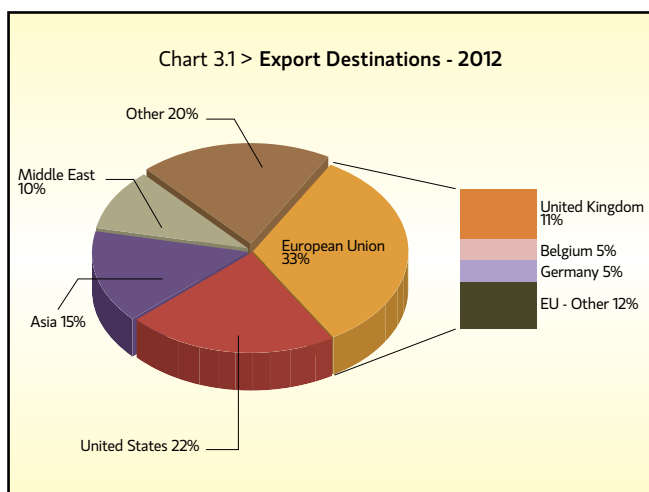


ensuring food security, energy security, and environmental security. The diversification of exports base is a major requisite as Sri Lanka's export base has not been sufficiently diversified yet. In this context, it is necessary to expand the basket of goods available for export by expanding and diversifying the production base. The export of primary products has to be discouraged and the enhancement of domestic value addition has to be encouraged. As about 80 percent of the total exports are directed towards traditionally matured markets and to the Middle East economies, the export markets also have to be diversified to reach emerging markets through enhanced efforts. Better and bigger exports penetration has to be encouraged to such emerging economies as China, India, Brazil, South Africa and Russia while seeking enhanced market access in the East Asian advanced economies like Japan, Korea and Singapore through bilateral trade reforms. Making efforts to enhance the ability to enter large economies to make full use of existing trade agreements is also necessary. At the same time, the concentration on exporting complex and high-tech exports as against the export of simple products needs to be explored on priority basis to better face the competition from regional countries. To complement that process, the enhancement of research & development as well as innovation to improve

productivity and efficiency also should be recognized as a priority. Within the country and globally, emerging new sectors will have to be identified and increased resources will have to be diverted to expand such areas in the future. While taking efforts to enhance the merchandize exports, the export of services, such as tourism, personal services, information technology and alternative service delivery models, including, business and knowledge process outsourcing (BPO & KPO) services, should also be promoted to provide further strength to the export sector. The export of education and health services also need to be enhanced in order to get the advantage of the developments in these sectors.

**Import Replacement:** There is tremendous opportunity in the country to enhance the domestic production to reduce the import cost. The country still imports a number of agricultural products, including sugar, chillies, big onions, red onions and potatoes, which has the domestic production scope to an estimated value of over US\$ 1,000 million. In addition, milk and milk products, fish, dried fish, canned fish and pharmaceutical products are also imported at a significant cost in excess of US\$ 1,000 million. There is an opportunity to the domestic private sector, including the foreign direct investments, to engage in manufacturing activities as well as in light engineering and renewable energy industry. Major areas of potential investments include steel, cement, machinery, textiles, furniture and a wide range of building materials. The domestic production scope in these areas exceeds US\$ 3,000 million per annum. If the domestic production of them could be enhanced, the import cost would be saved and those funds will be left with the hands of farmers and private sector entrepreneurs while helping to reduce the trade deficit and improve the government revenue.

**Investment in Renewable Energy and Energy Conservation:** At present, the import cost of petroleum, energy resources and fertilizer is



about US\$ 5,500 million accounting for about one fourth of imports. Therefore, a shift to a renewable energy sources such as small hydro, wind, biomass, solar and municipal solid waste etc., energy conservation and introduction of new technologies while enhancing the hydro and other renewable energy capacity with management efficiency and cost reflective pricing to reduce the country's oil bill as well as to reduce the adverse impact on environment must be given highest priority.

### Adjustment to High International Petroleum Prices:

The petroleum imports cost about US\$ 5 billion at present as the entire petroleum requirement of Sri Lanka is imported. The cost of importation of oil accounts for almost 50 percent of the country's export earnings and about one fourth of the total import bill of the country. It is observed that international oil prices have now stabilized at a relatively high level of about US\$ 110 per barrel as opposed to about US\$ 30 per barrel in 2003/04. The prices have increased by about 3.8 times since 2002 while the expenditure on oil imports has also increased by about 6.4 times during the same period reflecting the importance of energy resources in the economy of Sri Lanka as well as growing scarcity value for energy in the context of rise in demand from emerging economies. The demand for petroleum is projected to grow by 9 percent per annum with the demand for electricity is also expected to grow at about 7 percent per annum during 2013-2015 period. The heavy dependency of oil imports to meet these requirements has made the macroeconomic management more vulnerable for the developments in the international oil prices, particularly affecting the country's Balance of Payments as well as overall living conditions in the economy. Hence, greater cost reflective prices and added incentives are necessary to discourage the fossil fuel consumption and encourage renewable and low cost energy so that the trade deficit as well as economic performance will have a positive impact. This needs continued adjustments, in

both supply and demand sides, which mainly include followings.

- Strengthening the effort towards alternative energy use to reduce reliance on fuel based power consumption.
- Strengthening the energy conservation through adjustments in pricing policies to eliminate hidden subsidies and low cost energy development in the medium term.
- Encouraging industries, including those in the manufacturing sector, to use energy efficient machinery and management systems.
- Enhancing investments to reduce system losses and improve transmission efficiency.

Chart 3.2 > Monthly Average Crude Oil (Brent) Prices

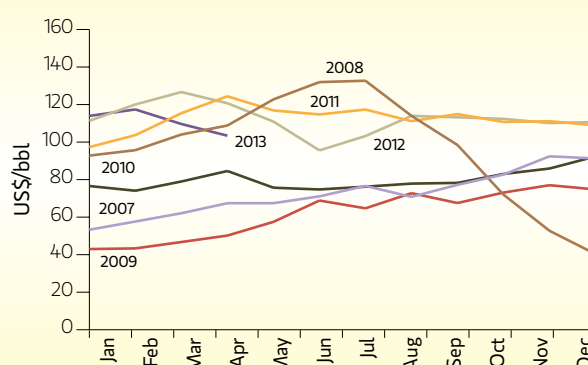
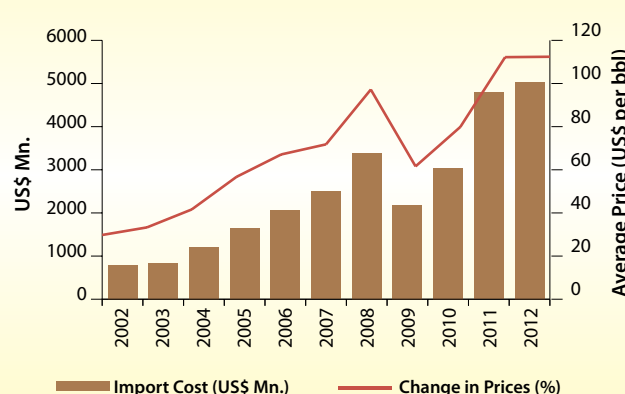


Chart 3.3 > Average Crude Oil Price and Cost of Petroleum Imports



- Improving systematic traffic management to cut energy waste by effectively targeting subsidies to lower income segments of the people.
- Creating an efficient urban public transport system

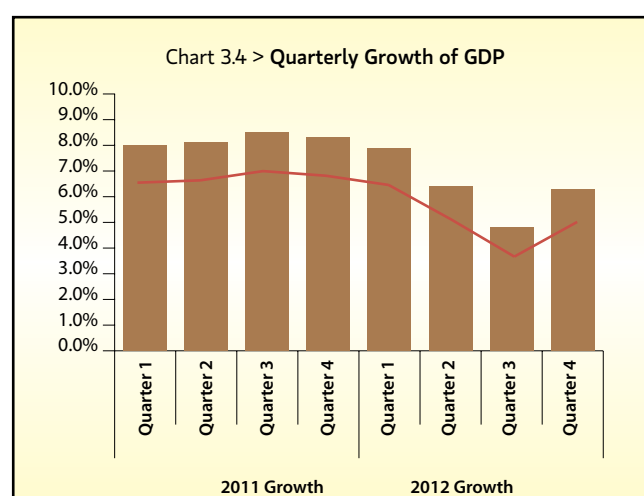
### State Owned Business Enterprises (SOBES):

The sub-optimal performance and weak financial position of the SOBES, particularly Ceylon Petroleum Corporation and Ceylon Electricity Board (CEB), has created various imbalances in the Sri Lankan economy. The performance of most SOBES continues to reflect operational deficiencies such as the limited capacity to adjust output prices to reflect market conditions, inadequate separation of business and social development goals, inadequate corporate freedom in business management and accountability. The inability to separate business focus from the social objectives continues to act as detrimental to the performance of SOBES. These enterprises therefore continue to provide very low returns on investment and have often rely on budget support and bank financing. Many of these issues have also been identified by the Committee on Public Enterprises (COPE) of the Parliament as well. In this context, considerable innovation is needed to improve the finances of most SOBES to complement and get the maximum benefit of on-going fiscal deficit reduction policy and broad-based development strategy. Key enterprises also depend on the borrowings from state banks instead of raising internal fund generations, which crowd-out the private investments and jeopardize the stability of the entire financial system. This remains a major concern in public financial management and overall economic performance of the country. Since the losses of SOBES are mainly due to non-cost reflective pricing policies and operational inefficiencies, there is a need to correct them urgently to ensure financial viability and increased business dynamism in these enterprises. Hence, the provision of generalized subsidies through

below the cost prices on basic needs, such as fuel, energy, transport and water, needs to be approached through well targeted subsidies to those needy as Sri Lanka has graduated to a middle income country status. The recent upward revision of administrative prices in petroleum, and electricity to move towards cost-effective pricing has to be reviewed in this context. It should be noted that heavy in-built cross subsidy beyond the lower end of consumers are still maintained in the prevailing price structure. In addition, other adjustments also have to be introduced by SOBES without further delay to enhance their efficiency and productivity thereby phase-out the exceptionally high losses in order to support the envisaged high economic growth of over 8 percent through increased national savings and investments.

## 3.2 Real Economy

The Sri Lankan economy recorded a 6.4 percent growth in real terms in 2012 amidst various domestic and external challenges following the 8.2 percent and 8.0 percent growth recorded during the preceding two consecutive years. Consequently, the per capita income reached to US\$ 2,923 in 2012 compared to US\$ 2,836 recorded in the previous year.





The moderate economic growth was achieved mainly benefiting from the continued government policies towards expanding economic activities, developing required infrastructure connecting all provinces of the country and provision of financial facilities to support private sector investment in agriculture, industries as well as services. Further, this growth was driven by the cautious tax policy structure appropriately adopted for encouraging investment and increasing domestic production, including local value addition while implementation of other development initiatives such as "Divi Neguma" programme, provision of high quality seeds and fertilizer at subsidized prices and safeguarding farm-gate prices for key agriculture products through prudent monetary policy measures and greater flexibility in exchange rate targeting income generation and self-sufficiency in food crops.

However, the economic growth was influenced by the adverse impacts of the instability emerged in the USA, Euro Zone area and the Middle Eastern economies in a still recovering global economy, as well as immediate term impact of the government policies adopted to ensure the macroeconomic stability. Increase in taxes to curtail import of selected items of high drain in foreign exchange, increase in policy interest rates and imposition of a ceiling on private sector credit to lower domestic demand, together with the greater flexibility in exchange rate allowed since end 2011 to manage the widening trade deficit also contributed to change the pattern of growth. Hence, services sector which accounted for 58.5 percent share of the GDP recorded a slower growth of 4.6 percent compared to 8.6 percent growth recorded in 2011. However, industry and agriculture sectors which accounted for 30.4 percent and 11.1 percent of the GDP also grew by 10.3 percent and 5.8 percent, respectively, compared to 10.3 percent and 1.4 percent growth recorded in 2011. Furthermore, the wide fluctuations in weather pattern with severe floods at the first and

Table 3.1 > **GDP- Sectoral Growth rates in 2012**

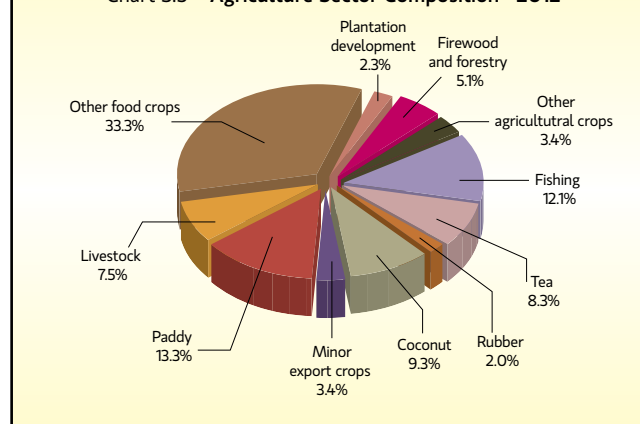
Sector	Q1	Q2	Q3	Q4	Annual
<b>GDP (Nominal)</b>	13.1	15.4	13.4	20.7	15.9
Agriculture	0.5	6.3	5.1	10.4	5.7
Industry	18.5	19.6	17.2	31.1	22.0
Services	13.7	15.1	13.2	17.0	14.8
<b>GDP(Real)</b>	7.9	6.4	4.8	6.3	6.4
Agriculture	11.5	9.1	-0.5	-0.1	5.8
Industry	10.8	9.5	7.3	13.4	10.3
Services	5.8	4.5	4.6	3.7	4.6

Source: Department of Census and Statistics

last quarters while severe drought in the second and third quarters adversely affected Maha agriculture crops and partial damage to plantation crops and loss of Yala rice production as well as the erosion in hydropower generation capacity in 2012. Agriculture witnessed a negative growth in second half while hydropower generation mix dropped to 23 percent in third quarter downscaling third quarter growth to 4.8 percent.

## Agriculture

Despite the devastating floods occurred at the beginning of the year and also from the severe drought prevailed in the latter part of

Chart 3.5 > **Agriculture Sector Composition - 2012**

the year, the Agriculture sector growth elevated to 5.8 percent in 2012 from 1.4 percent in 2011 mainly due to favourable 2011/12 Maha harvest, food crop production and plantation sector production. The improvement was driven by the 5.3 percent growth in Agriculture, livestock and forestry sub sector, which accounted for 9.8 percent of the GDP, compared to 0.2 percent contraction in 2011, resulting from the better performance in paddy production in Maha season, coconut production in first three quarters and the production of other food crops which comprise of highland crops, vegetables

and fruits and dairy production, during the year. Fishing sector, which accounted for 1.3 percent of GDP, recorded a slower growth of 9.3 percent in 2012 over the 15.5 percent growth in the previous year. Accordingly, during the first and second quarters, total agriculture sector grew by 11.5 percent and 9.1 percent respectively, even though it contracted by 0.5 percent and 0.1 percent during the third and fourth quarters in 2012, in comparison to 4.3 percent contraction and 1.8 percent, 6.5 percent and 2.4 percent growth in corresponding quarters in 2011.

### Box 3.1 Agricultural Productivity

The scientific knowledge available in agricultural research institutions is hardly linked to the extension services. Most of the researches do not address the emerging needs of the farming community. Therefore, use of quality seed and planting material, technological innovation, mechanization and appropriate use of land, water, fertilizer, chemicals and harvesting practices are low at farmer level. This has resulted in lowering Sri Lanka's agricultural productivity compared to neighbouring countries. The productivity of paddy in Sri Lanka is at an acceptable level while the other crops are at a lower level.

**Table b.3.1.1 > Average Yield of Selected Agricultural Crops in Sri Lanka and Neighbouring Countries (kg/ha)**

Country	Paddy	Maize	Soya bean	Ground Nut	Potatoes	Big Onion	Tomatoes
India	3,531	2,967	1,234	1,655	22,724	14,350	19,452
Indonesia	4,980	4,565	1,359	1,281	15,755	9,535	16,649
Malaysia	3,898	5,535	N/A	3,066	N/A	N/A	99,215
Thailand	2,974	4,293	1,963	1,588	14,706	26,294	20,314
China	6,686	5,748	1,894	3,448	16,280	24,391	49,271
Vietnam	5,532	4,333	1,467	2,082	11,199	3,590	N/A
<b>Sri Lanka</b>	<b>4,353</b>	<b>3,400</b>	<b>1,100</b>	<b>1,900</b>	<b>15,500</b>	<b>15,500</b>	<b>10,622</b>

Source: Food and Agriculture Organization and Department of Census and Statistics N/A-Data not available

Therefore, the government has placed high priority on modernization of agricultural practices and improvement of productivity and competitiveness through various measures such as improving research and development, agricultural extension, enhancing irrigation facilities and water management practices, promoting the use of improved varieties and new technology as well as minimizing the effect of adverse climate conditions through a range of incentives.

**Seed and Planting Material:** Good quality high yielding seeds and planting materials are essential to improve the agricultural productivity. Out of the total seed paddy requirement of farmers, only around 17 percent is being supplied by both government and the private sector

and the remainder is met by their own production, which is low in quality. The farmers are also facing problems of poor germination rate of seeds of field crops and vegetables. Therefore, the seed certification process is being strengthened with the establishment of seed health testing labs with modern analytical techniques and post control field testing units, variety evaluation and providing necessary training to increase the supply of quality certified seeds and planting materials to farmers in sufficient quantities.

In addition, 19 seed farms are being developed with modern facilities to cater to the seed requirement of the country. Hybrid seeds of chillie, maize and onion varieties are being developed with the objective of enhancing productivity. It will take around 6 to 7 years to develop a hybrid variety.

Seed availability of popular traditional varieties is also being increased by collecting, characterization and maintaining genetically pure nucleus seeds for seed multiplication.

**Agricultural Extension and Education System:** Despite the availability of numerous research findings to utilize the modern technologies for improvement of agricultural productivity, the application of those innovations is low at farmer level due to inadequate extension services. Therefore, the capacity of agricultural vocational training providers and agricultural extension providers are being enhanced to deliver appropriate, accredited, gender sensitive and environmentally sustainable training programmes. Moreover, facilities and operational capacity of the selected agricultural training and extension institutes are being developed.

Techno farms are being introduced through establishing model farms in each divisional secretariat in a state/public owned land and in which, 3 months training is planned to be provided to youths on modern technological applications. In addition, a computer network is being developed to link all 556 Agrarian Service Centers distributed island-wide to have a comprehensive agricultural data base promoting research, education, extension and marketing.

**Agricultural Research and Development:** Investment in agricultural research and development has been increased based on the priorities identified in the National Agriculture Research Plan (NARP) during the medium term to facilitate more technology and productivity driven agriculture. Coordination among ministries, universities and research institutes is being enhanced to link the research and development with market needs. Moreover, infrastructure facilities of Agricultural Research and Development Centers are being developed specially in the Northern and Eastern Provinces; Eg. Killinochchi, Paranthanan and Karadiyan Aru.

Researches are being carried out on developing hybrid seeds, drought, climate and pest & disease tolerant new varieties to obtain high production and productivity. In addition, appropriate farm mechanization technologies are being developed within the country through establishing well equipped testing laboratory, upgrading show room of the Farm Mechanization Research Institute.

## Paddy

Following the policy towards making Sri Lanka self-sufficient in paddy production, continuation of government programmes on improving irrigation systems, including the renovation of damages caused by the devastating floods in 2011, provision of fertilizer at subsidized prices, provision of financial assistance and maintaining the better farm gate prices through government paddy purchasing programme contributed to record the highest ever paddy extent of 1,691.8 thousand acres harvested with paddy production of 130.2 million Busals (2.72 million metric tons), in a Maha season since 1952. Hence, average yield of paddy production increased by 25.0 percent to 88.9 bushels per acre in 2011/12 Maha season. Consequently, paddy production in the first and second quarters in 2012 grew by 35.2 percent and 36.4 percent in comparison to 20.0 percent and 23.3 percent contraction witnessed in the corresponding quarters in 2011. However, due to prolonged drought, Yala paddy production in third and fourth quarters of 2012 contracted by 38.2 percent and 40.1 percent over the 12.4 percent growth in corresponding quarters in 2011. Accordingly, paddy production which accounted for 1.5 percent of the total output in 2012 recorded a 1.3 percent growth compared to 8.4 percent contraction recorded in 2011.

## Tea

The continuation of the adverse impacts of sharp fluctuations in rainfall as well as drought and decrease in tea prices due to lower demand for tea exports from major export destinations such as Middle Eastern countries, Russia, European Union, the USA and other industrialized countries, owing to economic downturn in their countries, resulted in a decline in value addition of the tea production in 2012. Hence, export of tea contracted by 5.3 percent in value terms and by 1 percent in volume terms. The average tea export prices declined to US\$ 4.41 per kg in 2012 from US\$ 4.62 per kg in 2011. With the decline in high

grown tea production and increase in low grown tea production, total tea production in 2012 amounted to 326 million kg compared to 328 million kg in 2011. Accordingly, value addition in tea production contracted by 6.7 percent and 3.5 percent respectively, during the first two quarters. It improved marginally by 4.3 and 0.2 percent in the third and fourth quarters over the corresponding quarters in the previous year. Hence, despite the provision of fertilizer at subsidized prices for planting and replanting, tax reduction to encourage local value addition and tea factory modernization, the value addition in tea production accounted for 0.9 percent of GDP in 2012 in comparison to 1.0 percent in 2011.

## Rubber

Unfavorable weather pattern and decline in rubber prices due to lower demand for rubber exports following the economic instability in major export destinations such as European Union, USA, Japan and Pakistan, resulted in a decline in rubber production in 2012 while increase in demand from India had a slightly off setting effect. Accordingly, the rubber production reflected a 3.9 percent decline in 2012. Export of rubber contracted by 39.4 percent in value terms and by 12.3 percent in volume terms. Average rubber export prices declined to US\$ 3.35 per kg in 2012 from US\$ 4.84 per kg in 2011. During the year 2012, rubber output declined by 5.5 percent, 4.7 percent and 16.5 percent in the first, third and fourth quarters, respectively, over the corresponding quarters in previous year. However, favorable weather, better market prices and tapping activity in new plantations made rubber subsector to grow by 7.0 percent during the second quarter in 2012 compared to the 10.8 percent growth recorded in the second quarter in 2011. The sharp fall in three quarters production against the rise in one quarter production contributed to a contraction of rubber subsector by 3.9 percent in 2012 over the 3.2 percent growth recorded in 2011. Accordingly, value addition in rubber production remained at 0.2 percent of GDP in 2012 as in the previous year.

Table 3.2 > **Gross Domestic Product - Sectoral Composition (2002) Constant Prices**

Rs.Mn.

Sector	2008	2009	2010	2011	2012 (a)
<b>Agriculture, Forestry and Fishing</b>	<b>285,897</b>	<b>295,097</b>	<b>315,610</b>	<b>320,178</b>	<b>338,625</b>
<b>1. Agriculture, Livestock and Forestry</b>	<b>258,881</b>	<b>266,208</b>	<b>283,203</b>	<b>282,748</b>	<b>297,730</b>
1.1 Paddy	43,406	41,179	48,377	44,325	44,887
1.2 Livestock	20,495	21,761	22,397	24,029	25,556
1.3 Other food crops	89,536	95,799	99,994	102,378	112,659
1.3.1 Highland crops	29,439	31,368	33,117	33,507	36,297
1.3.2 Vegetables	58,197	62,436	64,821	66,832	74,313
1.3.3 Fruits	1,900	1,995	2,057	2,039	2,049
1.4 Other Agricultural Crops	8,931	9,390	10,146	10,853	11,589
1.5 Tea	27,601	25,272	28,770	28,432	28,077
1.6 Rubber	5,743	6,198	6,983	7,128	6,647
1.7 Coconut	31,975	33,685	28,855	29,720	31,504
1.8 Minor Export Crops	10,478	11,028	14,955	12,114	11,507
1.9 Plantation Development	6,216	6,540	6,895	7,287	7,926
1.10 Firewood and Forestry	14,499	15,357	15,832	16,481	17,377
<b>2. Fishing</b>	<b>27,016</b>	<b>28,888</b>	<b>32,407</b>	<b>37,431</b>	<b>40,894</b>
2.1 Inland - Fishing	3,763	3,960	4,359	5,054	5,775
2.2 Marine - Fishing	23,253	24,928	28,048	32,377	35,120
<b>Industry</b>	<b>672,791</b>	<b>701,129</b>	<b>760,334</b>	<b>838,932</b>	<b>925,335</b>
<b>3. Mining and Quarrying</b>	<b>48,090</b>	<b>52,031</b>	<b>60,079</b>	<b>71,191</b>	<b>84,672</b>
3.1 Gem Mining	13,548	11,220	12,111	14,211	15,660
3.1 Other Mining	34,542	40,811	47,968	56,980	69,012
<b>4. Manufacturing</b>	<b>413,682</b>	<b>427,334</b>	<b>458,661</b>	<b>494,991</b>	<b>520,938</b>
4.1 Processing (Tea, Rubber and Coconut)	14,897	14,995	15,868	16,006	17,043
4.2 Factory Industry	373,215	385,927	414,925	449,177	472,721
4.2.1 Food and Beverages	174,794	185,142	197,731	211,848	222,722
4.2.2 Textile, Apparel & Leather	87,215	87,762	92,293	102,263	107,242
4.2.3 Chemicals, Petroleum, Coal, Rubber & Plastic	58,650	59,706	66,990	73,203	77,455
4.2.4 Non-Metallic Mineral Products	15,306	14,794	16,328	17,670	18,826
4.2.5 Fabricated Metal Products, Machinery & Equipments	31,702	32,794	35,482	37,733	39,663
4.2.6 Other Industries	5,548	5,730	6,101	6,459	6,813
4.3 Cottage Industry or SMEs	25,570	26,412	27,868	29,808	31,174
<b>5. Electricity, Gas and Water</b>	<b>56,847</b>	<b>58,974</b>	<b>63,682</b>	<b>69,547</b>	<b>72,634</b>
5.1 Electricity	50,184	52,017	56,291	61,722	64,352
5.2 Gas	4,062	4,280	4,593	4,855	5,100
5.3 Water	2,601	2,677	2,798	2,970	3,181
<b>6. Construction</b>	<b>154,173</b>	<b>162,790</b>	<b>177,912</b>	<b>203,204</b>	<b>247,091</b>
<b>Services</b>	<b>1,406,813</b>	<b>1,452,988</b>	<b>1,569,598</b>	<b>1,704,605</b>	<b>1,783,318</b>
<b>7. Wholesale and Retail Trade</b>	<b>571,912</b>	<b>570,697</b>	<b>613,358</b>	<b>676,565</b>	<b>701,408</b>
7.1 Import Trade	212,651	195,247	213,477	243,963	246,446
7.2 Export Trade	104,861	102,578	106,279	117,064	117,960
7.3 Domestic Trade	254,400	272,872	293,602	315,538	337,002
<b>8. Hotels and Restaurants</b>	<b>8,741</b>	<b>9,901</b>	<b>13,845</b>	<b>17,501</b>	<b>21,029</b>
<b>9. Transport and Communication</b>	<b>310,029</b>	<b>329,578</b>	<b>368,643</b>	<b>410,402</b>	<b>435,872</b>
9.1 Transport	<b>256,954</b>	<b>272,086</b>	<b>302,983</b>	<b>337,088</b>	<b>357,221</b>
9.1.1 Transport - Railway	2,640	2,754	2,899	2,980	3,126
9.1.2 Transport- Passenger and Goods	254,314	269,332	300,084	334,108	354,095
9.2 Cargo Handling-Ports and Civil Aviation	15,951	16,017	18,706	20,060	21,194
9.3 Post and Telecommunication	37,124	41,475	46,953	53,254	57,457
<b>10. Banking, Insurance and Real Estate and etc.</b>	<b>206,048</b>	<b>217,819</b>	<b>234,255</b>	<b>252,706</b>	<b>269,744</b>
<b>11. Ownership of Dwellings</b>	<b>73,137</b>	<b>74,051</b>	<b>74,692</b>	<b>75,607</b>	<b>76,926</b>
<b>12. Government Services</b>	<b>181,051</b>	<b>191,778</b>	<b>202,187</b>	<b>204,704</b>	<b>207,559</b>
<b>13. Private Services</b>	<b>55,896</b>	<b>59,164</b>	<b>62,617</b>	<b>67,119</b>	<b>70,779</b>
<b>Gross Domestic Product</b>	<b>2,365,501</b>	<b>2,449,214</b>	<b>2,645,542</b>	<b>2,863,715</b>	<b>3,047,277</b>

Source: Department of Census and Statistics

(a) Provisional



*The growth in 2012 was achieved in the midst of multi-pronged policy measures introduced to strengthen macroeconomic stability, adverse climatic conditions, and subdued global and domestic demand...*

## Coconut

Coconut production during first three quarters grew by an average of 8.7 percent over the corresponding quarters in previous year. However, it declined by 1.1 percent during the fourth quarter over the 1.8 percent contraction in the corresponding quarter in 2011. Overall coconut production which accounted for 1.0 percent of GDP grew by 4.7 percent in 2012 following the 8.6 percent growth recorded in 2011. Affecting from the adverse impact from depressed global demand, export of desiccated coconut and copra declined in volume and value terms. Average export prices of desiccated coconut and copra declined to US\$ 1.65 per kg and US\$ 1.09 per kg in 2012 from US\$ 2.76 per kg and US\$ 1.15 per kg in 2011. However, export of coconut oil increased in volume and value terms, even though, average export prices of coconut oil declined to US\$ 3.99 per kg in 2012 from US\$ 4.00 per kg in 2011.

During the past few years, various measures have put in place to protect the coconut cultivation using advanced methods of cultivation, fertilizer application and moisture conservation as well as through the provision of fertilizer at subsidized prices. Tax concessions were granted on supply of locally produced coconut products and adjustment of taxes was made to minimize import of palm oil which is a substitute for coconut oil in order to increase

domestic demand for local coconut products. Coconut crop subsidy scheme continued to help small scale growers to expand the extent cultivated. This resulted an increase in replanting and new planting extent by 3257 hectares and 3261 hectares, respectively in 2012.

## Other Food and Agricultural Crops

Following the government development policy towards making Sri Lanka self-sufficient in food and agricultural products, various initiatives have been taken through the distribution of high yielding seed and planting materials through "Divi Neguma" programme for encouraging home gardening, provision of fertilizer at subsidized prices, establishing better producer prices through adjustment of Special Commodity Levy and Cess Levy on imports. This endeavor was supported by the expansion of extent cultivated with the resumption of economic activities in Northern Province. Also, value addition in production of highland crops and vegetables accounted for 1.2 percent and 2.4 percent of GDP, respectively in 2012 and grew by 8.3 percent and 11.2 percent, respectively over 2011. However, export of vegetables declined by 21.2 percent in value terms and by 19.6 percent by volume terms. Export of minor agricultural products such as cocoa and betel leaves declined in value terms, due to declined global demand. Further, value addition in production of fruits accounted for 0.1 percent GDP in 2012 and grew by 0.5 percent, over the 0.8 percent contraction in 2011. Export of fruits increased by 32.9 percent in volume terms and by 21.8 percent in value terms.

Cash crops production, which accounted for 0.4 percent of the total GDP, grew by 6.8 percent in 2012 following the 7.0 percent and 8.1 percent significant growth in the previous two years due to the increase in local production of big onion, red onion, black gram, cowpea, chilies and potatoes, in volume terms. The local production of green gram, gingerly, maize, kurakkan and ground nuts also increased in volume terms (Box 3.2).

### Box 3.2: Agriculture – Towards Food Security

Agriculture is the main source of livelihood for about 33 percent (2.6 million) of the labour force of the country, who live mostly in rural and plantation areas. Although the share of the agriculture sector in GDP has dropped to 11.1 percent in 2012 from 17.2 percent in 2005, due to faster growth in manufacturing and service oriented sectors, it continues to remain the bedrock in the economy.

Despite the droughts during the second and third quarter and heavy monsoonal rains and floods in the latter part of the year, the agriculture sector grew by 5.8 percent in 2012, recovering from a slow growth of 1.4 percent in 2011. The favorable weather condition that prevailed in the early part of the year produced a bountiful paddy harvest in the 2011/12 Maha season and the better performance of field crops and vegetables contributed towards this achievement.

#### Self Sufficiency in Paddy and Export Potential

Being the staple food of the people in Sri Lanka and many Asian countries, rice plays the major role of providing calorie requirement of the people. Demand for rice is increasing with the growing population and therefore, the production as well as the productivity are to be increased significantly to cater to the increasing demand.

Table b.3.2.1 > **Paddy Statistics**

Item	Unit	2010	2011	2012
Production	MT'000	4,301	3,894	3,846
Area Sown	Ha'000	1,065	1,223	1,067
Area Harvested	Ha'000	950	981	883
Productivity	Kg/Ha	4,528	3,970	4,353
Rice Imported	MT'000	126	28	36
Rice Exported	MT'000	7	10	29
Credit Granted	Rs. Mn.	2,541	4,298	5,479
Fertilizer Issued	MT'000	490	453	409

Sources: Department of Census and Statistics, Department of Customs, Central Bank of Sri Lanka

In 2010, paddy production has increased to 4.3 million metric tons with productivity of 4.5 metric tons per hectare, making the country self-sufficient in rice. This achievement was mainly due to the increase in the extent of paddy facilitated by the increase of irrigable extent through the construction of new major and medium reservoirs, fertilizer subsidy, guarantee producer prices, guaranteed purchases through the Paddy Marketing Board (PMB) and district co-operative societies and improving paddy milling and storage capacity. Even though the paddy production has declined to 3.84 million metric tons in 2012 due to severe drought conditions experienced in Yala season, it has not affected the self-sufficiency level.

High potential rice growing areas in Polonnaruwa, Ampara, Hambantota and Mannar districts are being developed as rice export zones with the development of infrastructure and provision of other required facilities such as quality seeds and planting material, extension services, training etc. Moreover, the government acts as a facilitator to link farmers and exporters to enter into Forward Sales Contracts ensuring the continuous supply of rice to the export market. The paddy varieties, BG 360, BG 352, BG 357 and AT 362 are cultivated in Mannar, Polonnaruwa, Ampara and Hambantota export zones, respectively. The rice exports have increased from 7,370 metric tons in 2010 to 29,218 metric tons in 2012 and it is expected to increase the rice exports up to 200,000 metric tons by 2016.

## Domestic Field Crop Production and Potential for Import Reduction

The production of field crops, including maize, green gram, red onion, big onion, chillie, cowpea, kurakkan, black gram, ground nut and gingelly, have increased significantly in 2012 due to the increased production in the Maha season and paddy farmers have shifted into field crop cultivation in Yala season due to the limited supply of water for paddy cultivation, minimizing the imports. However, the imports of some commodities such as big onion, dried chillie and potato have to be maintained since the production growth has not kept pace with rising consumer demand.

With the achievement of self-sufficiency in paddy and maize, the government aims to achieve self-sufficiency in green gram, black gram, cowpea, soya bean, red onion, ground nut, gingelly and kurakkan with zero imports and 50 percent self-sufficiency in big onion, dried chillie and potatoes by 2015.

When compared with neighbouring countries, the productivity of paddy in Sri Lanka is at an acceptable level while the other crops are at a low level. This is mainly due to the inadequate use of quality seed and planting material, low level of technological innovation, lack of mechanization and inappropriate use of land, water, fertilizer, chemicals as well as cultivation and harvesting practices.

Therefore, the government has taken several measures to enhance the productivity and the production through improving research and development, agricultural extension, enhancing irrigation facilities, promoting the use of improved varieties and new technology and providing incentives and subsidies.

Table b.3.2.2 > **Production and Imports of Field Crops (MT)**

Crops	Production			Imports		
	2010	2011	2012	2010	2011	2012
Big Onion	58,930	45,700	83,561	158,058	170,731	145,912
Red Onion	61,811	72,134	73,970	11,908	6,807	7,017
Green Chilli	49,003	44,400	61,541	37,683*	42,535*	40,655*
Maize	161,694	137,800	202,315	9,571	7,012	1,005
Kurakkan	7,307	5,421	5,984	2,052	3,622	2,049
Green Gram	11,703	17,035	18,950	11,562	10,447	7,912
Black Gram	9,991	5,783	10,180	1,500	7,084	3,232
Cowpea	11,600	10,472	10,834	45	905	6,67
Soya Bean	7,521	3,800	1,671	1,611	-	101
Ground Nut	14,354	16,800	21,953	4,604	4,920	1,792
Gingelly	16,947	11,300	12,435	26	181	82
Potatoes	51,900	59,365	72,186	129,878	130,511	110,823

Source: Department of Census and Statistics, Department of Customs, Ministry of Agriculture

\* Imported as dried chillies.

Table b.3.2.3 > **Average Yield of Selected Agricultural Crops in Sri Lanka and Neighbouring Countries (kg/ha)**

Country	Paddy	Maize	Soya bean	Ground Nut	Potatoes	Big Onion
India	3,531	2,967	1,234	1,655	22,724	14,350
Indonesia	4,980	4,565	1,359	1,281	15,755	9,535
Malaysia	3,898	5,535	N/A	3,066	N/A	N/A
Thailand	2,974	4,293	1,963	1,588	14,706	26,294
China	6,686	5,748	1,894	3,448	16,280	24,391
Vietnam	5,532	4,333	1,467	2,082	11,199	3,590
Sri Lanka	4,353	3,400	1,100	1,900	15,500	15,500

Sources: Food & Agriculture Organization, Department of Census and Statistics

N/A - Data Not Available



## Fruits

The production of papaw, banana, pineapple, lime, passion fruit, rambutan, avocado, strawberry and dragon fruit has increased in 2012 compared with 2010, mainly due to the increased extent of cultivation. The strawberry production has increased significantly from 7,672 kg in 2010 to 121,783 kg in 2012. However, the production of mango, orange and jak has shown a declining trend from 2010 to 2012 even though the extent of cultivation has increased. The import volume of fruits, such as oranges and grapes, has shown an increasing trend indicating the increasing consumer preference for those imported fruits. The import volume of apples and mandarin has decreased slightly in 2012 compared to 2010.

Table b.3.2.4 > **Imports of Selected Fruits (MT)**

Fruit	2010	2011	2012
Oranges	4,500	6,996	16,530
Mandarin	10,874	10,486	10,557
Grapes	4,258	5,221	6,556
Apples	22,386	21,249	21,061

Source: Department of Customs

## Vegetables

The total vegetable production increased by 16.7 percent to 999,268 metric tons in 2012 compared with 855,994 metric tons in 2010, mainly due to the extension of the fertilizer subsidy to vegetable farmers, supply of quality seeds and planting materials to encourage home gardening of vegetables through “Divi Neguma” programme and improvement of vegetable production in Northern Province.

The government aims to increase the export volume of fruits and vegetables with the enhancement of required value addition. Value addition of agricultural commodities is being enhanced through imposing higher tariff on raw material exports and agro processing through provision of concessionary credits, tax reliefs and incentives etc.

Table b.3.2.5 > **Production of Selected Fruits (MT)**

Item	Unit	2010	2011	2012
Banana	'000 Bchs	35,776	37,661	39,772
Pineapple	'000 Nuts	44,188	44,429	46,614
Papaw	'000 Nuts	49,600	52,343	61,484
Mango	'000 Nuts	432,903	419,503	394,624
Passion Fruit	'000 Nuts	4,395	5,012	5,112
Orange	'000 Nuts	35,771	36,677	34,844
Lime	'000 Nuts	172,739	184,641	204,719
Jak	'000 Nuts	182,995	178,532	181,050
Rambutan	'000 Nuts	244,414	196,242	266,012
Avocado	'000 Nuts	4,968	7,226	7,106
Strawberry	kilo-gram	7,672	47,822	121,783
Dragon Fruit	MT	2,068	2,907	3,500

Sources: Department of Census and Statistics and Department of Agriculture

Table b.3.2.6> **Production of Selected Vegetables (MT)**

Item	2010	2011	2012
Bandakka	57,788	58,508	66,636
Brinjals	107,296	116,673	127,390
Bitter gourd	41,392	42,126	45,991
Snake gourd	32,826	43,834	38,368
Tomatoes	75,335	75,891	84,135
Cucumber	33,625	32,384	32,280
Cabbage	62,832	70,606	73,383
Carrot	34,166	37,810	34,319
Knolkhol	12,998	12,740	14,286
Beetroot	27,955	28,055	35,505
Raddish	36,091	41,307	44,511
Beans	42,691	40,422	46,974
Leeks	26,069	31,570	35,442

Source: Department of Census and Statistics

## Minor Export Crops

Table 3.3 > **Production and Export of Major Export Agricultural Crops (MT)**

Crop	Production					Export				
	2002	2005	2010	2011	2012	2002	2005	2010	2011	2012
Cinnamon	12,920	15,898	16,435	18,250	17,165	10,837	12,549	11,960	13,777	14,435
Pepper	17,700	14,303	17,332	10,800	18,604	7,915	8,131	12,224	5,065	10,487
Cocoa	2,920	902	520	525	513	106	164	4,176*	5,190*	3,427
Cardamom	1,010	79	48	57	80	3	12	7	12	11
Clove	4	6,082	9,551	5,553	4,009	4,043	5,517	8,344	5,208	2,914
Nutmeg & Mace	1,600	2,054	2,376	2,116	2,002	1,665	1,935	2,210	1,896	1,582

\* With re-export

Source: Department of Export Agriculture

The continuation of crop subsidy scheme and provision of fertilizer at subsidized prices to improve the value addition in production of minor export crops affected positively on the production. However, the weather condition in such crops growing areas was not favorable except for few crops such as pepper. Hence, the production of cocoa, cinnamon, nutmeg and mace declined even though the production of coffee, cardamom, cashew kernels and pepper increased in volume terms in 2012 in comparison to 2011. In addition, reflecting the adverse impact of depressed global demand, export of cloves, nutmeg and mace, cocoa, betel leaves and cashew nuts declined, even though, export of cinnamon, pepper, cereals, sesame seeds and arecanuts increased in volume and value terms in 2012 in comparison to 2011. Export of coffee remained in the same level in volume terms but declined in value terms. All in all, the value addition in minor export crops, which accounted for 0.4 percent of GDP in 2012, contracted further by 5.0 percent over the 19.0 percent contraction in 2011.

## Livestock

The livestock production accounted for 0.8 percent of the total GDP and recorded

a moderate growth of 6.4 percent in 2012 following the 7.3 percent growth in 2011. This growth in livestock production was supported by the increased production in milk, poultry and egg. The domestic production of milk increased by 15.8 percent to 299.3 million liters over 258.3 million litres in 2011 while the dairy products increased by 36.9 percent to 29.3 million liters during the same period. The growth was supported by various initiatives, such as improving chilling center facilities, provision of financial assistance, stabilizing remunerative farm gate prices, provision of high yielding cows and promoting liquid milk consumption implemented by the government to promote local production, diversify income generation avenues of people and also to reduce imports.

The performance in the livestock sector was also supported by the tax policy structure adopted by the government to boost the domestic livestock production by adjusting taxes to reduce the import of such products in excessive levels and granting tax concessions on supply of milk and poultry products, import of machineries and equipment for the use of milk production and extending the tax holiday facility to encourage the investment in animal husbandry and milk powder production.

### Box 3.3: Livestock Economy

Livestock industry has contributed about 1 percent to GDP, employed around 520,000 and provided annual export income of US\$ 3.0 million while import cost of livestock products amounted to US\$ 311 million in 2012. Considering the scale of imports for local consumption, the minimum consumption requirements with nutritional status and consumption pattern of middle income countries, the government has given high priority to this sector to exploit its full potential by encouraging households to engage in animal husbandry as backyard economic activities while providing incentives to private sector and SMEs to invest in this sector to increase commercial production and dairy industry related activities.

#### Dairy

The dairy production has shown a positive growth during the past few years. Total milk production in the country has increased by 16 percent to 299.3 million litres in 2012 from 258.3 million litres in 2011. The total milk production in 2012 consisted of 237.6 million litres of cow milk and 61.6 million litres of buffalo milk. The contribution of domestic milk production to the total milk requirement has increased to 40 percent in 2012 compared to 33 percent in 2011. The deficit is met by imports, mostly in the form of milk powder, which costs an average of US\$ 310 million per annum. By considering the value of

imports and its impact to the economy, the prices of powdered milk in the local market and the imported milk are regulated using the tax regimes by the government. Accordingly, it was decided to levy 15 percent or Rs. 92 on importation of milk powder in 2012 to discourage the importation and to protect the local milk producers. In addition, the certified purchasing price of milk has been maintained at a higher level of Rs. 50 per litre. These measures have contributed to a decline in imports of milk and milk products by 3 percent to 83,818 MT in 2012.

**Productivity:** At present, the average milk yield per cow is about 2.6 litres per day. Milking cows that provide a milk yield below 6 litres per day are significantly contributed to the backyard

Table b.3.3.1 > **Livestock Production Performances**

Indicator	Unit	2010	2011	2012
Milk Production	Mn Lt.	247.6	258.3	299.3
Total Milk Collection	Mn Lt.	136	137	184
Domestic Production Ratio	%	33	33	40
Imports (Quantity)	MT	74,714	86,715	83,818
Imports (Value)	US\$ Mn	257	343	310
Milk Yield per Cow	Lt /Day	2.1	2.4	2.6
Farm Gate Price of Milk	Rs.	34	50	50
Chicken Meat Production	MT '000	104.2	116.8	122.5
Egg Production	Mn.	941.5	1,185	1,457
Pork Production	MT '000	10.4	9.8	7.0
Mutton Production	MT '000	1.7	1.8	1.5

Sources: Department of Census and Statistics and Department of National Planning

Table b.3.3.2 > **Classification of Milking Cows Based on Milk Production**

Amount: Lt/Day/Cow	No. of Milking Cows	Total Milk Production Lt/day	As a percentage of the Total Milk Production
Back Yard Economy			
0-2	197,220	177,498	22
2-4	94,850	148,915	18
4-6	33,350	123,729	15
Commercial			
6-8	21,860	118,044	14
8-10	14,970	97,305	12
>10	15,290	154,429	19
Total	377,540	819,920	100

Sources: Department of Animal Production and Health

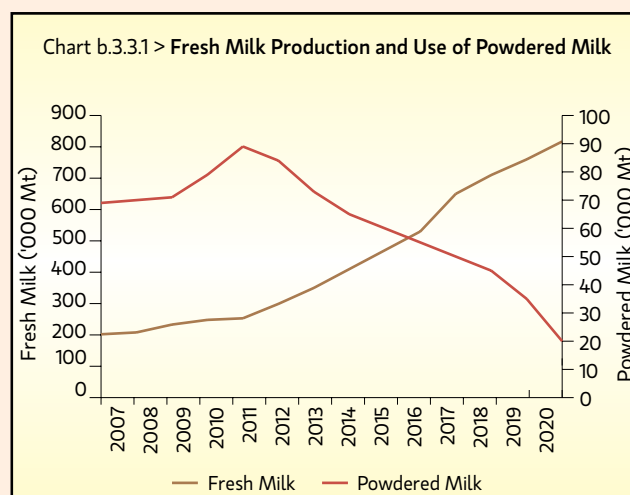
economy providing 55 percent of the total milk production in the country. By recognizing the fundamental necessity of upgrading the native herd in achieving the self-sufficiency in milk by 2020, the government has taken steps to import improved cattle breeds to the country. They have added about 10,000 litres of milk per day to the national milk collection in 2012 and the milk production is expected to increase to 25,000 litres per day with the adaptability of animals to the new environment.

By producing a substantial amount of quality milk, the domestic dairy industry has the capacity to add value to the milk, to produce different milk products to the market at affordable prices. Domestically produced value added milk and milk products, such as yoghurt, curd, chocolate and butter, are being promoted while uplifting the culture of drinking fresh milk. Dairy farmers are also being strengthened by establishing infrastructure facilities for milk collection, chilling, processing and distribution.

**Private Sector Enthusiasm:** In Sri Lanka, Milco, Nestle, Lanka Milk Foods and Cargills are the key players in the commercial dairy industry who are involved in collection and value addition of milk. These firms have collectively processed more than 300,000 litres per day to produce milk products of UHT liquid milk, yoghurt, ice cream, milk powder, butter etc. in 2012. In a strategic move to fulfill the national requirements while giving the farmers a greater role in the process and preserving the quality of milk, these firms target to increase the production capacities further to cater for the rising demand.

## Poultry

The current chicken meat and egg production have been increased by 5 percent and 23 percent to 122,490 MT and 1,457 million, respectively in 2012 compared to 2011. With the current purchasing levels of consumers, the industry is capable of producing all local requirements of chicken meat and eggs. The current per capita consumption of chicken meat and eggs are 6.7 kg and 72 eggs, respectively which are low compared to the recommended annual per capita consumption level of 13 kg of chicken meat and 180 eggs of Medical Research Institute (MRI) of Sri Lanka. Therefore, increase in the production while reducing the cost of production is critical to increase the availability of poultry products at affordable prices to consumers.



Source: Department of National Planning

Table b.3.3.3 > Production Targets of Chicken Meat and Eggs

Item	Unit	2010	2011	2012
Meat Requirement	'000 MT/Year	264	267	260
Local Production	'000 MT	104.2	116.8	122.3
Deficit of the Production	'000 MT	159.6	149.9	137.7
Per Capita Availability	Kg.	5.0	5.6	6.7
Egg Requirement	Mn.	3,769	3,809	3,710
Local Production	Mn.	941	1,178	1,457.00
Deficit of the Production	'000 MT	2,827.6	2,631.0	2,252.9
Per Capita Availability	No.	45.6	82.4	91.7

Source: Department of Animal Production and Health

**Export Potential:** Export of chicken meat and chicken meat products has increased considerably to 970 metric tons 2012 from 662 metric tons in 2010. Value added products of chicken, including sausages and meat balls, have become a lucrative industry with export potential. The production of chicken value added products has recorded as 8,798.2 metric tons in 2012. Already, four broiler processors and five further processing companies have obtained certification under internationally accepted Hazard Analysis and Critical Control Point (HACCP) system.

All these efforts will significantly contribute for the enhancement of productivity, profitability and sustainability of the dairy and poultry production systems, directing the targets towards the self-sufficiency by 2020.

Table b.3.3.4 > **Exports and Meat Based Value Added Production in Poultry Industry**

	Item	Unit	2010	2011	2012
Exports	Chicken & Chicken Products	MT	662	1,417	970
	Eggs	Mn.	0.8	1.4	n.a
	Production of Chicken Sausages	MT	5,082	6,267	6,426
	Production of Chicken Meat Balls	MT	1,018	691	896
	Production of Other Processed Chicken	MT	976	1,584	1,476

Source: Department of Animal Production and Health

## Fishery Industry

Fishery sector, which accounted for 1.3 percent of the GDP, grew by 9.3 percent following the 15.5 percent and 12.2 percent growth recorded in the previous two years. Production increase in inland fishing by 14.3 percent and marine fishing by 8.5 percent during the year contributed for this expansion although inland fishing contracted by 36 percent in the fourth quarter due to third and fourth quarter drought. The growth in marine fishing production which accounted for 1.2 percent of GDP has revived with the resumption of fishing industry in liberated areas, development of fishery industry infrastructure throughout the country by developing fishery harbors, provision of vessels and other equipment as relief assistance for those in liberated areas. Further, this was supported by the tax policy structure adopted by the government to boost the domestic fish

production by adjusting taxes to manage the import of fish products in excessive levels and granting tax concessions, including tax concessions, to encourage investment in fisheries and fish processing. The provision of fuel subsidy targeting fishermen since February 2012 to reduce the increase in cost of fish production with the increase in fuel prices in the international market eased the adjustment cost of fuel. The loans and advances extended by commercial banks to fishery sector increased by 76.4 percent to Rs. 10.4 billion in 2012. Meanwhile, the export of sea food, including fresh and frozen fish, increased by 6.9 percent to US\$ 198 million in 2012 while the import of sea food, including fresh fish and dried fish, declined by 8.5 percent to US\$ 136.4 million in 2012 in comparison to 2011.

Table 3.4 > **Fishery Sector Information**

Year	Operating Fishing Boats by Type			Annual Fish Production by Fishing Sub-sectors (MT)					Fish Imports & Exports			
				Marine Fish Catch		Inland & Aquaculture	Total Fish Production	Wet Fish for Dry or Smoking	Total Fish Imports		Total Fish Exports	
	Coastal	Off Shore/ Deep Sea	(Rs.Mn)	(MT)	(Rs.Mn)				(MT)			
2002	28,703	5,600	34,303	176,250	98,510	28,130	302,890	61,720	5,747	71,537	8,047	13,532
2003	30,295	5,800	36,095	163,850	90,830	30,280	284,960	54,340	6,145	75,119	9,543	15,005
2004	31,164	6,000	37,164	154,470	98,720	33,180	286,370	63,470	5,944	67,284	9,435	13,681
2005	30,504	6,200	36,704	63,690	66,710	32,830	163,230	18,900	7,099	76,584	10,695	15,985
2006	38,819	7,046	45,865	121,360	94,620	35,290	251,270	71,740	9,681	77,382	14,440	18,647
2007	38,383	6,600	44,983	150,110	102,560	38,380	291,050	77,830	11,961	86,156	19,123	21,423
2008	39,049	7,170	46,219	165,320	109,310	44,490	319,120	93,240	12,521	76,266	19,077	20,593
2009	40,245	7,560	47,805	180,410	112,760	46,560	339,730	97,690	13,939	75,411	21,015	18,714
2010	48,134	7,990	56,124	202,420	129,840	52,410	384,670	100,120	14,162	80,013	19,834	18,325
2011	53,476	8,020	61,496	222,350	162,920	59,560	444,830	112,295	16,240	81,957	21,876	18,462
2012	53,210	8,350	61,560	257,540	159,680	68,950	486,170	131,840	17,401	71,413	26,363	18,631

Source: Ministry of Fisheries and Aquatic Resources Development

## Industry

Industry sector accounted for 30.4 percent of GDP recording a 10.3 percent growth in 2012. Benefiting from the positive contribution from all forms of industrial activities. Higher growth in industry sector in 2012 was evaded by the moderate growth in manufacturing industry resulting from the contraction in industrial exports, lower domestic demand and decline in hydropower generation. Industrial exports contracted due to lower global demand affecting from the uncertainties in major export destinations such as USA, Euro Zone area and the Middle East. Higher interest rates and the imposition of a ceiling on private sector credit to limit the access to credit for private sector affected adversely on the Hydropower generation declined due to adverse impact of unfavorable weather conditions. However, that effect was slightly offset by the notable growth in construction industry with the expansion in public and private construction activities and the increased growth in mining and quarrying industry with the expansion in construction industry.

## Mining and Quarrying

Mining and quarrying industry, which comprises of gem and other mining products accounted for 2.8 percent of GDP and grew by 18.9 percent in 2012 in comparison to 18.5 percent growth recorded in 2011. Other mining products which comprised of construction related materials such as sand, rock metal and lime and mineral products such as graphite, phosphate, mineral sands and salt production, accounted for 2.3 percent of GDP and recorded a higher growth of 21.1 percent following the 18.8 percent growth in 2011. This improvement was supported by the increased domestic demand for construction related materials in tandem with the revival in construction industry. Gem mining which accounts for 0.5 percent of GDP recorded a slower growth of 10.2 percent in 2012 in comparison to 17.3 percent recorded in 2011, despite the increase in gem exports by 24.2 percent to US \$ 118 million in 2012.



## Manufacturing

Manufacturing industry, which comprises of processing, factory and cottage industries, contribution to GDP in 2012 contracted by 0.2 percent and accounted for 17.1 percent recording a 5.2 percent moderate growth in 2012, in comparison to 7.9 percent growth in 2011. Manufacturing sector growth was mainly affected by the contraction in industrial exports by 7.8 percent in 2012 in comparison to 31.1 percent expansion in 2011 and decline in domestic demand affecting from the monetary policy measures adopted to ensure macroeconomic stability by limiting the credit for private sector by increasing interest rates and imposition of a ceiling on private sector credit. However, the growth in manufacturing industry was supported by the lower tax policy regime put in place in 2011, greater flexibility in exchange rate that promotes exports and import substitution activities and national level programmes to promote the locally value added production, export promotion and to strengthen the small and medium entrepreneurs. Further, the accelerated economic activities coupled with the rapid infrastructure development throughout the country, relatively stable price levels, construction and tourism sector revival substantially retrieved the decline in local demand and supported the value addition in manufacturing sector production.

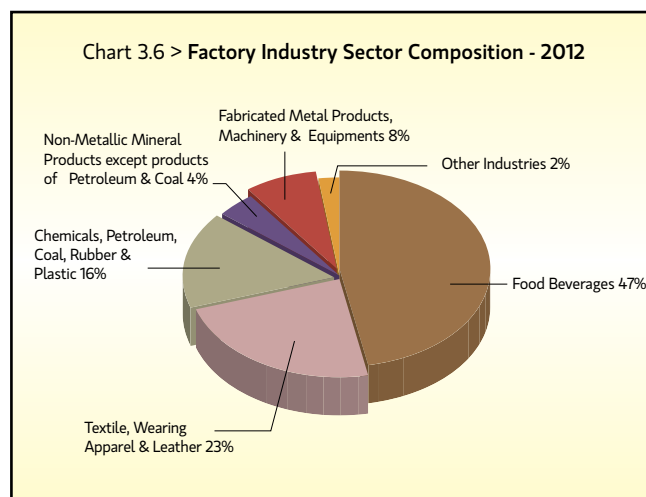
## Processing Industry

The processing industry, which represents the tea, rubber, coconut, paddy, minor exports and other food processing, grew by 6.5 percent in 2012 in comparison to a slower growth of 0.9 percent in 2011. Notwithstanding the contraction in tea and rubber production and export of tea, rubber, coconut and rubber products, higher growth in processing industry was driven by the tax increases to discourage the exports in raw form, tax reductions to promote value added production, exports and modernization of tea factories as well as increased coconut production.

## Factory Industry

The factory industry, which is the main contributor for the industry sector, accounted for 15.5 percent of GDP and recorded a slower growth of 5.2 percent in 2012 in comparison to 8.3 percent growth in 2011. All forms of factory industries positively contributed but with a reduced growth. Value addition in production of food, beverages and tobacco products which accounted for 7.3 percent of GDP grew by 5.1 percent in 2012 in comparison to 7.1 percent in 2011.

Chart 3.6 > Factory Industry Sector Composition - 2012



Increased production in preparing and preserving of meat products, processing and preserving of fish products, sugar and confectionary products, prepared animal feed products and production of beverages such as soft drinks, mineral water and bottled water, were major contributory factors. Growth in this sub sector was driven also by the increased income level and tourism sector development and thereby increased private consumption in use of hotels, cafes and restaurants coupled with increase in leisure and entertainment. However, industrial production of food products, beverages and tobacco products in 2012 declined compared to 2011, resulting from the reduced growth for private consumption of food, beverages and tobacco products and also decline in production in other food products

such as dairy, grain, bakery and tobacco products and production of beverages such as distilling, rectifying and blending of spirits. Textile, wearing apparel and leather products, which accounted for 3.5 percent of GDP, grew by 4.9 percent in 2012 in comparison to 10.8 percent in 2011. Contraction in export of textiles and garments by 4.8 percent and decline in production of leather and related products slowed down the growth of this sub sector. Despite those impacts, increased production in textile and wearing apparel by 4.2 percent contributing from the private sector enthusiasm on improving quality standards, diversifying products mix and markets to persist in export market and the tax concessions granted for reducing the cost of production and for promoting domestic demand by allowing the supply of garments by export oriented companies to domestic market, supported this growth. Further, this growth was also supported by the increase in export of leather products.

Chemicals, petroleum, coal, rubber and plastic products, which accounted for 2.5 percent of GDP, grew by 5.8 percent in 2012 in comparison to 9.3 percent in 2011. Increased production in fertilizer, soaps and detergents, paints and varnishes, and plastic products mainly contributed for the growth of this sub sector. This performance was followed by the increased demand for fertilizer with the expansion of agricultural sector and provision of fertilizer at subsidized prices for all varieties of crops supporting the increase in fertilizer production. Further, increased demand for soaps and detergents and hence the production increases was supported by the increase in private consumption in use of hotels, cafes and restaurants benefitting from the revival in the tourism sector and the increased income level. Also, notable growth in construction industry

had an impetus on increase in demand for paints and varnishes and hence the production increases. However, contraction in export of rubber products by 2.9 percent due to lower demand for exports and marginal decline in production of rubber tyres and tubes which is the main contributor to rubber and plastic production despite the tax concessions granted to discourage import of tyres and thereby to promote the local production, had a negative impact on growth of this sub sector. Contraction in export of petroleum products by 16.2 percent and decline in production of refined petroleum products also negated the growth of this sub sector.

Non-metallic mineral products except petroleum and coal products sub sector, which accounted for 0.6 percent of GDP grew only by 6.5 percent in 2012 in comparison to 8.2 percent in 2011. Increase in production of glass and glass products and cement subsequent to the increased domestic demand in line with the higher growth in construction industry mainly contributed for this growth, while decline in production of porcelain and ceramic products and polished diamonds lowered the growth. Contraction in export of ceramic products by 6.6 percent affected the decline in ceramic products. Fabricated metal products, machinery and equipment products, grew by 5.1 percent compared to 6.3 percent in 2011. Production of fabricated metal products increased with the substantial improvements in commercial activities in ship building and repairing. This was contributed from the increased demand for small and medium scale boats with the improvements in tourism activities and increased private consumption in leisure and entertainment and also from the increased demand for fishing boats with the expansion of fishery industry.



Table 3.5 > **Selected Industrial Exports**

Item	US\$ Mn.				
	2008	2009	2010	2011	2012
Rubber Products	542	385	558	885	859
Rubber Tyres	337	213	336	569	540
Surgical Gloves and Other Gloves	117	114	137	181	177
Other Rubber Products	88	58	85	135	143
Gems, Diamonds and Jewellery	514	402	409	532	559
Gems	76	69	70	95	118
Diamonds	418	317	322	414	417
Jewellery	20	17	17	22	24
Machinery and Mechanical Appliances	322	187	259	312	297
Transport Equipment	108	127	144	225	165
o/w Ships, Boats and Floating Structures	22	58	59	149	57
Petroleum Products	255	134	263	553	463
o/w Bunkers and Aviation Fuel	253	133	259	524	457
Chemical Products	71	74	93	118	117
Wood and Paper Products	84	59	85	111	112
Leather Travel Goods and Footwear	57	47	60	65	55
Plastics and Articles Thereof	57	40	47	55	53
Base Metals and Articles	57	36	63	56	56
Ceramic Products	49	36	40	38	36
Tiles	12	8	8	6	7
Tableware, Household Items and Sanitaryware	30	24	27	28	25
Other	7	4	5	5	4
<b>Total</b>	<b>2,116</b>	<b>1,527</b>	<b>2,021</b>	<b>2,950</b>	<b>2,772</b>
Memo: Total Industrial Exports (US\$ Mn.)	6,112	5,228	6,096	7,992	7,371

Source: Central Bank of Sri Lanka

## Cottage Industry

The cottage industry which comprised of small scale industries accounted for 1.0 percent of GDP and grew by 4.6 percent in comparison to 7.0 percent in 2011. In order to promote small scale livelihood development industries, the government implemented various programmes such as "Divi Neguma" programme, "Industrial Production Village" programme and various other programmes to provide training needs as well as financial and advisory support. Tax exemptions were also granted to reduce the cost of production. Despite these encouragements and increased demand for handicrafts and similar

products with improvements in tourism sector, slower growth in cottage industry could be viewed as the expansion in relatively highly paid local and foreign employment opportunities.

## Electricity, Gas and Water

Value addition in Electricity, Gas and Water sub sector, which accounted for 2.4 percent of GDP, grew by 4.4 percent in 2012 compared to 9.2 percent in 2011. This was mainly affected by the 4.3 percent slower growth in electricity production which accounted for 2.1 percent of GDP in 2012, in comparison to the 9.6 percent growth in 2011, resulting from the decline

Table 3.6 > **Manufacturing Sector Statistics**

Category	Value Addition (Current Prices) Rs. Bn.			Number of Projects Approved by BOI		
	2010	2011	2012	2010	2011	2012
Food, Beverages and Tobacco Products	458,151	537,691	610,891	28	7	16
Textiles, Apparel and Leather Products	172,726	207,578	239,351	30	22	9
Wood and Wood Products	1,786	2,580	2,908	1	2	3
Paper and Paper Products, Publishing and Printing	7,653	8,466	9,372	3	1	0
Chemical, Petroleum, Coal, Rubber and Plastic Products	170,000	207,654	235,515	11	7	9
Non-Metallic Mineral Products	27,865	32,167	35,991	8	1	14
Basic Metal Products	1,826	2,119	2,399	-	-	0
Fabricated Metal Products, Machinery and Transport Equipment	72,990	82,852	93,261	18	3	5
Manufactured Products (n.e.s.)	3,410	3,149	3,545	16	5	17

Sources: Department of Census and Statistics and Central Bank of Sri Lanka

in hydropower generation by 28.6 percent following the 18.0 percent contraction in 2011, due to unfavorable weather. Hence thermal power generation increased by 22.9 percent leading for increase in cost of production. Thereby, subsidy cost for provision of electricity at subsidized prices amounted to Rs 71.5 billion in 2012 such that Rs. 36.5 billion for household sector, Rs. 0.9 billion for hospitals and schools, Rs. 0.9 billion for religious places, Rs. 24.7 billion for industrial sector, Rs. 1.1 billion for street lighting, Rs. 2.5 billion for Social Welfare and also with increase in electricity tariff for higher consumption levels. Gas subsector grew by 5.1 percent in 2012 following the 5.7 percent growth in 2011, reflecting the increased demand for domestic and industrial purposes. Value addition in water sub sector grew by 7.1 percent with the increase in water supply by the National Water Supply and Drainage Board by 7.7 percent in volume terms, in 2012. This was supported by the increase in new water connections by 44 percent benefiting from the many water supply development projects implemented by the government throughout the country.

## Construction

Construction industry, accounted for 8.1 percent of GDP in 2012 recorded a 21.6 percent higher growth, following the 14.2 percent growth in 2011. Noteworthy improvement in construction activities was driven by the increased investment by the public sector as well as the private sector. Public sector investment in construction activities expanded covering a wider range of infrastructure development activities, viz., development of ports and airports, railways and road network, including highways, power generation and water supply, housing development, improving irrigation system and communication network, targeting upgrading the country to expected development level. Thereby, at current market prices, public investment as a share of GDP expanded by 0.3 percent to 6.9 percent and grew by 28 percent in 2012 in comparison to 18.9 percent in 2011. In tandem with the expansion in public sector investment followed by the investor confidence built with the peaceful environment in the country, growth

Table 3.7 > **Private Sector Industrial Volume Index (2010 = 100)**

<b>Description</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Food Products	100.0	108.5	106.9
Beverages	100.0	110.2	107.4
Tobacco Products	100.0	106.0	99.9
Textile	100.0	99.8	113.9
Wearing Apparel	100.0	113.8	118.5
Leather and Related Products	100.0	94.0	92.9
Wood and Products of Wood	100.0	107.9	98.4
Paper and Paper Products	100.0	89.0	98.8
Printing and Reproduction of Media	100.0	100.5	106.3
Refined Petroleum Products	100.0	106.3	81.3
Chemical and Chemical Products	100.0	67.5	78.1
Pharmaceuticals	100.0	133.0	138.8
Rubber and Plastic Products	100.0	116.6	116.9
Non-metallic Mineral Products	100.0	116.7	117.5
Basic Metals	100.0	110.2	98.1
Fabricated Metal Products	100.0	89.6	111.7
Electrical Equipment	100.0	98.7	98.4
<b>Overall Industrial Production Index</b>	<b>100.0</b>	<b>107.2</b>	<b>108.4</b>

Source: Central Bank of Sri Lanka

in private sector investment in construction activities continued in 2012 with 16.0 percent increase following the 29.0 growth in 2011 and accounted for 23.7 percent GDP, targeting improved commercial activities, particularly in the areas of hotels sector, communication and housing development. This improvement was achieved benefiting from the development friendly environment in the country and tax exemptions granted for investments as well as for import of construction machineries, equipment and materials, despite the monetary policy measures adopted to curtail imports and limit private sector credit. This could also

be witnessed through the increase in import of investment goods which accounted for 23.9 percent of total imports and grew by 7.1 percent in value terms and by 21.7 percent in volume terms out of which import of building materials alone increased by 15.0 percent in value terms and by 13.5 percent in volume terms accounting for 6.5 percent of total imports in 2012. Further, loans and advances by commercial banks to private sector construction activities increased by 22.9 percent compared to 15.8 percent increase in 2011 and accounted for 13.9 percent of total loans and advances to private sector.

## Services

Services sector accounted for 58.5 percent of GDP in 2012 recording a slower growth of 4.6 percent in comparison to 8.6 percent growth recorded in 2011. Notably, benefiting from the environment conducive for improved economic activities throughout the country, all forms of services positively contributed while moderate growth in domestic trade and banking, insurance and real estate services which accounted for 11.1 percent and 8.9 percent of GDP, respectively had an impetus for the growth of the services sector. However, slower growth in this sector was mainly driven by the sluggish performance in import and export trade and related services, which accounted for 8.1 percent and 3.9 percent of GDP, respectively resulting from adverse impacts of the instability in major export destinations as well as affecting from fiscal and monetary policy adjustments adopted at the early part of the year to provide macroeconomic stability, by increasing taxes to curtail import of selected items, increasing interest rates and imposition of a ceiling on private sector credit to limit the access to credit for private sector to lower the domestic demand, together with the greater flexibility in exchange rate allowed since end 2011, to manage the widening trade deficit due to relatively higher imports. Under these circumstances, the moderate growth in domestic trade, hotel and restaurants, transport and communications, banking, insurance and real estate subsectors helped the expansion of the services sector in 2012.

## Wholesale and Retail Trade

Wholesale and retail trade which comprised of import, export and domestic trade activities, accounted for 23.0 percent of GDP in 2012 and recorded a slower growth of 3.7 percent in comparison to 10.3 percent in the previous year. Import trading activities grew by 1.0 percent in 2012 in comparison to 14.3 percent growth recorded in 2011 and accounted for 8.1 percent of GDP. This was resulted due to the deceleration

of domestic demand with the policy measures adopted by the government to manage the increased cost on imports through curtailing the import of selected items. With the increase of taxes on import of motor vehicles at the beginning of the year 2012, vehicle imports as a share of total imports declined to 2.6 percent amounting to US\$ 495 million in 2012 compared to US\$ 881 million in 2011. Also, adjustment of taxes to manage the import of food items that could be locally produced resulted in a decline in food and beverages imports as a share of total imports to 6.8 percent amounting to US\$ 1,304 million in 2012 compared to 7.7 percent or US\$ 1,567 million in 2011. Consequently, import of consumer goods as a share of total imports declined to 15.6 percent amounting to US\$ 2,995 million in 2012 compared to 18.0 percent or US\$ 3,654 million in 2011. Despite the adjustments in taxes on import of petrol and diesel to reduce the soaring cost on import of fuel as well as to improve the economical use of energy, fuel imports as a share of total imports increased to 26.3 percent amounting to US\$ 5,037 million in 2012 compared to 23.7 percent or US\$ 4,795 million in 2011 due to more than expected demand for power generation owing to drought situation. Hence, intermediate goods imports as a share of total imports accounted for 60.3 percent amounting to US\$ 11,570 million in 2012 compared to 60.6 percent or US\$ 12,275 million in 2011. However, in line with the recent developments in investments and construction activities, notwithstanding the measures adopted to limit the access to private sector credit, import of investment goods increased by 7.1 percent in 2012 over the previous year. Investment goods imports as a share of total imports also increased to 23.9 percent or US\$ 4,590 million in 2012 compared to 21.1 percent or US\$ 4,286 million in the previous year.

Export trade services recorded a marginal growth of 0.8 percent in 2012 in comparison to 10.1 percent growth recorded in 2011 and accounted for 3.9 percent of the GDP. In spite of the adverse impacts of financial and political instabilities emerged in the major export destinations in

Table 3.8 > **Sectoral Distribution of GDP Growth (%) - Constant (2002) Prices**

Sector	2005	2006	2007	2008	2009	2010	2011	2012
<b>Agriculture</b>	<b>1.8</b>	<b>6.3</b>	<b>3.4</b>	<b>7.5</b>	<b>3.2</b>	<b>7.0</b>	<b>1.4</b>	<b>5.8</b>
Tea	3.0	-2.0	-1.8	4.2	-8.4	13.8	-1.2	-1.2
Paddy	23.6	2.9	-6.2	23.1	-5.1	17.5	-8.4	1.3
Minor Export Crops	16.3	2.2	5.1	-2.1	5.2	35.6	-19.0	-5.0
Livestock	2.3	8.1	7.9	5.6	6.2	2.9	7.3	6.4
Other Food Crops	5.4	3.0	4.4	4.7	7.0	4.4	2.4	10.0
<b>Fisheries</b>	<b>-43.0</b>	<b>53.5</b>	<b>15.6</b>	<b>9.9</b>	<b>6.9</b>	<b>12.2</b>	<b>15.5</b>	<b>9.3</b>
<b>Industry</b>	<b>8.0</b>	<b>8.1</b>	<b>7.6</b>	<b>5.9</b>	<b>4.2</b>	<b>8.4</b>	<b>10.3</b>	<b>10.3</b>
Agriculture Processing	1.4	0.8	2.4	5.3	0.7	5.8	0.9	6.5
Factory Industry	6.4	5.7	6.7	5.0	3.4	7.5	8.3	5.2
SMEs	6.3	5.7	5.6	4.5	3.3	5.5	7.0	4.6
Electricity	16.3	16.2	4.6	3.9	3.7	8.2	9.6	4.3
Construction	9.0	9.2	9.0	7.8	5.6	9.3	14.2	4.6
<b>Services</b>	<b>6.4</b>	<b>7.7</b>	<b>7.1</b>	<b>5.6</b>	<b>3.3</b>	<b>8.0</b>	<b>8.6</b>	<b>4.6</b>
Trade	6.4	7.1	6.1	4.7	-0.2	7.5	10.3	3.7
Hotel	-14.1	2.5	-2.3	-5.0	13.3	39.8	26.4	20.2
Cargo handling	10.3	20.0	8.8	8.0	0.4	16.8	7.2	5.7
Post & Telecommunications	36.0	21.6	21.5	22.3	11.7	13.2	13.4	7.9
Financial Services	7.0	8.5	8.7	6.6	5.7	7.5	7.9	6.7
Government Services	5.4	5.0	6.0	5.7	5.9	5.4	1.2	1.4
Private Services	6.4	7.8	7.8	6.5	5.8	5.8	7.2	5.5
<b>GDP</b>	<b>6.2</b>	<b>7.7</b>	<b>6.8</b>	<b>6.0</b>	<b>3.5</b>	<b>8.0</b>	<b>8.2</b>	<b>6.4</b>

Source: Department of Census and Statistics

Reflecting the peace dividends, bio diversity and positive outlook, Sri Lanka has emerged as an attractive tourist destination in the region. Attesting these improvements, hotels and restaurants sector, which accounted for 0.7 percent of GDP in 2012, recorded a 20.2 percent growth following the 26.4 percent and 39.8 percent growth recorded during the preceding two consecutive years.

the still recovering global economy hampered by the 2008 financial crisis, continued efforts made by the government for export promotion through tax concessions to reduce the cost of raw materials, machineries and equipment, provision of credit facilities as well as the private sector contribution for efficiency gain and quality improvements, helped to prevent a contraction in exports services in the overall GDP in 2012.

Domestic trade services recorded a moderate growth of 6.8 percent in 2012 in comparison to 7.5 percent growth recorded in 2011 and accounted for 11.1 percent of GDP. Performance in domestic trade services was also affected by the measures adopted to curtail imports and reduce domestic demand. Hence, with the slowdown in import activities, decline in the growth in local manufacturing of goods to 5.2 percent compared to 7.9 percent growth in 2011 and the decline in the production of agriculture crops, such as paddy, during the Yala season due to unfavourable weather conditions, the growth in domestic trade activities moderated.

## **Hotels and Restaurants**

Reflecting the peace dividends, bio diversity and positive outlook, Sri Lanka has emerged as an attractive tourist destination in the region. Attesting these improvements, hotels and restaurants sector, which accounted for 0.7 percent of GDP in 2012, recorded a 20.2 percent growth following the 26.4 percent and 39.8 percent growth recorded during the preceding two consecutive years. In comparison to 2011, tourist arrivals in 2012 increased by 17.5 percent to 1,005,605 exceeding the target of 950,000 with the significant increase in arrivals from Europe, USA, Canada, Asia and Australia while tourist earnings in 2012 increased by 25.1 percent to US\$ 1,039 million exceeding the target of US\$ one billion. Recognising the potential in the tourism industry, the government has taken many efforts to develop this promising sector at a rapid pace with the collaboration of private sector players and foreign investors (Box 4.4).

### Box 3.4: Tourism: As a Key Export Industry of Sri Lanka

Tourism is emerging as an important foreign exchange earning and employment generating industry in Sri Lanka with strong potential to grow with backward linkages to all sectors in the economy. Reflecting a new dimension in the tourism industry with the dawn of the peace, Sri Lanka has shown a significant turnaround in terms of tourist arrivals as well as earnings from the tourism. Tourist arrivals were 1,005,605 in 2012 surpassing its target of 950,000 and recorded an increase of 17.5 percent over 2011. Earnings from tourism increased by 25 per cent to US\$ 1,039 million in 2012 compared to US\$ 830 million in 2011. The industry provides direct and indirect employment opportunities for about 160,000 persons.

Table b.3.4.1 > **Selectd Information on Tourism**

Item	Unit	1995	2000	2005	2008	2009	2010	2011	2012(a)
Tourist Arrivals	No.	403,095	400,414	549,308	438,475	447,890	654,476	855,975	1,005,605
O/w Leisure		383,570	360,887	382,321	321,079	358,188	516,538	687,830	748,436
Official Tourist Receipts	US\$ Mn	225	253	362	342	349	575	830	1,038
Receipt Per Tourist Per Day	US\$	56	62	75	77	82	88	98	103
Average Duration (Nights)	No.	10	10	9	10	9	10	10	10
Accommodation Capacity (Graded)	No.								
Rooms		11,255	13,311	13,162	14,793	14,461	14,714	14,653	15,510
Beds		21,680	24,953	24,740	28,698	28,344	28,978	28,844	30,510

Source: Sri Lanka Tourism Development Authority

(a) Provisional

Sri Lanka, having a diverse array of attractions, including the perception of unique and abundant natural beauty with gorgeous virgin scenery, large stretches of pristine beaches, rich cultural heritage while being the home to 8 world heritage sites, wildlife, endemic flora and fauna and the unique events and festivals, exotic cuisine and warm hospitality of the charming people, is increasingly becoming an attractive place among international tourists. This has been proved by the increased number of tourist arrivals as well as the recent comments and reactions by various interna-

tional media, including The Lonely Planet, National Geographic Traveler Magazine, Conde Nast Traveler Magazine, National Geographic Channel and New York Times.

It is noteworthy to compare Sri Lanka's recent achievements in the international context to showcase the large potential that tourism has, as a huge export industry, which is open to the country as an emerging thrust area. In 2011, international tourist arrivals reached 983 million worldwide while the overall export income generated globally by inbound tourism, including

#### **Sri Lanka; As they see the Country...**

- The best travel destination in the world for 2013  
- Lonely Planet
- Named among six best of the world 2012 destinations  
- National Geographic Traveler Magazine
- Ranked as third most hottest new holiday destination to travel in 2012 - Conde Nast Traveler Magazine
- "Jewel of the Indian Ocean" and "Top ten places to visit in 2011" - Lonely Planet
- "The second best tourist destination in 2010"  
- National Geographic Channel
- Ranked as "the best tourist destination in 2010"  
- New York Times



passenger transport, has exceeded US\$ 1.2 trillion, which on average accounts for about US\$ 3.4 billion a day and tourism exports account for about 30 percent of the world's exports of commercial services and 6 percent of overall exports of goods and services with the tourism ranking fourth after fuel, chemicals and food (UNWTO, 2012)<sup>1</sup>. In the context of Asia Pacific region, Sri Lanka absorbed 0.4 percent (856,000) of the total tourist arrivals in the region and 0.3 percent (US\$ 830 million) of the total earnings by the region in 2011 (UNWTO, 2012).

Table b.3.4.2 > **International Tourist Arrivals and Earnings from Tourism - 2011**

Region/Country	International Tourist Arrivals - 2011			International Tourism Receipts - 2011			
	Number (‘000)	Market Share (%)	Change (%) 2011/2010	Amount (US\$ million)	Market Share (%)	Change (%) 2011/2010	Earnings to Arrivals Ratio
<b>World</b>	983,127	100.00	4.6	1,030,386	100.0	11.1	1.05
By Regions;							
Europe	503,963	51.26	6.2	463,404	45.0	13.2	1.09
Asia and the Pacific	216,996	22.07	6.1	289,448	28.1	13.4	0.75
Americas	156,600	15.93	3.9	199,082	19.3	10.2	0.79
Africa	50,168	5.10	0.9	32,552	3.2	7.2	1.54
Middle East	55,436	5.64	-8.0	45,900	4.5	-11.2	1.21
o/w By Countries;							
France	79,500	8.09	3.0	53,845	5.2	15.6	0.68
China	57,581	5.86	3.4	48,646	4.7	6.2	0.84
Italy	46,119	4.69	5.7	42,999	4.2	10.9	0.93
United Kingdom	29,192	2.97	3.2	35,928	3.5	10.9	1.23
Singapore	10,390	1.06	13.4	17,990	1.7	27.3	1.73
Korea	9,795	1.00	11.3	12,304	1.2	18.8	1.26
India	6,290	0.64	8.9	17,518	1.7	23.7	2.79
Nepal	736	0.07	22.1	386	0.0	12.2	0.52
Sri Lanka	856	0.09	30.8	830	0.1	44.1	0.97

Source: UNWTO Tourism Highlights, 2012 Edition, World Tourism Organisation

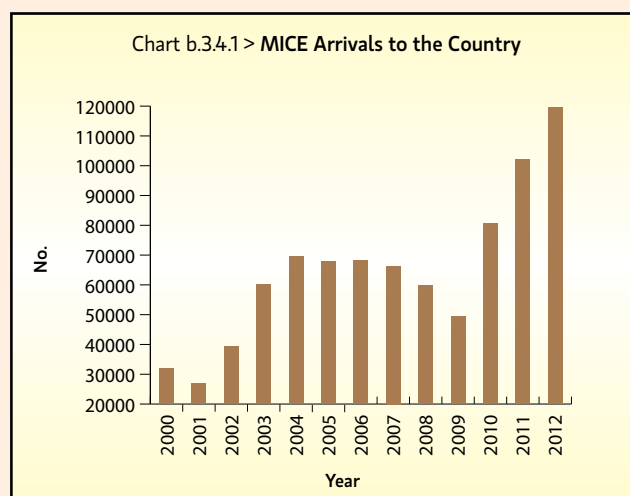
The above information underscores the strong market potential to tap for export earnings through tourism and thereby creating a huge contribution for the overall development of the country. Hence, Sri Lanka has to exploit this potential while preserving long standing social values through a concerted effort involving all stakeholders by ensuring the availability of necessary infrastructure and other related facilities. In doing so, a market driven tourism strategy is a must to better branding of the products and better positioning Sri Lanka's unique image in the international tourism industry with a demand driven approach while addressing the needs of various market segments in line with global trends in tourism.

In this context, the Tourism Development Strategy 2011 - 2016, which was introduced in 2011 to develop the tourism sector, aims at attracting 2.5 million tourists by 2016 with increased earnings of US dollars 2.75 billion from tourism. Therefore, tourism strategy is focused on developing the related infrastructure and services that support attracting high spending niche markets. The booming tourism industry is expected to generate over one million direct and indirect employment opportunities to the economy by 2016.

Sri Lanka has become one of the most attractive destinations in the region. Country is also becoming a hub for cruise and luxury passenger movements. Sri Lanka is also emerging as a venue for MICE (Meetings, Incentive Travels, Conferences, Exhibitions and Events) tourism as well. Hence, the industry requires a significant investment in the areas of hotels and restaurants and tourism product diversification.

The Sri Lanka Tourism Development Authority (SLTDA) and Sri Lanka Tourism Promotion Bureau (SLTPB), the institutes responsible for this task, are engaged in promotional campaigns through trade and travel fares and direct market promotions in many destinations. This process is being complemented by the improvement of infrastructure facilities and enhanced presence of the global hotel chains in terms of new investments and the development of other related services.

Accordingly, increasing investments are being made to enhance the accommodation capacity of the growing number of tourists. Internationally renowned luxury hotel chains, including Shangri-La, Sheraton, Hyatt, Movenpick, Hilton International, Crown as well as well-established local



Source: Sri Lanka Convention Bureau

Table b.3.4.3 > **Highlights of Emerging Tourism Zones**

Tourism Zone	Available Facilities and Attractions for Tourists	Tourism Products in the Area
Passikudah	<ul style="list-style-type: none"> <li>- Finely covered bay with a sandy beach</li> <li>- Off shore reef Beautiful beach</li> <li>- 14 hotels with a combined room capacity of 931</li> </ul>	<ul style="list-style-type: none"> <li>- Swimming</li> <li>- Surfing</li> <li>- Leisure</li> </ul>
Kuchchaweli	<ul style="list-style-type: none"> <li>- 410 acres for tourism development</li> <li>- 100 acres for a golf course and public area</li> <li>- Beautiful beach</li> </ul>	<ul style="list-style-type: none"> <li>- Leisure</li> <li>- Sports tourism</li> <li>- Eco-tourism</li> <li>- Adventure tourism</li> <li>- Community based tourism</li> </ul>
Kalpitiya	<ul style="list-style-type: none"> <li>- Strategic location for easy access to Wilpattu National Park, Cultural Triangle and Airport within a minimum time.</li> <li>- Dutch Bay Island and its surrounding islands in Dutch bay and Portugal Bay</li> <li>- To develop approximately 4,000 rooms with relevant infrastructure facilities</li> </ul>	<ul style="list-style-type: none"> <li>- Nature based tourism</li> <li>- Whale watching</li> <li>- Surfing</li> <li>- Swimming</li> </ul>
Dedduwa	<ul style="list-style-type: none"> <li>- Rich in biodiversity, diverse vegetation, such as mangroves, fauna, different kinds of fresh water fish, mammals and reptiles, Python, crocodiles and aquatic birds</li> <li>- Famous Bawa gardens and several old temples</li> <li>- Lakes irrigation canals and paddy fields</li> </ul>	<ul style="list-style-type: none"> <li>- Eeco-tourism</li> <li>- Culture tourism</li> <li>- Agro based tourism</li> </ul>

names creating new and high value products are in the process of building their hotels and expected to commence their business in the near future. Many places, including Pasikuda, Kuchchaveli, Kalpitiya, Dedduwa and Yala, are developing as tourist attractions under various themes. This is expected to continue in areas like Mulativu, Mannar and Jaffna in the Northern Province as well. Proposed highways of Enderamulla - Jaffna, Dambulla - Batticaloa, Dambulla - Trincomalee and Southern Highway will link the above tourism zones. From Matthala International Airport, tourists can reach various tourist attractions like Nuwara Eliya and Yala, within a short period of time. In addition to the major tourism zones, cultural triangle, botanical gardens, zoological gardens, wildlife parks are also being attracted by tourists. In order to improve the capacity, a 'home stay' programme has also been promoted by SLTDA with registered number of home stay units increasing gradually.

The government has also introduced a number of measures to encourage private investments since the private sector is the major investor in this industry and to create an environment conducive for tourism industry. This includes the introduction of new regulations taking international best practices into account, introduction of a simple tax regime, creating opportunities to promote shopping of internationally reputed branded products and entertainment, unification of the regulatory environment, simplification of the licensing procedures and investment approval process, improvement of tourism infrastructure and economic infrastructure, encouraging product development and improving human resources development.

In order to build positive perception on the country and to attract more tourists, market promotion campaigns are being conducted globally and major cities of the country are being developed adopting an environmental friendly, clean-city concept for urban development. SME tourism sector is also being encouraged to expand their investments through providing matching grants to the investors engaged in tourism related industries. Accordingly, it is expected to develop the capacity of SMEs to support sustainable tourism development through enhancing competitiveness of SME tourism enterprises, improving quality of services, and increasing value addition of the process.

As far as the future of the international tourist arrivals is concerned, *"Emerging economy destinations will grow at double the pace (+4.4 percent a year) of advanced economy destinations (+2.2 percent a year). As a result, arrivals to emerging economies are expected to surpass those to advanced economies by 2015. In 2030, 57% of international arrivals will be in emerging economy destinations (versus 30% in 1980) and 43% in advanced economy destinations (versus 70% in 1980). By regions, the biggest growth will be seen in Asia and the Pacific, where arrivals are forecast to increase by 331 million to reach 535 million in 2030 (+4.9% per year.....)"* (UNWTO, 2012).

The rapid growth in tourist arrivals from emerging economies like India, China, South Korea, Middle East and Russia during last three years indicates the new direction in country's tourism market links.

<sup>1</sup>UNWTO Tourism Highlights, 2012 Edition, World Tourism Organization: <http://mkt.unwto.org/en/publication/unwto-tourism-highlights-2012-edition>

## Transport and Communication

Transport and communication services which comprised of transport, cargo handling-ports and civil aviation services and post and telecommunication services accounted for 14.3 percent of GDP in 2012 and recorded a slower growth of 6.2 percent in comparison to 11.3 percent in the previous year. This was mainly affected by the slowdown in passenger and goods transport services which accounted for 11.6 percent of GDP and grew only by 6.0 percent in 2012 in line with the slowdown in locally manufacturing of goods as well as importation of goods, compared to 11.3 percent growth recorded in 2011. However, the growth in transport services was helped by improvements in passenger transport services. Railway transport services, which accounted for 0.1 percent of GDP, grew by 4.9 percent in 2012 compared to 2.8 percent in 2011. Passenger kilometers run by Sri Lanka Transport Board, private bus operators and Sri Lanka Railways increased by 8.4 percent, 7.8 percent and 10.2 percent, respectively in 2012. Passenger kilometers flown by Sri Lankan Airlines increased by 19.8 percent. This was supported by the increase in tourist arrivals with revival in tourism sector. Resulting from the marginal growth in import and export trade activities, cargo handling services of ports and civil aviation services recorded a moderate growth of 5.7 percent in 2012 in comparison to 7.2 percent in 2011 and accounted for 0.7 percent of GDP.

In 2012, total vessels arrived declined by 4.6 percent to 4,134 and total cargo handled increased by 1,000 metric tons. Further, total container throughput declined by 1.9 to 4.2 million TEUs and transshipment container throughput, including re-stowing, declined by 1.5 to 3.2 million TEUs. However, increase in air cargo services by 11.0 percent supported the growth in cargo handling services. Post and telecommunication services, which accounted for 1.9 percent of GDP, recorded a moderate growth of 7.9 percent over the 13.4 percent and 13.2 percent higher growth recorded in

2011 and 2010, respectively. The postal services operated amidst increasing competition from alternative communication modes while growth in telecommunication services continued over past few years. In comparison to 2011, total number of subscribers for cellular phones increased by 10.9 percent to 20.3 million, telephone density, measured as telephones per 100 persons, increased by 11.3 percent to 117 and total number of subscribers for internet and email increased by 61.6 percent to 1.3 million, while fixed access telephone services declined by 4.4 percent to 3.4 million in 2012. Continued growth in telecommunication services is supported by increased investment in telecommunication infrastructure by private and public sector with the expansion in economic activities as well as increased investor confidence coupled with the tax concessions granted on importation of required equipment. Further, increased demand for internet and broadband services with the increased trend in use of such services and also policies on developing the country as a knowledge hub and e-Sri Lanka initiative which is used to strengthen the institutional framework to enhance delivery of government services supported the growth in telecommunication services. Meanwhile the Telecommunications Regulatory Commission (TRC) introduced a number of initiatives in 2012 to improve the telecommunications sector, including the new FM Broadcast frequency plan and the reduction of Telecommunications Levy on internet broadband connections.

## Banking, Insurance and Real Estate

Banking, insurance and real estate services recorded a moderate growth of 6.7 percent in comparison to 7.9 percent in the previous year and contributed to 8.9 percent of GDP in 2012, notwithstanding the tightened monetary and fiscal measures adopted at the beginning of the year to maintain the macroeconomic stability of the country. Financial system stability

strengthened further under the supervision of the Central Bank of Sri Lanka in a challenging domestic and global environment. With the increase in interest rates and imposition of a ceiling on private sector credit to reduce the access to private credit and increase of taxes to curtail the selected imports, credit to private sector in 2012 declined to 17.6 percent compared to 34.5 percent in 2011. Moderately increased domestic economic activities throughout the country slowed down the growth in these services. However, in 2012, total number of bank branches increased by

60 to 1,676 and banking sector after tax profits increased by 25.5 percent, positively contributing the growth in this sector. The operations of non-bank financial institutions (NBFIs) which comprised of licensed finance companies and specialized leasing companies affected mostly by the sharp decline in vehicle imports. Hence, the after tax profits of NBFIs declined by 21 percent in 2012 in comparison to previous year. Further, reflecting the improvement in insurance sector before tax profit of insurance companies increased by 8.4 percent in 2012.

Table 3.9 > **Selected Indicators of Service Sector**

Indicator	2005	2006	2007	2008	2009	2010	2011	2012(a)
<b>Port Services</b>								
Vessels Arrived *	4,139	4,469	4,710	4,814	4,592	4,075	4,358	4,178
Total Cargo Handled (MT '000)	37,300	42,661	46,344	50,582	48,778	61,240	65,097	65,030
Total Container Traffic (TEU '000)	2,455	3,079	3,381	3,687	3,464	4,137	4,263	4,187
Transshipment Container ** (TEU '000)	1,716	2,330	2,578	2,874	2,712	3,205	3,216	3,167
<b>Telecommunication Sector</b>								
Fixed Telephone lines (No '000)	919	910	932	934	872	897	942	999
Cellular Phones (No '000)	3,362	5,412	7,983	11,083	14,264	17,247	18,319	20,324
Wireless Phone (No '000)	325	974	1,810	2,513	2,564	2,638	2,667	2,450
Internet and E mail Subscribers ('000)	115	130	202	234	250	280	359	423
<b>Health Sector</b>								
Private Hospitals	n.a	n.a	115	135	161	172	186	197
Public Hospitals	606	604	619	612	555	568	592	593
No of Beds (Government)	61,937	61,835	66,430	66,835	68,905	69,501	69,731	73,437
No of Doctors (Government)	12,692	13,276	14,060	15,185	15,930	16,492	18,299	18,252
No of Nurses (Government)	20,332	20,912	22,088	22,977	26,351	27,494	29,234	29,576
<b>Financial Sector</b>								
Bank Branches and other Outlets	2279	4128	4961	5427	5697	5913	6184	6374
Credit Cards in Use	629,740	810,179	905,561	929,112	840,905	778,544	862,352	952,256
Registered Finance Companies	28	29	32	34	35	36	39	47
Registered Leasing Companies	18	18	20	22	21	21	16	13
<b>Tourism Sector</b>								
Tourist Arrivals	549,308	559,603	494,008	438,475	447,890	654,476	855,975	1,005,605
Tourist Earnings (US\$ Mn)	362	410	384	320	349	575	830	1,039
Annual Room Occupancy Rate	45.5	47.8	46.2	43.9	48.4	70.1	77.1	70.1(b)
<b>Transport Services (New Registrations)</b>								
Buses	2,069	3,346	2,637	1,180	739	2,491	4,248	3,095
Cars	17,283	27,578	22,603	20,237	5,762	23,072	57,886	31,546
Dual Purpose Vehicles	6,851	7,245	5,193	2,856	1,280	11,712	33,518	37,397
Goods Transport Vehicles - Lorries	14,262	20,436	18,408	14,038	8,225	11,845	14,818	12,266
Motor Cycles	130,696	156,626	182,508	155,952	135,421	204,811	253,331	192,284
Three Wheelers	41,085	64,466	43,068	44,804	37,364	85,648	138,426	98,815
Land Vehicles - Tractors	15,597	19,040	21,346	24,357	13,951	17,363	20,073	18,450
Land Vehicles - Trailers	1,826	1,785	2,129	1,775	1,333	2,301	3,121	3,442

Sources: Sri Lanka Ports Authority, Telecommunications Regulatory Commission of Sri Lanka, Ministry of Health, Department of Motor Traffic, Sri Lanka Tourism Development Authority and Central Bank of Sri Lanka.

a) Provisional

b) January - November Average

\* Excluding sailing craft, naval vessels, fishing trawlers, yacht and dredgers

\*\* Including re-stowing

### 3.3 Domestic Demand and Supply, and Trade Balance

Sri Lanka's domestic demand (absorption), consisting of consumption, fixed capital formation and changes in inventories, is higher than the country's own production of goods and services. Hence, the country generally runs a deficit in trade in goods and services. In 2012, the absorption as a ratio of GDP declined to 113.7 percent from 114.6 percent in the previous year.

the backdrop of improved investor confidence with the stable macroeconomic conditions. The government investment increased mainly due to the implementation of on-going major infrastructure development projects.

The decline in the absorption to 113.7 percent of GDP 2012 in comparison to 114.6 percent in 2011

Table 3.10 > **Domestic Demand, Supply and Trade Balance**

Item	Current Market Prices (Rs. Bn.)		Change (%)		Ratio to GDP (%)	
	2011	2012	2011	2012	2011	2012
Domestic Demand	7,495	8,619	23.5	15.0	114.6	113.7
Consumption	5,536	6,296	22.4	13.7	84.6	83.0
Private	4,568	5,275	25.1	15.5	69.8	69.6
Government	968	1,021	10.9	5.5	14.8	13.5
Investment	1,959	2,323	26.8	18.5	30.0	30.6
Private	1,550	1,798	29.0	16.0	23.7	23.7
Government	410	525	18.9	28.0	6.3	6.9
Net External Demand (Trade balance)	-952	-1,036	104.5	8.8	-14.6	-13.7
Export of Goods and Services	1,509	1,729	20.3	14.6	23.1	22.8
Import of Goods and Services	2,461	2,765	43.1	12.4	37.6	36.5
Domestic Supply = GDP	6,544	7,582	16.7	15.9	100.0	100.0

Sources: Department of Census and Statistics and Central Bank of Sri Lanka

The domestic consumption demand declined and the investment demand increased in 2012. Private consumption declined marginally amidst a moderation in the economic activity as a combined effect of the relatively high interest rates, improved financial market conditions and increase in workers' remittances. A considerable decline was observed in the government consumption owing to effort made to contain current expenditure at a moderate level. The private sector investment remained unchanged amidst difficult external environment supported by improved business investment, particularly in such areas as tourism and hotel industry, manufacturing, telecommunications etc. in

was a combined outcome of the increase in private consumption to 69.6 percent of GDP, decline in government consumption to 13.5 percent of GDP, and increase in government investment to 6.9 percent of GDP. With the contraction of the domestic demand, the demand for imports also declined to 36.5 percent of GDP from 37.6 percent in the previous year. Following the same trend, exports also declined to 22.8 percent of GDP from 23.1 percent in 2011.

The economic growth declined in 2012 to 6.4 percent from a higher growth rate of 8.2 percent in 2011



reflecting the deceleration in domestic consumption demand. The increase in the investment, which includes gross domestic fixed capital formation and change in inventories, by both the private sector and the government, to 30.6 percent of GDP in 2012, from 30.0 percent in 2011, is a favourable development in achieving a higher and sustainable economic growth in the future. Meanwhile, the net external demand or the trade deficit, which expanded significantly in 2011 to 14.6 percent of GDP declined to 13.7 percent in 2012 consequent to the corrective measures taken since February 2012 which is a positive outcome. However, the decline in exports of goods and services as a percent of GDP to 22.8 percent is a matter of concern, which requires a concerted effort to enhance Sri Lanka's exports while curtailing import demand through import substitution and replacement activities.

The aggregate supply, which includes the gross domestic production and the use of imports for consumption, formation of fixed capital assets, inventories and as raw materials for export industries, increased at a lower rate of 14.9

percent in 2012 compared to the higher growth of 23.0 percent in 2011 reflecting the relatively lower expansion of the economy. The aggregate supply as a percentage of GDP declined to 136.5 percent from 137.6 percent in the previous year, reflecting the slowdown in the import of goods and services. The value of the total supply of goods and services increased by 15.9 percent while the growth in import of goods and services decelerated significantly to 12.4 percent from 43.1 percent in the previous year. The share of imports in aggregate supply also declined to 26.7 percent in 2012 in comparison to 27.3 percent in 2011 mainly reflecting the decline in the demand over and above the domestic production reflecting the slowdown in economic activity in response to the measures introduced in early 2012.

Meanwhile, the domestic output contributed to cater to about 73.3 percent of the total domestic requirement of goods and services in 2012 as in the previous year, reflecting the country's potential to enhance its domestic production. In this context, conducive environment has been created by the government for the growth of domestic economy through the provision of various incentives, including tax concessions. There are

Table 3.11 > **Aggregate Supply and Use of Goods and Services**

Item	(Rs. Bn.)		Growth (%)		% of GDP	
	2011	2012	2011	2012	2011	2012
Aggregate Demand	9,005	10,348	23.0	14.9	137.6	136.5
Domestic Demand	7,496	8,619	23.5	15.0	114.6	113.7
External Demand = Export of Goods and Services	1,509	1,729	20.3	14.6	23.1	22.8
Aggregate Supply	9,005	10,347	23.0	14.9	137.6	136.5
Gross Domestic Product	6,544	7,582	16.8	15.9	100.0	100.0
Import of Goods and Services	2,461	2,765	43.1	12.4	37.6	36.5
Trade Gap of Goods and Services	-952	-1,036	104.5	8.8	-14.6	-13.7
Share of Imports in Aggregate Supply (%)	27.3	26.7				

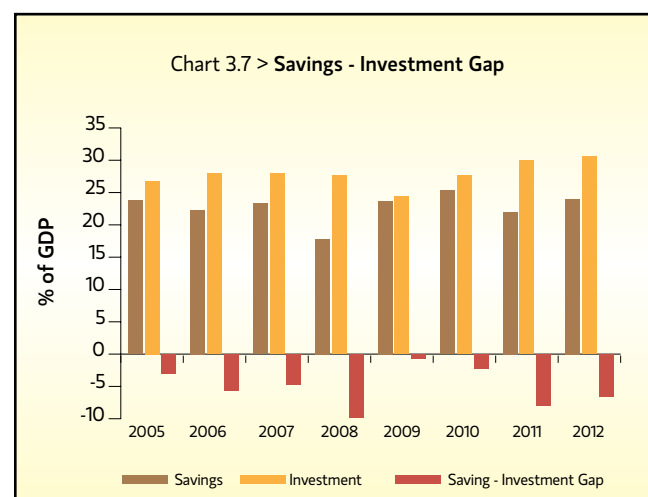
Sources: Department of Census and Statistics, Central Bank of Sri Lanka

ample opportunities in many areas in which the domestic production could be enhanced as reflected by the considerable amount of foreign exchange that Sri Lanka spends particularly on importing agricultural products (US\$ 1,100 million), pharmaceutical products (US\$ 325 million) and energy (US\$ 5,500 million). Farmers and private sector entrepreneurs are encouraged to take this opportunity to produce these items domestically to contribute to the country's economy while helping to save foreign exchange which are spent on import of such items.

In the aggregate demand, the export of goods and services as a percentage of GDP has declined to 28.8 percent from 23.1 percent in the previous year and in absolute terms also exports were declined to US\$ 9,774 million in 2012 from US\$ 10,559 million in the previous year. This has been achieved under various challenges emanating from the global economic environment. However, the continuous decline in exports as a percent of GDP in particular highlights the necessity of promoting exports to enhance the country's foreign exchange earning capacity to reduce trade deficit in the medium to long run. The impact of global economic recession as well as the improvements in the peer economies has underscored the importance of comprehensive strategy to enhance exports to meet the requirements of a highly competitive global economy. A strategy to enhance Sri Lanka's exports would include the greater flexibility in exchange rates, effective logistic support to reduce transaction costs, change in the product concentration towards diversified products, increase in high-tech exports and entering to new markets. The use of existing preferential and free trade agreements, enhancing research & development and innovation to improve productivity and efficiency and improving the reliance on value adding and services exports etc. require special attention to make high growth in export of goods and services.

### 3.4 Investment and Savings

Total gross investment of the country continued to increase to 30.6 percent of GDP in 2012 from 30.0 percent in the previous year. The private sector investment, which accounts for about 75 percent of investment of country and recorded a strong recovery in 2010 from the weak performance experienced in 2009 amidst the recessionary conditions, remained unchanged at 23.7 percent of GDP in 2012 while public investment continued to increase and reached 6.9 percent of GDP from 6.3 percent in 2011.



The private investment was affected by the tight monetary policy measures adopted by the Central Bank, high interest rates, ceiling on credit extended by commercial banks to the private sector, and other policies implemented to contain the growth in imports. The moderate expansion of the private sector credit in nominal terms was reflected in the deceleration in the credit growth to the private sector by commercial banks from 34.5 percent to 17.6 percent and the decline in the importation of consumer and intermediate goods by 18 percent and 5.7 percent, respectively.

Major areas of private investments were in hotels and tourism, telecommunication and construction sectors. Within the private investment, the Foreign Direct Investment (FDI) inflows increased to a historically high level of US\$ 1,338 million from US\$ 1,066 million in 2011. FDIs were mainly attracted to infrastructure related projects, particularly in telephone and telecommunication network development, fuel, gas and petroleum related projects and the development of container terminals and power generation as well as on housing and property development projects, textiles and apparel, leather products, food, machinery and transport equipment.

factor income from abroad reflected a increase to 2.0 percent of GDP from 1.1 percent in 2011. Foreign private transfers mainly included the private remittances which continuously showed improvement and expected to increase further in the future. The increase in national savings in 2012 reflects the drop in consumption expenditure of the country responding to policy measures introduced by the government in early 2012.

The savings – investment gap narrowed to 6.6 percent of GDP in 2012 from 7.8 percent in the previous year, as reflected in the lower deficit in the external current account. The savings –

Table 3.12 > **Invetment and Savings**

Item	Rs. Bn		% of GDP	
	2011	2012	2011	2012
Domestic Investment	1,959	2,323	29.9	30.6
Private	1,550	1,798	23.7	23.7
Government	409	525	6.3	6.9
Domestic Savings	1,007	1,287	15.4	17.0
Private	1,078	1,393	16.5	18.4
Government	-72	-106	-1.1	-1.4
Investment - Domestic Savings Gap	952	1,036	14.6	13.7
Net Factor Income From Abroad	-72	-148	-1.1	-2.0
Net Foreign Private Transfers	507	682	7.7	9.0
National Savings	1,441	1,820	22.0	24.0

Source: Department of Census and Statistics

The domestic savings to GDP ratio improved by 1.6 percentage points to 17.0 percent (Rs. 1,287 billion) in 2012 from 15.4 percent (Rs. 1,007 billion) in 2011. This increase was entirely came from the increase in private sector savings by 1.9 percentage points as the government dis-savings increased in 2012 compared to the previous year. The national savings, which is the sum of domestic savings, net foreign private transfers and net factor income from abroad, increased to 24 percent of GDP from 22 percent in 2011 benefiting from the increase in domestic savings. The increase in net foreign private transfers to 9.0 percent of GDP from 7.7 percent in 2011 helped achieve this national savings ratio as the net

investment gap is expected to decline further with the government objective of generating a revenue surplus in the government budget in the medium term and the restructuring of state owned business enterprises to reduce their losses in the medium term.

### 3.5 External Sector Developments

The external sector reflected an improved performance in 2012 amidst challenging global economic conditions while benefiting from the strong policy package introduced by the Central Bank and the government in early 2012 to address the potential instability in overall performance of the external sector and decline

in external reserves. The significant increase in imports and than the increase in exports in 2011 resulted in a higher deficit in the trade account, which needed corrective measures to maintain the external sector stability. Accordingly, the policy package introduced included the allowing of greater exchange rate flexibility, increase of policy interest rates in two occasions, initiatives introduced to limit the private sector credit growth, upward revision of domestic petroleum, electricity and transport prices and the revision of tax structure related to importation of selected items, including motor vehicles. The impact of this policy package was felt to the economy gradually and towards the end of the year, the imports declined by 5.4 percent in comparison to significant increase in the previous year reflecting the deceleration in the domestic demand. However, the exports were also declined by 7.4 percent mainly due to the drop in international commodity prices and subdued global demand in the midst of relatively weak economic activity in the United States and the Euro Zone area although the greater flexibility in the exchange rate helped augment export competitiveness of the country. Consequent to these developments, the trade deficit in 2012 narrowed by 3.1 percent to US\$ 9,409 million.

There was a strong growth in the inward workers' remittances and the surplus in the services account, which helped offset about two thirds of the deficit in the trade account. Consequently, the current account deficit declined to US\$ 3,915 million (6.6 percent of GDP). The inflows to the capital and financial account also increased significantly as the foreign inflows to the government continued to remain healthy on account of project financing and investment in government securities and banks and private sector brought in more foreign funds from abroad encouraged by the relaxation of exchange control regulations. As a result, the Balance of Payments (BOP) recorded a surplus of US\$ 151 million by end 2012 as against the deficit of US\$ 1,061 million recorded in 2011. With this improvement in the BOP, the gross official reserves of the country increased to US\$ 6.9 billion by end 2012 from US\$ 6 billion at end 2011, which were equivalent to 4.3 months of imports by end 2012.

The policy initiatives introduced since February 2012 have delivered the expected results. However, further adjustments in the trade and current account deficits to maintain them at a sustainable level thereby strengthening the external position of the country are imperative in the current context.

Table 3.13 > **External Trade**

	US\$ Mn.							
Indicator	2005	2006	2007	2008	2009	2010	2011	2012(a)
<b>Exports</b>	<b>6,347</b>	<b>6,883</b>	<b>7,640</b>	<b>8,111</b>	<b>7,085</b>	<b>8,626</b>	<b>10,559</b>	<b>9,774</b>
<b>Agricultural Exports</b>	<b>1,250</b>	<b>1,424</b>	<b>1,647</b>	<b>1,976</b>	<b>1,836</b>	<b>2,305</b>	<b>2,528</b>	<b>2,332</b>
Tea	811	882	1,025	1,272	1,185	1,441	1,491	1,412
Other Agricultural Products	439	542	622	704	651	864	1,037	920
<b>Industrial Exports</b>	<b>4,949</b>	<b>5,402</b>	<b>5,937</b>	<b>6,112</b>	<b>5,228</b>	<b>6,097</b>	<b>7,992</b>	<b>7,371</b>
Textile and Garments	2,890	3,084	3,337	3,478	3,261	3,356	4,191	3,990
Rubber Products	394	450	483	542	385	558	885	860
Machinery and Equipment	330	396	371	322	187	259	312	297
Diamond, Gem and Jewellery	402	414	474	514	402	409	532	559
Food, Beverages and Tobacco	223	232	323	244	183	245	348	284
Petroleum Products	131	188	170	255	134	263	553	463
Other Industrial Products	578	660	779	757	676	1,007	1,171	918
<b>Mineral Products</b>	<b>23</b>	<b>17</b>	<b>22</b>	<b>22</b>	<b>20</b>	<b>24</b>	<b>33</b>	<b>61</b>
<b>Unclassified</b>	<b>125</b>	<b>42</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>199</b>	<b>7</b>	<b>10</b>
<b>Imports</b>	<b>8,863</b>	<b>10,253</b>	<b>11,296</b>	<b>14,091</b>	<b>10,207</b>	<b>13,451</b>	<b>20,269</b>	<b>19,183</b>
<b>Consumer Goods</b>	<b>1,289</b>	<b>1,550</b>	<b>1,664</b>	<b>2,007</b>	<b>1,565</b>	<b>2,476</b>	<b>3,654</b>	<b>2,995</b>
Food and Beverages	573	711	802	1,089	933	1,322	1,567	1,304
Other	716	840	862	918	632	1,154	2,087	1,691
<b>Intermediate Goods</b>	<b>5,607</b>	<b>6,257</b>	<b>6,983</b>	<b>9,019</b>	<b>6,159</b>	<b>8,054</b>	<b>12,274</b>	<b>11,570</b>
Petroleum	1,657	2,070	2,516	3,392	2,184	3,041	4,795	5,037
Fertilizer and Chemicals	446	520	597	1,085	614	760	1,109	981
Textiles and Clothing	1,659	1,656	1,724	1,788	1,529	1,812	2,321	2,266
Wheat Grain	168	217	255	402	269	265	429	364
Other	1,677	1,794	1,891	2,352	1,563	2,176	3,620	2,922
<b>Investment Goods</b>	<b>1,937</b>	<b>2,400</b>	<b>2,597</b>	<b>2,852</b>	<b>2,093</b>	<b>2,758</b>	<b>4,286</b>	<b>4,590</b>
Machinery and Equipment	548	651	1,428	1,467	1,077	1,339	2,141	2,356
Transport Equipment	333	405	410	481	357	593	1,065	992
Building Material	1,051	1,341	753	900	656	822	1,076	1,237
Other	5	3	6	4	3	4	4	5
<b>Unclassified</b>	<b>31</b>	<b>48</b>	<b>52</b>	<b>213</b>	<b>390</b>	<b>162</b>	<b>54</b>	<b>28</b>
<b>Trade Deficit</b>	<b>-2,516</b>	<b>-3,370</b>	<b>-3,656</b>	<b>-5,980</b>	<b>-3,122</b>	<b>-4,825</b>	<b>-9,710</b>	<b>-9,409</b>

Source: Sri Lanka Customs and Central Bank of Sri Lanka

(a) Provisional

## Trade Balance

The trade deficit narrowed in 2012 responding to the policy measures introduced in early 2012. In nominal terms, the drop in imports was higher than that of exports and resulted in a decline in the trade balance by 3.1 percent. As a percentage, the trade deficit declined to 15.8 percent from 16.4 percent in the previous year. This lower deficit was mainly spurred by the

declined values of consumption and intermediate goods imports. However, the drop in trade balance, which was mainly induced by the decline in imports, affected the tax base thereby reduced the growth in trade based government revenue which increased only by 9.3 percent to Rs. 428 billion in 2012 from Rs. 391 billion in 2011.

Chart 3.8 &gt; Growth in Exports &amp; Imports and Trade Balance (Quarterly)

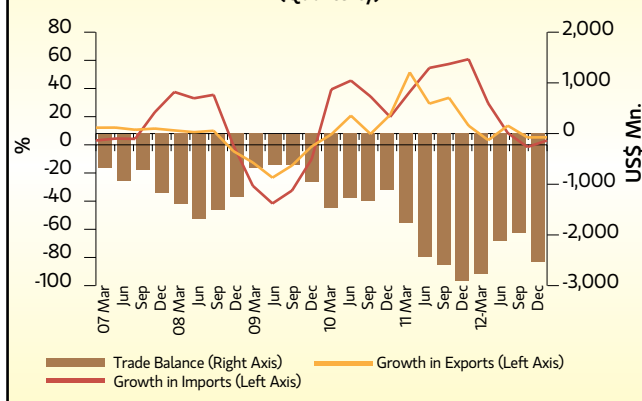


Chart 3.9 &gt; Trade Balance

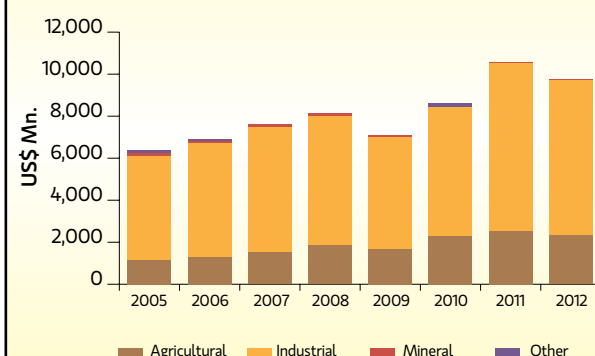


## Exports

In 2012, earnings from exports declined by 7.4 percent to US\$ 9,774 million in comparison to the higher growth of 22 percent in 2011 mainly reflecting the declines in industrial as well as agricultural exports despite the support from exchange rate depreciation and lower taxes. This performance reflected the decline in commodity prices in the international market and the slowing down of global economic activity and the consequent dampening of global demand. The earnings from industrial exports, which constitute a 75.4 percent of the total exports, declined by 7.8 percent to US \$ 7,371 million in 2012. The major contribution for this decline was from the decline in the earnings from the exports of textiles and garments, which accounts to about 41 per cent of total export earnings.

Meanwhile, the earnings from the exports of gems, diamonds and jewellery, and animal fodder increased in 2012. In particular, there was a 5.2 percent increase in the earnings from gems, diamonds and jewellery. The earnings from petroleum product exports declined by 16.3 percent to US\$ 463 million mainly due to the decline in bunkering services provided as a result of a declined demand reflecting the present global economic conditions as well as the rising competition from regional ports.

Chart 3.10 &gt; Composition of Exports



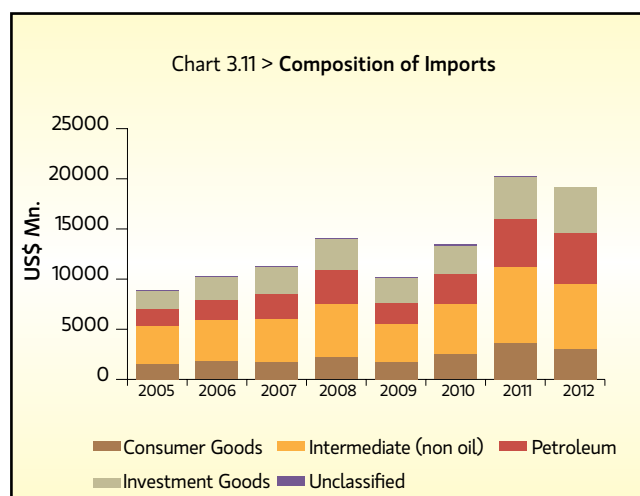
Reflecting the decline in the earnings from the export of major agricultural commodities, total earnings from agricultural exports declined by 7.8 percent to US\$ 2,332 million in 2012. In particular, the export earnings from tea, which account for about 15 percent of the total export earnings, declined by 5.3 percent to US\$ 1,412 million in 2012. The decline in the export volume by 0.9 percent to 320 million kg. coupled with the decline in the average price of tea exported to US\$ 4.41 from US\$ 4.62 per kg. was the major reason for this decline. The export of value added tea accounted for 58.5 percent of the total tea exports in 2012 as in the previous year.

The earnings from the export of rubber declined by 39.4 percent to US\$ 125 million due to the decline in export volume as well as the sharp decline in the average price of rubber exported. The earnings from exports of coconut products declined by 21.5 percent to US\$ 209 million in 2012 mainly due to the decline in the export of coconut kernel products such as desiccated coconut, which was partly offset by the increase in the earnings from non-kernal products. The export earnings from spices, unmanufactured tobacco and seafood continued to increase while the earnings from minor agricultural exports declined.

## Imports

In 2012, total expenditure on imports declined by 5.4 percent to US\$ 19,183 million reflecting the positive response to the credit ceiling, high tariff and exchange rate depreciation introduced in early 2012 to discourage non-essential imports with the view of containing the widened trade deficit. The import expenditure particularly on non-fuel imports, declined by 8.6 percent to US\$ 14,146 million.

The intermediate goods imports declined by 5.7 percent to US\$ 11,570 million in 2012. The average import price of crude oil increased by 5.0 percent to US\$ 114 per barrel in 2012 from US\$ 108.6 per barrel in 2011 coupled with an increase of 20.9 percent (in US\$ terms) in the volume of refined products imported, mainly due to increased thermal power generation in the country. Consequently, the expenditure on petroleum imports increased by 5.0 percent to US\$ 5,037 million in 2012 from US\$ 4,795 million in 2011. The cost of non-petroleum intermediate goods imports declined to US\$ 14,146 million in 2012 from US\$ 15,474 million in 2011 reflecting a decline of US\$ 1,328 million over the previous year. In particular, the expenditure on the import of gold declined by 71.8 percent to US\$ 170 million. The cost on the importation of textiles declined by 2.3 percent to US\$ 2,266.4 million which is in line with the decline in the apparel



exports while the expenditure on fertilizer imports declined by 23.6 percent to US\$ 311 million in comparison to US\$ 407 million in 2011.

The consumer goods import, which provides a strong base for the fiscal operation of the government, declined by 18 percent in 2012 to US\$ 2,995 million from US\$ 3,654 million in 2011. The expenditure on the importation of motor vehicles declined sharply by 43.8 percent to US\$ 495 million compared to the sharp increase recorded in the previous year due to the higher tariff and duty imposed on imported vehicles at the point of customs and the depreciation of the rupee. The expenditure on other consumer goods also declined and was mainly reflected in the decline in vegetables, sugar and confectionary. The import of dairy products, including the milk powder, declined by around 11 percent to US\$ 307 million partly reflecting the impact of the increase of the import duty applicable to milk powder imports to encourage domestic milk production.

However, the investment goods imports, including building materials and machinery and equipment, increased by 7.1 percent to US\$ 4,590 million in 2012 due to the expansion in construction activities throughout the country, including the ongoing large scale



infrastructure development projects and the reduction of taxes on the transport equipment and machinery as well as other investment goods. Nevertheless, the expenditure on the import of transport equipment, classified under investment goods, which includes vehicles for transport of passengers and goods, heavy-duty vehicles and small scale ships and boats, declined by 6.8 per cent to US\$ 992 million in 2012.

## Current Account

In 2012, the current account deficit narrowed to US\$ 3,915 million from US\$ 4,615 million in the previous year. As the decline in the expenditure on imports in absolute terms was higher than the absolute decline in the export earnings, the trade deficit contained by 3.1 percent to US\$ 9,409 million in 2012 compared to the deficit of

telecommunications, construction and insurance sub-sectors and the resultant higher receipts were also attributable for the improvement in the services account. In particular, the earnings from tourism increased by 25.1 percent in 2012 to US\$ 1,039 million from US\$ 830 million in the previous year reflecting the impact of highest ever tourist arrivals of 1,005,605, which is an increase of 17.5 percent over the previous year.

However, the deficit in the income account widened to US\$ 1,148 million in 2012 from US\$ 647 million in the previous year mainly due to the higher interest payments on outstanding government loans. The receipts to the income account mainly consisted of interest earned from the investment of reserves and profits earned from trading of foreign currency and foreign securities, which was lower than 2011 due to relatively low global interest rates. There

Table 3.14 > **Total Net Services Income**

US\$ Mn.

Item	2005	2006	2007	2008	2009	2010	2011	2012
Transportation Services	204	211	241	299	235	336	439	462
Computer and Information Services	82	98	175	230	245	265	355	436
Travel and Tourism(a)	115	37	-8	-86	-61	123	329	328
Communication Services	25	19	18	26	26	27	29	41
Construction Services	24	24	27	35	34	36	36	41
Insurance Services	39	20	15	22	28	31	35	43
Other Business Services	-134	-138	-153	-109	-100	-102	-108	-77
Government Expenditure n.i.e.	-16	-14	-14	-14	-16	-17	-17	-24
<b>Total</b>	<b>338</b>	<b>257</b>	<b>302</b>	<b>402</b>	<b>391</b>	<b>698</b>	<b>1,099</b>	<b>1,250</b>

Source: Central Bank of Sri Lanka

(a) Passenger services provided for non-residents are included in transportation services

US\$ 9,710 million in 2011.

The services account generated a surplus of US\$ 1,250 million reflecting an increase of 13.8 percent in comparison to the surplus of US\$ 1,099 million recorded in the previous year. The computer and information services sub sector reflected a significant improvement generating US\$ 436 million in 2012 compared to US\$ 355 million in 2011 and US\$ 82 million in 2005. The improved performance in the transportation, as well as the travel,

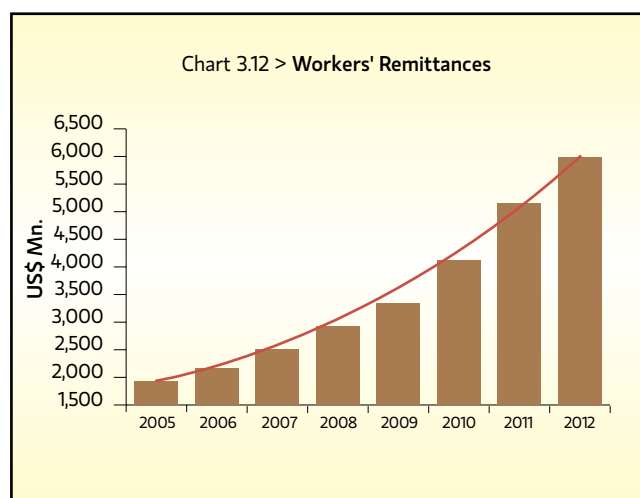
was a higher valuation and exchange gains from mark-to-market valuation of trading securities in US \$ terms benefiting from the appreciation of major reserve holding currencies, such as the Euro and the Pound Sterling, against the US dollar. The outflows in the income account increased mainly due to the higher interest payments on foreign loans obtained by the government and on foreign financial liabilities of commercial banks. With the higher earnings by enterprises engaged in FDI related business,

their repatriation of profits and dividends also increased reinvesting a considerable portion of their profits and dividends in those enterprises. Meanwhile, the inward workers' remittances, which increased by 16.3 percent to US\$ 5,985 million, helped offset 64 percent of the deficit in the trade account.

The above developments resulted in a narrowed deficit of US\$ 3,915 million in the current account in 2012 in comparison to US\$ 4,615 million in 2011. As a percentage of GDP also, the current account deficit contracted to 6.6 percent from 7.8 percent in 2011, which is reflected in the corresponding improvement in the country's savings-investment gap.

## Workers' Remittances

In 2012, workers' remittances increased by 16.3 percent to US\$ 5,985 million and continued to be the foremost and stable foreign exchange earner of Sri Lanka. There was a 6.3 percent increase in the total number of migrant workers leaving for foreign employment to 279,482. The increase in the migration of skilled workers, enhancement of the availability of formal channels to remit foreign earnings to Sri Lanka, including the increased number of bank branches and service offices in the conflict affected provinces, increased employment opportunities in high wage paying countries, including Singapore and Korea, were among the major factors that helped this improved performance. The workers' remittances are expected to grow at a healthy rate in the future as well benefitting from the further improvements in the existing facilities and the incentives granted by the government to this sector, particularly in Budget 2013, including the provision of housing loans for those who are returning from foreign employment, the improvement in the vocational training facilities throughout the country to train foreign employment aspirants and tax concessions to commence small and medium businesses by the returned foreign employees etc.



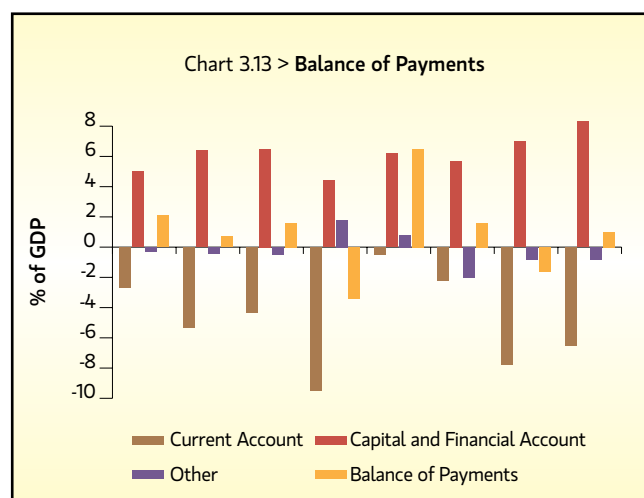
## Capital and Financial Account

In 2012, Foreign Direct Investment (FDI) inflows, including loans, increased to US\$ 1,338 million in comparison to US\$ 1,066 million in 2011. The improvement in FDI was achieved amidst the sluggish performance in the global economy, including the significant 70.7 percent drop in net private financial flows to emerging markets in 2012. Major areas that received FDI included the infrastructure development in ports and container terminals, telecommunication networks, power generation and housing and property development, and hotels and tourism related activities, manufacturing, and information technology, reflecting the improved investor confidence on the emerging sectors in the economy that has potential to expand in the future and the underlying adjustments to improve macroeconomic conditions. Private long term capital, on a net basis, stood at US\$ 562 million in 2012. The long term official flows to the government infrastructure development initiatives moderated to US\$1,869 million from US\$ 2,026 million in 2011. Another US\$ 1,000 million was also received from the successful raising of the fifth sovereign bond of the country in the international capital market. In 2012, the short term borrowings of the

government by way of foreign investment in Treasury bills and Treasury bonds increased to US\$ 843 million on net basis in comparison to US\$ 233 million in 2011.

The Balance of Payments (BOP) recorded a surplus of US\$ 151 million in 2012 with the support of the significant improvement in the current account and the continued inflows to the capital and financial account reflecting a significant turnaround from a deficit of about US\$ 1 billion recorded in 2011. The deficit in the current account as a percent of GDP declined to 6.6 percent in 2012 from 7.8 percent in the previous year.

Total gross official reserves (excluding Asian Clearing Union balances) by end 2012 amounted to US\$ 6.9 billion in comparison to US\$ 6 billion by end 2011. This amount was equivalent to 4.3 months of imports.



Meanwhile, total reserves which include the official reserves and the reserve balances in the banking system, stood at US\$ 8.6 billion by end 2012.

Table 3.15 > **Balance of Payments: 2006 - 2012**

Item	2006	2007	2008	2009	2010	2011	2012(a)
<b>Trade Balance</b>	<b>-3,370</b>	<b>-3,657</b>	<b>-5,981</b>	<b>-3,122</b>	<b>-4,825</b>	<b>-9,710</b>	<b>-9,409</b>
Exports	6,883	7,640	8,111	7,085	9,626	10,559	9,774
Imports	10,253	11,296	14,091	10,207	13,451	20,269	19,183
<b>Service (net)</b>	<b>257</b>	<b>302</b>	<b>401</b>	<b>391</b>	<b>707</b>	<b>1,099</b>	<b>1,250</b>
Receipts	1,625	1,775	2,004	1,892	2,474	3,084	3,788
Payments	1,368	1,472	1,603	1,501	1,768	1,985	2,538
<b>Income (net )</b>	<b>-389</b>	<b>-358</b>	<b>-972</b>	<b>-488</b>	<b>-617</b>	<b>-647</b>	<b>-1,148</b>
Receipts	311	449	-32	116	323	467	321
Payments	700	807	940	603	940	1,114	1,469
<b>Goods, Services and Income (net)</b>	<b>-3,503</b>	<b>-3,712</b>	<b>-6,552</b>	<b>-3,219</b>	<b>-4,735</b>	<b>-9,258</b>	<b>-9,307</b>
<b>Current Transfers (net)</b>	<b>2,004</b>	<b>2,311</b>	<b>2,666</b>	<b>3,005</b>	<b>3,660</b>	<b>4,643</b>	<b>5,392</b>
Private Transfers(net)	1,904	2,214	2,565	2,927	3,608	4,583	5,339
Receipts (Workers' Remittances)	2,161	2,502	2,918	3,330	4,116	5,145	5,985
Payments	257	288	353	403	508	562	646
Official Transfers (net)	101	97	101	77	52	60	53
<b>Current Account</b>	<b>-1,499</b>	<b>-1,402</b>	<b>-3,886</b>	<b>-214</b>	<b>-1,075</b>	<b>-4,615</b>	<b>-3,915</b>
<b>Capital and Financial Account</b>	<b>1,808</b>	<b>2,097</b>	<b>1,773</b>	<b>2,594</b>	<b>2,877</b>	<b>4,262</b>	<b>4,684</b>
<b>Capital Account</b>	<b>291</b>	<b>269</b>	<b>291</b>	<b>233</b>	<b>164</b>	<b>164</b>	<b>130</b>
<b>Financial Account</b>	<b>1,517</b>	<b>1,828</b>	<b>1,483</b>	<b>2,361</b>	<b>2,713</b>	<b>4,098</b>	<b>4,554</b>
Long Term							
Direct Investment (net)	451	548	691	384	435	896	813
Private Long Term (net)	-35	31	74	79	149	175	562
Govt. Long Term (net)	491	672	252	840	1,796	2,237	1,497
Short Term	610	577	466	1,058	334	790	1,681
Allocation of SDRs	-	-	-	508	-	-	-
Errors and Omissions	-105	-165	728	346	-881	-708	-617
<b>Overall Balance (Balance of Payments)</b>	<b>204</b>	<b>531</b>	<b>-1,385</b>	<b>2,725</b>	<b>921</b>	<b>-1,061</b>	<b>151</b>
<b>As a percentage of GDP</b>							
Trade Deficit	-11.9	-11.3	-14.7	-7.4	-9.7	-16.4	-15.8
Current Account Deficit	-5.3	-4.3	-9.5	-0.5	-2.2	-7.8	-6.6

Source: Central Bank of Sri Lanka

(a) Provisional

### 3.6 Monetary Sector Developments

The monetary policy stance was tightened by the Central Bank of Sri Lanka in early 2012 to contain the rapid expansion of credit to the private sector, which commenced since mid-2010 causing monetary aggregates to grow at a higher than expected rate. If remained unaddressed, it could have created a risk of fuelling demand driven inflation while posing a threat to the stability of the country's external sector through continued excessive demand for imports. Accordingly, the Central Bank increased both the Repurchase rate and the Reverse Repurchase rate by 50 basis points to 7.50 percent and 9.00 percent, respectively in February 2012. In March 2012, commercial banks were directed by the Central Bank to moderate their credit disbursements so that the overall credit growth in 2012 will not exceed 18 percent (or Rs. 800 million, whichever is higher) of their respective loan book outstanding at the end of 2011. However, a credit growth of up to 23 percent (or Rs. 1 billion, whichever is higher) was allowed for those banks, which finance the excess up to 5 percent of the credit growth, by way of funds mobilised from overseas to fund the additional growth of credit. In April 2012, the Central Bank's Repurchase rate was further increased by 25 basis points to 7.75 percent while the Reverse Repurchase rate was increased by 75 basis points to 9.75 percent. In addition, necessary measures were introduced by the government to curb the high demand for selected non-essential imports since it was considered as a major source for accelerated expansion in private sector credit. At the same time, a greater flexibility was allowed in the determination of exchange rate.

Consequent to the above measures, the expansion of credit extended to the private sector by commercial banks decelerated rapidly towards the end of the year. The growth in reserve money as well as broad money was decelerated although the expansion in the credit obtained by the public sector was

Chart 3.14 > Reserve Money and Private Sector Credit Growth

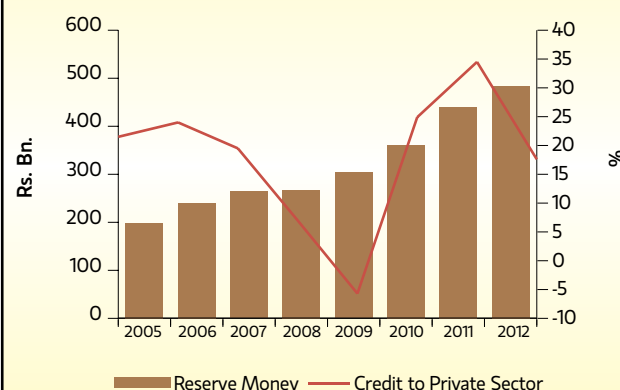
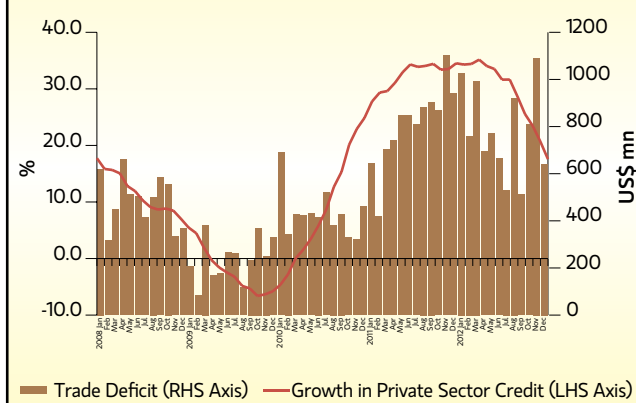


Chart 3.15 > Private Sector Credit Growth and Trade Deficit

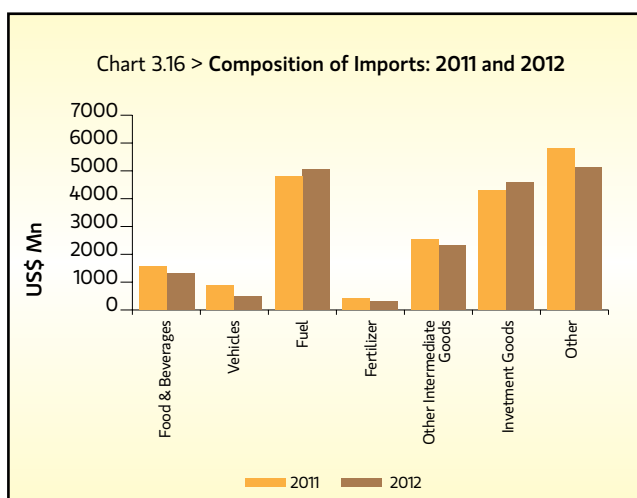


higher than the desired levels. Meanwhile, the inflation expectations were benign towards the end of the year. This situation helped arrest the looming demand pressure in the economy while strengthening the country's external sector stability. Hence, in December 2012, the Central Bank relaxed the monetary policy stance by reducing the policy interest rates by 25 basis points each. Accordingly, the Repurchase rate and the Reverse Repurchase rate of the Central Bank was reduced to 7.50 percent and 9.50 percent, respectively in the light of the expected moderation in inflation towards the second quarter of 2013 and the need to support the economy to realize its growth potential in 2013 and beyond. The ceiling on credit expansion was also allowed

to expire as its purpose has been served while considering the non-requirement of such a measure given the associated developments. In 2012, the growth in reserve money was decelerated to 10.2 percent and amounted to Rs. 484.4 billion in comparison to 21.9 percent growth in 2011. The lower growth in both the currency in circulation and the deposits of commercial bank with the Central Bank were attributable to this. In terms of assets, the growth in the reserve money in 2012 was fuelled by the 16.6 percent expansion in foreign assets of the Central Bank as there was 11.6 percent decline in the net domestic assets. Meanwhile, the growth in the broad money (M2b) was within the desired levels by end 2012 by recording a lower year-on-year growth of 17.6 percent to Rs. 2,929.1 billion reflecting the impact policy measures adopted by the Central Bank.

In 2012, the growth in credit extended to the private sector by commercial banks moderated to 17.6 percent and amounted to Rs. 2,358.4 billion in comparison to the high growth of 34.5 percent in 2011 mainly consequent to the tight monetary policy measures of the Central Bank. The relatively high market interest rates, deceleration of domestic economic activity and the impact of the depreciation of Rupee on imports were attributable to this lower growth in the private sector credit. According to the sectoral distribution of advances by commercial banks, the growth in the credit extended to major categories has decelerated, particularly towards end 2012 i.e. Industry (15.0 percent), Services (13.9 percent) and Personal Loans and Advances (22.0 percent). However, the growth in credit to Agriculture and Fishing remained almost unchanged at 21.8 percent. The slower growth in the private sector credit has resulted in a deceleration in the domestic demand leading

Chart 3.16 &gt; Composition of Imports: 2011 and 2012

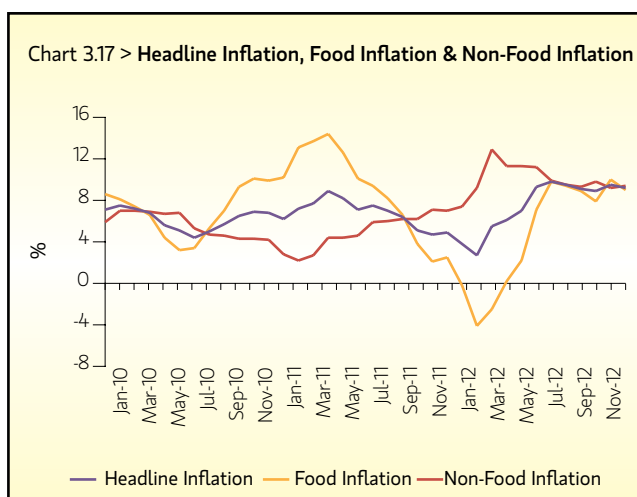


to a decline in imports, including motor vehicles, thereby helping to lower the trade deficit in 2012.

### 3.7 Inflation

The year on year head line inflation was 9.2 percent in 2012 compared to 4.9 percent in December 2011<sup>1</sup>. During the first few months

Chart 3.17 &gt; Headline Inflation, Food Inflation &amp; Non-Food Inflation



*The Colombo Consumer Price Index (CCPI) is the official measure of inflation in Sri Lanka. The CCPI was revised in June 2011 by the Department of Census and Statistics to capture the most recent expenditure and consumption trends. The new practice is to revise weights periodically based on more up-to-date information and most countries adopt a five year rebasing for the consumer price indices. Accordingly, the Index is now computed on weights based on the expenditure patterns of households in the urban areas of the Colombo district as revealed in the Household Income and Expenditure Survey (HIES) 2006/2007 whereas the earlier series was based on the expenditure patterns of the same of HIES 2002.*

of 2012, the inflation was relatively low at 2.7 percent in February 2012 mainly due to the improvement in the domestic food supply and the moderation in international prices of imported commodities. However, this trend was reversed since March 2012 with the headline inflation peaking at 9.8 percent in July 2012 and remaining at high single digit levels during the rest of the year with a moderation to 9.2 percent by end 2012 due to exchange rate depreciation, domestic price adjustments in petroleum, electricity, transport and drought conditions in 3rd and 4th quarters of 2012.

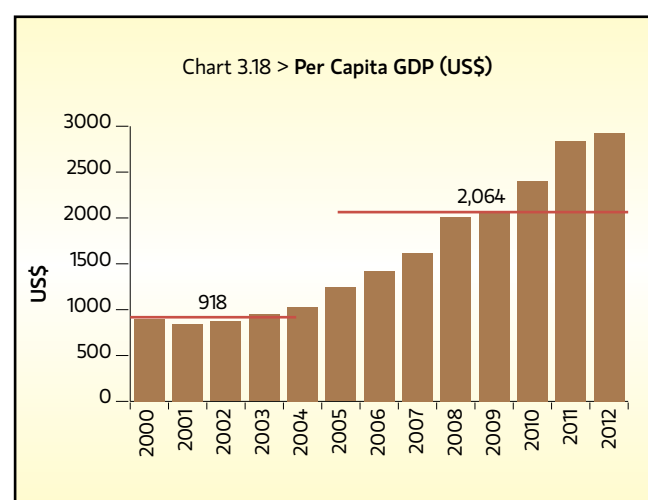
The food inflation rose mainly due to the increase in food prices as a result of the supply disruption owing to both drought and floods that prevailed in major cultivation areas causing crop failures and the increase of duties on a number of imported commodities. However, the improved domestic supply conditions as well as the downward revisions of some administered prices and duties on imported items helped a gradual deceleration of the food inflation towards the latter part of the year. The improvement of the food supply in the domestic market was particularly supported by Divi-Neguma, the government initiative to develop a backyard economy in order to promote economic security of 3 million households by meeting their food requirements outside the market thereby reducing the price pressures in the market.

Meanwhile, the non-food inflation peaked at 12.9 percent in March 2012 mainly due to the upward adjustment of certain administered prices i.e. fuel and LP gas, electricity and transport. However, it was decelerated thereafter and reached 9.4 percent by December 2012. The depreciation of the Rupee against major foreign currencies and the management of inflation expectations also affected the behavior of inflation in 2012. Meanwhile, the annual average inflation also continued to remain at single digit levels and was 7.6 percent in 2012 in comparison to 6.7

percent in 2011. The inflation has declined rapidly from the higher level of 28 percent by mid-2008 and remained at a single digit level since February 2009, recording the longest period of low and stable inflation since 1973. The improvements in the domestic supply responding to various measures taken by the government to improve domestic agriculture production, the enhanced food production in the conflict affected areas and granting of duty waivers to reduce the escalating prices of essential commodities were supportive in achieving this success. The cautious monetary and fiscal policy stances that the Central Bank and the government have adopted with a well co-ordinated and interacting approach to maintain a stable macroeconomic environment is essential to sustain the improvement in investment and to minimize the fluctuations in employment, production and prices so that the economy will achieve non-inflationary, stable economic growth. It will help achieve the objective of reducing the poverty with a complementary growth in income and its better distribution.

### 3.8 Per Capita Income

Sri Lanka's per capita income increased to US\$ 2,923 in 2012. The lower growth in the nominal





GDP and the depreciation of the rupee resulted in this relatively lower growth in per capita GDP. During the last 8 years, the per capita GDP has more than doubled in comparison to a period of 15 years that took to reach the US\$ 1,000 mark in 2004. This reflects that the country has reached a faster phase of growth during this period.

### 3.9 Capital Market Developments

There was a gradual recovery in the Colombo Stock Exchange (CSE) during the second half of 2012 after subdued performance throughout 2012 in contrast to the upsurge witnessed in 2009 and 2010 since the ending of the conflict in May 2009. The downward trend in the stock market could be attributed to relatively high real yield rates on government securities, volatility of the exchange rate, tight liquidity situation in the market, limits imposed on stock brokers' credit, particularly in the early part of the year, and the effects of subdued performance in the global financial markets. The All Share Price Index (ASPI) and Milanka Price Index (MPI) declined by 7.0 percent and 2.0 percent, respectively in 2012. The S&P SL 20 index, which was introduced on 27 June 2012 to meet investors' demand for a transparent and a rule based benchmark, and replaced the MPI with effect from 1 January 2013, increased by 8 percent by end December 2012. The slowdown of overall price indices in 2012 was contributed by the decline in the price indices of all sub sectors except Beverage, Food and Tobacco sub-sector. The market capitalization declined by 2 percent to Rs. 2,168 billion in 2012 from Rs. 2,214 billion

and accounted for 28.6 percent of GDP by end 2012. There were 6 Initial Public Offerings (IPOs), 12 new listings via introduction and 19 right issues in 2012. In this context, the tax payable by any company which lists its shares on or after 1 April 2013 and issues more than 20 percent of its shares to the general public was reduced by 50 percent for the year of assessment in which such shares are listed and also for the two years of assessment immediately succeeding that year of assessment. By end December 2012, the number of companies listed on the CSE increased to 287 from 272 in 2011. The CSE's Market Price to Earnings Ratio (PER) increased to 15.9 percent at the end of 2012 from 15.8 percent at the end of 2011.

The net foreign inflows into the CSE was Rs. 38.7 billion (US\$ 304 million) in 2012 as the total foreign purchases amounted to Rs. 72.7 billion and total foreign sales amounted to Rs. 33.9 billion. In contrast, there was a net outflow of Rs. 19 billion (US\$ 167 million) in 2011. This improvement has achieved amidst 70.7 percent drop in net private financial flows (which includes direct investment, portfolio investment and other long and short-term investment flows) to emerging markets in 2012.

During the year, the Securities and Exchange Commission (SEC) introduced a number of measures to facilitate the smooth functioning of the CSE, including the introduction of conditions to the listing rules for public companies seeking listings on the CSE, further relaxation of the credit extended by stock brokers to reduce liquidity constraints

Table 3.16 > **Movements in the Capital Market**

Indicators	2005	2006	2007	2008	2009	2010	2011	2012
All Share Price Index (1985=100)	1,922	2,722	2,541	1,503	3,386	6,636	6,074	5,643
Milanka Price Index	2,451	3,712	3,292	1,631	3,849	7,061	5,229	5,119
Market Capitalization (Rs. Bn.)	584	835	821	489	1,092	2,210	2,214	2,168
No. of Listed Companies in Trading	242	232	231	235	232	242	272	287
Annual Average Turnover (Rs.Bn.)	115	105	105	110	142	570	546	214
Foreign Sales (Rs. Mn.)	21,568	31,790	35,543	52,682	43,899	118,761	68,854	33,972
<b>Foreign Purchases (Rs. Mn.)</b>	<b>27,712</b>	<b>37,167</b>	<b>46,797</b>	<b>66,632</b>	<b>43,253</b>	<b>92,426</b>	<b>49,875</b>	<b>72,653</b>

of retail investors and to reduce volatility in the market, removal of the 10 per cent price band imposed for 5 market days on volatile securities in April 2012. A number of further measures, which have been identified after a broad based consultative process with key stakeholders, are expected to introduce by the

SEC to develop Sri Lanka's capital market with enhanced investor confidence while preventing systemic crises in the future. The Capital Market Development Road Map, which was introduced in November 2012, includes a range of initiatives which will be implemented within a time horizon of three years.

04

# APPROPRIATION ACT AND THE GOVERNMENT BUDGET 2012

## 4.1 Overview

The Appropriation Act which provides the legislative framework for the annual budget estimates authorizes the government to raise funds and spend them during a specific financial year. The annual budget presentation and ensuing debate usually take precedence over most legislations as Articles 148 – 154 of the Constitution empowers Parliament over the control of Public Finance. Like any other Bill presented in Parliament, the Budget goes through the first reading (tabling of Appropriation Bill), second reading (Budget Speech by the Hon. Minister of Finance) and the third reading (Committee Stage approval) and only becomes law when it is passed in all three readings and receives the certification of the Speaker. Thereafter, Minister of Finance issues a warrant authorizing the expenditure out of the Consolidated Fund to finance the annual budget which covers the calendar year.

During the annual budget process, the Minister of Finance announces the government's economic and fiscal policies, its performance, specific fiscal measures and new policy directions particularly, within the expectations in the medium term. This process together with the statutory requirements to submit Fiscal Management Report as stipulated in Fiscal Management (Responsibility) Act No. 3 of 2003 provide considerable information to the Parliament and general public in respect of government finance and the economy.

## 4.2. Government Expenditure and Borrowings

The Appropriation Act stipulates the Government's expenditure and the maximum borrowing limit for the financial year. The total expenditure of the Government is

shown in the Appropriation Act under three categories in separate schedules.

- i). Expenditure related to general services of the Government during the financial year
- ii). Expenditure of the Government authorized by special laws and to be charged to the Consolidated Fund.
- iii). Expenditure related to Advance Account Activities.

The maximum borrowing limit is worked out as the difference between the revenue estimates based on existing legislations that stipulate revenue base as well as rates for such revenue flows and expenditure estimates on the basis of existing commitments.

### 4.2.1. Expenditure Related to General Services of the Government

Clause 2 (1) in the Appropriation Act for 2012 referred to the expenditure related to general services of the Government. This included both capital and recurrent expenditures which had not been previously approved by Parliament under any other law. Salaries and wages, welfare expenses, operational expenditure such as electricity, water, stationary, fuel, diet, uniforms and the expenditure related to implementation of development projects were detailed in this category. The expenditure under this category was presented in Schedule 1 to the Appropriation Act under specific Heads of Expenditure subdividing into Programmes I and II.

### 4.2.2. Expenditure of the Government authorized by special laws and to be charged to the Consolidated Fund

Expenditure already approved by Parliament under various Acts and Statutes were given

under this category. Clause 2 (4) of the Act referred to the expenditure already approved by such special laws and the Head-wise expenditure details were given in Schedule II to the Appropriation Act. Salaries of the President, Supreme Court Judges, Members of Parliament and the Auditor General, debt service payments of the Government and pension payments were some of such expenditure specified under this category.

#### **4.2.3. Expenditure related to Advance Account Activities**

Clause 3 (1) of the Act referred to the Advance Account activities of the Government. Maximum limits of expenditure, minimum limits of receipts and maximum limit of liabilities applicable for each Head of expenditure were given in Schedule III to the Act. These activities included government's activities which were of commercial nature as well as loans and advances extended to public servants.

#### **4.2.4. Maximum Borrowing Limit of the Government**

Clause 2 (1) (b) of the Act stipulated the maximum amount of the borrowings of Rs. 1,139 billion which could be raised by the Government as loans to finance the authorized expenditure of the fiscal year 2012. The maximum amount of borrowing was derived by estimating the difference between the government receipts and payments including debt repayments. Then the provisions allocated for Advance Account Activities of the Government and a provision for any variations in assumptions based on which the forecasting of revenues were made, were also added in arriving at the gross borrowing requirements for 2012.

### **4.3. Government Borrowing Process**

All loans were raised in terms of the provisions of various statutes subject to the ceilings specified in the respective laws and within the total borrowing limits specified in the Appropriation Act for 2012. In terms of Section 113 of the Monetary Law Act No. 58 of 1949 (as amended), all borrowing activities were managed by the Department of Public Debt of the Central Bank of Sri Lanka in close consultation and coordination with General Treasury in terms of the Annual Budget operations.

#### **4.3.1. Borrowings from Foreign Financing Sources**

Foreign loans are raised under the Foreign Loans Act No. 29 of 1957 (as amended) (details on foreign financing agreements are reported to Parliament at several stages). In 2012, foreign loans were raised from the following four sources.

1. Multilateral Agencies such as World Bank and Asian Development Bank. The terms and conditions of loans which are common to all member countries were in accordance with the type of loans.
2. Bilateral Development Partners such as Japan International Cooperation Agency, Economic Development Cooperation Fund (EDCF) of Korea, Saudi Fund for Development (SFD) and Kuwait Fund for Arab Economic Development (KFAED) etc. were the key agencies provided funds to finance the Budget 2012. Terms and conditions of these loans which are common to all countries eligible to borrow from such agencies, were determined by respective development agencies.

3. Government Agencies such as EXIM Banks of various governments like India, China, Korea, USA, Malaysia, Hungary and Japan were the major Exim Banks with which the government regularly engaged in mobilizing credit facilities for project financing. The terms and conditions of such loans vary from loan to loan depending on market conditions, socio-economic benefits and gestation periods of related projects. Terms and conditions of such facilities were determined through negotiations under the guidance and approval of the Cabinet of Ministers.
4. Foreign currency denominated bonds were issued in international financial markets through a competitive bidding process, with participation of internationally reputed financial and legal advisors and fund managers. A US\$ 1,000 million bond was issued in 2012 with a 10-year tenure and used in the 2012 budget. The size of the loan, market conditions, the international sovereign country rating and economic conditions helped Sri Lanka to raise this bond at an annual interest of 6 percent.
2. Department of Fiscal Policy reviewed the macro fiscal implications of the terms and conditions in the Term Sheet/Draft Agreement.
3. The Monetary Board of the Central Bank of Sri Lanka, as required by the Monetary Law Act, examined and approved each foreign loan on its monetary implications, with special reference to debt servicing capacity and balance of payment implications.
4. Legal process on the draft loan agreement between the lending agency and the government was facilitated by the Department of Legal Affairs directly under the guidance of the Attorney General. Approvals for all such agreements were obtained from the Attorney General's Department prior to signing.
5. Approval of the Cabinet of Minister's was obtained for the terms and conditions of the loan. Special Authorization from the H.E. the President for the signing of the Loan Agreement was obtained in terms of the Foreign Loans Act.

#### **4.3.1.1. Process in Foreign Financing**

1. Projects and programmes for foreign financing were identified through a consultative process among respective foreign financing agencies, line ministries and the Ministry of Finance and Planning under the guidance of the Cabinet of Ministers. Once a project is cleared by the Department of National Planning and the consequential procedures and steps are followed by respective line ministries, the Department of External Resources negotiates with the respective lending agencies.
6. Copies of all signed loan agreements were sent to Auditor General.
7. Legal Opinions from the Attorney General confirming the compliance with the laws of Sri Lanka, which is a precondition to make the loan effective were obtained from the Attorney General, after signing the loan agreement, to make such agreement operational.
8. Financing arrangements of the projects and programmes were reflected in the Annual Budget Estimates submitted to Parliament.

#### **4.3.1.2. Reporting to Parliament**

1. Agreements signed and disbursements up to 30th April of each year were reported in the Mid-year Fiscal Position Report (under the Fiscal Management (Responsibility) Act).
2. Agreements signed and disbursements up to September were reported in the Fiscal Management Report (under the FMR Act) and submitted to the Parliament together with the Budget Speech for 2013.
3. The document tabled by the Department of External Resources along with the Budget, contained details on borrowing strategy, agreements signed, disbursements, projections and also loans being negotiated to be signed during the next 3 years.
4. The Annual Report of the Ministry of Finance and Planning – prepared in terms of FMR Act and publish before 31st May each year gives further details on public finance and the economy.
5. Project -wise financing details are included in the Printed Budget Estimates for each year.

#### **4.3.2. Borrowing from Domestic Sources**

Apart from the foreign borrowings, Treasury Bills and Treasury Bonds were also issued to raise funds domestically within the overall ceiling specified in the Appropriation Act. The sub borrowings limits are reflected in specific limits prescribed in respective statutes. Domestic loans are mainly governed by following statutes.

##### **i. Monetary Law Act No. 58 of 1949 (as amended)**

As per the Monetary Law Act, the Central Bank Advances were limited to 10 percent of the estimated Government revenue for the year and were obtained for cash-flow management at the beginning of the financial year to fill the time gap between the receipts of forecasted revenue and expenditure at the beginning of the year. Such advances are free of interest and shall be repayable within a period of six months.

##### **ii. Local Treasury Bills Ordinance No. 8 of 1923 (as amended)**

As per the provisions of the Local Treasury Bills Ordinance, the authorized Treasury Bill limit is determined by Parliament which is currently at Rs. 850 billion. Therefore, the Government borrowed within the difference between the authorized maximum Treasury Bill limit and the amount of total Treasury Bills already issued and outstanding. The Public Debt Department of the Central Bank of Sri Lanka conducted the issuance of Treasury Bills through registered Primary Dealers. The tenure of the Treasury Bills was one year and were issued to meet uneven cash flow requirements that had arisen from revenue lags and expenditure leads. The interest rates were market determined.

##### **iii. Registered Stocks and Securities Ordinance No. 7 of 1937 (as amended)**

Treasury Bonds were floated by the Central Bank of Sri Lanka with a medium to long term maturity, at the request of the Treasury, to meet the Government borrowing requirements specified in the Appropriation Act. The maturity and interest



rates of these bonds depend on the medium to long term yield curve, assessment of the availability of liquidity at different maturities and government's cash flow requirements. The Treasury Bonds were also issued through the Primary Dealers.

The borrowings were made through any of the above instruments within the limits approved by Parliament. In addition, the Budget Speech has given details on the amounts of the domestic and foreign loans to be obtained to meet the resource gap during that year. Therefore, the government's borrowing programme operates well within the legislative framework already approved by Parliament. It is also noted that the contents of Clause 2 (1) (b) of the Act were identical except for figures, with the provisions embodied in subsequent legislations enacted as far back as from the year 1961. Loans were raised adhering to the provisions of various Acts and Regulations already laid down by Parliament within the overall borrowing limit specified in the Appropriation Act and any issue of abdication and/or alienation of the specific powers vested in Parliament does not arise. In the background that raising of loans and refloating of existing loans are subject to complex operational procedures, the details of such loans are presented in the final Budget Position Report which is required to be tabled in Parliament under the section 13 of the Fiscal Management (Responsibility) Act No. 3 of 2003.

#### **4.4. Transfer /Reallocation of Budgetary Provisions**

Clauses 5 and 6 of the Appropriation Act for 2012 authorized the Treasury to grant approval for reallocate or transfer of provisions already approved by Parliament under proce-

dures specified in Financial Regulations and the Printed Estimates.

##### **4.4.1. Transfers/Reallocations of Provisions as per Clause 5 of the Appropriation Act**

Clause 5 of the Appropriation Act for 2012 referred to delegation of authority to the officials to transfers/reallocations of unutilized provisions within the total expenditure limit approved by Parliament for respective Head of Expenditure. This clause authorized the Treasury to grant the approval

- a) for reallocation of budgetary provisions allocated for recurrent expenditure, which has not been expended or not likely to be expended, to capital expenditure within the same programme; or to recurrent or capital expenditure in any other programme within the same Head of Expenditure.
- b) reallocation of budgetary provisions allocated for capital expenditure, which has not been expended or not likely to be expended, to capital expenditure within the same programme.

Requests for transfer of provisions were made by the Chief Accounting Officers of the line ministries as per the procedures specified in the Financial Regulations. The Treasury, having examined the requests for such transfers, granted approvals for such transfers in line with the Financial Regulations and overall budgetary ceilings.

Clause 5 of the Appropriation Act for 2012 was first introduced in the Appropriation Act No 64 of 1961 to provide leverage to the Government to implement its policies within the expenditure

limits authorized by Parliament. However, this clause permitted only to transfer unspent monies within the same Expenditure Head under specific guidelines stipulated in the Financial Regulations and therefore did not exceed the total expenditure provisions approved by Parliament. The unspent funds are transferred only if there are stated reasonable grounds for such transfers as stipulated in the Financial Regulations. The details of such transfers are given in Table 4.1.

#### **4.4.2. Transfer/Reallocation of Provisions as per Clause 6 of the Appropriation Act**

Clause 6 of the Act referred to transfer of provisions allocated under “Development Activities” programme appearing under the Head “Department of National Budget” in the Appropriation Act. The provisions under Clause 6 of the Act were first introduced in Appropriation Act No 44 of 2003. However, this Clause was challenged at the Supreme Court in 2008 and as per the determination of the Supreme Court, details of supplementary allocations, stating reasons for such transfers, have to be reported to Parliament within two months of such transfers. Transfers are made according to the specific guidelines stipulated in the Printed Budget Estimates which are submitted to Parliament along with the Budget Speech for determination and approval. Treasury provided supplementary allocations under specified guidelines spelt out in the Printed Estimates for 2012 and within the limits of total expenditure already approved for the same purpose by Parliament. Details of additional allocations provided in 2012 are given Table 4.2.

##### **4.4.2.1. The process in Providing Additional Allocation**

1. A request from the Chief Accounting Officer of the relevant spending Head / Secretary to a ministry is submitted to the Department of National Budget.
2. Department of National Budget makes a detailed analysis and checks whether the request is within the guidelines in the Printed Estimates and also consults other relevant agencies (Department of National Planning, Department of External Resources etc.) in the process of analysis.
3. If the request can proceed, it is submitted to a Committee within the Treasury comprising Deputy Secretaries and four Director Generals representing departments of National Budget, Treasury Operations, Fiscal Policy and State Accounts to review the requirement of additional allocations taking into account the relevant cash inflows and outflows.
4. Once the Committee approves, the Officer Authorized for allocating funds from the “Budgetary Services and Contingent Liabilities Project” issues supplementary provisions/allocations as per the approval of the Committee.
5. Copies of the Supplementary Allocation are sent to the specified agencies including to the Auditor General

##### **4.4.2.2. Reporting to Parliament on Additional Allocations**

1. A Report is submitted to Parliament within two months (as per Clause 6 (1)) giving

details of the amount so allocated and specific purpose etc.

2. In addition, details are reflected in the following reports
  - (i) Mid-year Report under the Fiscal Responsibility Act No. 3 of 2003.
  - (ii) Report submitted along with the Budget under the Fiscal Responsibility Act No. 3 of 2003.
  - (iii) Annual Report of Ministry of Finance and Planning under the Fiscal Responsibility Act No. 3 of 2003.
3. Finally, actual utilization is reported under the relevant object code in Printed Estimates for the following year.

#### 4.5. Authority to Withdraw Provisions

Clause 7 of the Act authorized the Minister of Finance, with the approval of the Government, to withdraw monies already allocated for a particular purpose to meet any authorized expenditure if there is unexpected fall in Government Revenue.

The contents of Clause 7 of the Act were first introduced in 1975 and remained identical to date. The Government has not resorted to use this provision despite fairly heavy expenditure involved in national security under difficult conditions. The general practice in incurring unauthorized expenditure is the submission of a supplementary estimate to the Parliament.

The structure of the Appropriation Act was drafted by the Legal Draftsman and thereafter certified by the Attorney General. The constitutionality was vetted by the Supreme Court and improvements

recommended were incorporated in relevant clauses.

#### 4.6. Appropriation Act for 2012

As per the Appropriation Bill presented in Parliament on 18th October 2011, the total estimated expenditure of the Government, including advance account activities, for 2012 was Rs. 2,224 billion and the maximum borrowing limit was Rs. 1,150 billion. The total expenditure of the Government was detailed as follows.

- Expenditure related to general services of the Government Rs. 1,284 billion
- Expenditure of the Government authorized by special laws and to be charged to the Consolidated Fund Rs. 936 billion
- Expenditure related to Advance Account Activities Rs. 4 billion

At the Budget Speech, H.E the President in his capacity as the Minister of Finance and Planning, proposed mandatory savings of two percent from recurrent expenditure and nine percent from capital expenditure so that the total Government expenditure approved by Parliament was reduced to Rs. 2,194 billion. Having amended the provision for revenue and expenditure proposals, the borrowing requirement of the Government for 2012 was reduced from Rs. 1,150 billion to Rs. 1,139 billion. The Appropriation Bill for 2012 was passed by Parliament on 21st December 2011 and certified by the Speaker thereby making it an Act of Parliament. (Appropriation Act, No 52 Of 2011).

#### 4.6.1. Performance in 2012

Head-wise expenditures which were disaggregated in terms of Projects and by Object Codes with sources of financing presented to Parliament in the Printed Estimates along with the Budget Speech. Once the Appropriation Bill became an Act, the Minister of Finance issued warrants authorizing to incur expenditure as indicated in Printed Estimates.

As per the budget estimates approved by Parliament for year 2012, provisions were allocated among 201 expenditure heads/ spending units which consisted of 22 Special Spending Units, 54 Ministries and 125 Departments.

During the year, additional provision requirements of Rs. 12.8 billion for Capital Expenditure have been satisfied by transferring the savings of recurrent expenditure as per the Clause 5 of the Appropriation Act and the procedures laid down in the Financial Regulations. Supplementary budgetary provisions amounting Rs. 73.4 billion were

provided for debt service payments.

As debt service payments were in the category of expenditure already approved by special laws, the supplementary provisions were provided by issuing a Warrant by the Minister of Finance and do not require approval of Parliament. Accordingly, the total budgetary provisions allocated for the year 2012 was Rs. 2,265 billion, excluding the provision for Advance Account Activities.

The total expenditure recorded for 2012 was Rs. 2,192 billion. Accordingly, the unutilized budgetary provision for 2012 was as Rs. 73 billion or 3 percent of total provision. Of this, Rs. 13 billion was recurrent expenditure provisions and the balance 60 billion was capital expenditure provisions. Although such a saving was recorded targeted activities for the year were able to be achieved by mobilizing resources of all line ministries, departments and institutions focusing towards Government development strategy. A detail review of utilization of budgetary provisions is given in the Table 4.1 and the Government borrowings in Tables 4.3 to 4.7.

*During the annual budget process, the Minister of Finance announces the government's economic and fiscal policies, its performance, specific fiscal measures and new policy directions particularly, within the expectations in the medium term.*

Table 4.1 &gt; Progress of Utilization of Provisions - 2012

TABLE 4.1 - Progress on Utilization of Provisions - 2016															Rs. Mn
Name of the Ministry	Recurrent							Capital							
	Original Budget	Budget Savings at 2%	Additional Allocation provided from Treasury Miscellaneous	FR Transfer to Capital	Total Provision (sum of (1)+(2)+(3)+(4))	Utilized Provision	Unutilized Provisions (5)-(6)	Original Budget	Budget Savings at 9%	Additional Allocation provided from Treasury Miscellaneous	FR Transfer from Recurrent	Total Provision (Revised) (sum of (1)+(2)+(3)+(4))	Utilized Provision	Unutilized Provisions (5)-(6)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Special Spending Units	7,464	64	1,694	-	9,094	8,869	225	4,300	374	529	-	4,455	2,722	1,733	
Buddha Sasana and Religious Affairs	843	15	148	-	976	814	162	1,030	74	21	-	977	709	268	
Finance and Planning	11,132	90	1,907	(13)	12,936	11,078	1,858	9,624	727	5,505	13	14,415	13,269	1,146	
Defence	215,427	187	6,596	-	221,836	220,743	1,093	15,816	768	6,447	-	21,495	17,830	3,665	
Economic Development	18,547	30	2,798	(4.0)	21,311	21,160	151	86,024	7,717	140	4	78,451	72,663	5,788	
Disaster Management	635	8	27	(56)	598	555	43	784	71	64	56	834	558	276	
Postal Services	7,853	17	497	-	8,333	8,333	-	346	35	10	-	321	235	86	
Justice	3,418	12	464	(7)	3,863	3,836	27	819	74	234	7	986	920	66	
Health	55,000	-	4,258	-	59,258	57,859	1,399	19,500	1,755	121	-	17,866	13,647	4,219	
External Affairs	5,700	-	1,630	-	7,330	7,305	25	940	13	264	-	1,191	995	196	
Transport	13,540	271	2,734	(2)	16,001	15,844	157	40,000	4	385	2	40,383	32,010	8,373	
Petroleum Industries	101	2	-	-	99	94	5	7	1	3	-	10	6	4	
Co-operatives and Internal Trade	707	10	430	-	1,127	1,067	60	600	50	4	-	554	211	343	
Ports & Highways	200	-	-	(3)	198	196	2	144,367	-	3,396	3	147,766	146,682	1,084	
Agriculture	2,381	13	54	(3)	2,419	2,391	28	3,708	327	-	3	3,384	2,829	555	
Power and Energy	1,083	22	-	(9)	1,053	459	594	32,500	852	707	9	32,365	32,207	158	
Child Development and Women's Affairs	734	6	42	(1)	769	717	52	215	19	48	1	245	201	44	
Public Administration and Home Affairs	135,954	80	4,944	-	140,818	140,538	280	2,000	180	876	-	2,696	2,221	475	
Mass Media and Information	1,658	33	277	(1)	1,901	1,848	53	447	40	14	1	422	235	187	
Construction, Engineering Services, Housing and Common Amenities	712	8	37	-	741	708	33	2,075	201	194	-	2,068	1,734	334	
Social Services	914	5	594	(1)	1,501	1,472	29	204	16	1	1	191	103	88	
Education	27,250	6	1,790	-	29,034	28,977	57	6,016	3	551	-	6,564	4,641	1,923	

Name of the Ministry	Recurrent							Capital						
	Original Budget	Budget Savings at 2%	Additional Allocation provided from Treasury Miscellaneous Vote	FR Transfer to Capital	Total Provision (sum of (1)+(2)+(3)+(4))	Utilized Provision	Unutilized Provisions (5)-(6)	Original Budget	Budget Savings at 9%	Additional Allocation provided from Treasury Miscellaneous Vote	FR Transfer from Recurrent	Total Provision (Revised) (sum of (1)+(2)+(3)+(4))	Utilized Provision	Unutilized Provisions (5)-(6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Labour & Labour Relations	1,120	22	12	-	1,110	1,089	21	400	23	20	-	398	329	69
Traditional Industries and Small Enterprises Development	522	10	4	-	517	507	10	300	15	123	-	409	327	82
Local Government and Provincial Councils	95,059	1,899	1,149	-	94,309	92,059	2,250	34,714	2,950	4,330	-	36,094	25,566	10,528
Technology and Research	1,149	23	-	-	1,126	1,058	68	2,027	182	13	-	1,858	1,125	733
National Languages and Social Integration	253	5	35	(1)	282	234	48	183	12	3	1	175	136	39
Plantation Industries	1,882	15	9	(2)	1,873	1,487	386	1,194	56	11	2	1,152	776	376
Sports	552	11	0	-	541	483	58	1,542	139	7	-	1,410	880	530
Indigenous Medicine	787	16	29	-	800	764	36	477	43	99	-	533	300	233
Fisheries and Aquatic Resources Development	821	14	227	(2)	1,032	1,019	13	2,248	198	580	2	2,632	1,967	665
Livestock and Rural Community Development	449	9	11	(10)	441	439	2	2,239	182	204	10	2,271	2,105	166
National Heritage	754	6	32	-	780	724	56	822	57	3	-	768	481	287
Parliamentary Affairs	322	6	25	-	341	341	-	37	73	-	-	-37	21	-58
Re-settlement	273	5	-	(47)	221	200	21	209	19	154	47	391	346	45
Industry and Commerce	751	14	-	-	737	656	81	1,249	112	16	-	1,152	494	658
Irrigation and Water Resources Management	3,335	5	75	-	3,405	3,299	106	32,500	2,651	1,000	-	30,849	28,155	2,694
Lands and Land Development	2,393	6	38	(2)	2,423	2,416	7	2,815	253	197	2	2,761	2,235	526
Youth Affairs & Skill Development	3,917	92	60	-	3,885	3,778	107	4,700	423	17	-	4,294	3,269	1,025
Environment	1,400	14	21	(2)	1,405	1,329	76	2,017	182	34	2	1,871	955	916
Water Supply and Drainage	156	2	36	-	190	169	21	33,000	2,988	2,480	-	32,492	31,110	1,382
Higher Education	15,716	314	6	-	15,408	15,333	75	8,754	658	236	-	8,332	5,553	2,779

Name of the Ministry	Recurrent							Capital						
	Original Budget	Budget Savings at 2%	Additional Allocation provided from Treasury Miscellaneous Vote	FR Transfer to Capital	Total Provision (sum of (1)+(2)+(3)+(4))	Utilized Provision	Unutilized Provisions (5)-(6)	Original Budget	Budget Savings at 9%	Additional Allocation provided from Treasury Miscellaneous Vote	FR Transfer from Recurrent	Total Provision (Revised) (sum of (1)+(2)+(3)+(4))	Utilized Provision	Unutilized Provisions (5)-(6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Public Management Reforms	86	2	-	(3)	81	64	17	100	2	-	3	101	36	65
Rehabilitation and Prison Reforms	3,769	75	103	(80)	3,717	3,627	90	553	42	50	80	641	421	220
State Resources and Enterprise Development	107	2	4	(2)	106	97	9	105	2	4	2	108	32	76
Civil Aviation	87	2	-	(1)	84	78	6	12,007	1	2,822	1	14,829	14,801	28
Culture and the Arts	810	12	12	-	810	761	49	703	63	34	-	673	438	235
Coconut Development & Janatha Estate Development	564	11	4	-	556	536	20	1,200	90	18	-	1,128	555	573
Agrarian Services & Wildlife	37,541	4	2,779	-	40,316	40,316	-	1,437	129	275	-	1,583	1,074	509
Minor Export Crop Promotion	443	4	-	-	439	391	48	281	25	32	-	288	264	24
Productivity Promotion	259	5	562	-	816	808	8	105	9	7	-	103	76	27
Foreign Employment Promotion & Welfare	82	2	2	-	83	70	13	310	28	-	-	282	28	254
Public Relation and Public Affairs	49	-	-	-	49	49	-	110	10	1	-	101	86	15
Private Transport Services	479	10	2	-	472	235	237	229	-	19	-	248	66	182
Telecommunication & Information Technology	59	1	7		66	66	-	9	-	450	-	459	455	4
Treasury Miscellaneous vote	51,800	-	-	(12,591)	505	-	505	21,100	-	-	12,591	941	-	941
Total Without Debt Service Payment	739,000	3,494	36,162	(12,843)	720,122	709,345	10,777	541,000	24,917	32,750	12,843	528,925	471,090	57,835
Debt Service Payment	370,000	-	40,822	-	410,822	408,987	1,835	570,000	-	35,129	-	605,129	602,814	2,315
Grand Total	1,109,000	-	76,984	(12,843)	1,130,944	1,118,332	12,612	1,111,000	-	67,879	12,843	1,134,054	1,073,904	60,150

Source: Department of National Budget/ Department of State Accounts



Table 4.2 > **Allocations provided by Treasury under the Budgetary Support Services and Contingent Liability Project from January to December, 2012**

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
1	His Excellency the President	Initial expenses of Petroleum Resources Development Secretariat, Account the grant given for setting up the National Nutritional Secretariat, Coordinating programmes to maintain international image of Sri Lanka, e-Sri Lanka Development Project, Purchase of Vehicles, Personal Emoluments, Travelling, Supplies, Maintenance and Services.	1,158,840,000	267,500,000
2	Office of the Prime Minister	Purchase of a Vehicle and Personal Emoluments	2,000,000	9,500,000
3	Secretariat for Special Functions (Senior Ministers)	Purchase of Vehicles, Personal Emoluments, Travelling Expenses, Fuel, Transport, Vehicle Maintenance and other Services.	23,631,900	97,000,000
4	Judges of the Superior Courts	Personal Emoluments, Vehicle Maintenance and Fuel.	8,000,000	-
5	Office of the Cabinet of Ministers	Purchase of Vehicles	-	830,000
6	Public Service Commission	Purchase of a Vehicle, Transport and Other Allowance	4,500,000	11,000,000
7	Judicial Service Commission	Cost of Efficiency Bar Examinations, Salaries for newly recruited officers to the Judicial Services, Personal Emoluments, Fuel and Maintenance of Buildings & Machinery.	5,830,000	-
8	National Police Commission	Purchase of Vehicles, Personal Emoluments, Supplies, Maintenance and Services	2,283,000	4,052,000
10	Commission to Investigate Allegations of Bribery or Corruption	Personal Emoluments, Purchase of Vehicles, Building Maintenance, Fuel, Travelling Expenses and Services.	13,993,000	8,000,000
11	Office of the Finance Commission	Personal Emoluments	2,306,935	-
12	National Education Commission	Printing of Research Report - 2011	281,000	-
13	Human Rights Commission of Sri Lanka	Personal Emoluments, Electricity & Water, Travelling Expenses, Rents and Local Taxes.	15,800,000	-
14	Department of Attorney General	Personal Emoluments, Travelling Expenses, Services, Electricity & Water, Supplies, Purchase of Furniture & Office Equipment, and Building Renovation.	72,700,000	2,200,000
15	Department of Legal Draftsman	Services	477,000	-
16	Parliament	Purchase of Vehicles, Fuel, Diets & Uniforms, Electricity & Water, and Maintenance.	45,000,000	52,040,000

Table 4.2 Contd....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
17	Office of the Leader of the House of Parliament	Supplies and Travelling Expenses.	1,350,000	
18	Office of the Chief Govt. Whip of Parliament	Purchase of Vehicles, Personal Emoluments. Foreign Travelling, Fuel, Diets & Uniforms, Supplies, other Services, Vehicle Maintenance, Purchase of Office Furniture and Knowledge Enhancement of the Staff.	5,054,500	6,271,223
19	Office of the Leader of the Opposition of Parliament	Fuel and Vehicle Maintenance.	2,800,000	-
20	Department of Elections	Purchase of Vehicles, and Expenditure for Provincial Council Elections in Sabaragamuwa, North Central and Eastern Provinces and Personal Emoluments.	250,618,000	600,000
21	Auditor General	Purchase of Vehicles, Other Allowance, Fuel, Services, and Property Loan Interest to Public Servants.	77,300,000	1,397,309
22	Office of the Parliamentary Commissioner for Administration	Printing of Annual Report -2010, Fuel, Personal Emoluments, Maintenance, Foreign Travelling, and other Services.	1,046,500	-
101	Ministry of Buddha Sasana and Religious Affairs	Purchase of a Vehicle, Renovation of Dutugamunu Rest at Lumbini in Nepal, and State patronage for Cremation of the Chief Incumbent of Sri Lanka Ramanna Nikaya and Personal Emoluments.	5,670,000	16,500,000
201	Department of Buddhist Affairs	Printing of Dhamma School Text Books, Uniforms for Dhamma School Teachers, Cost of All Island Dhamma School Competition, Expenditure for Dhamma Sarasaviya, Property Loan Interest to Public Servants, and Cost of Living as per the Budget Proposal 2012.	137,800,000	2,000,000
202	Department of Muslim Religious and Cultural Affairs	Personal Emoluments.	1,700,000	-
203	Department of Christian Religious and Cultural Affairs	Personal Emoluments, Fuel, Other Recurrent and Capital expenditure for development assistance	1,375,000	2,200,000
205	Department of Public Trustee	Personal Emoluments.	1,498,457	-
102	Ministry of Finance and Planning	Account the grant given to Institute of Policy Studies for conducting a study on developing a Comprehensive Social Protection Scheme and support for analysis of children and women, Establishment of Academy of Financial Studies, Fiscal Management Reforms Project, and Farmers' ptension.	12,500,000	316,213,270
237	Department of National Planning	Implement Emergency Natural Disaster Rehabilitation Project, Project management of Eastern Province Rural Road Project	-	146,694,000

Table 4.2 Contd....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
239	Department of External Resources	Construction of a Road in Maldives under Economic Cooperation, Subscription and Contribution Fees, Foreign Travelling, and Services.	9,066,927	106,000,000
240	Department of National Budget	Lease Rent of Purchased Vehicles under the Budget Department Circular No. 150 for the Public Sector Institutions.	-	500,000,000
241	Department of Public Enterprises	Arbitration Fees	6,000,000	-
246	Department of Inland Revenue	Renovation of Office Building, Foreign Travelling, Personal Emoluments, Services, Supplies, Maintenance, and Implementation of activities of Tax Week, November 2012.	64,000,000	11,000,000
247	Sri Lanka Customs	Construction of Office Building and Personal Emoluments.	60,477,000	600,000,000
248	Department of Excise	Building Rent and Personal Emoluments.	41,016,000	-
249	Department of Treasury Operations	Increase the limit of Paddy Purchasing Revolving Fund, Global Loan Project implemented through the DFCC Bank, Increasing loan disbursement capacity of the Poverty Alleviation Micro Finance Project, Loan Administrative Expenses and Small and Medium Scale Enterprises Sector Development Project.	4,200,000,000	3,501,000,000
250	Department of State Accounts	Foreign Travelling	500,000	-
251	Department of Valuation	Expenditure of the Compensation Tribunal, appointed in 2012 and Enrolment fee of the Master Programme of the University, UK for developing professionals of the Department, Personal Emoluments.	17,260,000	1,400,000
252	Department of Census and Statistics	Provisions for completion of Census of Population and Housing of 2011, Account the grant given for National and Local Information Collection and Personal Emoluments.	33,500,000	447,033,000
296	Department of Import and Export Control	Foreign Training, Furniture and Office Equipment	1,200,000	5,590,000
323	Department of Legal Affairs	Stationery and Office Requisites, Travelling Expenses, Services, and Vehicles Maintenance.	942,000	-
324	Department of Management Audit	Foreign Training, Renovation of office Premises.	2,770,000	1,600,000
103	Ministry of Defence and Urban Development	Relocation of Defence Headquarters Complex and Flood Mitigation Work, Purchase of Authentic Reference Standards for the National Dangerous Drugs Control Board, Rehabilitation and Improvement of Buildings and Structures, Purchase of Vehicles, Construction of the International Convention Centre in Hambantota, Construction of Head Quarters of Special Task Force at Gonahena Camp, Providing bus passes, Compensation, Establishment of Communication network for the Special Task Force, Other Capital, Personal Emoluments and other Recurrent Expenditure.	141,465,000	879,083,000

Table 4.2 Contd....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
222	Sri Lanka Army	Settle outstanding bills of the Uthuru Wasanthaya Project, Purchase of Vehicles, Plant, Machinery & Equipment, Development of permanent quarters, Implementation of Budget Proposal 2012 and Settlement of dues of other capital and recurrent expenditure.	2,527,400,000	2,420,416,000
223	Sri Lanka Navy	Settle outstanding bills of 2010 and 2011, Vehicle Maintenance, Transport, Acquisition of buildings, Machinery and Equipment, Development of Permanent Quarters, Implementation of budget proposal 2012, Personal Emoluments, Human Resource Development, Rehabilitation & Improvement of Capital Assets, and other capital expenditure.	2,415,512,753	1,895,000,000
224	Sri Lanka Air Force	Construction of Permanent Quarters, Implementation of Budget Proposal 2012, Vehicle Maintenance, Supplies, Rehabilitation and Improvement of Plant, Machinery and Equipment, Acquisition of Capital Assets, Prefabricated building project and Indian Line of Credit.	438,000,000	1,296,203,842
225	Department of Police	Personal Emoluments, Diets & uniforms, Fuel, other Supplies and Rehabilitation and Improvement of Buildings, and Prefabricated building project.	724,000,000	70,000,000
226	Department of Immigration and Emigration	Introducing an Electronic Payment system for Online Visa Application Processing Charges and Purchase of Vehicles.	-	20,600,000
227	Department of Registration of Persons	Purchase of Protective Covers and Laminating Roll for preparation of National Identity Cards, Fuel, and Vehicle Maintenance.	1,100,000	15,000,000
291	Department of Coast Conservation	Personal Emoluments and Security Service.	10,800,000	-
320	Department of Civil Security	Personal Emoluments and Diets & Uniforms.	142,225,000	-
105	Ministry of Economic Development	Account the Grant given for the Conflict Affected Region Emergency Project, Salary Increase as per the Management Service Circular No. 46, Implementation of Budget Proposal on Upgrading 5,000 Primary and 1,000 Secondary Schools, Implementation of Cash for Work Programme for rehabilitating small scale infrastructure facilities in draught affected districts, and Implementation of Budget Proposal on Ranaviru Divineguma Special Scheme.	1,794,500,000	140,000,000
218	Department of Commissioner General of Samurdhi	Implementation of Budget Proposal on Increasing Samurdhi Allowance.	1,000,000,000	-
322	Department of National Botanical Gardens	Personal Emoluments	3,665,000	-

Table 4.2 Contd....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
106	Ministry of Disaster Management	Account the Grant given for Disaster Reliefs, Purchase of Vehicles, Recover the administrative expenses of issuing the building approval certificate for the year - 2011 by National Building Research Organization, Project of Mitigation and Stabilization of Slopes in High Risk Land Slides and Rock Fall Sites in Nuwara-Eliya, Kandy and Badulla Districts, Payment of Annual Share Contribution to the SAARC Disaster Management Centre.	22,400,000	69,580,000
304	Department of Meteorology	Fixing of a Doppler Weather Radar System and Personal Emoluments.	4,600,000	4,249,395
108	Ministry of Postal Services	Fuel and Other Allowances	1,750,000	-
308	Department of Posts	Personal Emoluments, Shifting of the Stamps Safe from the Department of Inland Revenue to the Department of Posts, Foreign Travelling, Postal and Communication expenses.	495,039,000	10,000,000
110	Ministry of Justice	Purchase of Vehicles, Implementation of Budget Proposal on Legal Aid to Low Income Families and Implementation of Budget Proposal on Construction of International Arbitration Centre.	30,000,000	7,000,000
228	Courts Administration	Installation of a lift in the Superior Courts Complex, Renovation of Judges' Official Quarters, Personal Emoluments, Travelling Expenses, Electricity & Water and Rents & Local Taxes.	427,600,000	77,469,360
233	Department of Government Analyst	Completion of construction of Office Building, Personal Emoluments, Fuel and other Services.	6,086,400	150,000,000
111	Ministry of Health	Account the Grant given for improvement of Maternal and Child Health Units in Hospitals, Infrastructure & Human Resource Development of the National Drugs Quality Assurance Laboratory, Equipment to improve the capacity of Thripasha Production, Rehabilitation of Existing Buildings in Provincial Hospitals & Basic equipment, under the Island Wide Hospital Development Programme, Purchase of Vehicles, Personal Emoluments, Travelling Expenses, Fuel, Postal and Communication, Electricity & Water, Subscription and Contribution Fees, Plant & Machinery, Stationery & Office Requisites and Property Loan Interest to Public Servants.	4,258,300,000	121,058,766
112	Ministry of External Affairs	Purchase of Vehicles for Sri Lankan Embassies in New York, Netherlands, Singapore, Doha Qatar, New Delhi, Jordan, Vienna, Beijing, Frankfurt, Guangzhou, Canberra, Riyadh, Pretoria, Dubai, Sydney, Bangkok and Ankara and the Sri Lankan High Commission in Chennai, Construction of Office Buildings of Sri Lankan Embassy in Canberra and Purchase of a Generator, Expenditure on 19th and 20th Sessions of Human Right Councils in Geneva, Foreign Travelling, Services, Salaries and wages, Other Allowances, Fuel, Vehicle maintenance, Recurrent and Capital Expenditure for Establishment of Sri Lanka mission in Ankara. Electricity & Water, Expenses related to UNGA Meeting and Acquisition of Capital Assets.	1,630,076,150	264,443,900

Table 4.2 Contd....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
114	Ministry of Transport	Increased allowances as per the Budget Proposal 2012 & Salary Revision for the Employees of Sri Lanka Transport Board, Grants for operating unremunerated routes and subsidy for school and higher education season tickets, Supplies, Maintenance and Services.	2,398,000,000	-
307	Department of Motor Traffic	Production of Number Plates of Newly Registered Vehicles, Personal Emoluments and other Capital Expenditure	336,000,000	385,000,000
115	Ministry of Petroleum Industries	Purchase of Vehicles	-	3,000,000
116	Ministry of Co-operatives and Internal Trade	Purchase of Vehicles, Subsidy for purchasing Plastic Crates to minimize the Post Harvest Losses of Vegetables and Fruits, Settlement of Losses occurred in the Importation of Rice in 2009 by State Trading Corporation Ltd, Deyata Kirula Programme 2012 and Personal Emoluments.	427,503,676	3,814,000
298	Department of Measurement Units Standards & Services	Personal Emoluments.	2,500,000	-
302	Co-operative Employees Commission	Purchase of Equipment.	-	350,000
117	Ministry of Ports & Highways	Purchase of Vehicles, Improvement of National Road Network in Northern Province, Road Sector Assistant Project and Road Maintenance Trust Fund, National Highway Sector Project, Regional Bridge Project and Purchase of Fifty Tractors for Jaya Container Terminal, Tsunsmi Affected Areas Rebuilding Project and Buildings and Structures.	-	3,395,800,000
118	Ministry of Agriculture	Foreign Travelling and Promotion of Rice Exports by establishing 4 Rice Export Zones.	3,703,584	-
285	Department of Agriculture	Personal Emoluments.	50,000,000	-
119	Ministry of Power and Energy	Advance for payment of contract value of the Nagenahira Navodaya Project and Removing of disposable radioactive material of the Atomic Energy Authority.	-	707,000,000
120	Ministry of Child Development and Women's Affairs	Purchase of Vehicles, Personal Emoluments, Property Loan Interest of Public Servants, Implementation of Budget Proposals on Early Childhood Care and Development, Account the Grant Given to Conduct Workshops, Allowances Under the UNFPA Work Plan, Payment of VAT for Motor Bikes Granted by UNFPA, Travelling Expenses, and Diriya Kantha Programme.	33,351,214	47,785,668
217	Department of Probation and Child Care Services	Personal Emoluments.	8,312,398	-

Table 4.2 Contd....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
121	Ministry of Public Administration and Home Affairs	Purchase of Vehicles, Induction Training Programme for the Officers of the Sri Lanka Administrative Service and their Personal Emoluments, Purchase of Leather Bags for all Grama-Niladaries, Foreign Travelling to District and Divisional Secretariats, Increased Salaries and Allowances of Employees of Translators Service, Property Loan Interest to Public Servants, Services, Celebration of Independence Day and Provision for Knowledge Enhancement Programme for Non-staff Public Servants.	96,643,000	41,000,000
253	Department of Pensions	Completion of construction works of Circuit Bungalow at Ramboda, Personal Emoluments, Services and Welfare Programmes.	1,578,813,800	10,000,000
254	Department of Registrar General	Personal Emoluments.	34,487,827	-
255	District Secretariat, Colombo	Allowances for Graduate Trainees and Supplies	104,492,714	-
256	District Secretariat, Gampaha	Allowances for Graduate Trainees	192,209,134	-
257	District Secretariat, Kalutara	Allowances for Graduate Trainees	123,273,671	-
258	District Secretariat, Kandy	Allowances for Graduate Trainees and Construction of a new Auditorium for the District Secretariat.	267,057,164	40,000,000
259	District Secretariat, Matale	Allowances for Graduate Trainees	76,457,218	-
260	District Secretariat, Nuwara-Eliya.	Allowances for Graduate Trainees	75,219,000	-
261	District Secretariat, Galle	Allowances for Graduate Trainees	250,650,763	-
262	District Secretariat, Matara	Allowances for Graduate Trainees	245,643,208	-
263	District Secretariat , Hambantota	Allowances for Graduate Trainees	192,769,449	-
264	District Secretariat/ Kachcheri - Jaffna	Property Loan Interest of Public Servants and Allowances for Graduate Trainees	121,644,383	-
265	District Secretariat/ Kachcheri - Mannar	Allowances for Graduate Trainees and Fuel	15,753,686	-
266	District Secretariat/ Kachcheri-Vavuniya	Allowances for Graduate Trainees	11,839,888	-
267	District Secretariat/ Kachcheri-Mullaitivu	Allowances for Graduate Trainees	3,727,000	-
268	District Secretariat/ Kachcheri-killinochchi	Allowances for Graduate Trainees, and Maintenance of Vehicles.	6,331,353	-



Table 4.2 Contd.....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
269	District Secretariat/ Kachcheri- Batticaloa	Allowances for Graduate Trainees, and Deyata Kirula Development Programme.	114,355,066	25,000,000
270	District Secretariat , Ampara	Allowances for Graduate Trainees, Preparation for Deyata Kirula Exhibition Site, 2013 and Repair and Renovate the Government Quarters of District Secretariat.	119,768,000	175,000,000
271	District Secretariat/ Kachcheri - Trincomalee	Allowances for Graduate Trainees and 2013 development Programme	38,936,685	25,000,000
272	District Secretariat, Kurunegala	Construction of Office Building of the Divisional Secretariat at Kuliypitiya, Nikaweratiya, Maspotha and Kurunegala, and Allowances for Graduate Trainees.	426,475,689	12,279,040
273	District Secretariat, Puttalam	Allowances for Graduate Trainees	65,234,726	-
274	District Secretariat, Anuradhapura	Expenditure of Dayata Kirula Exhibition 2012 and Allowances for Graduate Trainees.	128,847,834	476,600,000
275	District Secretariat, Polonnaruwa	Allowances for Graduate Trainees and Construction of Quarters of District Secretary, Polonnaruwa and 2013 Deyata Kirula development Programme.	44,950,901	36,200,000
276	District Secretariat, Badulla	Allowances for Graduate Trainees	79,450,217	-
277	District Secretariat, Monaragala	Allowances for Graduate Trainees, and Buildings and Structures.	98,895,492	35,000,000
278	District Secretariat, Rathnapura	Allowances for Graduate Trainees and Property Loan Interest of Public Servants.	199,303,584	-
279	District Secretariat, Kegalle	Allowances for Graduate Trainees and Property Loan Interest of Public Servants.	230,997,000	-
122	Ministry of Mass Media and Information	Recurrent and Capital Expenditure for Sri Lanka Television Training Institute and Operational cost of Sri Lanka Broadcasting Corporation and Purchase of Vehicles.	34,400,000	13,500,000
210	Department of Information	Foreign Travelling	500,000	-
211	Department of Government Printer	Increased price of imported Printing Papers	242,000,000	-
123	Ministry of Construction, Engineering Services, Housing and Common Amenities	Purchase a Vehicle, Vocational Training Programmes for the Youth in Tsunami Affected Areas in Eastern Province, Implement the Budget Proposal on Housing Development, Settle the Bill of Sinhapura Housing Development Programme, and Renovate Sewerage system of multi storied housing project at Nupewela and Payment of membership fee for UN HABITAT.	325,000	173,400,253
309	Department of Buildings	Property Loan Interest to Public Servants, Allowances for Engineers as per the budget proposal, other allowances and Diets & Uniforms.	31,746,000	-

Table 4.2 Contd.....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
310	Government Factory	Purchase of vehicles, Equipment and Personal Emoluments.	4,846,000	17,000,000
311	Department of National Physical Planning	Settlement of payment for preparation a Local Level Development Plan and Property Loan Interest of Public Servants.	400,000	3,100,000
124	Ministry of Social Services	Purchase of Vehicles, Implementation of Budget Proposal on Rs. 1,000 Monthly Allowance for Persons who are over Seventy Years in Low Income Groups, Personal Emoluments, and Property Loan Interest to Public Servants, and Gratuity, Postal and Communication, Electricity & Water for National Institute of Social Development.	583,233,000	1,070,000
216	Department of Social Services	Personal Emoluments, Services and Property Loan Interest to Public Servants	10,749,350	-
126	Ministry of Education	Education for Knowledge Society Project, Defence Services School Project, Personal Emoluments, Property Loan Interest to Public Servants, School Uniforms, Mobilization advance for Construction of Mahindodaya Technological Labs, and School Library Networking Programme.	1,770,060,000	551,000,000
212	Department of Examinations	Domestic Travelling, Transport, Postal and Communication for conducting grade 5 Scholarship Exam and A/L Exam, 2012.	20,000,000	-
127	Ministry of Labour & Labour Relations	Foreign Travelling, Building rent for the Unit of Workmen's Compensation and Purchase of Vehicles.	7,880,000	10,000,000
221	Department of Labour	Construction of District Labour Office in Jaffna and Personal Emoluments.	3,800,000	10,000,000
128	Ministry of Traditional Industries and Small Enterprises Development	Purchase of a Vehicle, Re-Establishment of the Palmyra Research Institute, Implementation of Budget Proposal on Development of Traditional Handicraft Villages, Fuel, Vehicle Maintenance, and Building Rent, and Re-activation of Achchuveli Industrial Estate in Jaffna.	4,043,039	122,900,000
130	Ministry of Local Government and Provincial Councils	Emergency Natural Reconstruction Project, Establishment of Operating and Monitoring Support Unit of Human Capital Foundation Project for a Knowledge Economy, Purchase of Vehicles and Vehicle Maintenance.	3,000,000	909,500,000
312	Western Provincial Council	Increased Salary allowance as per the budget proposal 2012, and Construction of School Buildings in Western Province.	229,000,000	400,000,000
313	Central Provincial Council	Increased Salary allowance as per the budget proposal 2012, and Basic Social Services Targeting Emerging Region Project.	132,000,000	3,500,000
314	Southern Provincial Council	Increased Salary allowance as per the budget proposal 2012	115,000,000	-
315	Northern Provincial Council	Increased Salary allowance as per the budget proposal 2012	220,000,000	-
316	North Western Provincial Council	Increased Salary allowance as per the budget proposal 2012, and Basic Social Services Targeting Emerging Region Project.	119,000,000	11,000,000

Table 4.2 Contd....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
317	North Central Provincial Council	Deyata Kirula Development Exhibition - 2012, Criteria Based Grant for Rehabilitation of Thanthirimale and Singharagama Flood Damaged Provincial Roads and Minor Irrigation Schemes, Rehabilitation of flood Damaged Roads, and Increased Salary Allowance as per the budget proposal 2012.	55,000,000	1,350,000,000
318	Uva Provincial Council	Increased Salary allowance as per the budget proposal 2012	75,000,000	-
319	Sabaragamuwa Provincial Council	Increased Salary allowance as per the budget proposal 2012, and Basic Social Services Targeting Emerging Region Project.	104,000,000	8,000,000
321	Eastern Provincial Council	Rural Road Development, Increased Salary allowance as per the budget proposal 2012, and Basic Social Services Targeting Emerging Region Project.	97,000,000	1,647,500,000
133	Ministry of Technology and Research	Account the Grant given for organizing a Global Forum of Sri Lankan Scientists through National Science Foundation, Purchase of Vehicles, Implement Nano Tech phase-11, Nano Technology in South Asia Building Capabilities and Governing the Technology through International Development Research Centre, and Renovation of quarters of the Minister of Technology & Research.	-	13,301,486
134	Ministry of National Languages and Social Integration	Implementation of Budget Proposal on Bilingual Public Activity and Purchase of Vehicles.	34,500,000	3,000,000
135	Ministry of Plantation Industries	Purchase of Vehicles, Surveying the Lands which are not yet cultivated by the Plantation Companies, Mapping of Tea and Rubber Lands in Galle District, Implementation of Budget Proposal on Expansion of Tea Planting.	1,000,000	10,500,000
293	Department of Rubber Development	Personal Emoluments and Services.	7,500,000	-
136	Ministry of Sports	Purchase of Vehicles	-	6,500,000
138	Ministry of Indigenous Medicine	Purchase of a Land for Ayurvedic Drugs Corporation, Purchase of Vehicles and Personal Emoluments.	4,650,000	76,000,000
220	Department of Ayurveda	Account the Grant given for National Ayurvedic Research Conference, Personal Emoluments and Services, Improvement of dedicated wards for elderly in National and Provincial Ayurvedic Hospitals.	24,000,000	23,123,600
139	Ministry of Fisheries and Aquatic Resources Development	Completion of Post Tsunami Coastal Rehabilitation and Resources Management Programme, Post Tsunami Livelihood Support and Partnership Programme, Foreign Travelling, and Implementation of Budget Proposal on Development of Ornamental Fish Industry.	3,643,227	580,000,000
290	Department of Fisheries and Aquatic Resources	Settle outstanding bills for providing fuel subsidies to fishermen, Personal Emoluments	223,000,000	-

Table 4.2 Contd.....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
140	Ministry of Livestock and Rural Community Development	Reimbursement of losses borne by Milco due to increasing buying price of fresh milk, Purchase of Machineries to Enhance the capacity of milk production.	-	197,200,000
292	Department of Animal Production and Health	Compensation paid under the project of Immediate Assistance for Highly Pathogenic Avian Influenza and Personal Emoluments.	10,500,000	7,000,000
142	Ministry of National Heritage	Purchase of Vehicles, Propagation of National Heritage, Recurrent expenditure of Art Centre, and Personal Emoluments.	7,800,000	3,090,900
207	Department of Archaeology	Supplies, Maintenance, Services and Fuel	20,000,000	-
209	Department of National Archives	Other allowances	4,000,000	-
143	Ministry of Parliamentary Affairs	Other allowances	25,000,000	-
145	Ministry of Re-settlement	Account the Grant given for purchasing of Agricultural Equipment supporting the Resettlement activities, and for providing shelter grant for resettled Refuge Families, & Grant Given for implement the final stage of the Project for Durable Solutions for the Internally Displaced Persons in Northern Province, Purchase of Vehicles, and Construction of five hundred houses under the Welioya Re-settlement Programme.	-	153,892,555
149	Ministry of Industry and Commerce	Purchase of Vehicles.	-	15,500,000
152	Ministry of Irrigation and Water Resources Management	Payment of 10% mobilization advance of the Project for Prefabricated Buildings for Government Agencies, and Rehabilitation of Irrigation Schemes.	-	1,000,000,000
282	Department of Irrigation	Increased Salary Allowance and Rs. 15, 000 allowances for Engineers as per the PA Circular No 28/2011.	75,000,000	-
153	Ministry of Land and Land Development	Rehabilitation and improvement of buildings and structures, Purchase of Vehicles, Property loan Interest to public servants, Land Acquisition for State Purposes, Foreign Travelling, Maintenance, Stationary and office Requisites	2,700,000	197,400,000
287	Department of Land Settlement	Personal Emoluments	3,585,300	-
288	Department of Surveyor General	Transport and Personal Emoluments.	26,915,000	-
327	Department of Land Use Policy Planning	Property loan interest of public servants and Personal Emoluments.	6,041,300	-
156	Ministry of Youth Affairs & Skills Development	Self-Employment Promotion Initiative Programme, Purchase of Vehicles, Rehabilitation of Minister's Office Building and Purchase of Office Equipment.	-	16,500,000

Table 4.2 Contd....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
215	Department of Technical Education and Training	Personal Emoluments	60,000,000	-
160	Ministry of Environment	Account the Grant given for the Technology Needs Assessment Project, Purchase of a Vehicle, Allowances for Graduate Trainees, and Mitigate Environment Issues of the Sunked ship in the sea off, Panadura. Account the Grant given for Strengthening National Capacities for sound management of Priority Industrial Carcinogens and Personal Emoluments.	17,600,000	34,206,000
283	Department of Forests	Building Rent and Local Taxes	3,000,000	-
166	Ministry of Water Supply and Drainage	Purchase of Vehicles, Expenditure for Water and Sanitation Trust Fund, Shortfall of funds for the projects in Ruhunupura, Greater Dhambulla, & Kolonna-Balangoda &, Kelani Right Bank Water Treatment plant, and Allowance for 05 Graduate Trainees and Deyata Kirula Exhibition in Ampara, 2013	15,975,000	2,479,740,000
171	Ministry of Higher Education	Account the grant given to promote Researches, conducted by the University of Wayamba, Purchase of vehicles, account the grant given for conduct a feasibility study for the developing Castor Seed Industry in Sri Lanka, Contribution to Buddhist and Pali University.	6,000,000	21,200,000
214	University Grants Commission	Security Expenditure	215,000,000	-
174	Ministry of Rehabilitation and Prison Reforms	Purchase of a Vehicle, Renovation of Office Quarters of the Minister and Rehabilitation of ex-combatants, Personal Emoluments, and contribution to Rehabilitation of Person Properties and Industries Authority.	2,250,000	49,800,000
326	Department of Community Based Correction	Property Loan interest to Public servants, Rehabilitation and Improvement of Capital Assets	42,000	150,000
232	Department of Prisons	Provisions for Diets and Uniforms, Vehicles Maintenance, Electricity and Water and Property Loan interest to Public servants.	100,000,000	-
175	Ministry of State Resources and Enterprise Development	Purchase of a Vehicle and increased Salary Allowance.	3,850,000	3,643,217
176	Ministry of Civil Aviation	Capitalization of Sri Lankan Airlines and Mihin Lanka Airlines, Purchase of a Vehicle, and Initial Cost of developing an Regional Airport in Batticaloa.	-	2,822,175,000
177	Ministry of Culture & the Arts	Purchase of a Vehicle	-	12,100,000

Table 4.2 Contd....

Head No.	Ministry/Department	Purpose	Recurrent Rs.	Capital Rs.
206	Department of Cultural Affairs	Accomplishment of the Chapter VI of the Mahawansa, Initiate Preliminary Constructions of the John De Silva Performing Art Theatre and the National Arts Gallery, Security Services, Salaries and Wages, Property Loan Interest to Public Servants and Personal Emoluments.	12,891,750	15,000,000
178	Ministry of Coconut Development and Janatha Estate Development	Purchase of Vehicles, Overtime and Holiday payments, and Other Allowances, Electricity & Water.	3,916,000	18,085,900
179	Ministry of Agrarian Services & Wildlife	Fertilizer subsidy, Maintenance of Buildings and Structures, Acquisition of Machinery and Equipment, Fertilizer Subsidies, and Personal Emoluments.	2,658,339,200	480,000
281	Department of Agrarian Development	Rehabilitation of Minor Tanks and Agro Wells in the Drought Affected Districts of Anuradhapura, Polonnaruwa, Kurunegala and Puttalam, Personal Emoluments.	94,030,000	250,000,000
284	Department of Wildlife Conservation	Deyata Kirula Development Exhibition - 2012 and Personal Emoluments.	26,900,000	25,000,000
289	Department of Export Agriculture	Assisting the Farmers for Export Crop Development	-	31,700,000
181	Ministry of Productivity Promotion	Purchase of a Vehicle and Recurrent Expenditure of Pelawatta and Sewanagala Sugar Industries.	560,000,000	7,000,000
328	Department of Man Power & Employment	Personal Emoluments.	1,620,000	-
182	Ministry of Foreign Employment Promotion & Welfare	Other Allowances	2,000,000	-
183	Ministry of Public Relations and Public Affairs	Renovation of office building	1,028,000	-
184	Ministry of Private Transport Services	Purchase of a Vehicle, Renovation of buildings, Travelling, and Property Loan Interest to Public Servants and Services.	2,275,000	18,775,000
185	Ministry of Telecommunication and Information Technology	Construction of School Computer Labs and Provide Furniture and Equipment for same & Computerization of 3 Hospitals in Anuradhapura District and Construction of Information Technology Parks in Mannar and Jaffna, Establishment of Information Technology park at Hambantota, Expenditure for preparation Deyata Kirula Programme -2013 and Personal Emoluments.	7,448,760	449,700,000
<b>Total</b>			<b>38,706,188,772</b>	<b>32,749,787,684</b>

Source: Department of National Budget

Table 4.3 > **Domestic Borrowings -Treasury Bonds**

Series	Settlement Date	Maturity Date	Amount Accepted (Rs. Mn.)	Weighed Average Yield
06.60%2014A	17/01/12	01/02/14	2,000	9.45
07.25%2016A	17/01/12	01/04/16	2,000	9.55
08.50%2018B	17/01/12	15/07/18	2,000	9.75
08.00%2022A	01/02/12	01/01/22	1,000	10.25
08.00%2032A	01/02/12	01/01/32	1,026	11.00
06.20%2015B	15/02/12	15/06/15	3,000	10.20
05.80%2017B	15/02/12	15/07/17	2,000	10.75
06.60%2014A	01/03/12	01/02/14	2,000	10.61
07.25%2016A	01/03/12	01/04/16	2,000	10.83
08.50%2018A	01/03/12	01/02/18	2,000	11.07
09.00%2014A	02/04/12	01/10/14	3,000	11.46
08.50%2015A	02/04/12	01/11/15	2,000	11.60
08.00%2016B	02/04/12	01/06/16	2,000	11.80
05.80%2017A	16/04/12	15/01/17	2,050	12.10
08.50%2018B	16/04/12	15/07/18	2,000	12.30
05.65%2019A	16/04/12	15/01/19	2,000	12.50
06.20%2015B	11/05/12	15/06/15	1,150	13.50
05.80%2017B	11/05/12	15/07/17	5,075	14.00
08.00%2017B	02/07/12	15/06/17	5,000	14.15
08.00%2020A	02/07/12	01/06/20	5,000	14.40
08.00%2022A	02/07/12	01/01/22	5,000	14.75
09.00%2014A	02/08/12	01/10/14	2,000	13.62
06.40%2016B	02/08/12	01/10/16	2,025	14.10
08.00%2018A	02/08/12	15/11/18	2,000	14.25

Source: Central Bank of Sri Lanka/ Department of Treasury Operations

Table 4.4 > **Domestic Borrowings -Treasury Bills**

Issue Date	Amount Accepted (Rs. Mn.)			Weighted Average Yield Rates		
	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days
1/6/12	7,142	3,075	3,920	8.68	8.71	9.31
1/13/12	7,879	4,193	2,724	8.68	8.71	9.31
1/20/12	6,488	1,408	4,797	8.67	8.71	9.31
1/27/12	8,673	2,455	3,505	8.67	8.71	9.30
2/3/12	4,603	1,124	4,024	8.68	8.71	9.30
2/10/12	2,831	1,308	1,150	9.24	9.26	9.88
2/17/12	3,700	1,000	1,383	9.31	9.44	9.99
2/24/12	6,747	1,006	1,368	9.51	9.64	10.19
3/2/12	869	733	677	9.81	9.94	10.30
3/9/12	4,968	1,046	3,459	10.11	10.18	10.45
3/16/12	6,085	1,103	1,105	10.42	10.46	10.76
3/23/12	7,128	0	1,000	10.75	-	11.11
3/30/12	3,731	1,304	1,000	11.00	11.06	11.32
4/6/12	1,560	2,180	3,611	11.05	11.06	11.32



Table 4.4 Contd....

Issue Date	Amount Accepted (Rs. Mn.)			Weighted Average Yield Rates		
	91 Days	182 Days	364 Days	91 Days	182 Days	364 Days
4/13/12	2,960	947	1,920	11.62	11.65	11.69
4/20/12	9,587	1,570	1,218	11.73	11.85	11.96
4/27/12	6,080	2,151	402	11.93	12.05	12.16
5/4/12	8,955	2,331	1,201	12.11	12.20	12.36
5/11/12	8,061	3,372	510	12.19	12.30	12.49
5/18/12	10,237	9,466	1,101	11.99	12.40	12.58
5/25/12	6,050	13,869	5,860	11.58	12.32	12.50
6/1/12	8,160	18,319	5,142	11.01	12.29	12.60
6/8/12	5,333	10,391	4,750	10.86	12.12	12.66
6/15/12	2,921	6,935	1,011	10.95	12.29	12.67
6/22/12	3,095	9,232	3,946	11.04	12.47	12.78
6/29/12	3,094	6,000	2,705	11.12	12.61	12.88
7/6/12	3,051	10,350	1,095	11.20	12.77	12.99
7/13/12	3,030	17,768	2,680	11.34	12.86	13.10
7/20/12	1,025	13,470	2,282	11.36	12.91	13.16
7/27/12	5,861	20,231	4,148	11.35	12.85	13.15
8/3/12	2,650	18,415	1,142	11.35	12.87	13.15
8/10/12	3,262	11,617	4,302	11.37	12.91	13.18
8/17/12	4,026	12,470	1,686	11.36	12.95	13.23
8/24/12	2,774	8,617	1,346	11.36	13.02	13.27
8/31/12	6,403	7,842	4,307	11.41	13.07	13.31
9/7/12	1,115	11,420	582	11.44	13.12	13.36
9/14/12	2,340	2,326	2,668	11.44	13.12	13.36
9/21/12	1,101	5,500	1,000	11.41	12.91	13.30
9/28/12	2,125	4,210	4,892	11.30	12.57	13.02
10/5/12	700	2,455	9,860	11.00	12.10	12.48
10/12/12	1,100	2,569	15,240	10.63	11.77	12.29
10/19/12	2,001	2,967	6,936	10.66	11.83	12.37
10/26/12	0	1,148	9,451	-	11.90	12.48
11/2/12	524	5,558	2,987	10.68	11.97	12.56
11/9/12	1,000	6,568	3,068	10.68	12.02	12.65
11/16/12	2,192	8,080	5,329	10.67	12.05	12.73
11/23/12	1,464	12,499	8,461	10.74	12.07	12.81
11/30/12	3,669	11,529	8,469	10.79	12.09	12.85
12/7/12	0	7,978	5,414	-	12.10	12.86
12/14/12	1,000	3,919	8,510	10.44	11.78	12.45
12/21/12	1,000	6,032	10,000	10.23	11.53	12.18
12/28/12	1,036	6,355	9,200	10.00	11.32	11.69

Source: Central Bank of Sri Lanka/ Department of Treasury Operations

Table 4.5 > **Domestic Borrowings -Sri Lanka Development Bonds**

Issue Date	Maturity Years	Amount US\$ Mn	Rate
19/03/12	3	74.5	3.85
19/03/12	4	12	4.15
25/06/12	3	229.02	4.10
17/09/12	3	141.05	4.00

Source: Central Bank of Sri Lanka/ Department of Treasury Operations

Table 4.6 > **Borrowings through International Sovereign Bonds**

Date of Issue	Amount(US\$ Mn.)	Maturity (Years)	Interest Rate
July 2012	1000	10	5.875

Source: Central Bank of Sri Lanka/ Department of Treasury Operations

Table 4.7 > **Foreign Loan Agreements Signed in 2012**

Development Partner	Description	Agreement Date	Loan Amount (in Agreement Signed)		Terms and Conditions			
			Currency	Amount (million)	Interest Rate %	Other Charges	Repayment period (years)	Grace Period (years)
<b>Asian Development Bank</b>	Northern Road Connectivity Project - Add. Financing	19-Nov-12	SDR	45.2	1% (disbursing period) 1.5% (repayment period)	-	32	8
	Northern Road Connectivity Project - Add. Financing	19-Jun-12	EUR	30	LIBOR+0.6%	Comt. Fee 0.15%	26	5
<b>Banco Bilbao Vizcaya Argentaria S.A. (BBVA Bank of Spain)</b>	Veyangoda Railway Crossing Flyover Project	19-Jun-12	EUR	8.6	EURIBOR+2.25	Mgt. fee 0.5%	10	2
	Veyangoda Railway Crossing Flyover Project	19-Jun-12	EUR	2.7	EURIBOR+2.75%	Mgt. fee 0.5%	3	1
<b>Co-op Centrale Raiffeisen-Boerenleenbank (Rabo Bank of Netherlands)</b>	Development of Nuwara Eliya District General Hospital	05-Apr-12	EUR	35.7	4.94%	-	12	3
	Development of Hambantota District General Hospital	05-Apr-12	EUR	42.2	4.94%	-	12	3

Table 4.7 Contd....

Development Partner	Description	Agreement Date	Loan Amount (in Agreement Signed)		Terms and Conditions			
			Currency	Amount (million)	Interest Rate %	Other Charges	Repayment period (years)	Grace Period (years)
<b>China Development Bank Corporation</b>	Moragahakanda Development Project	28-Jun-12	US\$	214.2	LIBOR+2.9%	Front end fee 5.9% Mgt. fee 0.5%	16	4
<b>The Export-Import Bank of China</b>	Financing of Material Required for Lighting Sri Lanka Eastern Province Project	16-Jan-12	US\$	32.5	LIBOR+3.0%	Comt. 0.25% Exposure fee 5.5% Mgt. fee 0.25	15	4
	* Hambantota Port Development Project - Phase II	17-Sep-12	US\$	51	LIBOR+4.0%	Comt. 0.7% Mgt. fee 0.9	15	4
	* Hambantota Port Development Project Phase II	17-Sep-12	CNY	1,000	2%	Comt. fee 0.5% Mgt. fee 0.5%	20	6
	* Hambantota Port Development Project - Phase II	17-Sep-12	US\$	600	2%	Comm. fee 0.5% Mgt. fee 0.5%	20	6
<b>Govt. of the Federal Republic of Germany (KFW)</b>	Construction of the Mahamodara Maternity Hospital, Galle	16-Aug-12	EUR	28	2.2%	Comt. fee 0.25%	12	2
<b>The Government of India</b>	Greater Dambulla Water Supply Project 1	17-Jan-12	US\$	60.7	LIBOR+2%	Comt. fee 0.5% Insurance 6.5% Mgt. fee 0.5	14	3
	Restoration of Northern Railway Services	17-Jan-12	US\$	382.4	LIBOR+0.5%	Comt. fee 0.5% Mgt. fee 0.5%	21	6
<b>The Government of Japan</b>	Habarana-Veyangoda Transmission Line Project	28-Mar-12	JPY	4,171	0.3%	Comt. fee 0.1%	40	10
	Improvement of Basic Social Services Targeting Emerging Regions	28-Mar-12	JPY	3,935	0.2%	Other charges 0.01	40	10
	** Bandaranaike International Airport Development Project- Phase II	28-Mar-12	JPY	28,969	0.2%	Other charges 0.01	40	10
<b>The Government of the Republic of Korea</b>	Improvement of Padeniya -Anuradhapura Road Project (Supplementary Loan)	02-Nov-12	US\$	11.1	0.15%	-	40	11
<b>HSBC Bank PLC (UK)</b>	Constructions of 210 Permanenet Rural Steel Bridges	24-Jul-12	US\$	44.1	LIBOR+2.0%	-	15	5
<b>Int. Bank for Reconstruction &amp; Development (IBRD) of the Word Bank.</b>	Metro Colombo Urban Development Project [MCUDP]	18-May-12	US\$	213	LIBOR+0.8%	Front end fee 0.25%	24	4

Table 4.7 Contd....

Development Partner	Description	Agreement Date	Loan Amount (in Agreement Signed)		Terms and Conditions			
			Currency	Amount (million)	Interest Rate %	Other Charges	Repayment period (years)	Grace Period (years)
<b>International Development (IDA) Association of the World Bank</b>	Additional financing for E_Sri Lanka Development Project	01-Mar-12	SDR	7.1	0.75%	Comt. fee 0.5%	25	5
	Transforming the School Education System as the Foundation of a Knowledge Hub Project	18-May-12	SDR	64.1	1.25%	Service fee 0.75% Comt. fee 0.75%	24	5
<b>Int. Fund for Agricultural Development</b>	Iranamadu Irrigation Development Project	30-Jan-12	SDR	14.3	0.75%	-	25	11
<b>Natexis Banque (France)</b>	Reconstruction of 46 Bridges on National Road Network	05-Nov-12	EUR	22	0.73%	-	19	5
<b>OPEC Fund for International Development</b>	Road Network Development Project	08-Oct-12	US\$	40	3.1%	Service fee 1.0%	20	5
<b>Saudi Fund For Arab Economic Development</b>	Road Network Development Project	30-Oct-12	SAR	225	-	-	20	5

Source: Department of External Resources

\* Including a loan arranged for Sri Lanka Ports Authority under a Government guarantee

\*\* Including a loan arranged for Airport and Aviation Services (Sri Lanka) Limited under a Government guarantee

05

# FISCAL DEVELOPMENTS

## 5.1 Overview

The commitment to contain budget deficit in 2012 within the medium term fiscal management framework was further consolidated with budget deficit keeping at 6.4 percent of Gross Domestic Product (GDP) in comparison to 6.9 percent in 2011. However, it marginally exceeded the budget deficit target of 6.2 percent announced in Budget 2012. As a percentage of GDP budget deficit was reduced to 8.0 percent in 2010 from 9.9 percent in 2009. This continuous downward direction was established for the third consecutive year in 2012 through the rationalization of government expenditure in line with government revenue which has lagged behind the growth in GDP as a result of the slowdown in both domestic economic activities and significant reduction in dutiable imports reflecting the contractionary impact of high duties, credit restriction and greater flexibility in exchange rate introduced in the early part of 2012 to deal with the widened trade deficit in 2010 and 2011.

Although the government was able to contain the budget deficit almost within the targeted level, the overall fiscal operations in 2012 confronted with several challenges. Sharp reduction in the import of motor vehicles from 533,056 in 2011 to 374,175 in volume terms and from US\$ 881 million to US\$ 495 million in value terms in 2012 in comparison to 2011 and contraction in associated domestic trade and services, particularly in financial leasing, had an adverse impact on import revenue growth in 2012. Tight monetary policy reflected in the reduction in the private credit compressed domestic economic activities affecting revenue growth from domestic transactions based taxes. Total revenue collection accordingly declined to 13.9 percent of GDP in comparison to 14.8 percent in 2011.

The relatively high market interest rates, high domestic borrowings particularly in the second half of 2012 and the exchange rate depreciation, increased the interest cost of the government from Rs. 357 billion in 2011 to Rs. 408 billion. However, the non interest current expenditure as a

percent of GDP contained at 9.5 percent in 2012 compared to 10.2 percent recorded in 2011 reflecting a further moderation of national security expenditure from 3.9 percent of GDP in 2009 to 2.7 percent in 2012 and the decline in the expenditure on other goods and services as a percent of GDP to 1.8 percent from 2.0 percent in the previous year thus helping to maintain current expenditure at 14.9 percent of GDP in comparison to 15.7 percent in the previous year. With a shortfall of revenue which resulted in a revenue deficit of 1.0 percent of GDP in 2012 as against 0.9 percent in 2011, the public investment had to be managed at 5.9 percent of GDP compared to the target of 6.6 percent in Budget 2012, to manage budget deficit within targeted level.

As the year progressed, several tax policy changes were introduced. The full customs duty waiver that had been granted on the importation of petroleum products was reduced in early 2012 in line with the decline in petroleum prices in the international market. Similarly duty waiver on milk powder was reduced to encourage the local production. Customs duty on motor vehicle spare parts was revised upwards. The Special Commodity Levy (SCL) on some commodities was revised from time to time, based on the international price movements and domestic supply conditions while several commodities such as fish and vegetable oil were brought into the SCL system. Meanwhile, the Cess on several imported commodities was increased to improve the domestic value added production and enhance government revenue. These measures had a positive impact on domestic value addition. During the year, the excise duties on hard liquor and malt liquor increased in two instances and the excise duty on cigarettes was also increased. However, increase in excise duty applicable on the importation of motor vehicles to address the widening trade deficit had a negative impact on revenue growth. Equally high taxes on excise duties on liquor and cigarettes discouraged domestic demand and contributed to weaken the growth in revenue.

### **Box 5.1**

#### **Tax Reforms since 2011: Highlights**

The reform initiatives introduced to Sri Lanka's tax system in the 2011 Budget to bring the country's tax system in line with other emerging economies and to provide a strong tax base to facilitate medium term revenue generation efforts, were continued in 2012 and 2013 budgets as well to consolidate and streamline the reform process. The creation of an enabling environment to support savings in the hands of taxpayers and investments by both domestic and foreign investors to sustain higher economic growth are also objectives of these reforms.

The new tax system has been designed to be development friendly and equitable with a positive impact on both taxpayers as well as the government revenue in the medium term, on a sustainable basis, while reducing the operation of multiple taxes to improve the tax administration and simplify the tax system. Income tax regime has been simplified with lower rates and enhanced coverage.

#### **Personal Income Tax Regime**

<b>Annual Income Level</b>	<b>Tax Rate (%)</b>
Up to Rs.500,000	Exempted
On the Balance (of the taxable income)	
First Rs.500,000	4.0
Second Rs.500,000	8.0
Third Rs.500,000	12.0
Fourth Rs.500,000	16.0
Fifth Rs.1,000,000	20.0
Balance	24.0

Emphasis has been given on the development of Small and Medium Enterprises (SMEs), value added exports, agriculture, IT software, healthcare services and education services by reducing their income taxes to concessionary rates of 10 percent - 12 percent with low rates of duties and taxes applying on the importation of plant, machinery and essential raw materials. Tax concessions and tax holidays have been rationalized under three categories - SMEs, large scale investments and strategic investments to promote predictability and the level-playing field in relation to investment. The unified VAT system has been broad based by extending the liability to retail and wholesale level. Excise duties have been well focused by targeting the base for high revenue generating items. Nation Building Tax and Provincial Turnover Tax have been combined following the revenue sharing arrangement between the central government and Provincial Councils (PCs). The policies on Customs duty, Cess and Special Commodity Levy emphasize the local economy safeguards, increase in domestic value added production and consumer protection. Key tax reforms implemented since 2011 are given in Appendix.



## Government Revenue

Total revenue of the government increased by 8.6 percent to Rs. 1,051.5 billion in 2012 compared to Rs. 967.9 billion in 2011. As a percentage of GDP, total revenue accounted for 13.9 percent in 2012, a decline in comparison to the budgetary target of 14.7 percent in the wake of depressed import demand and associated domestic contraction. This was a combined effect of 7.5 percent increase to Rs. 908.9 billion in tax revenue as well as a 16.7 percent increase to Rs. 142.5 billion in non-tax revenue over the previous year. Achieving the revenue targets as a percentage of GDP in 2012 was affected by the policy package adopted by the government in early part of the year to ensure the macroeconomic stability, by increasing import related taxes on selected items, policy interest rates, imposition of a ceiling on private sector credit and allowing greater flexibility in the exchange rate to contain domestic demand and curtail import of selected items from excessive levels to manage the widening trade deficit.

Accordingly, affecting from the sharp decline in dutiable imports, particularly the motor vehicles, home appliances, textiles, chemical products, food & beverages as well as slower growth in food, beverages and tobacco production, textile, wearing apparel and leather production and moderate growth in domestic trading activities, Value Added Tax (VAT) and Nation Building Tax (NBT) revenue from imports contracted by 0.6 percent and by 5.8 percent to Rs. 120.2 billion and Rs. 15.7 billion, respectively. The VAT revenue from domestic supplies moderated to Rs. 109.4 billion with an increase of 4.3 percent while NBT revenue from domestic activities amounted to Rs. 23.0 billion with an increase of 21.2 percent in 2012. Higher growth in NBT than VAT also underscored the benefit

of a wider base for buoyant growth in revenue. Improvements in construction activities, banking and insurance services and also the hotels and restaurants services positively contributed for the tax revenue from domestic supplies. Increase in Income Tax revenue by 9.7 percent to Rs.172.6 billion in 2012 was mainly driven by the increase in Withholding tax revenue from interest income by 56.2 percent to Rs. 59.6 billion benefiting from the higher investment in Treasury bills and Treasury bonds and relatively high interest rates on deposits while the revenue growth from Corporate & Non Corporate Income Tax and Pay-As-You-Earn (PAYE) Tax was marginal in the context of a moderate growth in commercial activities. Economic Service Charge (ESC) revenue contracted by 30.3 percent to Rs. 14.9 billion affecting from the introduction of a unified reduced rate of 0.25 percent and limiting of ESC liability for loss making companies and Income Tax exempted companies only.

Excise duty revenue increased by 9.3 percent to Rs. 223.9 billion contributing from the increase in Excise duty revenue from liquor, cigarettes and tobacco products and petroleum products while excise duty from motor vehicles increased marginally with the sharp decline in import of motor vehicles, in comparison to higher growth in 2011. Import duty revenue increased only by 0.4 percent to Rs. 80.1 billion reflecting the combined outcome of the negative impact of the sharp decline in motor vehicle and motor vehicle spare part imports and the positive impact of the reduction of import duty waiver on milk powder, petrol and diesel. The revenue generated from SCL increased by 115.5 percent to Rs. 33.7 billion contributing from the inclusion of fish and vegetable oil in

the SCL system and increase in SCL rates on sugar and B' onions. The revenue generated from the Ports & Airports Development Levy (PAL) increased by 6.2 percent to Rs. 70.1 billion mainly supporting from the increase in import of petroleum products. The Cess revenue increased by 10.4 percent to Rs. 32.7 billion contributing from the increase in Cess on import of iron, steel, cement and tiles in order to promote high quality local production and imposition of high Cess on exports in raw forms in order to encourage domestic value creation in export industry..

Non-tax revenue increased by 16.7 percent to Rs. 142.6 billion in 2012 benefiting from the profit transfers of Central Bank of Sri Lanka by 95.5 percent to Rs. 43.0 billion due to increase in income from T-Bills holdings and revenue generated from foreign reserve management. The increase in profits and dividends of state banks and other SOBEs such as Lanka Mineral Sands Limited, Sri Lanka Insurance Corporation Limited (SLIC) and National Insurance Trust Fund (NITF) resulted in an increase of 36 percent to Rs. 46.8 billion also complemented the non-tax revenue growth.

*Towards a lower budget deficit, the medium term priorities of the government are to sustain the economic growth of around 8 percent with lower inflation of around 6 percent. To achieve this, the importance of making a constant refinement in policy strategies to tackle immediate term challenges that underpin downside risks of high deficit in both national budget and the Balance of Payments as well as rise in debt and slowdown in economic growth has been recognized.*

Table 5.1 > **Government Revenue**

							Amounts in Rs. Mn
Item	2002	2007	2008	2009	2010	2011	2012
<b>Tax Revenue</b>	<b>221,839</b>	<b>508,947</b>	<b>585,621</b>	<b>618,932</b>	<b>724,748</b>	<b>845,697</b>	<b>908,913</b>
Income Tax	37,437	107,169	126,541	139,558	135,624	157,310	172,593
VAT	66,692	187,452	203,646	171,510	219,990	225,858	229,604
Nation Building Tax	-	-	-	27,205	46,022	35,667	38,736
Excise Tax	52,114	96,675	100,971	97,604	129,864	204,821	223,960
Import Duties	28,345	56,017	63,842	79,560	64,165	79,811	80,155
Ports & Airports Development Levy	3,497	26,700	31,017	36,286	49,632	66,028	70,111
Special Commodity Levy	-	-	14,603	18,965	10,173	15,622	33,666
Other	33,754	34,934	45,001	48,244	69,278	60,580	60,088
<b>Non Tax Revenue</b>	<b>40,050</b>	<b>56,104</b>	<b>69,639</b>	<b>80,712</b>	<b>92,532</b>	<b>122,165</b>	<b>142,547</b>
Interest / Rent	13,852	10,951	11,355	10,468	10,065	13,426	11,686
Profit and Dividends	3,055	7,682	7,365	11,982	31,301	34,351	46,761
Sales and Charges	4,477	18,437	32,260	25,387	22,925	37,292	26,019
Social Security Contributions	2,930	8,777	9,791	11,165	11,120	12,628	11,738*
Central Bank Profit Transfers	10,000	4,000	8,000	20,000	15,000	22,000	43,000
Other	5,736	6,257	868	1,710	2,122	2,468	3,343
<b>Total Revenue</b>	<b>261,889</b>	<b>565,051</b>	<b>655,259</b>	<b>699,644</b>	<b>817,279</b>	<b>967,861</b>	<b>1,051,460</b>
<b>As a % of GDP</b>							
<b>Tax Revenue</b>	<b>14.0</b>	<b>14.2</b>	<b>13.3</b>	<b>12.8</b>	<b>12.9</b>	<b>12.9</b>	<b>12.0</b>
Income Tax	2.4	3.0	2.9	2.9	2.4	2.4	2.3
VAT	4.2	5.2	4.6	3.5	3.9	3.5	3.0
Nation Building Tax	-	-	-	0.6	0.8	0.5	0.5
Excise Tax	3.3	2.7	2.3	2.0	2.3	3.1	3.0
Import Duties	1.8	1.6	1.4	1.6	1.1	1.2	1.1
Ports & Airports Development Levy	0.2	0.7	0.7	0.8	0.9	1.0	0.9
Special Commodity Levy	-	-	0.3	0.4	0.2	0.2	0.4
Other	2.1	1.0	1.0	1.0	1.2	0.9	0.8
<b>Non Tax Revenue</b>	<b>2.5</b>	<b>1.6</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>	<b>1.9</b>	<b>1.9</b>
Interest / Rent	0.9	0.3	0.3	0.2	0.2	0.2	0.2
Profit and Dividends	0.2	0.2	0.2	0.2	0.6	0.5	0.6
Sales and Charges	0.3	0.5	0.7	0.5	0.4	0.6	0.3
Social Security Contributions	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Central Bank Profit Transfers	0.6	0.1	0.2	0.4	0.3	0.3	0.6
Other	0.4	0.2	-	-	-	-	-
<b>Total Revenue</b>	<b>16.6</b>	<b>15.8</b>	<b>14.9</b>	<b>14.5</b>	<b>14.6</b>	<b>14.8</b>	<b>13.9</b>

Source: Department of Treasury Operations, Department of State Accounts and Department of Fiscal Policy

\* This does not include the Social Security Contributions amounting to Rs. 1,955 million receivable from the Provincial Councils in 2012.

## Current Expenditure

The current expenditure in 2012 increased by 10.4 percent to Rs. 1,131 billion compared to 2011. Interest expenditure amounted to Rs. 408 billion accounting for 36.1 percent of total current expenditure in comparison to Rs. 357 billion in 2011. However, it marginally declined to 5.4 percent from 5.5 percent as a percentage of GDP. It was driven highly by the depreciation of the exchange rate and high domestic interest rates which were necessitated by the emerging Balance of Payment (BOP) imbalances, inflexibility in exchange rates and decline in the share of concessional loans in the total foreign debt stock as well as the sluggish growth in government revenue that required borrowings. Despite wage increases and further filling of vacancies in the public service, non interest current expenditure totalled to Rs. 723 billion in comparison to Rs. 668 billion in 2011 which is an 8.1 percent increase. The decline in defence related expenditure on other goods and services, which amounted to Rs. 32.6 billion in 2012 compared to Rs. 43.4 billion in 2011, helped to contain current expenditure. Consequently, as a percentage of GDP, current expenditure declined to 14.9 percent in 2012 in comparison to 15.7 percent in 2011 as its growth was lower than the growth in nominal GDP, which is a reflection of the government's efforts in rationalization of spending towards strengthening fiscal consolidation process.

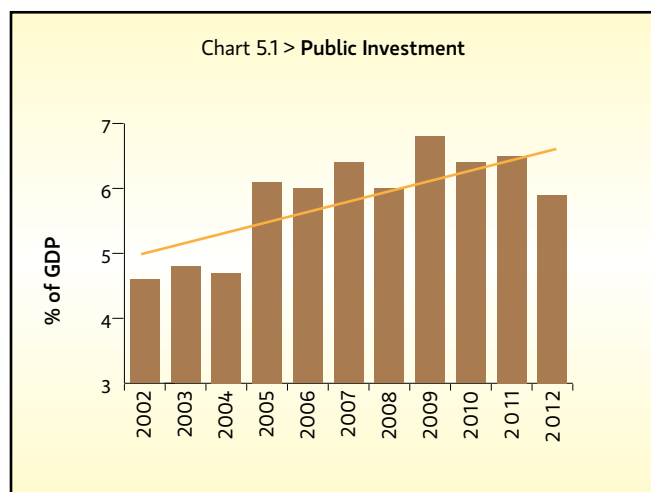
Non-interest current expenditure of the government, although increased by 8.1 percent over the previous year, declined as a percentage of GDP to 9.5 percent from 10.2

percent in 2011. The salary bill increased by 8.8 percent to Rs. 348 billion from Rs.320 billion due to the increase in the special allowance given to all public sector employees from 5 per cent to 15 percent of their basic salary subject to a minimum salary increase of Rs 1,200 per month coupled with an upward revision of various allowances paid to Grama Niladaries, members of the judiciary, doctors, engineers and the university staff. The increase in allowances paid to retired pensioners by Rs. 1,000 per month together with the full impact of around 23,447 new retirees in 2011 and the partial impact of 17,375 new retirees in 2012 resulted in an increase in the pension bill by 11.7 percent to Rs. 112 billion from Rs. 100 billion in 2011. Accordingly, the salary and pension bill totalled to Rs.460 billion in 2012 in comparison to Rs. 420 billion in 2011.

The expenditure on continued government social welfare programs amounted to Rs. 39.7 billion in 2012, of which Rs. 14.8 billion for payments to disabled soldiers, Rs. 10.6 billion for Samurdhi cash grants, Rs. 7.0 billion for providing free school uniforms, text books and nutrition programs and Rs. 7.3 billion for assistance to needy people and other welfare programmes. Meanwhile, the transfers to public institutions amounted to Rs. 34.9 billion mainly to cover the payments due to increase in personal emoluments while transfers to Sri Lanka Railways, Department of Posts and Sri Lanka Transport Board amounted to Rs. 11.1 billion to cover their operational losses.

## Public Investment

The government spent Rs. 444 billion accounting for 5.9 percent of GDP as public investment in 2012 in comparison to Rs. 422 billion in 2011 amidst difficult financial conditions including the shortfall in the revenue, in keeping with the commitment of maintaining annual public investment at 6 percent of GDP. The government has been able to maintain public investment at an average of 6.2 percent of GDP during the period from 2005 to 2012 in comparison to 4.7 percent during 2002-2004 Period.



Consequent to the sustained expenditure in public investments, the country continued to witness a steady progress in expansion in the capacity of power generation, seaports & airports, expressways, highways, national irrigation system, water supply and sanitation, schools, vocational training institutions, universities, hospitals and service delivery facilities. Accordingly, country's power generation capacity improved from 2,231MW in 2002 to 3,312 MW in 2012,

number of seaports increased from 3 in 2002 to 5 in 2012, number of international airports increased from 1 in 2002 to 2 in 2012 along with the expansion of domestic airports, road density increased from 1.68 km per km<sup>2</sup> in 2002 to 1.76 km per km<sup>2</sup> in 2012 and water distribution capacity increased from 253 m<sup>3</sup> million in 2005 to 368 m<sup>3</sup>million in 2012. This investment drive enable the increased access of the people to electricity to 93 percent, safe drinking water to 84 percent and greater access to transport, education and health facilities.

The completion of the Upper Kotmale hydropower project in 2012 and the commencement of the operations at Mattala Rajapaksa International Airport (MRIA) in March 2013 were the important landmarks in the public investment programme. The Colombo Outer Circular Highway, Colombo South Harbour Project, Phase II of the Southern Expressway from Galle to Matara, Phase II of the Mahinda Rajapaksa Port at Hambantota, the Colombo - Katunayake Expressway as well as the extension of the Northern railway line to Jaffna were among the key infrastructure development projects, which were in progress in 2012.

The development of access roads, electricity distribution network, community water supply and minor irrigations in rural areas continued to improve the living standards of the people in these areas while helping to reduce economic disparity among regions and sustained reduction in poverty to 6.5 percent, multidimensional poverty to 1.9 percent<sup>1</sup> and unemployment below 4 percent in 2012 was supported by public investment in rural centric development. The rebuilding of the infrastructure in the conflict

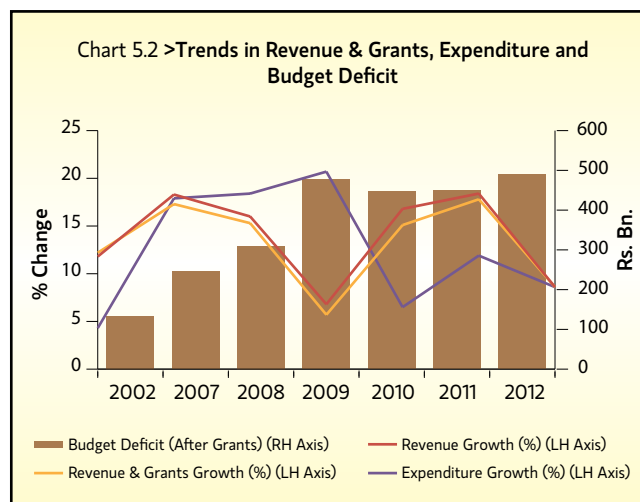
<sup>1</sup>Poverty Index and Multidimensional Poverty Index for 2012 are as per the Household Income and Expenditure Preliminary Survey 2012/2013 conducted by the Department of Census and Statistics.

affected provinces was continued with specific attention of the government on ensuring that these areas are provided with necessary infrastructure so that the people in those areas could be effectively engaged in productive economic activity and contribute to the national economy. The clearance of 90 percent of mined lands and resettlement of all post 2009 internally displaced persons amounting to 297,000 also helped reviving that part of the economy to grow by 22 percent in comparison to national growth of 6.4 percent in 2012.

## Budget Deficit

The deficit in the revenue account, the gap between the total current expenditure and total revenue, amounted to Rs. 79.6 billion in 2012 in comparison to Rs. 57.0 billion in 2011. As a percentage of GDP, the revenue deficit increased to 1.0 percent from 0.9 percent in 2011. This is largely a reflection of revenue shortfall associated with compressed imports and domestic revenue base. This together with the public investment of Rs. 444 billion or 5.9 percent of GDP resulted in an overall budget deficit of Rs. 489 in 2012 as against Rs. 450 billion in 2011. However, in relation to GDP it was 6.4 percent as against 6.9 percent in 2011, 8.0 percent in 2010 and 9.9 percent recorded in 2009. Hence, for the fourth consecutive year deficit was on a declining trend underscoring a clear direction in government fiscal management.

In financing the budget deficit, Rs. 308 billion (63 percent of the total financing or 4.1 percent of GDP) was obtained as net borrowings from domestic sources. Net domestic financing



included investments by non-residents in government securities of Rs. 106 billion in 2012 compared to Rs. 25 billion in 2011. The balance Rs. 181 billion (37 percent of the total financing or 2.4 percent of GDP) of net deficit financing was from foreign sources.

Of the total domestic financing, the borrowings from the banking system declined to Rs. 132 billion from Rs. 192 billion in 2011. It accounted for 43 percent of the total domestic financing in comparison to 75 percent in the previous year. Net borrowings from the Central Bank, although reflected an increasing trend until April 2012, declined towards the latter part of the year to Rs. 16.1 billion with the reduction in Treasury bills holdings by the Central Bank in December 2012. However, the net borrowings from commercial banks increased to Rs. 115.4 billion in 2012 compared to Rs. 6 billion in 2011 mainly due to an increase in Treasury bills and bonds held by commercial banks. As a percentage

of GDP, bank financing declined to 1.7 percent in 2012 from 2.9 percent in 2011.

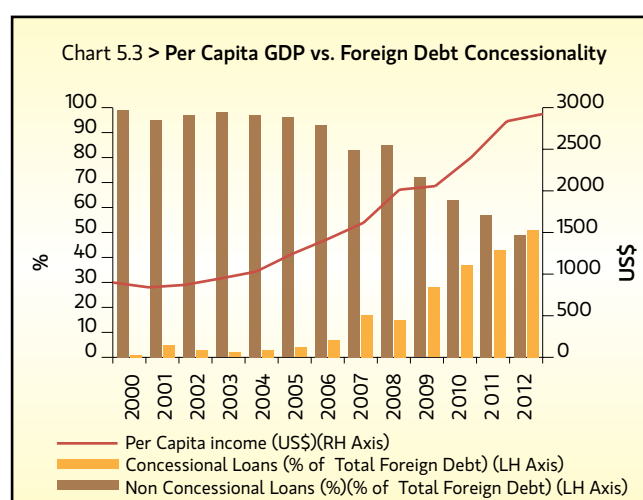
Gross borrowings from domestic sources amounted to Rs. 618 billion while repayments amounted to Rs. 415.4 billion in 2012. Accordingly, net borrowings from non-bank sector increased to Rs.71 billion or 23 percent of the total domestic financing in 2012 compared Rs. 39 billion or 15 percent in 2011. As in the previous years, Employees' Provident Fund (EPF), National Savings Bank (NSB) and Employees Trust Fund (ETF) were the main contributors to the non-bank financing in 2012. Net non-bank financing as a percentage of GDP increased to 0.9 percent in 2012 from 0.6 percent in the previous year.

On a gross basis, total foreign loan proceeds amounted to Rs. 365 billion in 2012. This included the disbursements of Rs. 234 billion related to project loans as per the progress in public investment activities and the proceeds of Rs. 131 billion (US\$ 1,000 million) raised from the ten year international sovereign bond issued in July 2012. The repayment of the country's debut international sovereign bond of US\$ 500 million issued in 2007 as well as the repayments of other foreign loans of totalling Rs. 193.5 billion form the debt repayments side of the external debt related transactions in 2012. Total foreign financing on a net basis therefore amounted to Rs. 181 billion or 2.4 percent of GDP. The overall debt management underscores the country's improved economic outcome and improved sovereign debt rating by enabling the government to finance its 5 year maturity bond with 10 year bond with lesser burden at a reduced cost. Similarly, the gradual shift towards long term market based instruments reflected the development of long term debt instruments and a wide spread yield curve in support of deepening debt and financial markets.

## Government Debt

The government debt at the end of 2012 totalled to Rs. 6,000.1 billion. This consisted of Rs. 3,232.8 billion of domestic debt and Rs. 2,767.2 billion of foreign debt. Total debt accounted for 79.1 percent of GDP in 2012 in comparison 78.5 percent recorded in 2011 and the highest ratio of 105.6 percent recorded in 2002. This was a combined outcome of the containment of the budget deficit at 6.4 percent of GDP in 2012 in comparison to 6.9 percent in the previous year, relatively lower growth rate of 6.4 percent of GDP in 2012 than the 8.2 percent growth rate in 2011, and the depreciation of the Sri Lankan rupee against major foreign currencies that had a local currency valuation impact of Rs. 207.4 billion and external debt in foreign currency stood at US\$ 18.6 billion in 2012 in comparison to US\$17.3 billion in 2011.

Total domestic debt in 2012 amounted to 53.9 percent of the total debt, with an increase of Rs. 428.8 billion in 2012. However, as a percentage





of GDP, domestic debt declined to 42.6 percent of GDP from 42.8 percent in the previous year. The Domestic debt with the maturity periods in excess of two years amounted to Rs. 2,419.6 billion accounting for 74.8 percent of total domestic debt. The balance 25.2 percent or Rs. 813.3 billion was with short term Treasury bills with maturity period of less than one year.

Total foreign debt accounted for 46.1 percent of the total debt by end 2012. Reflecting an increased utilization of foreign funds in government capital expenditure and the impact of the depreciation of the rupee viz. a viz. major foreign currencies, foreign debt increased by Rs. 438 billion in 2012. As a percentage of GDP also, it increased to 36.5 percent from 35.6 percent in 2011. The exchange rate variation alone accounted for Rs. 207.4 billion and demanded rupee resources from the budget, though there were no extra borrowings in foreign currency involved in such variation impact.

The government foreign debt on concessional terms and conditions amounted to 49.5 percent of total foreign debt. The share of non-concessional and market debt in the total foreign debt amounted to 50.5 percent by end 2012. This was mainly attributed to the increase in foreign market borrowings in 2012 by way of higher foreign investment in government securities and the issuance of the fifth international sovereign bond of US\$ 1,000 million with ten year maturity. This trend is consistent with the borrowing pattern of middle income country where there is a gradual decline in the access to the concessional foreign financing amidst rising per capita income in the country. The increase in non-concessional and market debt emphasises the necessity of being selective in financing options in the government budget and generating high revenue as well as the increase of export earnings from goods and services to strengthen the country's debt servicing capacity.

## Medium Term Direction

Towards a lower budget deficit, the medium term priorities of the government are to sustain the economic growth of around 8 percent with lower inflation of around 6 percent. To achieve this, the importance of making a constant refinement in policy strategies to tackle immediate term challenges that underpin downside risks of high deficit in both national budget and the Balance of Payments as well as rise in debt and slowdown in economic growth has been recognized. In line with this, the government has committed to reduce budget deficit to 5.8 percent of GDP in 2013 and below 5.0 percent together with the reduction in debt to GDP below 75 percent by 2015. This has already been announced in the 2013 Budget speech and accompanied report under the Fiscal Management (Responsibility) Act (FMRA) No. 3 of 2003. Such a reduction in debt alone with reduced budget deficit and losses in State Owned Business Enterprises (SOBEs) will enable the government to reduce inflation and interest rates and thereby promote savings and investments in support of high economic growth around 8 percent and generate gainful employment to keep unemployment below 4 percent. Such a growth path is necessary to expand the tax base and buoyant government revenue.

A greater concentration on revenue collections towards 15 percent of GDP and commitment control on the budgetary provisions to keep current expenditure below 14 percent of GDP is being made primarily aiming at the reduction in the underlying revenue deficit in the medium term, which has already been reduced from 3.7 percent in 2009 to 1.0 percent in 2012.

The revenue is expected to improve through the expansion in the taxable avenues over the medium term, benefiting from prevailing low tax regime, political stability, infrastructure deve-

development and high priority investments in SMEs, constructions, tourism, value added industries in both export and import substitution sectors. The government has also embarked on administrative reforms to manage a middle income country tax system with greater compliance. Accordingly, the Revenue Administration Management Information System (RAMIS) is expected to facilitate greater self-compliance and efficiency gain in tax administration.

On the expenditure front, an Integrated Treasury Management Information System (ITMIS) is being developed to support commitment controls, Treasury operations,

project planning and preparations for public investment and effective use of funding, and productivity focused expenditure management. The performance of SOBEs is expected to improve profitability and their return on investments through the reform initiatives involving cost reflective pricing as well as financial and business management. The medium term aim is to raise non tax revenue of the government to around 3 percent of GDP through higher profit and dividends from state enterprises. Such reforms will reduce their borrowings from the banking systems and make financial savings available for investment at low cost.

### Benefits of Improving Fiscal Performance

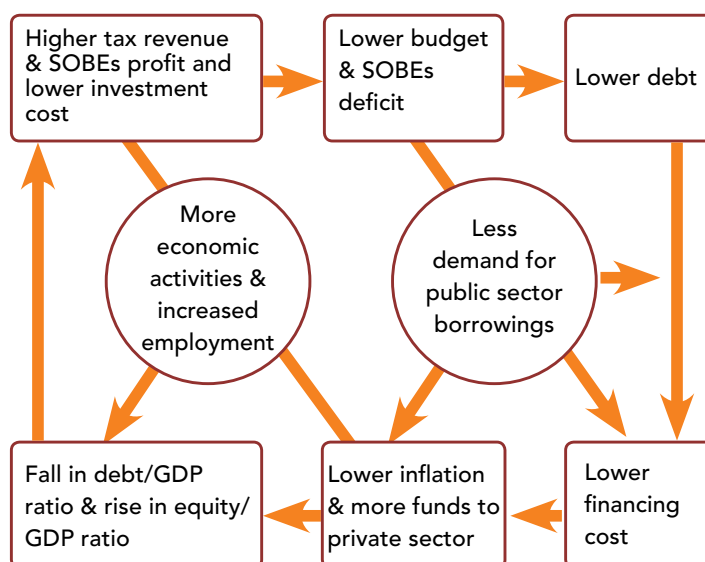


Table 5.2 > **Summary of Government Fiscal Operations**

	Rs. Bn						
	2002	2007	2008	2009	2010	2011	2012
<b>Total Revenue and Grants</b>	<b>269.0</b>	<b>595.6</b>	<b>686.4</b>	<b>725.6</b>	<b>834.1</b>	<b>983.0</b>	<b>1,067.5</b>
<b>Total Revenue</b>	<b>261.9</b>	<b>565.1</b>	<b>655.2</b>	<b>699.7</b>	<b>817.2</b>	<b>967.9</b>	<b>1,051.5</b>
<b>Tax Revenue</b>	<b>221.8</b>	<b>509.0</b>	<b>585.6</b>	<b>619.0</b>	<b>724.7</b>	<b>845.7</b>	<b>908.9</b>
Income Tax	37.4	107.2	126.5	139.6	135.6	157.3	172.6
Taxes on Goods and Services	98.9	328.6	356.2	352.0	435.4	497.3	519.7
Taxes on External Trade	85.5	73.2	102.9	127.4	153.7	191.1	216.7
<b>Non Tax Revenue</b>	<b>40.1</b>	<b>56.1</b>	<b>69.6</b>	<b>80.7</b>	<b>92.5</b>	<b>122.2</b>	<b>142.6</b>
<b>Grants</b>	<b>7.1</b>	<b>30.5</b>	<b>31.2</b>	<b>25.9</b>	<b>16.9</b>	<b>15.1</b>	<b>16.1</b>
<b>Total Expenditure &amp; Net Lending</b>	<b>403.0</b>	<b>841.7</b>	<b>996.2</b>	<b>1,201.9</b>	<b>1,280.2</b>	<b>1,433.1</b>	<b>1,556.5</b>
<b>Current</b>	<b>330.9</b>	<b>622.8</b>	<b>743.7</b>	<b>879.6</b>	<b>937.1</b>	<b>1,024.9</b>	<b>1,131.0</b>
Personnel Emoluments	88.8	214.2	239.1	271.2	300.6	319.6	347.7
Interest	116.5	182.7	212.5	309.7	352.6	356.7	408.5
Subsidies and Transfers	74.4	147.4	170.9	190.2	196.2	216.6	234.7
Other Goods and Services	51.1	78.5	121.2	108.5	87.7	132.0	140.1
<b>Capital and Net Lending</b>	<b>72.1</b>	<b>218.9</b>	<b>252.5</b>	<b>322.3</b>	<b>343.1</b>	<b>408.3</b>	<b>425.5</b>
Public Investment	72.2	229.3	263.9	330.4	356.5	422.3	443.9
Other	(0.0)	(10.4)	(11.4)	(8.1)	(13.4)	(14.0)	(18.5)
<b>Revenue Surplus(+)/Deficit (-)</b>	<b>(69.0)</b>	<b>(57.7)</b>	<b>(88.5)</b>	<b>(179.9)</b>	<b>(119.9)</b>	<b>(57.0)</b>	<b>(79.6)</b>
<b>Primary Surplus(+)/Deficit (-)</b>	<b>(17.5)</b>	<b>(63.3)</b>	<b>(97.1)</b>	<b>(166.7)</b>	<b>(93.3)</b>	<b>(93.5)</b>	<b>(80.5)</b>
<b>Budget Surplus(+)/Deficit(-)</b>	<b>(134.0)</b>	<b>(246.0)</b>	<b>(309.6)</b>	<b>(476.4)</b>	<b>(445.9)</b>	<b>(450.2)</b>	<b>(489.0)</b>
<b>Total Financing</b>	<b>134.0</b>	<b>246.0</b>	<b>309.6</b>	<b>476.4</b>	<b>445.9</b>	<b>450.2</b>	<b>489.0</b>
<b>Net Foreign Financing</b>	<b>2.0</b>	<b>63.8</b>	<b>12.9</b>	<b>83.9</b>	<b>194.9</b>	<b>193.9</b>	<b>180.8</b>
Gross Foreign Borrowings	39.0	127.9	67.7	194.1	270.0	282.3	357.8
Repayments	37.1	64.1	54.8	110.3	75.1	88.4	177.0
<b>Net Domestic Financing</b>	<b>126.4</b>	<b>182.3</b>	<b>296.7</b>	<b>392.5</b>	<b>251.1</b>	<b>256.3</b>	<b>308.2</b>
Non Bank Financing	131.2	129.4	119.1	196.5	204.1	39.4	71.0
Foreign Investments in TBills and Bonds	-	37.1	(17.6)	146.9	48.8	25.1	105.7
Bank Borrowings	(4.8)	15.8	195.2	49.0	(1.9)	191.9	131.5
<b>Privatization Proceeds</b>	<b>5.7</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>As a % of GDP</b>							
<b>Revenue and Grants</b>	<b>17.0</b>	<b>16.6</b>	<b>15.6</b>	<b>15.0</b>	<b>14.9</b>	<b>15.0</b>	<b>14.1</b>
<b>Revenue</b>	<b>16.6</b>	<b>15.8</b>	<b>14.9</b>	<b>14.5</b>	<b>14.6</b>	<b>14.8</b>	<b>13.9</b>
Tax Revenue	14.0	14.2	13.3	12.8	12.9	12.9	12.0
Non Tax Revenue	2.5	1.6	1.6	1.7	1.7	1.9	1.9
Grants	0.4	0.9	0.7	0.5	0.3	0.2	0.2
<b>Total Expenditure &amp; Net Lending</b>	<b>24.6</b>	<b>23.5</b>	<b>22.6</b>	<b>24.9</b>	<b>22.8</b>	<b>21.9</b>	<b>20.5</b>
Current Expenditure	20.2	17.4	16.9	18.2	16.7	15.7	14.9
Public Investment	4.4	6.4	6.0	6.8	6.4	6.5	5.9
<b>Revenue Surplus(+)/Deficit(-)</b>	<b>(4.2)</b>	<b>(1.6)</b>	<b>(2.0)</b>	<b>(3.7)</b>	<b>(2.1)</b>	<b>(0.9)</b>	<b>(1.0)</b>
<b>Primary Surplus(+)/Deficit (-)</b>	<b>(1.1)</b>	<b>(1.8)</b>	<b>(2.2)</b>	<b>(3.5)</b>	<b>(1.7)</b>	<b>(1.4)</b>	<b>(1.1)</b>
<b>Budget Surplus(+)/Deficit(-)</b>	<b>(8.2)</b>	<b>(6.9)</b>	<b>(7.0)</b>	<b>(9.9)</b>	<b>(8.0)</b>	<b>(6.9)</b>	<b>(6.4)</b>
Net Foreign Financing	0.1	1.8	0.3	1.7	3.5	3.0	2.4
Net Domestic Financing	7.7	5.1	6.7	8.1	4.5	3.9	4.1

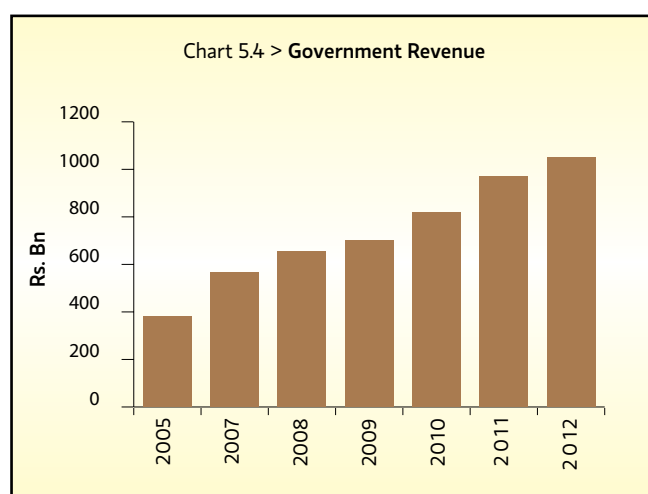
Source: Department of Treasury Operations, Department of State Accounts and Department of Fiscal Policy

## 5.2 Government Revenue

Total revenue of the government increased by 8.6 percent to Rs. 1,051.5 billion in 2012 compared to Rs. 967.9 billion in 2011. This was supported by Rs. 908.9 billion tax revenue (7.5 percent increase) and Rs. 142.5 billion of non-tax revenue (16.7 percent increase), even though fell short of the revenue target envisaged in the Budget 2012.

The revenue performance in 2012 should be viewed in the backdrop of the strong policy package adopted by the government in early part of the year to ensure the macroeconomic stability, by increasing taxes to curtail import of selected items, increase in interest rates and imposition of a ceiling on private sector credit to limit the expansion on access to credit coupled with the greater flexibility in exchange rate in order to contain the increased domestic

demand thus managing the widening trade deficit arising from a relatively higher imports. Benefiting from these policy measures, import of motor vehicles declined by 43.8 percent to US\$ 495 million and consumer goods declined by 18.0 percent to US\$ 2,995 million which includes decline in food and beverages by 16.9 percent to US\$ 1,304 million, in 2012. Hence, total imports declined to US \$ 19.2 billion in 2012 from US \$ 20.3 billion in 2011, even though, import of investment goods increased by 7.0 percent to US\$ 4,590 million in line with the recent trends in investments and construction activities while intermediate goods declined marginally by 5.7 percent to US\$ 11,570 million despite the increase in import of fuel by 5.0 percent to US\$ 5,037 million. Further, affecting from the above measures as well as from the decline in exports to US \$ 9.8 billion in 2012 from US \$ 10.5 billion in 2011 amidst the weakened global economic conditions, manufacturing sector recorded a moderate growth of 5.2 percent in 2012 in comparison to 7.9 percent in 2011. In this background, domestic trading services also recorded a moderate growth of 6.8 percent in 2012 in comparison to 7.5 percent in 2011. The slowdown in GDP growth to 6.4 percent in 2012 from 8.2 percent in 2011 and shrinking of dutiable imports coupled with the decline in domestic demand, manufacturing and trading activities and goods transportation had an adverse impact on revenue generation. The total revenue as a percent of GDP was 13.9 percent in 2012 in comparison to 14.8 percent in 2011. In particular, the tax revenue was 12.0 percent of GDP in comparison to 12.9 percent in 2011.

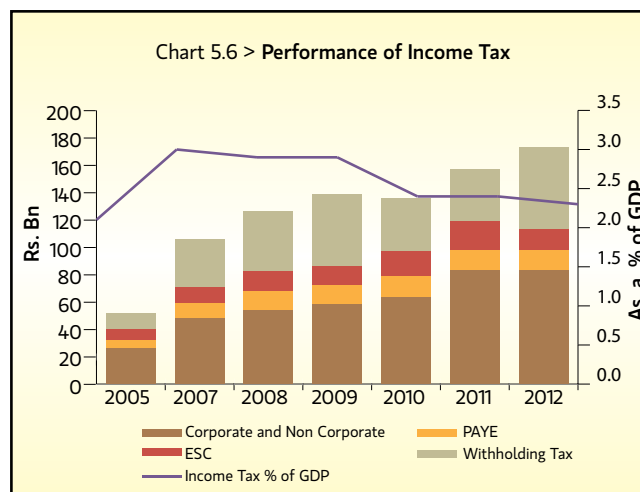
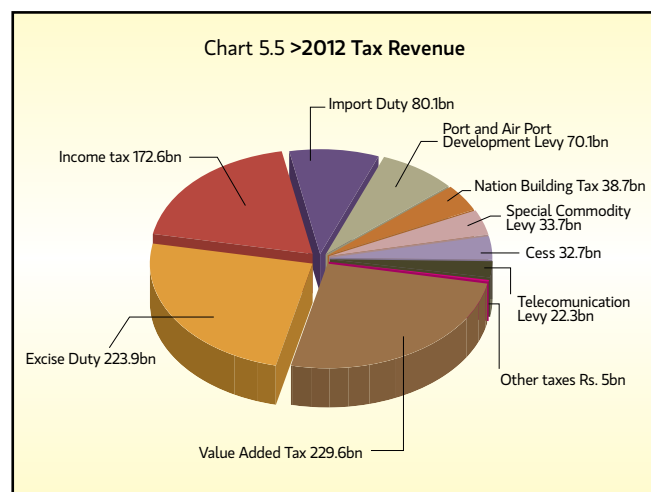


### 5.2.1. Tax Revenue

Total tax revenue in 2012 increased by 7.5 percent to Rs. 908.9 billion compared to Rs. 845.7 billion in 2011 and amounted to 86.4 percent of the total government revenue. This was supported by the increase in revenue generated through taxes on external trade by 13.4 percent, tax on interest income by 56.2 percent, Excise Duties by 9.3 percent, Telecommunication Levy by 19.5 percent as well as VAT and NBT revenue from domestic supplies by 4.3 percent and 21.2 percent, respectively. However, contraction in revenue generated from, Economic Service Charge (ESC) by 30.3 percent as well as VAT and NBT revenue on imports by 0.6 percent and 5.8 percent, respectively, had a negative impact on revenue performance in relation to GDP.

### Income Tax

Total revenue from Income Tax, which comprised of corporate & non corporate Income Tax, Pay-As-You-Earn (PAYE) Tax, ESC and withholding tax on interest income (WHT), increased by 9.7 percent to Rs.172.6 billion in 2012 compared to Rs. 157.3 billion in 2011. The increase in Income Tax was mainly driven by the increase in Withholding tax revenue from interest income by 56.2 percent to Rs. 59.6 billion benefiting from the higher investment in Treasury bills and Treasury bonds, and relatively high interest rates. The lower growth in corporate & non corporate Income Tax revenue by 0.4 percent to Rs. 83.3 billion resulted due to reduction in personal Income Tax rate of liable individuals from 35 percent to 24 percent and corporate Income Tax rate from 30 percent to 28 percent coupled with



moderate growth in manufacturing sector, domestic trading services, communication services and banking and insurance services and also lowering the maximum income tax rate applicable for SMEs with turnover up to Rs. 300 million per year to 10 percent. PAYE tax revenue declined by 0.2 to Rs. 14.8 billion reflecting a setting off effect from the increase in tax free threshold of employment income from Rs. 500,000 to Rs. 600,000 per year and making liable of public servants for PAYE tax. Affecting from the lowering of the ESC chargeability to a unified rate of 0.25 percent, limiting the liability only for loss making companies and Income Tax exempted companies and increase in tax free threshold to Rs. 50 million per quarter to Rs. 25 million, ESC revenue contracted by 30.3 percent to Rs.14.8 billion in 2012.

## Value Added Tax

The VAT revenue on a net basis increased by 1.7 percent to Rs. 229.6 billion accounting for 25.3 percent of total tax revenue, in comparison to Rs. 225.8 billion in 2011. As a percentage of GDP, VAT revenue on a net basis accounted for 3.0 percent in 2012 in comparison to 3.5 percent in 2011. VAT revenue growth was supported by the increase in VAT revenue generated from domestic supplies by 4.3 percent to Rs. 109.4 billion with the contraction in VAT cash refunds by 50.4 percent to Rs. 3.1 billion reflecting the effective implementation of Simplified Value Added Tax (SVAT) system which helped to manage VAT refund system and facilitate exports. However, VAT revenue from imports declined by 0.6 in 2012 to Rs. 120.2 billion compared to Rs. 121 billion in 2011.

Policy measures adopted to contain the increased domestic demand and widening trade deficit in the early part of 2012 resulted in a decline in VAT liable import base through the contraction in import of motor vehicles by 43.8 percent to US\$ 495 million, home appliances by 4.1 percent to US\$ 218.5 million, textiles by 2.3 percent to US\$ 2,266 million and chemical products by 4.6 percent to US\$ 669.7 million and food and beverages (except essential commodities subject to Special Commodity Levy and VAT exempted foods) negatively affected the import VAT revenue growth. Import of investment goods increased by 7.1 percent, benefiting from the increase in import of building materials by 15.0 percent and machinery and equipment by 10 percent, in line with the infrastructure development program carried out by the government and with the revival of the construction industry with 21 percent growth in 2012. However, the impact from such imports for VAT revenue generation was marginal since most of the machinery and equipment are exempted from VAT to reduce upfront cost as well as to minimize refunds. The import of such goods for the use of infrastructure development projects is granted VAT exemptions administratively in order to reduce the transaction costs of such projects. Such administrative exemptions helped to neutralize the impact on cash management of government's infrastructure development projects amounted to Rs.20.8 billion in 2012 in comparison to Rs. 8.5 billion in 2011. These amounts are reflected in economic classification as revenue and expenditure to reflect true revenue and expenditure though there is no net impact on the budget balance. Growth in construction activities by 21.6

Table 5.3 > **Value Added Tax Revenue**

	Rs. Mn						
Item	2002	2007	2008	2009	2010	2011	2012
Domestic	34,322	95,738	112,616	105,486	129,046	111,245	112,214
Imports	41,541	101,813	100,831	73,997	99,669	120,961	120,539
<b>Gross Revenue</b>	<b>75,863</b>	<b>197,551</b>	<b>213,447</b>	<b>179,483</b>	<b>228,715</b>	<b>232,206</b>	<b>232,753</b>
Refunds	9,171	9,957	9,801	7,973	8,724	6,348	3,149
<b>Net Revenue</b>	<b>66,692</b>	<b>187,594</b>	<b>203,646</b>	<b>171,510</b>	<b>219,991</b>	<b>225,858</b>	<b>229,604</b>
<b>Net Revenue as a % of GDP</b>	<b>4.2</b>	<b>5.2</b>	<b>4.6</b>	<b>3.6</b>	<b>3.9</b>	<b>3.5</b>	<b>3.0</b>

Source: Department of Fiscal Policy

percent and hotels and restaurants services by 20.2 percent positively contributed to the growth in domestic VAT revenue. However, decline in domestic demand, imports as well as contraction in industrial exports by 7.8 percent in 2012 in comparison to 31.1 percent growth in 2011 affecting from instabilities emerged in major export destinations, had an adverse impact on domestic factory industries and hence food, beverages and tobacco production and textile, wearing apparel and leather products which form the major part of factory industry base grew only by 5.1 percent and 4.9 percent in 2012 in comparison to 7.1 percent and 10.8 percent growth, respectively in 2011. Further, the domestic trading activities also moderated to 6.8 percent in comparison to 7.5 percent growth in 2011 and had a negative impact on slowing down the domestic VAT revenue growth.

With the view of improving VAT revenue on a net basis while avoiding possible loopholes for undue cash refunds as well as to facilitate the exporters and the implementation of Strategic Development Projects and other large infrastructure development projects (Specified Projects) by

reducing their upfront cost on purchasing goods and services for the use of such activities, Simplified Value Added Tax (SVAT) scheme has been implemented since 2011. In order to make sure that facility provided under this scheme is well targeted for the respective persons and purposes, both the beneficiaries and the supplies are required to register under this scheme and only the eligible registered persons are provided with credit vouchers to be used in the payment of VAT in lieu of cash payments on the purchase of goods and services from the suppliers registered under this scheme. Accordingly, the exporters or zero rated services providers, manufacturers who supply domestically manufactured goods to such exporters, registered persons engaged in Strategic Development Projects and Specified Projects, service providers to exporters or persons who supply more than 50 percent of their products and services to SVAT registered persons are eligible for registration under this scheme. Introduction of this scheme resulted in a decline in VAT cash refunds by 50.4 percent to Rs. 3.1 billion in 2012 from Rs. 6.3 billion in 2011.



## Excise Duty

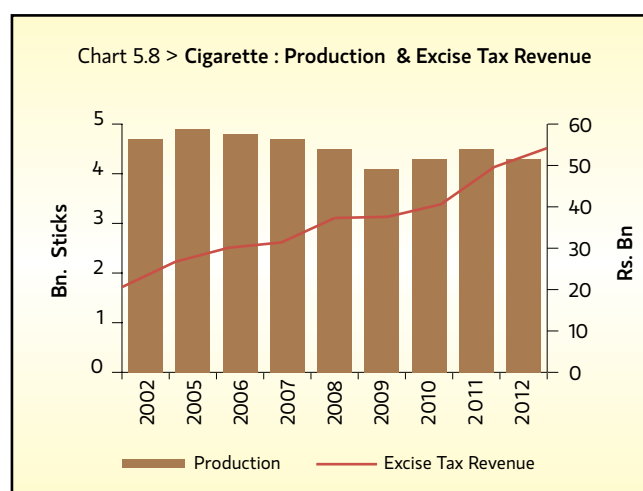
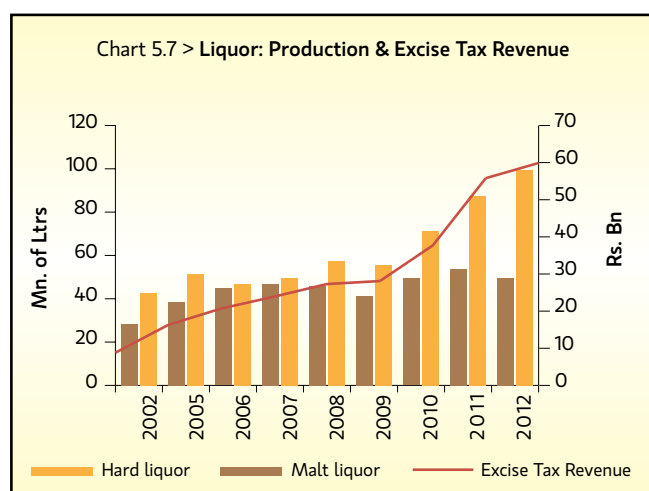
Total Excise duty revenue increased by 9.3 percent to Rs. 223.9 billion accounting for 24.6 percent of total tax revenue in 2012, in comparison to Rs. 204.8 billion in 2011. Excise duty revenue accounted for 3.0 percent of GDP in 2012 in comparison to 3.1 percent in 2011. This includes the non-cash revenue of Rs. 28.4 billion attributed to the concessionary duty on import of vehicles to public servants in 2012, which is a non-salary benefit to the public servants to encourage the effective public service delivery, in comparison to Rs. 13.5 billion in 2011. All the major sources of Excise revenue, i.e., liquor, cigarettes and motor vehicles contributed positively but at a slower pace in comparison to 2011 while revenue from petroleum products contributed with 26.7 percent growth in 2012 due to increase in sale of petrol and diesel, in comparison to 19.9 percent contraction in 2011.

The Excise duty revenue on liquor increased by 8.7 percent to Rs. 60.1 billion in 2012, in comparison to Rs. 55.3 billion in 2011. This was combine effect of the increase in excise tax revenue generated from hard liquor by 4.8 percent to Rs. 49.4 billion and from Malt liquor by 28 percent to Rs. 10.5 billion in comparison to Rs 47.6 billion and Rs. 8.3 billion in 2011, respectively. Increase in Excise duty on liquor in March and October in 2012, 13.5 percent increase in the Malt liquor production to 99.3 litres million together with the significant increase in the tourism related activities supported the increase in excise tax revenue generated from this source. However, decline in hard liquor production by 7.6 percent to 49.7 million litres mainly due to 9.0 percent drop in the production of Arrack to 45.2 million litres, had a negative impact on the revenue growth.

Table 5.4 > **Excise Duty Revenue**

Item	Rs. Mn						
	2002	2007	2008	2009	2010	2011	2012
Liquor	10,235	23,723	27,434	28,525	36,654	55,286	60,085
Cigarettes/Tobacco	20,579	31,437	37,288	37,601	40,675	49,623	53,528
Motor Vehicle	4,261	17,415	11,067	3,192	21,199	71,646	78,509
Petroleum Products	16,708	19,124	18,977	23,018	28,038	22,470	28,466
Other	332	4,976	6,205	5,268	3,298	5,798	3,336
<b>Total</b>	<b>52,114</b>	<b>96,675</b>	<b>100,970</b>	<b>97,604</b>	<b>129,864</b>	<b>204,821</b>	<b>223,924</b>

Source: Department of Fiscal Policy

Table 5.5 > **Production and Excise Tax Collection from Liquor and Cigarettes**

Year	Quantity Produced						Excise Tax Revenue					
	Hard Liquor (Liter Mn.)	% Change	Malt Liquor (Liter Mn.)	% Change	Cigarettes (Mn. Sticks)	% Change	Liquor (Rs. Bn.)	% Change	Cigarettes (Rs. Bn.)	% Change		
2002	28.4	5.5	42.8	6.0	4,711	7.1	8.8	4.5	20.5	5.6		
2006	44.7	16.1	46.9	-8.9	4,791	(3.1)	20.7	27.0	30.1	12.1		
2007	46.8	4.7	49.5	5.5	4,670	(2.5)	23.9	15.4	31.4	4.5		
2008	45.8	(2.1)	57.4	16.0	4,467	(4.4)	27.3	14.2	37.3	18.6		
2009	41.1	(10.3)	55.5	(3.3)	4,101	(8.2)	28.1	3.1	37.6	0.8		
2010	49.4	20.2	71.4	28.6	4,286	(4.5)	37.7	34.3	40.6	8.1		
2011	53.8	8.9	87.5	22.5	4,469	4.3	55.8	47.8	49.6	22.0		
2012	49.7	(7.6)	99.3	13.5	4,320	(3.3)	59.9	7.3	53.9	7.9		

Source: Department of Department of Fiscal Policy, Department of Sri Lanka Customs and Department of Excise

The revenue from Excise duty from cigarettes and tobacco increased by 7.9 percent to Rs. 53.9 billion in 2012, in comparison to Rs. 49.6 billion in 2011. The upward revision in excise duty on cigarettes and tobacco products in March and October 2012 contributed to the Excise revenue growth. However, decline in the cigarettes production by 3.3 percent to 4,320 million sticks in 2012 compared to 4.3 percent growth recorded in 2011 had a negative impact on revenue generation.

The government policy towards discouraging cigarettes, tobacco and liquor consumption, enforcement of related legislations such as National Alcohol and Tobacco Act, implementation of awareness programmes and higher taxes resulted in a decline in cigarettes, tobacco and liquor consumption and negatively affected the Excise revenue growth, which underscores the necessity of expanding alternative revenue sources in the medium term in place of these products.

Table 5.6 > **Motor Vehicle Imports and Exsise Duty Revenue**

Item	No of Motor Vehicles			% Change		Excise Duty Revenue Rs. Mn
	2010	2011	2012	2011	2012	2012
Motor Bicycles	221,832	252,036	186,372	13.6	(26.1)	8,221
Three-Wheelers	92,207	137,389	93,284	49.0	(32.1)	6,663
Tractors	18,617	26,870	18,967	44.3	(29.4)	Exempted
Transport Vehicles	20,655	55,786	45,560	170.1	(18.3)	6,724
Passenger Van and Buses	2,766	3,836	3,245	38.7	(15.4)	591
Motor Cars	26,745	56,370	26,312	110.8	(53.3)	56,306
Other	277	769	435	177.6	(43.4)	4
<b>Total</b>	<b>383,099</b>	<b>533,056</b>	<b>374,175</b>	<b>39.1</b>	<b>(29.8)</b>	<b>78,509</b>

Source: Sri Lanka Customs

The Excise duty revenue generated from motor vehicles increased by 9.6 percent to Rs. 78.5 billion in 2012, in comparison to Rs. 71.6 billion in 2011. However, the Excise duty revenue growth in 2012 is marginal in comparison to higher growth in 2011, with the sharp decline in import of motor vehicles from 533,056 in 2011 to 374,175 in volume terms and from US\$ 881 million to US\$ 495 million in value terms by 43.8 percent in 2012 in comparison to 2011.

The excise revenue from petroleum products increased by 26.7 percent to Rs. 28.5 billion in 2012 in comparison to 19.9 percent contraction to Rs. 22.5 billion in 2011 supporting from the increase in sale of petrol by 8.1 percent to 1010 Ltr Mn and diesel by 5.5 percent to 2495 million litres in 2012.

## Import Duty

The revenue generated from import duty increased only by 0.4 percent to Rs. 80.1 billion accounting for 8.8 percent of total tax revenue in 2012, in comparison to Rs. 79.8 billion in 2011. The sluggish growth in import duty revenue was due to the sharp decline in the importation of motor vehicles by 43.8 to US\$ 495 million and motor vehicle spare parts by 5.0 percent to US\$ 97.5 million. Also, the decline

in importation of wheat grain by 3.2 percent to 754.1 million kg. had a negative impact on the import duty collection. Hence, import duty revenue from motor vehicles & spare parts declined from Rs. 24.5 billion in 2011 to Rs. 14.2 billion in 2012 while that from wheat grain declined from Rs. 6.9 billion in 2011 to Rs. 4.7 billion in 2012. However, the increase in import duty revenue from petrol and diesel to Rs. 7.8 billion in 2012 from Rs. 3.4 billion in 2011 and import duty revenue from milk powder to Rs. 4.6 billion in 2012 in comparison to Rs. 56.4 million in 2011 supported the import duty revenue generation in 2012. Increase in import of petrol by 31.4 percent to 616.8 million litres and diesel by 11.4 percent to 1310.7 million litres coupled with the reduction in import duty waiver for petrol from Rs. 35 per liter to Rs. 23 per liter and for diesel from Rs.15 per liter to Rs. 13 per liter to encourage the economical use of petroleum products with a view to reduce soaring import cost, reduction of import duty waiver on milk powder from Rs 125 per kg to Rs. 33 per kg in May and to Rs. 18 per kg. in November 2012 in order to discourage the importation of milk powder to promote local liquid milk production despite the decline in import of milk powder by 5.5 percent to 79.5 million kg in 2012, contributed to this improvement.

In order to strengthen liberal trade, duty concessions granted on imports under Free Trade Agreements between Sri Lanka and India, Pakistan, the South Asian Region and the Asia Pacific Region amounted to about Rs. 66.7 billion in 2012 in comparison to Rs. 78.1 billion in 2011 also had an impact on revenue growth.

## Special Commodity Levy

The Special Commodity Levy (SCL) was introduced as a single composite levy in lieu of different indirect taxes charged on certain essential food commodities with seasonal variation of supplies, under the Special Commodity Levy Act No. 48 of 2007, with a view to ensure price stability of such commodities and consumer protection as well as to promote the domestic production by providing necessary protection for domestic producers during harvesting seasons. This levy also provides a simple system for small time importers who are predominantly engaged in dry food imports. Following those objectives, SCL rates are appropriately adjusted periodically through Gazette notifications valid for a specific period mentioned therein. The number of essential commodities subjected to SCL expanded to 31 commodities by the end of 2012 from 30 commodities by the end of 2011 and 12 commodities

by the end of 2010, underscoring SCL as a convenient and efficient tax handle.

With the adjustment of SCL to promote domestic production, local production of number of items increased in volume terms in 2012 in comparison to 2011 enabling a decline in Import of many items. Accordingly, increase in SCL rates helped to reduce the cost on import of food and beverages from US\$ 3.7 billion in 2011 to US\$ 3.0 billion in 2012, benefiting from the decline in import of sugar by 19.0 percent to US\$ 345 million, fish by 8.8 percent to US\$ 134 million, lentils by 41.0 percent to US\$ 69 million, onions by 39.5 percent to US\$ 52 million, spices by 38.7 percent to US\$ 68 million and sea food including fresh fish and dried fish by 8.5 percent to US\$ 136.4 million, in 2012 in comparison to 2011.

Consequently, revenue generated from SCL increased by 115.5 percent to Rs. 33.7 billion in 2012 accounting for 3.7 percent of total tax revenue, in comparison to Rs.15.6 billion in 2011. This was mainly driven by bringing fish and vegetable oil imports under SCL and increase in SCL rates on sugar and big onions during the third quarter in 2012. The key revenue items under the SCL system in 2012 included the vegetable oil, sugar, big onions and lentils. However, the revenue from potatoes and canned fish recorded a decline in 2012.

Table : 5. 7 > **Domestic Production and Import Performance of Selected Agricultural Commodities subjected to Special Commodity Levy 2012**

Item	Domestic production ( MT '000)			Imports (MT'000)			SCL Revenue (Rs. Mn)	
	2011	2012	% Change	2011	2012	% Change	2011	2012
Big onion	45.7	83.6	82.9	170.7	145.9	(14.5)	2,183	3,916
Red onion	72.3	74.0	2.4	6.8	7.0	2.9	173	166
Black gram	5.8	10.2	75.9	7.1	3.2	(54.9)	117	329
Cowpea	10.4	14.8	42.3	0.9	0.7	(22.2)	12	68
Chillies	55.3	76.8	38.9	42.2	40.7	(3.6)	854	938
Potatoes	59.4	72.2	21.5	130.5	110.8	(15.1)	3,100	2,674
Green gram	17	18.9	11.2	10.5	7.9	(24.8)	206	644
Kurakkan	5.4	6	11.1	2.2	3.6	63.6	45	191
Sugar	35.0	36.7	4.9	596.0	559.0	(6.2)	2,880	2,881

Sources: Department of Customs, Ministry of Agriculture, Department of Census and Statistics and Department of Fiscal Policy

Table 5.8 > **Special Commodity Levy Rates**

Item	Rate (Rs. Per kg.)	
	End 2011	End 2012
Spratts	30.00	10.00
Potatoes	20.00	15.00
Red Onions	25.00	15.00
B Onions	25.00	15.00
Garlic	25.00	40.00
Green Gram	50.00	100.00
Lentils - Whole	10.00	18.00
Split	15.00	22.00
Chilies - Not Crushed	20.00	25.00
Crushed	40.00	150.00
Canned fish	85.00	100.00
Sugar	5.00	20.00
Watana - Whole	10.00	20.00
Split	15.00	25.00
Chick Peas - Whole	10.00	10.00
Split	15.00	15.00
Black Gram	100.00	110.00
Cowpea	100.00	100.00
Millet	75.00	100.00
Maldiv Fish and Substitutes There for	250.00	275.00
Other - Dried Fish	100.00	75.00
Orange - Fresh	60.00	60.00
Mandarins -Fresh	35.00	50.00
Grapes - Fresh	120.00	130.00
Apples - Fresh	45.00	45.00
Seeds of Coriander - Neither Crushed nor Ground	45.00	45.00
Seeds of Coriander - Crushed or Ground	90.00	200.00
Seeds of Cumin	150.00	160.00
Seeds of Fennel	50.00	50.00
Turmeric - Neither crushed Nor Ground	200.00	200.00
Turmeric - Other	300.00	500.00
Mathe Seed	50.00	50.00
Kurakkan (Eleusine Coracana Spp.)	75.00	100.00
Other - Millet	75.00	100.00
Kurakkan (Eleusine Coracana Spp.)	150.00	150.00
Black Gram Flour	200.00	200.00
Ground Nut- Shelled	100.00	110.00
Mustard Seeds	50.00	60.00
Palm oil Crude	-	80.00
Palm oil Refine	-	110.00
Fish	-	10% of the CIF value or Rs. 10 per Kg, the amount of levy whichever is higher

Source :Department of Trade and Investment Policy

## Nation Building Tax

The revenue from Nation Building Tax (NBT) which is 2 percent on gross turnover increased by 8.6 percent to Rs. 38.7 billion, accounting for 4.3 percent of total revenue in 2012, in comparison to Rs. 35.7 billion in 2011. Increase in NBT revenue generated from domestic activities by 21.2 percent to Rs. 23.0 billion supported the revenue growth

while contraction in NBT revenue from imports by 5.8 percent to Rs. 15.7 billion negated the revenue growth. The improvements in construction activities, moderate growth in domestic trade services, banking and insurance services and also improvements in the hotels and restaurants services in line with the boost in tourism industry,

supported the growth in NBT revenue from domestic activities despite the negative impact due to sluggish growth in domestic factory industries. Contraction in import of motor vehicles by 43.8 percent, home appliances by 4.1 percent, textiles by 2.3 percent, chemical products by 4.6 percent, wheat and maize by 15.3 percent and NBT liable food and beverages in value terms, mainly affected the NBT revenue generation from imports. Out of the total NBT revenue of Rs. 58.1 billion, one third or Rs. 19.4 billion was transferred to Provincial Councils (PCs) under the revenue sharing mechanism with the central government which was introduced in 2011.

Table 5.9 > **Transfer of NBT Revenue to Provincial Councils - 2012**

Provincial Council	Revenue (Rs. Mn.)	% of the Total
Western Province	9,297	48.0
Central Province	1,743	9.0
Southern Province	1,743	9.0
North Western Province	1,743	9.0
Sabaragamuwa Province	968	5.0
North Central Province	968	5.0
Uva Province	968	5.0
Eastern Province	968	5.0
Northern Province	968	5.0
<b>Total</b>	<b>19,368</b>	<b>100.0</b>

Source: Department of Fiscal Policy

## Ports and Airports Development Levy

The revenue generated from the Ports & Airports Development Levy (PAL) increased by 6.2 percent to Rs. 70.1 billion and accounted for 7.7 percent of total revenue in 2012, in comparison to Rs. 66.0 billion in 2011. Despite fewer exemptions and well defined base, the modest growth was seen due to the decline in the overall imports during 2012. Increase in import of petroleum products mainly contributed for the PAL revenue growth in 2012. While a standard rate of 5 percent was applied for general goods, a lower rate of 2 percent was maintained for raw materials used for pharmaceuticals and certain machinery, including machinery for textile and fabric industries.

## Telecommunications Levy

The revenue collected from Telecommunications Levy which was introduced as a single composite levy in lieu of different indirect taxes charged on supply of telecommunication services, under the Telecommunication Levy Act No. 11 of 2011, increased by 19.5 percent to Rs. 22.3 billion in 2012 compared to Rs. 18.7 billion in 2011. Expansion of telecommunication services in Northern and Eastern provinces and high demand for data transmission services from business enterprises supported this improved performance.

## Cess

The total Cess revenue increased by 10.4 percent to Rs. 32.7 billion and accounted for 3.6 percent of total revenue in 2012, in comparison to Rs. 29.7 billion in 2011. Cess revenue from imports as well as exports increased by 10.1 percent to Rs. 29.4 billion and by 12.6 percent to Rs. 3.1 billion, respectively in 2012, attributing to the revenue growth. Increase in Cess on import of iron and steel from June and on ceramic products from September 2012, as a measure of supporting high quality local production, mainly contributed for this improvement. Import of portland cement, glazed ceramic tiles, undenatured ethyl alcohol with high alcohol strength and woven fabrics of high polyester content were the major sources for import Cess revenue in 2012. The revisions introduced in the Budget 2012 by the imposition of high Cess on exports in raw forms in order to encourage domestic value creation in export industry attributed to the export cess revenue growth. Cess revenue is recycled for agriculture sector development through fertilizer subsidy for all varieties of crops and commercial crop subsidies for new- planting and re-planting of tea, rubber, coconut, cashew, cinnamon, cocoa, pepper and coffee. Accordingly, total resources channelled to plantation and non-plantation agriculture sector development amounted to Rs. 37.6 billion in comparison to Rs. 31 billion in 2011.

Table 5.10 > **Cess Revenue from International Trade and Government Subsidy for Agriculture Sector Development : 2011-2012**

Rs. Mn

	Cess Revenue			Government Subsidy Cost	
	2011	2012		2011	2012
<b>Cess on Exports</b>	<b>2,785</b>	<b>3,140</b>	<b>Commercial Crop Development*</b>		
Tea- under Tea (Tax and Control of Export) Act, Sri Lanka Tea Board Law	690	737	Tea	171.0	182.0
Rubber - under Rubber Replanting Subsidy Act	58	30	Rubber	484.5	435.0
Coconut- under Coconut Development Act	119	119	Coconut	293.1	353.1
EDB Cess - under Sri Lanka Export Development Act	1,918	2,254	Cashew	28.5	27.0
			Minor Crops (Cinnamon, Cocoa, Coffee, Pepper)	220.0	184.0
<b>Cess on Imports</b> -under Sri Lanka Export Development Act	<b>26,876</b>	<b>29,600</b>	<b>Fertilizer Subsidy for Total Agriculture Sector Development</b>	<b>29,802</b>	<b>36,456</b>
<b>Total</b>	<b>29,662</b>	<b>32,740</b>	<b>Total</b>	<b>30,999</b>	<b>37,637</b>

Source: Sri Lanka Customs and Department of National Budget

\* Includes subsidy only for new-planting and re-planting

## 5.2.2 Non Tax Revenue

Total non-tax revenue increased by 16.7 percent to Rs. 142.6 billion accounting for 15.7 percent of the total revenue in 2012 in comparison to Rs. 122.2 billion in 2011. The increase in profit and dividends by 36 percent to Rs. 46.8 billion in 2012 in comparison to Rs. 34.4 billion in 2011 and increase in profit transfers of Central Bank of Sri Lanka by 95.5 percent to Rs. 43.0 billion due to increased income from Treasury Bills holdings and revenue generated from foreign reserve management in 2012, mainly attributed for the non-tax revenue growth. Profits and dividends from state banks and other government establishments such as Lanka Mineral Sands Limited, Sri Lanka Insurance

Corporation Limited (SLIC) and National Insurance Trust Fund (NITF) and several plantation companies contributed for this growth. However, decline in non-tax revenue from rent by 38.6 percent and from sales & charges by 30 percent as well as the non-contribution by the loss making SOBEs due to the continuation of non-cost reflective prices considering the potential social and economic implications and other operational deficiencies such as inadequate competencies in corporate management, rigidity in addressing structural deficiencies and inability to separate business focus from welfare objectives, had a negative impact on non-tax revenue in 2012.

Table 5.11 > **Non Tax Revenue**

Rs Mn

Item	2002	2007	2008	2009	2010	2011	2012	2012/2011 (% Change)	2012 (% of Total Non Tax Revenue)
Interest/Rent	13,852	10,951	11,355	10,468	10,065	13,426	11,686	(12.9)	8.2
Profits and Dividends	3,055	7,682	7,365	11,982	31,301	34,351	46,761	36.1	32.8
Sales and Charges	4,477	18,437	32,260	25,387	22,925	37,292	26,019	(30.2)	18.3
Social Security Contributions	2,930	8,777	9,791	11,165	11,120	12,628	11,738*	(7.0)	8.2
Central Bank Profit Transfers	10,000	4,000	8,000	20,000	15,000	22,000	43,000	95.5	30.2
Other	5,736	6,257	868	1,710	2,122	2,468	3,343	35.5	2.3
<b>Total</b>	<b>40,050</b>	<b>56,104</b>	<b>69,639</b>	<b>80,712</b>	<b>92,533</b>	<b>122,165</b>	<b>142,547</b>	<b>16.7</b>	<b>100.0</b>

Source: Department of Treasury Operations, Department of State Accounts and Department of Fiscal Policy

\* This does not include the Social Security Contributions amounting to Rs. 1,955 million receivable from the Provincial Councils in 2012.



Table 5.12 > **Variance Analysis of Government Revenue – 2012 (Rs. Mn)**

Item	2011 Actual	2012 Estimate	2012 Prov.	Reason
Income Tax	157,310	190,270	172,593	The measures taken to counter the widening trade deficit through, high policy interest rates, credit ceilings and greater flexibility in exchange rate compressed economic activities in major income tax generating sectors such as manufacturing, communication, insurance and leasing sectors resulting a deviation from the estimates. Introduction of PAYE tax to government employees, increase in withholding interest income due to the high interest rates regime and higher investment in Treasury Bills and Treasury Bonds helped to raise income tax revenue over 2011.
VAT	225,858	264,576	229,604	The decline in imports stemming from the policy measures taken to address the Balance of Payments issues affected negatively on the VAT liable imports resulting a deviation in import VAT revenue estimates from actuals while with the slowdown in domestic economic activities adversely affected the domestic VAT revenue estimates. However, better performance in certain sectors such as hotels, restaurants and catering services coupled with the decline in VAT cash refunds with the introduction of SVAT system helped to increase the VAT revenue in 2012 over 2011.
Excise Tax	204,821	223,100	223,960	Despite the volume drops in cigarettes sales, liquor production, motor vehicle imports, revisions of tax rates on these products carried out within the year coupled with reducing duty waivers granted on import of petrol and diesel helped to generate the estimated revenue from these sources.
Import Duty	79,811	93,830	80,155	The decline in taxable imports coupled with maintaining a certain part of duty waivers on petrol and diesel in the back drop of high international oil prices, bringing certain items such as vegetable oil and fish under Special Commodity Levy during the year resulted a deviation in import duty estimates verse actuals. Despite these factors, duty revisions carried out with respect to tryes, milk powder and revising a part of the duty waivers on petrol and diesel compared to full duty waiver during 2011 helped to maintain a higher revenue than 2011 from these sources.
Ports and Air-ports Development Levy (PAL)	66,028	83,791	70,111	Decline in overall imports caused a variation in actual revenue from estimates. Despite these trends in imports a moderate growth over 2011 was evident due to fewer exemptions and well defined base applicable in charging PAL.
Nation Building Tax (NBT)	35,667	51,275	38,736	Sluggish growth in domestic factory industries coupled with contraction in imports resulted a shortfall of NBT revenue from the estimates. However, relative expansion in services sector such as hotels, restaurants, catering etc., in line with the tourism sector boom coupled with better performance in insurance and banking activities resulted revenue growth over 2011.
Other Taxes	76,202	93,717	93,754	Despite the negative factors that were encountered by the economy, rate revisions carried out during the year on SCL and Cess and adding up of new commodities under the SCL helped to maintain the revenue at estimated levels. The rate revisions on SCL and Cess during the year coupled with increase in revenue from telecommunication Levy with the expansion in that sector helped to maintain higher revenue than 2011 from these sources.
Non Tax Revenue	122,165	105,522	142,547	The increase in Central Bank profit transfers stemming from higher revenue generated from foreign reserves management and increased income from Treasury Bill holdings in a back drop of high interest rates were the main reasons of over performing of the non tax revenue over the estimates. Increase in profits and transfers from state banks and institutions such as Lanka Mineral Sands Limited, Sri Lanka Insurance Corporation Limited (SLIC) and National Insurance Trust Fund (NITF) also helped to boost non tax revenue over 2011.

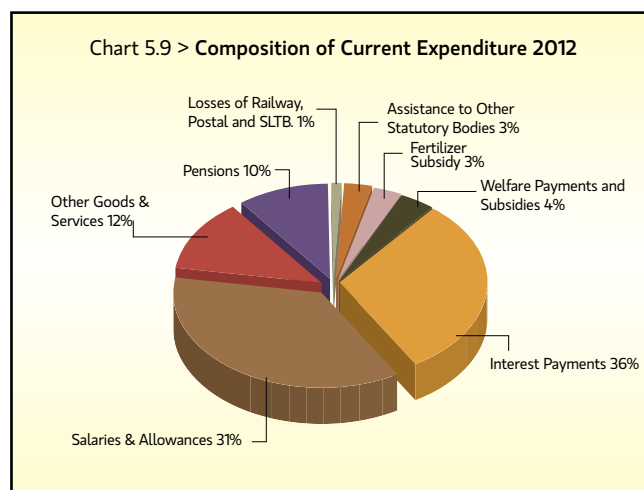
Compiled by the Department of Fiscal Policy

## 5.3 Government Expenditure<sup>2</sup>

Total government expenditure in 2012 reached Rs.1,556.5 billion with an increase of 8.6 per cent over Rs.1,433.2 billion recorded in 2011. Consequently, the government expenditure in relation to GDP moderated to 20.5 percent from 21.9 percent in 2011. Expenditure for salaries and wages increased by 8.8 percent to Rs. 347.7 billion and interest payments increased by 14.5 percent to Rs. 408.5 billion. Expenditure on transfers to public institutions mainly to cover the operational losses of Department of Railways and Department of Postal and to complement the salary increases amounted to Rs. 46.7 billion which is a 3.6 percent increase over the previous year. Subsidy transfers to households including pension payments, fertilizer subsidy and other welfare activities covering mothers, school children and vulnerable section of the society amounted to Rs. 187.9 billion, an increase of 9.6 percent over Rs. 171.4 billion in 2011. In addition, expenditure for public investment increased by 5.1 percent to Rs. 443.9 billion in 2012 in comparison to Rs. 422.3 billion in 2011.

### 5.3.1 Current Expenditure

In 2012, total current expenditure amounted to Rs.1,131 billion, which is a 10.4 percent increase over the previous year. The increase was largely



due to higher interest payments and the growth in salaries and wages. The interest cost which increased by 14.5 to Rs. 408.5 billion accounted for 36 percent of the total current expenditure in 2012. The expenditure on salaries and wages to public servants for the provision of various public services such as education, health, civil administration, national security and provincial public services increased by 8.8 percent to Rs. 347.7 billion. The expenditure on subsidies and transfers grew by 8.4 percent to Rs. 234.7 billion over the previous year. Nevertheless, the current expenditure as a percentage of GDP declined to 14.9 percent in 2012 compared to 15.7 percent in the previous year.

<sup>2</sup> For a detailed discussion on government expenditure under the Appropriation Act for 2012 and review of public expenditure, please refer to Chapter 4 and Chapter 8 of this publication.

Table 5.13 > **Current Expenditure of the Government**

Rs. Mn

Item	2002	2007	2008	2009	2010	2011	2012
<b>Total Current Expenditure</b>	<b>330,849</b>	<b>622,758</b>	<b>743,711</b>	<b>879,575</b>	<b>937,094</b>	<b>1,024,906</b>	<b>1,131,023</b>
Salaries & Wages	88,806	214,160	239,078	271,229	300,558	319,601	347,747
Other Goods & Services	51,088	78,472	121,250	108,502	87,728	132,004	140,086
Interest Payments	116,514	182,681	212,475	309,676	352,591	356,699	408,498
Foreign	10,617	21,311	30,277	35,698	55,464	68,565	90,839
Domestic	105,897	161,370	182,198	273,978	297,127	288,134	317,659
Pensions	31,123	68,822	74,922	85,139	90,995	99,961	111,682
Operational Losses of Railway, Postal and SLTB	7,998	10,137	12,157	11,078	11,434	12,999	11,817
Operational Support to Statutory Bodies	12,093	26,248	27,192	30,097	28,588	32,164	34,979
Fertilizer Subsidy	2,448	11,000	26,450	26,935	26,028	29,802	36,456
Welfare Payments and Subsidies	20,779	31,238	30,187	36,919	39,172	41,676	39,757
<b>As a % of GDP</b>							
<b>Total Current Expenditure</b>	<b>19.5</b>	<b>17.4</b>	<b>17.2</b>	<b>18.2</b>	<b>16.7</b>	<b>15.7</b>	<b>14.9</b>
o/w Salaries & Wages	6.2	6.0	5.5	5.6	5.4	4.9	4.6
Other Goods & Services	2.7	2.2	2.8	2.2	1.6	2.0	1.8
Interest Payments	5.1	5.1	4.9	6.4	6.3	5.5	5.4
Pensions	1.9	1.9	1.7	1.8	1.6	1.5	1.5
Losses of Enterprises	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Assistance to Other Statutory Bodies	0.9	0.7	0.6	0.6	0.6	0.5	0.5

Sources: Department of State Accounts and Department of National Budget

## Interest Payments

Interest payments of government debt increased to Rs. 408.5 billion in 2012 from Rs. 356.7 billion in 2011. The average interest cost as a percentage of total debt in 2012 amounted to 8 percent in comparison to 7.8 percent in 2011 owing to higher borrowing cost for both foreign as well as domestic debt. The increase in interest payments on domestic debt by 10.2 percent was mainly due to the increase in the domestic debt stock and relatively high interest rates that prevailed in the domestic market, during the first three quarters of 2012. The average interest cost on domestic debt as a percentage of total domestic debt in 2012 was 11.3 percent in comparison to 11.2

percent in 2011. The increase in the foreign debt stock by 18.8 percent in 2012, the decline in the share of concessional loans in the total foreign debt to 49 percent in 2012 from 57 percent in 2011 and the depreciation of the Rupee against foreign currencies were the major reasons for 32.5 percent growth in interest payments on foreign debt in 2012. The average interest cost on foreign debt as a percentage of total foreign debt in 2012 amounted to 3.9 percent in comparison to 3.4 percent in 2011. However, as a percentage of GDP, interest payments declined to 5.4 percent in 2012 from 5.5 percent in the previous year.

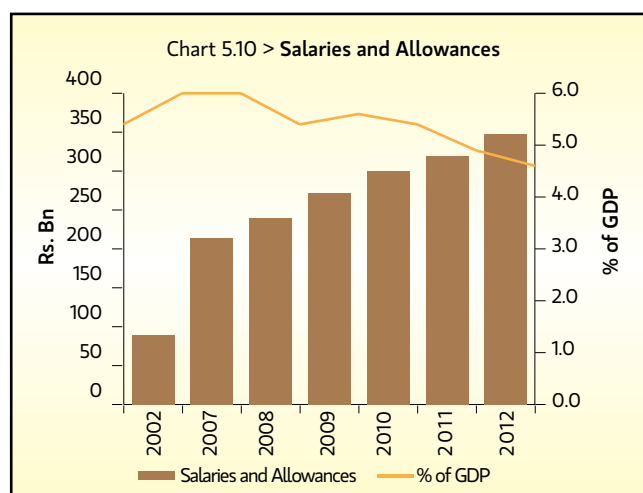
Table 5.14 > **Behaviour of Yield Rates**

Period	Treasury Bills (%)			Treasury Bonds (%)			
	91 days	182 days	364 days	2 year	3 year	4 year	5 year
2011 Sep	7.15	7.23	7.31	-	-	8.30	8.60
2011 Dec	8.68	8.71	9.31	-	-	-	-
2012 Mar	11.00	11.06	11.32	10.61	-	10.83	-
2012 Jun	11.12	12.61	12.88	-	-	-	-
2012 Sep	11.30	12.57	13.02	13.62	-	14.10	-
2012 Dec	10.00	11.32	11.69	-	-	-	-
Change (Basis Points) (2011 Dec-2012 Dec)	132	261	238	-	-	-	-
2013 Mar	9.26	10.25	11.35	-	-	-	-

Sources: Department of Treasury Operations and Department of Public Debt

## Salaries and Allowances

The government spending on public sector salaries and allowances increased by 8.8 per cent to Rs.347.7 billion in 2012 accounting for 30.7 percent of the total recurrent expenditure. The total wage cost includes salaries and allowances paid to employees engaged at national and provincial public services as well as in national security. Non salary benefit of interest subsidy on property loans, insurance facilities and concessionary duty on import of vehicles amounted to Rs. 45.2 billion in 2012 in comparison to Rs. 26.6 billion in 2011. The increase in special non-pensionable allowance from 5 percent to 15 percent of the monthly salary of non-staff grade category of public sector employees from January 2012 and for the staff grade category from July 2012 and other upward revisions in allowances alongside new recruitments in various categories contributed for this increase.

Table 5.15 > **Salaries and Allowances of the Government**

Sector	Rs. Mn						
	2002	2007	2008	2009	2010	2011	2012
Central Government	24,383	61,799	65,315	73,100	75,817	83,072	95,965
Provincial Councils	29,213	69,366	73,791	73,393	81,887	90,818	88,217
Defence	25,748	60,185	73,509	93,770	110,335	112,703	126,950
Police and Public Security	9,462	22,810	26,463	30,966	32,519	33,008	36,615
<b>Total</b>	<b>88,806</b>	<b>214,160</b>	<b>239,078</b>	<b>271,229</b>	<b>300,558</b>	<b>319,601</b>	<b>347,747</b>

Source: Department of State Accounts and Department of National Budget

## National Security Expenditure

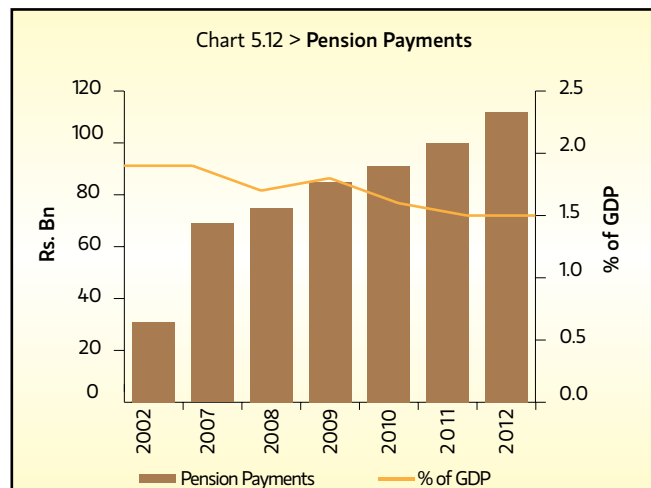
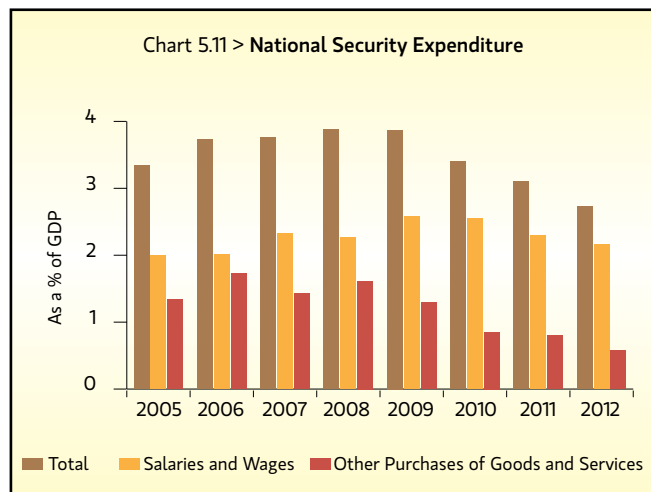
The government managed to lower the spending on national security to 2.7 percent of GDP in 2012 compared to 3.1 percent in 2011, reflecting the normalization of recruitment and procurement to three forces with the dawn of peace after the completion of humanitarian operation in 2009. Total expenditure on national security in 2012 amounted to Rs. 207.2 billion, comprising of Rs. 163.5 billion on salaries and Rs. 43.7 billion on other goods and services.

## Pension Payments

Pension payments increased by 11.7 percent to Rs.111.7 billion in comparison to Rs.100.0 billion in the previous year. The increase in the allowance paid to pensioners who retired before 31.12.2003, from Rs.750 to Rs.1,250 and Rs.1,750 and to pensioners who retired during 01.01.2004 and 31.12.2005 from Rs.250 to Rs.500 and Rs.750 with effect from 01.01.2012 and 01.07.2012 respectively, combined with the full impact of around 23,447 new retirees in 2011 and the partial impact of 17,375 new retirees in 2012 contributed for higher pension payments. Out of the 514,000 total pensioners eligible for pension payments in 2012, retirees before 2003.12.31 totalled to 357,000 and retirees between 2004.01.01 to 2005.12.31 totalled to 19,000 while retirees after 2006 totalled to 193,000. Hence, the levelling off pension differentials among these groups through higher increases for those who retired prior to 2004 had a significant impact on high pension cost in 2012.

## Welfare and Social Safety

Keeping with the government human resources development strategy, the government continued to provide a wider range of welfare assistance ensuring improved access to education facilities



for school, pirivena and university students and healthcare facilities for children and mothers, provision of free text books, uniforms and school season tickets, nutritional supplements and free medicine for all, as well as improving livelihood development and income generation support for low income and vulnerable groups in the society.

## Education Related Welfare Expenditure

The cost of the continued provision of free school text books, school uniforms and season tickets and nutritional food for the students of underprivileged schools and scholarships and bursaries programmes for the needy students amounted to Rs. 8,649 million in 2012. The expenditure on the distribution of free school text books among 3.8 million students amounted to Rs. 2,055 million and the expenditure in providing free uniforms to 3.9 million school children and 33,100 free robes to pirivena students amounted to Rs. 2,218 million. The government spent Rs. 247 million on granting bursaries and scholarships to students and Rs. 1,339 million for providing season tickets. The expenditure for school nutrition programme increased by 6 percent to Rs. 2,790 million in 2012 in comparison to 2011 to provide nutritional breakfast to 1.4 million students in schools in different areas.

Table 5.16 > **Expenditure on Key Welfare Programmes - 2012**

Item	Rs. Mn
<b>Health</b>	
Free Medicine	16,740
Infant Milk Food Subsidy & Fresh Milk	205
Poshana Malla	249
Thriposha Programme	1,189
<b>Education</b>	
School Text Books	2,055
School Uniforms	2,218
Bursaries, etc.	311
Dhamma School Text Books & Uniforms	73
School Season Tickets	1,339
School Nutritional Food Programme	2,790
<b>Divineguma Back Yard Economy</b>	
Livelihood Support Programme	2,903
<b>Welfare Support</b>	
Samurdhi Cash Income Support	10,553
Assistance to Differently Abled Soldiers	14,779
Food Assistance (with WFP assistance)	2,447
Flood and Drought Relief	207
<b>Livelihood and Production</b>	
Fertilizer Subsidy	36,456

Source: Department of State Accounts and Department of National Budget

## Healthcare Related Welfare Expenditure

**Maternal and Child Nutrition:** Reflecting the Government's commitment on the continuation of welfare programmes for infants and mothers, the cost of provision of infant milk food subsidy and fresh milk programme, Poshana Malla, Poshana Manpetha and Thriposha programme in 2012 amounted to Rs. 1,689 million. The total expenditure on infant milk subsidy, fresh milk programme and Poshana Manpetha and Lama Saviya programmes amounted to Rs. 251 million. The government spent Rs. 249 million for Poshana Malla programme and Rs. 1,189 million for Thriposha programme in 2012. Total number of beneficiaries under these programmes were infant milk food subsidy and fresh milk programme (198,000), Poshana Malla (57,328), Poshana Manpetha (4,531) and Thriposha programme (985,000).

**Free Medicine:** Out of the total government expenditure on provision of free healthcare facilities, the government spent Rs. 16,740 million for indoor and outdoor free medicine by providing medical supplies to hospitals and institutions in the form of vaccines, gauze and drugs, including drugs for cancer & other diseases, and for National Family Planning Programme in 2012. Such expenditure has increased considerably in recent years in comparison to Rs. 7,100 million in 2005.

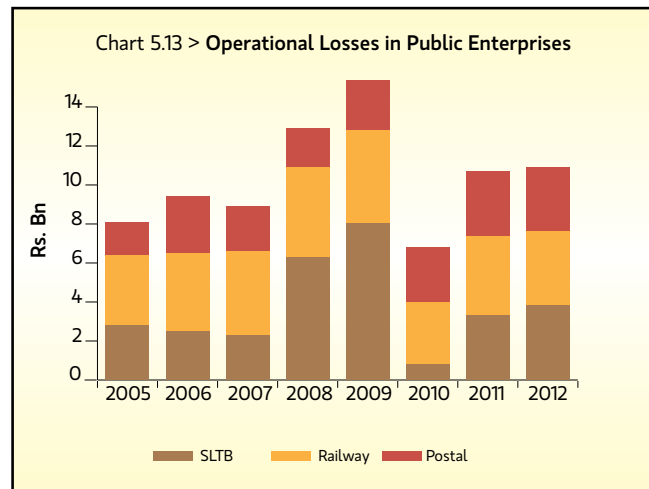
## The Supplementary Cost Income Support to Poor and Vulnerable Groups

Ensuring the government's policy stance on improving livelihood and income generation activities of low income and most vulnerable groups of the society, Samurdhi programme continued in 2012 with increased monthly payments, targeting 1.54 million low income families across the country, in parallel to the "Divi Neguma" programme which is carried out empowering household level back yard economic activities. In order to provide more benefits to recipients, as per the 2012 Budget

proposals, beneficiary families were categorised as small, medium and large families based on the number of beneficiaries in a family and monthly Samurdhi cash allowance payments were raised to Rs.750, Rs.1,200 and Rs.1,500. Accordingly, the expenditure on Samurdhi payments increased by 16.7 percent to Rs.10,553 million in 2012.

## Assistance to State Owned Enterprises

The government budget support to cover the operational losses of State Owned Enterprises (SOEs) moderated to Rs. 11.8 billion in 2012 in comparison to Rs. 13.0 billion in 2011, underscoring the necessity for continued adjustments taken in recent years to improve financial performance as well as service delivery of SOEs. Of the total, budget support to SOEs amounted to Rs. 11,817 million in 2012, transfers to Sri Lanka Railways (SLR) and Department of Posts, the two departmental enterprises, amounted to Rs. 7,101 million in 2012 in comparison to Rs. 7,396 million in 2011. Transfers to Sri Lanka Transport Board (SLTB) amounted to Rs. 3,983 million in 2012 in comparison to Rs. 3,939 million in 2011 while assistance to other SOEs such as Cashew Corporation, Ceylon Fishery Harbour Corporation and Palmyra Development Board etc. amounted to Rs. 734 million in 2012 in comparison to Rs. 1,664 million in 2011.



The financial losses in SLR moderated to Rs.3,796 million in 2012 from Rs. 4,060 million in 2011, due to a net result of an increase in revenue by 15 percent to Rs. 4.9 billion and an increase in operating expenditure by 4.3 percent to Rs. 8.6 billion. This improvement was supported by the increase in passenger and goods transportation with the expansion of railway infrastructure including re-opening of upgraded Southern railway line and addition of new trains and carriages for the services. Accordingly, passenger and goods kilometres run by the SLR increased by 3.9 percent and 10.2 percent, respectively in 2012.

Table 5.17 > Key Statistics of Sri Lanka Railway Transportation Service

Category	2005	2006	2007	2008	2009	2010	2011	2012
Total Revenue (Rs Mn)	1,958	2,491	2,999	3,671	4,020	4,018	4,235	4,852
Operational Expenditure (Rs Mn)	5,512	6,473	7,297	8,225	8,788	7,191	8,295	8,648
Salaries	3,544	4,403	5,237	4,720	5,073	5,144	5,428	5,743
Fuel	1,432	1,500	1,425	2,627	2,917	1,260	2,005	2,060
Operational Losses (Rs Mn)	3,554	3,981	4,297	4,553	4,768	3,173	4,060	3,796
Passenger Kilometers Operated (Mn)	4,358	4,316	4,767	4,681	4,568	4,353	3,478	5,039
Passengers Transported ('000)	114,425	100,602	110,464	104,597	101,807	101,454	96,110	106,046
Train Kilometers Operated (Mn)	8	8	9	7	9	9	10	11

Sources : Department of National Budget and Sri Lanka Railways



Transfers to Department of Posts (DOP) also moderated to Rs.3,305 million in 2012 from Rs. 3,336 million in 2011. This was supported by the 8 percent slower growth in operational loss of DOP in 2012 in comparison to 17.5 percent increase in 2011. The slower growth in operational losses was a combined result of an increase in revenue by 12.3 percent to Rs. 5.0 billion compared to 7.7 percent increase in operating expenditure to Rs. 8.3 billion in 2012. The establishment of 53 new agency post offices while closing down 61 estate post offices which did not generate sufficient revenue and technological improvements with the introduction of 4 hour courier service in Colombo and suburbs contributed for this.

However, transfers to Sri Lanka Transport Board (SLTB), which is a state owned public enterprise, increased to Rs. 3,983 million in 2012 in comparison to Rs. 3,939 million in 2011. Despite the

increase in bus fares by 20 percent from February 2012, the addition of new bus services in the Sothorn Expressway and intercity services, the introduction of electronic ticketing machines in Colombo district and augmenting the bus fleet with refurbished busses, operational losses of SLTB expanded owing to the increase in wage cost arising from the equalising of minimum wages of SLTB with government salaries. Accordingly, even though the passenger kilometers run by the SLTB increased by 8.4 percent and supported by higher fares, operational losses of SLTB increased by 15.2 percent to Rs. 3.8 billion in 2012. Although the role of SLTB could be well justified on the basis of its operation on rural areas ("Gami Sariya" programme), school services ("Sisu Sariya" programme) and off-peak hours ("Nisi Sariya" programme), a priority should be given to reduce the high wage costs and its inefficiencies.

Table 5.18 > **Key Statistics of Postal Service**

Category	2005	2006	2007	2008	2009	2010	2011	2012
Total Revenue (Rs Bn)	2.6	2.8	4.0	4.8	4.5	4.6	4.4	5.0
Operational Expenditure (Rs Bn)	4.3	5.7	6.3	6.7	7.1	7.3	7.7	8.3
Operational Losses (Rs Bn)	1.7	2.9	2.3	2.0	2.6	2.8	3.3	3.3
Area Served by Post Office (sq km)	13.9	13.8	13.8	13.8	14.0	14.0	14.0	13.0
Population Served by Post Office (No)	4,100	4,167	4,252	4,311	4,316	4,355	4,401	4,290

Source: Department of National Budget and Department of Postal

Table 5.19 > **Key Statistics of Sri Lanka Transport Board Transportation Service**

Category	2005	2006	2007	2008	2009	2010	2011	2012
Total Revenue (Rs Mn)	10,026	12,379	14,687	14,361	13,979	21,560	21,019	26,303
Operational Expenditure (Rs Mn)	12,804	14,921	16,999	20,622	22,005	22,387	24,326	30,124
Salaries	5,872	7,103	7,216	8,121	10,080	8,434	8,541	13,224
Fuel	3,632	4,696	6,228	8,505	7,134	7,177	7,997	11,406
Operational Losses (Rs Mn)	2,778	2,542	2,312	6,261	8,026	827	3,307	3,821
Budgetary Support	3,891	4,976	3,654	5,638	4,203	3,828	3,939	3,983
Uneconomical Routes (Rs Mn)	3,689	4,360	3,159	3,736	2,332	2,460	1,922	2,188
School Season Tickets (Rs Mn)	250	250	500	600	1,384	1,369	1,359	1,339
Subsidy per Kilometer (Rs)	11.8	15.2	12.5	12.0	15.1	13.5	10.1	11.8
Average kilometers Operated per Day	679,092	713,753	835,313	857,033	915,476	935,940	933,810	923,034

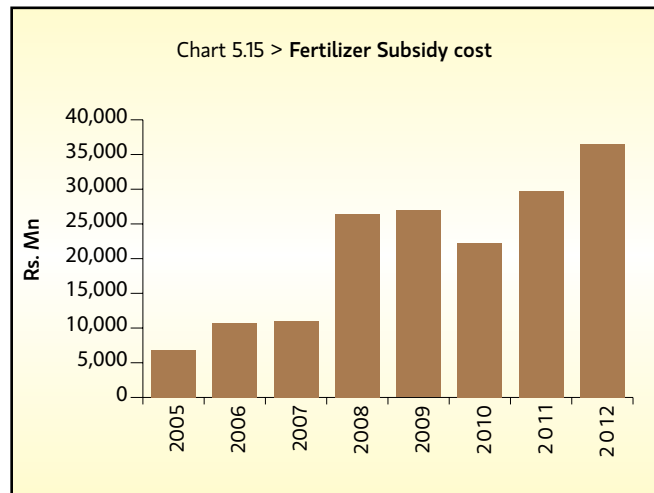
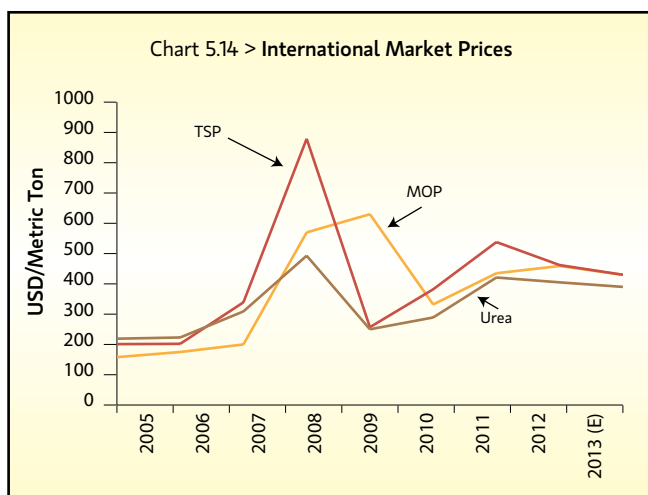
Sources : Department of National Budget and Sri Lanka Transport Board

### 5.3.2 Price Subsidies on Key Commodities

Government continued its policy on providing subsidies for a wide range of commodities and services with a view to providing relief to the low income families and production sector in the economy.

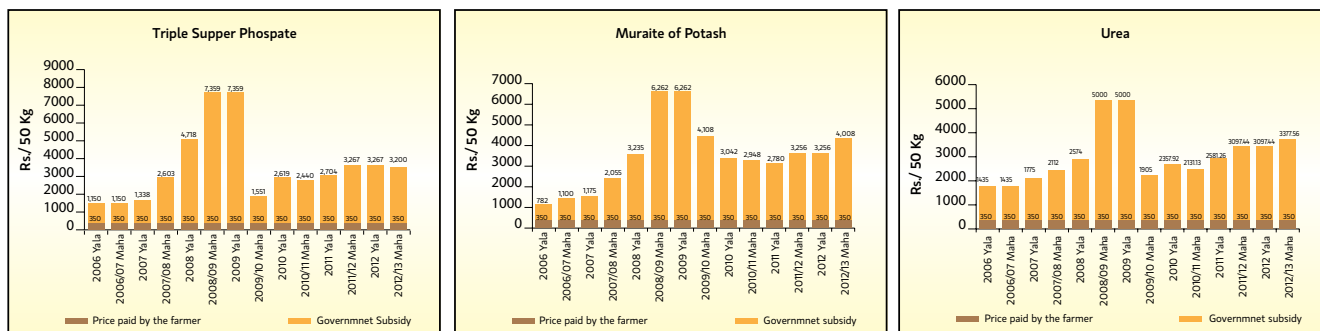
#### Fertilizer

In line with the “Mahinda Chintana” policy framework, government remained committed to provide fertilizer subsidy program recognising the significance of particularly the rural small holder agriculture within the national economy. The fertilizer subsidy at Rs. 350 per 50 kg has been provided to paddy farmers since 2006. This was extended to tea in 2009 and to coconut in 2010. Further strengthening the agriculture and plantation sector, government decided to extend the fertilizer subsidy for all other crops in 2011. Consequently, the government spent Rs. 36,456 million for fertilizer subsidy in 2012 compared to Rs.29,802 million in 2011 and Rs.10,700 million in 2006, the year in which His Excellency the President in his first budget speech announced the implementation of this subsidy as per the “Mahinda Chintana- Towards a New Sri Lanka” policy framework.



Farmers were also allowed to purchase fertilizer at subsidized prices from any fertilizer merchant to simplify operations. Accordingly, any type of 50 kg bag of straight fertilizer and any type of 50 kg. bag of mixed fertilizer could be purchased at a concessionary prices of Rs. 1,200 and Rs.1,300, respectively. The subsidized price of Rs.350 for a 50 kg. bag of Urea, Triple Superphosphate (TSP) and Muraite of Potash (MOP) for the paddy sector continued in 2012 as well.

*Continuing the government policy on providing energy at concessionary prices for lower and middle income households, electricity has been provided at subsidized prices for 84 percent of the total electricity consumers in 2012.*

Chart 5.16> **Government Subsidy Cost vs. Price Paid by the Farmer (Paddy Cultivation)**

The government has distributed 197,761 Metric tons of fertilizer in the 2011/2012 Maha season among 780,395 paddy farmers to cultivate 519,280 Hectares and 151,686 Metric tons of fertilizer in 2012 Yala season among 652,281 farmers to cultivate 356,765 Hectares under

the paddy fertilizer subsidy programme in 2012. Accordingly, on average each farmer has received Rs. 4,719 for Urea, Rs. 1,936 for TSP and Rs. 1,883 for MOP per acre in Maha season 2011/2012 and Yala season 2012, as fertilizer subsidy.

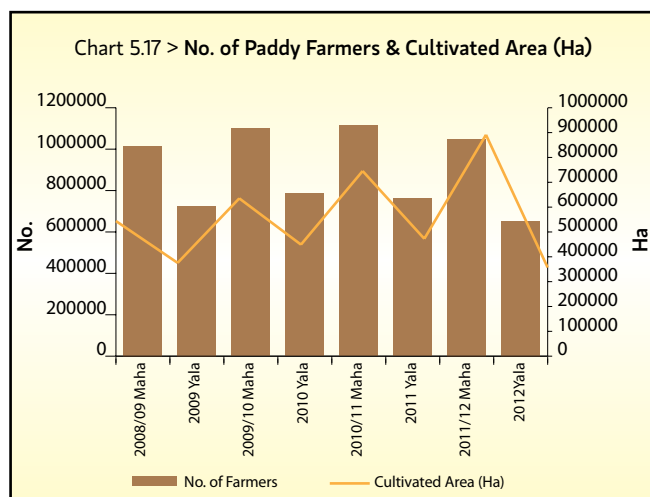
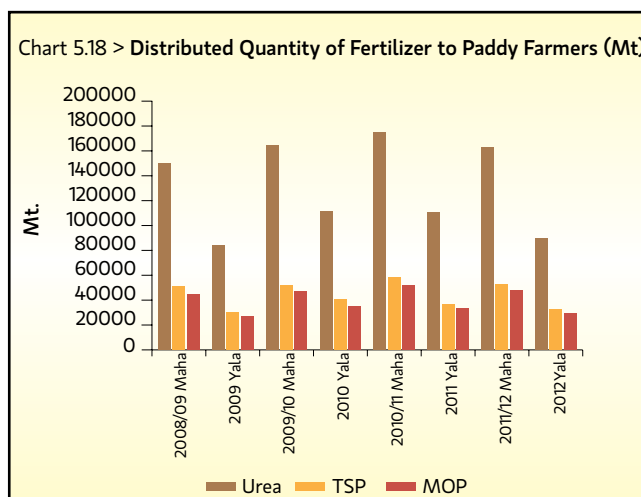
Chart 5.17 > **No. of Paddy Farmers & Cultivated Area (Ha)**Chart 5.18 > **Distributed Quantity of Fertilizer to Paddy Farmers (Mt)**

Table 5.20 > **Fertilizer Subsidy - December 2012**

Type of Fertilizer/Sector	Market Price (Rs) per 50 kg Bag at Dec 2012	Subsidized Price (Rs) per 50 kg Bag	Subsidy (Rs) per 50 kg Bag	Government Subsidy as a Percentage of the Market Price (%)
<b>Paddy</b>				
Urea	3,433.47	350.00	3,083.47	89.81
MOP	3,429.59	350.00	3,079.59	89.79
TSP	4,192.86	350.00	3,842.86	91.65
<b>Other Crops</b>				
Urea	3,863.26	1,200.00	2,663.26	68.94
MOP	3,707.29	1,200.00	2,507.29	67.63
TSP	4,531.63	1,200.00	3,331.63	73.52

Source: National Fertilizer Secretariat of Sri Lanka

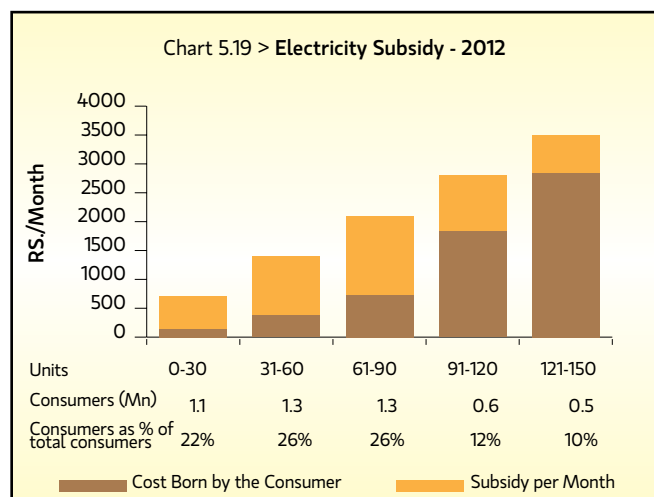
## Electricity

Continuing the government policy on providing energy at concessionary prices for lower and middle income households, electricity has been provided at subsidized prices for 84 percent of the total electricity consumers in 2012 as shown in chart 5.19.

Table 5.21 > **Electricity Tariff 2012**

Units consumed per month	No. of Households (Mn)	Tariff per Unit (Rs.)	Cost per unit (Rs.)	Subsidy per unit (Rs.)	% of the Subsidy
0-30	1.10	4.75	23.16	18.41	79.99
0-60	1.30	6.20	23.16	16.96	73.24
0-90	1.30	8.09	23.16	15.07	65.05
0-120	0.60	15.30	23.16	7.87	33.96
0-150	0.50	18.96	23.16	4.20	18.15
<b>Total</b>	<b>4.80</b>				

Sources: Department of Public Enterprises &amp; Ceylon Electricity Board

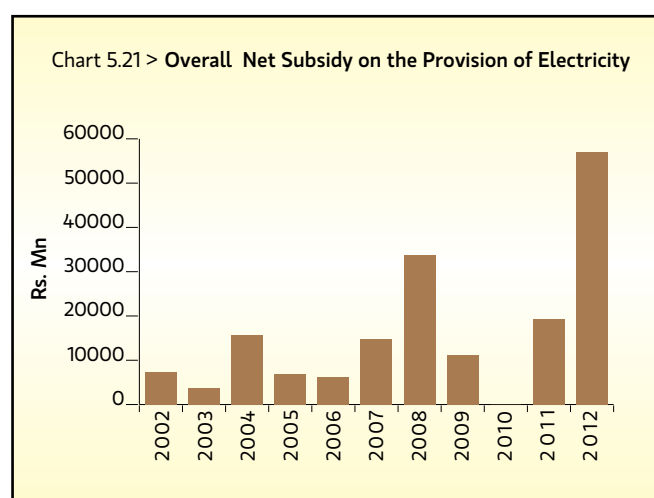
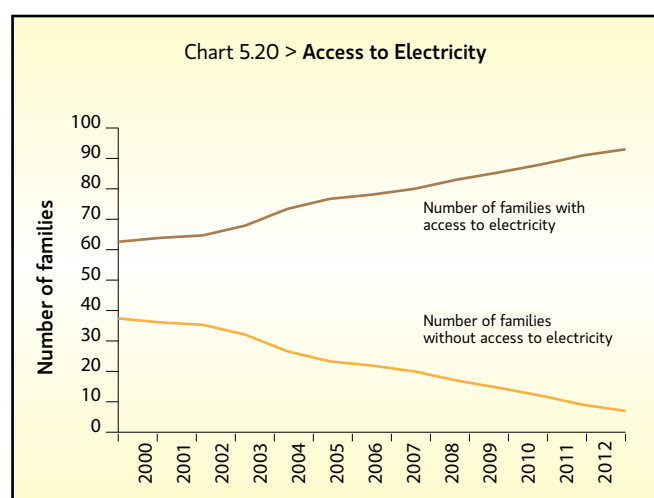


Government further provides electricity at reduced prices, for social and economic activities. Accordingly, the total subsidy cost for the provision of electricity in 2012 was Rs. 71,574 million. The subsidy was partly financed from high tariff for general purpose users as well as high electricity consuming households. Consequently the government, through CEB, incurred a loss of Rs. 61,164 million in providing this service.

Table 5.22 > **Expenditure on Electricity Subsidy - 2012**

	Rs. Mn
<b>Total Electricity Subsidy (Gross)</b>	<b>71,574</b>
Household Consumption	36,358
Religious Places	933
Social Welfare	2,551
Hotels	1,047
Industries	27,407
Street Lighting	3,278

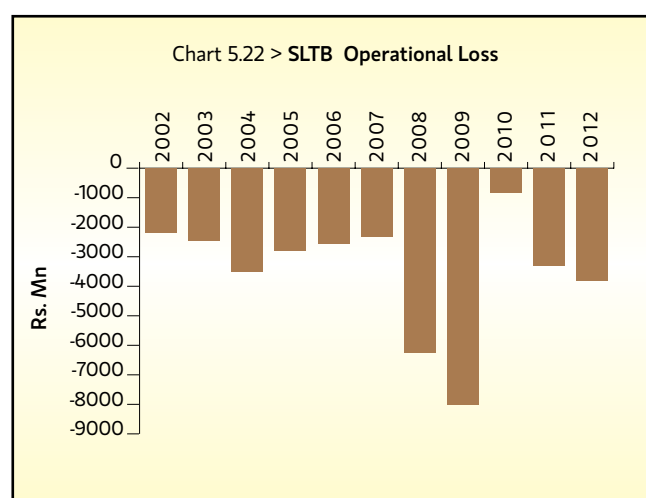
Sources: Department of Public Enterprises & Ceylon Electricity Board

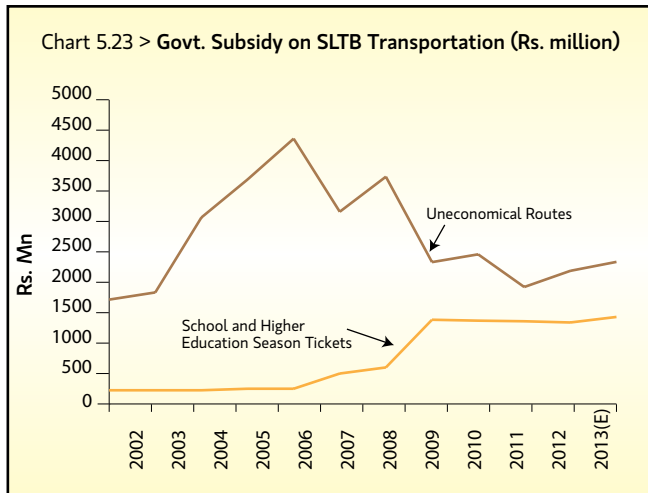


However, in order to reduce these losses, in addition to pursuing adjustments towards cost reflective prices while targeting concessional prices for lower income category, the government continued its investment on low cost power generation projects such as the expansion of renewable energy as well as coal fired power projects and to reduce transmission losses thereby lower the cost. At the same time, the access to electricity has been increased to 93 percent in 2012 from 65 percent in 2002 reflecting the expansion of benefits of having electricity among wider segment of the population of which 84 percent consumed it below cost of production.

## Transport

The subsidy provided by the government to the Sri Lanka Transport Board (SLTB) and Sri Lanka Railways (SLR) to operate in uneconomical routes, school transport and office transport continued in 2012 as well.





Accordingly, the government has spent Rs.1,339 million to provide transport facilities for school and higher education students at reduced fares through season tickets and Rs.182 million to provide passes to armed forces in 2012. Further, Rs. 2,188 million has spent to provide public bus transport facilities in uneconomical routes, especially in rural areas. Even with these subsidy transfers, the operational loss of SLTB in 2012 has increased by 15.2 percent to Rs. 3,821 million compared to 2011.

## Water

Government through National Water Supply and Drainage Board (NWSDB) continued providing safe drinking pipe - borne water at a subsidized price for larger number of consumers. This service also includes the provision of water for schools and religious places at a subsidized price.

Accordingly, about 90 percent of households with access to pipe -borne water who consume up to 25 units (cubic meters) per month are provided with water at a subsidized price. Therefore, the government has spent Rs. 3,960 million as water subsidy in 2012. Government also provided Rs.49 million in 2012 to the NWSDB to provide water for schools and religious places at subsidized prices compared to Rs.46 million in 2011. With these developments, the repayment arrears of the NWSDB on government on lending amounted to Rs. 3.9 billion in 2012.

Table 5.23 > **Water Subsidy (Domestic Category) - 2012**

Units	No of Consumers (000')	Water Production (Cubic Meter)	Cost of Production (Rs. Mn)	Cost Borne by the Consumer (Rs. Mn)	Government Subsidy (Rs. Mn)	Per Head Subsidy Rs.
0 - 10	565	28.0	1,199	475	724	1,281.42
11 - 15	323	46.9	2,006	653	1,353	4,188.85
16 - 20	260	58.3	2,497	996	1,501	5,773.08
21 - 25	150	46.3	1,983	1,048	935	6,233.33
Higher ranges	167	87.4	3,743	4,296	(553)	(3,311.38)
<b>Total</b>	<b>1,465</b>	<b>266.9</b>	<b>11,428</b>	<b>7,468</b>	<b>3,960</b>	<b>2,703.07</b>

Source: National Water Supply and Drainage Board

Table 5.24 > **Water Consumption in 2012**

Category	Units (Cubic Meters - Mn)	% of the Total Water Sales (Based on Production)	Profit/Loss (Rs.Mn)
Domestic	259.0	49.28	(3,967)
Government*	44.1	8.40	458
Commercial	33.4	6.36	1,207
Local Authorities and Community Based Organizations	7.4	1.41	(182)
BOI (Free Trade Zone)	7.4	1.41	105
Samurdhi Beneficiaries	7.5	1.42	(217)
Religious	5.2	1.00	(130)
School	4.8	0.92	(110)
Tourist Hotels	2.3	0.44	(80)
Stand Post	2.6	0.49	(100)
<b>Total</b>	<b>373.7</b>	<b>71.12**</b>	<b>(3,016)</b>

\*Includes Government Institutions – Sri Lanka Army, Police, Hospitals, Shipping, Industrial/Construction etc.

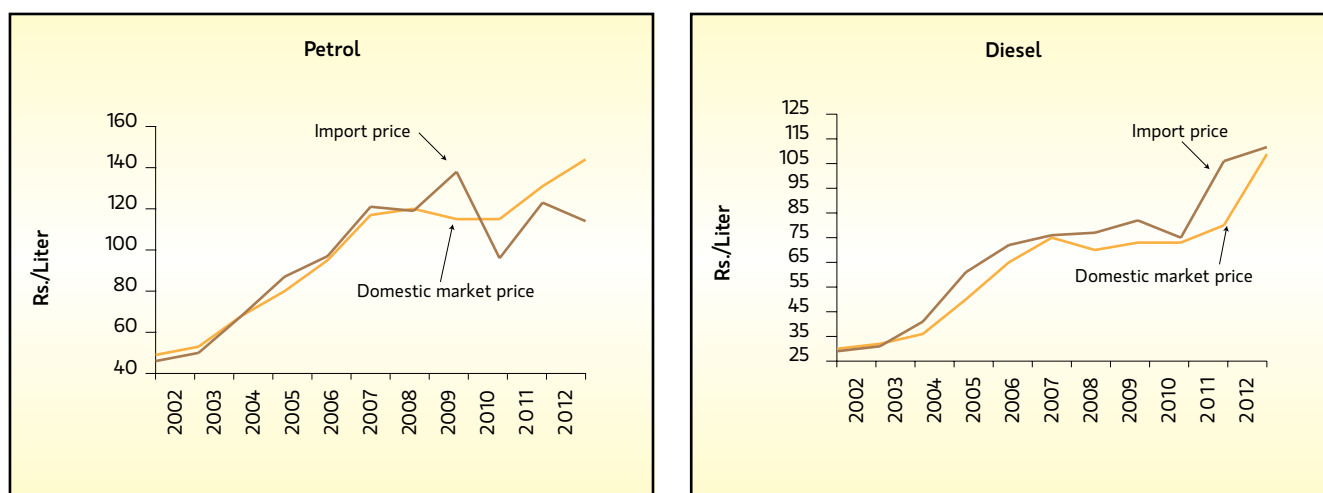
\*\*The balance 28.88 percent is Non Revenue Water

Source: National Water Supply and Drainage Board

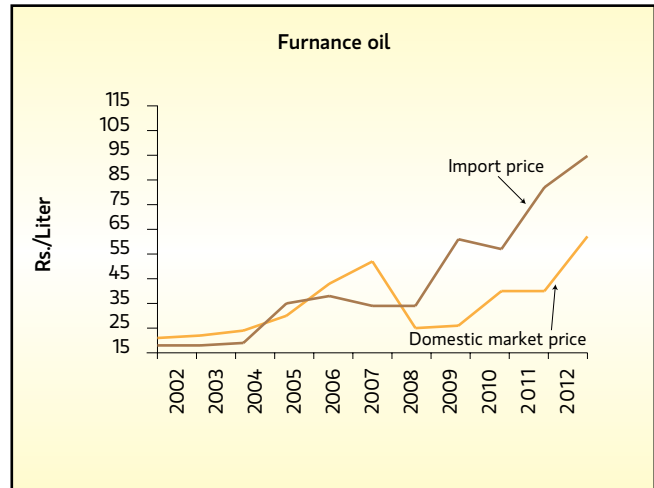
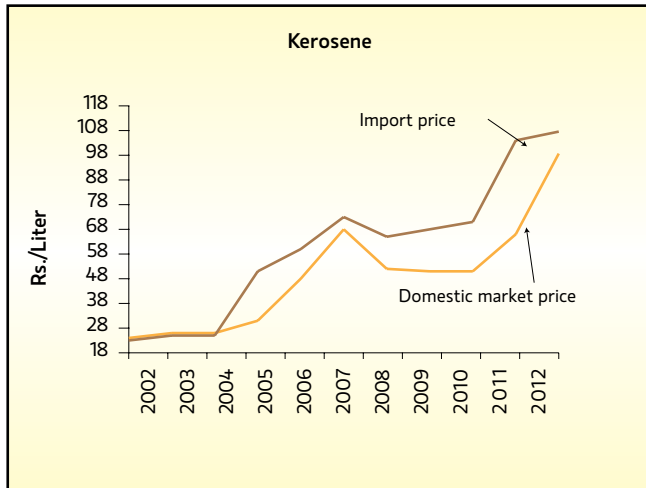
## Petroleum

The Ceylon Petroleum Corporation provided its products below international prices. Following

charts show the behaviour of the domestic petroleum prices and import cost of such products.

Chart 5.24 > **Import Prices vs. Domestic Market Prices**





During the year 2012, crude oil prices in international market, fluctuated in the range of US \$ 90 to US \$ 130 per barrel, mainly due to the political instability in the oil-producing Middle Eastern region. The depreciation of the rupee, and the international economic sanctions imposed on Iran, which is Sri Lanka's key crude oil supplier, adversely affected the prices of petroleum products. Severe drought conditions prevailed during the second half of the year made a heavy burden on the operation of CPC negating the expected gains in the price revisions effected in February 2012.

Drought condition prevailed during the year 2012 which led to expensive thermal power generation, coupled with the sustained high demand for transport and energy based economic activities, further boosted fuel consumption. Total electricity generation through hydro sources declined by 28.6 per cent to 3,298 GWh in 2012 while thermal power generation increased to 6,935 GWh, the highest level of thermal power used in a decade. Usage of kerosene decli-

ned from 291 million litres in 2002 to 182 million litres by 2012 with the increased access to electricity and revision of Kerosene prices from Rs.71.00 to Rs.106.00 per litre in February 2012 which has also contributed to increase electricity consumer base.

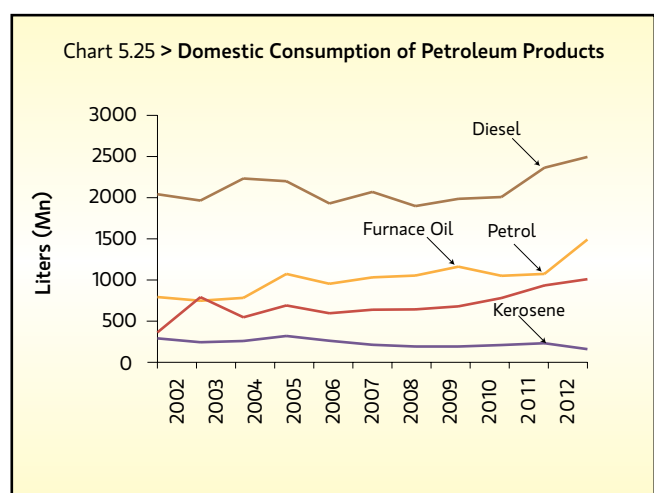


Table 5.25 > **New Registration of Motor Vehicles and Thermal Power Generation**

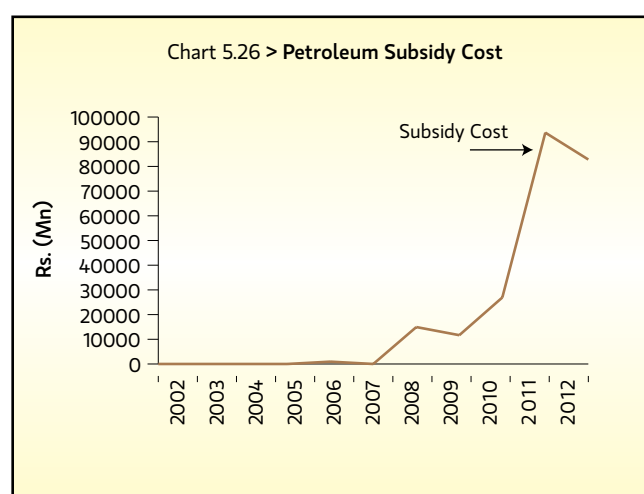
	2007	2008	2009	2010	2011	2012
<b>New Registration of Motor Vehicles</b>	<b>297,892</b>	<b>391,549</b>	<b>218,113</b>	<b>359,243</b>	<b>525,421</b>	<b>397,294</b>
Buses	2,637	1,180	14,777	2,491	4,248	3,095
Private Cars	22,603	20,237	5,762	23,072	57,886	31,545
Three Wheelers	43,068	44,804	37,364	85,648	138,426	98,815
Dual Purpose Vehicles	5,193	2,856	1,280	11,712	33,518	37,398
Moto Cycles	182,508	155,952	135,421	204,811	253,331	192,283
Goods Transport Vehicles	18,408	140,388	8,225	11,845	14,818	12,266
Land Vehicles	23,475	26,132	15,284	19,664	23,194	21,892
<b>Cumulative Total Vehicle Fleet*</b>	<b>3,125,794</b>	<b>3,390,993</b>	<b>3,595,068</b>	<b>3,954,311</b>	<b>4,479,732</b>	<b>4,877,027</b>
<b>Thermal Power Generation (GWh)</b>	<b>5,864</b>	<b>5,763</b>	<b>5,974</b>	<b>4,995</b>	<b>6,785</b>	<b>6,935</b>
Ceylon Electricity Board	2,336	2,083	2,091	1,394	2,532	2,029
Private Companies	3,528	3,680	3,883	3,601	4,253	4,906

Sources: Sri Lanka Customs, Department of Motor Traffic and Ceylon Electricity Board

\* Cumulative number of all vehicles registered in Sri Lanka

Higher utilization of thermal power amidst high international oil prices adversely affected the financial position of Ceylon Electricity Board (CEB) and Ceylon Petroleum Corporation (CPC). CPC provides the total domestic requirement of kerosene and furnace oil. It also provides around 95 percent of diesel requirement and 79 percent of petrol requirement of the country. Lanka Indian Oil Company (LIOC) provides only around 5 percent of diesel and 21 percent of petrol requirement. Since the prevailing pricing policies discourage private sector role in the petroleum industry, with the increased international market prices coupled with increased domestic consumption of petroleum products, the burden on the provision of petroleum products requirement of the country falls on the government. Therefore, CPC is compelled to narrow down the gap between the imported prices and domestic market prices to improve its financial position.

Domestic prices of petroleum products were revised twice in 2012 due to higher prices in



the international market. However, most of the petroleum products were sold below the market price as shown in Table 5.26. With a view to further contain losses in CPC, prices of petroleum products were revised in February 2013.

Table 5.26 > **Average Selling prices and Profit/(Loss) per liter in 2012**

Description	Petrol 90	Auto Diesel	Kerosene	Furnace Oil
December 2012 Selling Prices (Rs/Liter)	159	115	106	65
Total Cost per Liter	147	125	121	103
Profit/ (Loss) per Liter	12	(10)	(15)	(38)

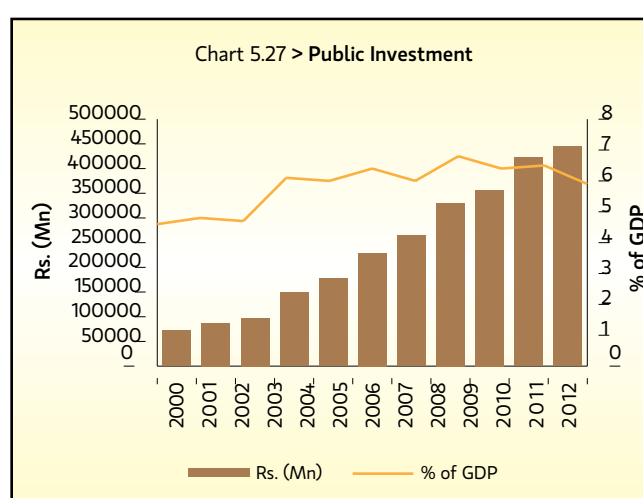
Sources: Ceylon Petroleum Corporation

## Public Investment<sup>3</sup>

In 2012, public investments amounted to Rs. 444 billion, which is an increase of 5.1 percent over the previous year. As a percent of GDP, the public investments amounted to 5.9 percent in 2012 in comparison to 6.5 percent in 2011. The public investment was directed towards improving the country's national infrastructure including road development, human resources development and up grading the rural economy. Public investment on energy & water supply, transport & communication and agriculture & irrigation increased to Rs. 85.5 billion, Rs. 204.5 billion and Rs.30.3 billion, respectively in 2012. Further, public investment on education, health and housing increased to Rs. 28.9 billion, Rs. 17.1 billion and Rs.7.8 billion, respectively during the year.

To spur economic growth, by facilitating private sector economic activities, priority was given to complete the on going national infrastructure development projects, particularly in the areas of highways, power generation, ports and airports development. The improvement of other economic infrastructure including road network, transportation, irrigation and water supply schemes were also continued simultaneously.

In order to up-grade the rural economies, many infrastructure developments projects were imple-



mented as regional centric development activities with the priority on the improvement of rural roads, rural electrification, minor irrigation projects and community water supply facilities. In line with this, various rural/regional development initiatives, including "Divi Neguma", "Maga Neguma", "Uthuru Wasanthaya", "Nagenahira Navodaya" were in progress while reconstruction and rehabilitation of the basic economic and social infrastructure in the conflict affected areas also continued with the emphasis on housing, drinking water, irrigation and livelihood programmes and improving administrative facilities.

<sup>3</sup> Public investment includes government direct capital expenditure through line ministries and agencies and on lending for public enterprises to undertake government approved capital expenditure projects in the public investment plan. This figure does not include capital expenditure by enterprises' owned resources. For a detailed discussion on the public investment, please refer to the Chapter 6 and Chapter 8 of this publication.

Table 5.27 > **Public Investment**

	Rs. Mn						
Item	2002	2007	2008	2009	2010	2011	2012(Prov.)
Education	6,048	19,948	22,942	18,092	19,053	22,326	28,930
Health	4,713	16,961	18,674	12,664	13,329	14,794	17,155
Police and Public Security	638	3,705	4,728	1,409	1,298	3,816	945
Civil Administration	4,075	28,438	29,675	18,686	20,212	28,668	26,565
Housing and Common Amenities	3,505	4,481	4,826	5,291	5,489	7,105	7,823
Community Services	1,212	13,596	13,794	17,891	18,334	19,141	17,267
Agriculture and Irrigation	6,936	14,736	17,681	22,105	24,865	28,617	30,351
Energy and Water Supply	17,732	47,850	48,783	59,983	66,569	83,186	85,598
Transport and Communication	18,916	50,995	82,916	139,104	165,505	190,026	204,539
Other	8,402	28,563	19,825	35,223	21,865	24,621	24,800
<b>Total</b>	<b>72,177</b>	<b>229,273</b>	<b>263,844</b>	<b>330,448</b>	<b>356,519</b>	<b>422,300</b>	<b>443,973</b>

Sources: Department of National Budget and Department of State Accounts

Further, the government has paid the attention on addressing the prevailing issues and impediments such as delays in project implementation that lead to cost overruns and to ensure that planned projects are completed on time. Meanwhile, the implementation of infrastructure development projects by public enterprises using the funds generated on their own through the strength of their balance sheets, rather than depending on the funds from the government, is also being encouraged.

## 5.4 Financing Provincial Councils

Under revenue sharing mechanism, adopted in 2011 following the amalgamation of provincial turnover tax and NBT to simplify taxation, between the central government and the Provincial Councils (PCs), Rs. 19.4 billion out of the Rs. 58.1 billion total NBT revenue in 2012 was transferred to PCs. In addition, the entire revenue of Rs. 6.5 billion collected from Stamp Duties

and Rs. 1.7 billion which is 70 percent of the total motor vehicle registration fees in 2012, were transferred to PCs to augment their revenue. Accordingly, the total revenue transferred to PCs increased by 6.7 percent to Rs. 27.6 billion in comparison to Rs. 25.9 billion in 2011.

Tax revenue collected by PCs through devolved taxes such as tax on property and license fees amounted to Rs. 20.7 billion in 2012 in comparison to 17.9 billion in 2011 while non-tax revenue collected by the PCs through interest, profits & dividends and sales & charges amounted to Rs.6.4 billion in 2012 in comparison to Rs. 6.3 billion in 2011. Accordingly, total revenue of the PCs consisting of government transfers and provincial revenue increased by 16.9 percent to Rs. 49.2 billion in 2012 in comparison to Rs. 42.1 billion in the previous year. The revenue transfers to PCs by the central government accounted for 56.1 percent of their total revenue.

Table 5.28 > **Performance of NBT, Stamp Duty and Motor Vehicle Registration Fees: 2011-2012**

Item	Rs. Mn								
	2011			2012			% Change 2012/2011		
	CG	PCs	Total	CG	PCs	Total	CG	PCs	Total
NBT*	35,667	17,834	53,501	38,736	19,368	58,104	8.6	8.6	8.6
Domestic	19,040	9,520	28,560	23,076	11,538	34,614	21.2	21.2	21.2
Import	16,627	8,314	24,941	15,660	7,830	23,490	(5.8)	(5.8)	(5.8)
Stamp Duty**	-	6,859	6,859	6,535	6,535	-	-	(4.7)	(4.7)
Motor Vehicles Registration Fees***	510	1,191	1,701	737	1,721	2,458	44.5	44.5	44.5
<b>Total</b>	<b>36,177</b>	<b>25,884</b>	<b>62,061</b>	<b>39,473</b>	<b>27,624</b>	<b>67,097</b>	<b>9.1</b>	<b>6.7</b>	<b>8.1</b>

Sources: Finance Commission and Department of Fiscal Policy

\*Since 2011, 33 1/3 percent of the revenue collected from the NBT by the CG is transferred to PCs.

\*\*Since 2011, 100 percent of the revenue collected from the stamp duty by the CG is transferred to PCs.

\*\*\*70 percent of the revenue collected by the CG from motor vehicle registration fee is transferred to PCs.

Note: CG-Central Government, PCs-Provincial Councils

Total expenditure of the PCs, using their own revenue and tax revenue transfers from central government, amounted to Rs. 47.4 billion in 2012 in comparison to Rs. 40.9 billion in 2011. Current expenditure of PCs increased by 29.9 percent to Rs. 44.3 billion in 2012, mainly due to the increase in salaries in education and health sectors. Accordingly, in addition to 6.7 percent increase in revenue transfers, central

government transfers to PCs as a block grant to cover the salary and other establishment cost amounted to Rs. 91.8 billion in comparison to Rs. 94.6 billion in 2011. Total capital expenditure of PCs amounted to Rs. 23.4 billion, mainly for the improvements in provincial roads, transport facilities, land development, rural electrification projects and improvements in education and health facilities.

Table 5.29 > **Consolidated Budget**

Category	Amount (Rs. Bn)							As a % of GDP						
	2002	2007	2008	2009	2010	2011	2012	2002	2007	2008	2009	2010	2011	2012
<b>Total Revenue</b>	<b>278.4</b>	<b>621.4</b>	<b>717.8</b>	<b>754.9</b>	<b>870.9</b>	<b>1025.1</b>	<b>1116.8</b>	<b>17.6</b>	<b>17.4</b>	<b>16.3</b>	<b>15.6</b>	<b>15.5</b>	<b>15.7</b>	<b>14.7</b>
<b>Central Government</b>	<b>269.0</b>	<b>595.5</b>	<b>686.4</b>	<b>725.5</b>	<b>834.1</b>	<b>983.0</b>	<b>1067.6</b>	<b>17.0</b>	<b>16.6</b>	<b>15.6</b>	<b>15.0</b>	<b>14.9</b>	<b>15.0</b>	<b>14.1</b>
Tax	221.8	508.9	585.6	618.9	724.7	845.7	908.9	15.8	14.2	13.3	12.8	12.9	12.9	12.0
Non Tax	40.1	56.1	69.6	80.7	92.5	122.2	142.5	2.9	1.6	1.6	1.7	1.7	1.9	1.9
Grants	7.1	30.5	31.2	25.7	16.7	15.1	16.1	0.4	0.7	0.7	0.5	0.3	0.2	0.2
<b>Provincial Councils (a)</b>	<b>9.4</b>	<b>25.9</b>	<b>31.4</b>	<b>29.4</b>	<b>36.8</b>	<b>42.1</b>	<b>49.2</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>
Tax	8.0	21.5	26	24.9	31.0	36.0	44.1	0.6	0.6	0.6	0.5	0.6	0.6	0.6
Non Tax	1.4	4.4	5.4	4.5	5.8	6.1	5.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total Expenditure</b>	<b>412.9</b>	<b>866.4</b>	<b>1027.4</b>	<b>1238.4</b>	<b>1317.5</b>	<b>1474.1</b>	<b>1603.9</b>	<b>29.4</b>	<b>24.2</b>	<b>23.3</b>	<b>25.6</b>	<b>23.5</b>	<b>22.5</b>	<b>21.2</b>
<b>Central Government(b)</b>	<b>403.0</b>	<b>841.6</b>	<b>996.1</b>	<b>1202.2</b>	<b>1280.2</b>	<b>1433.2</b>	<b>1556.5</b>	<b>28.7</b>	<b>23.5</b>	<b>22.6</b>	<b>24.9</b>	<b>22.8</b>	<b>21.9</b>	<b>20.5</b>
Current	330.8	622.8	743.7	879.9	937.1	1024.9	1131.0	23.6	17.4	16.9	18.2	16.7	15.7	14.9
Capital and Net Lending	72.2	218.8	252.4	322.3	343.1	408.3	425.5	5.1	6.1	5.7	6.7	6.1	6.2	5.6
<b>Provincial Councils (c)</b>	<b>9.9</b>	<b>24.8</b>	<b>31.3</b>	<b>36.2</b>	<b>37.3</b>	<b>40.9</b>	<b>47.4</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>
Current	7.9	22.0	26.4	33.9	33.8	34.1	44.3	0.6	0.6	0.6	0.7	0.6	0.5	0.5
Capital	2.0	2.8	4.9	2.3	3.5	6.8	3.1	0.1	0.1	0.1	0.0	0.1	0.1	0.1
<b>Budget Deficit</b>	<b>(134.5)</b>	<b>(245.0)</b>	<b>(309.6)</b>	<b>(483.5)</b>	<b>(446.6)</b>	<b>(449.0)</b>	<b>(487.7)</b>	<b>(8.5)</b>	<b>(6.8)</b>	<b>(7.0)</b>	<b>(10.0)</b>	<b>(8.0)</b>	<b>(6.9)</b>	<b>(6.4)</b>

Sources: Department of National Budget and Finance Commission

(a) Includes transfers from Central Government

(b) Includes transfers to PCs

(c) Represents expenditure incurred by PCs using their own funds and tax revenue transfers from the Central Government

## 5.5 Deficit Financing<sup>4</sup>

The total deficit of Rs. 489 billion in 2012 was financed mainly by domestic borrowings (including foreign investments in rupee denominated Treasury bills and Treasury bonds) of Rs. 308.2 billion (63 percent of the total financing) and the balance of Rs. 180.8 billion (37 percent of the total financing) by foreign borrowings.

On a net basis, the government borrowed Rs. 71 billion from non-bank sector in 2012 compared to Rs. 39.4 billion in 2011. Net foreign investments in Treasury bills and Treasury bonds contributed significantly to domestic financing during the year amounting to Rs. 105 billion compared to Rs. 25.1 billion in 2011. This policy was in line with the medium term debt management strategy of improving the government securities market and relying more on marketable debt instruments. Non-bank financing in 2012 mainly consisted of the borrowings from key institutional investors i.e. Employees' Provident Fund (EPF) and National Savings Bank (NSB) and Employees Trust Fund (ETF). Meanwhile, borrowings from the domestic banking sector declined by 31.4 percent to Rs. 131.5 billion in comparison to Rs. 191.9 billion in the previous year.

In the external front, there was a significant increase in foreign financial inflows to the government in 2012 amounting to Rs. 233.9 billion mainly due to the faster disbursement of foreign loans to finance on-going major infrastructure development projects. A major part (Rs. 174.5 billion) of this was received by way of project loans from bilateral and multilateral development partners. Major sources of project financing in 2012 were China, India, Japan and International Development Association (IDA). In addition, foreign investment in government securities was also increased significantly due to the enhanced confidence with the continuation of the Stand-by Arrangement (SBA) facility with the IMF, which was completed successfully in July 2012. The comparably low international interest

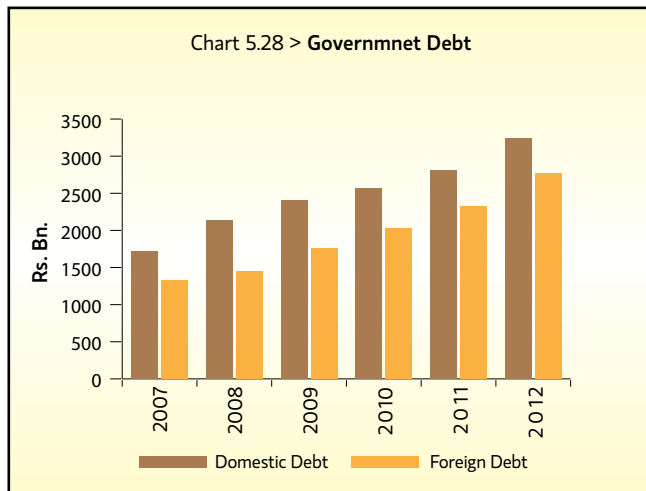
rates were also a positive factor that attracted increased amount of foreign investments to government securities. In addition, the government was also able to complete its fifth international sovereign bond issue of US\$ 1,000 million (Rs. 130.6 billion) successfully in July 2012, which recorded an over subscription ratio of 10.5 times. It was the largest order book as well as the largest number of investors in the order book for Sri Lanka. Out of the US\$ 1 billion received from this bond issue, US\$ 500 million was used to repay the debut international sovereign bond issued in 2007. Total net foreign financing declined by 6.8 percent to Rs. 180.8 billion in 2012, compared to Rs. 193.9 billion in 2011.

### Government Debt

Total government debt increased by Rs. 866.7 billion to Rs. 6,000.1 billion in 2012 from Rs. 5,133.4 billion in the previous year. Domestic debt totaled to Rs. 3,232.8 billion and formed 53.9 percent of the debt stock. Foreign debt stock amounted to Rs. 2,767.3 billion. The debt to GDP ratio increased to 79.1 percent in 2012 from 78.5 percent owing to slowing down of the value of GDP. The impact of depreciation of the rupee against foreign currencies was Rs. 207.4 billion. The domestic debt to GDP ratio declined to 42.6 percent from 42.8 percent in 2011 mainly due to the lower growth in domestic debt but the foreign debt to GDP ratio increased to 36.5 percent from 35.6 percent in 2011 mainly due to the impact of exchange rate depreciation brought into counter the widening trade deficit, pressure on external reserves and international currency movements.

Medium to long term debt accounted to 74.8 percent of the total domestic debt in 2012, dominated by Treasury bonds amounting to 87 percent of this category. The share of Rupee loans in the total domestic debt continued to decline and reached 1.8 percent

<sup>4</sup> For a detailed discussion on deficit financing and government debt, please refer to Chapter 6 of this publication.



in 2012 declining further from 2.2 percent in the previous year reflecting the policy of phasing out them gradually. Meanwhile, the short term domestic debt accounted for 25.2 percent of the total domestic debt. Treasury bills represented 77.4 percent of the total short term debt and remained as the main instrument. The government debt to the banking system increased to Rs. 1,058.4 billion in 2012 from Rs. 886.2 billion in 2011 due to the increase of bank financing from commercial banks due to banks holding Treasury Bills and Bonds while the borrowings from the Central Bank was increased only marginally. The share of debt to the banking system increased to 32.7 percent of the total domestic debt from 31.6 percent in the previous year.

Table 5.30 &gt; Government Debt

Item	Rs. Bn	
	End 2011	End 2012
<b>Total Domestic Debt</b>	<b>2,804.1</b>	<b>3,232.8</b>
<b>Short Term</b>	<b>698.2</b>	<b>813.3</b>
Treasury Bills	590.9	629.1
Provisional Advances from the Central Bank	94.7	111.3
Other	12.6	72.9
<b>Medium &amp; Long Term</b>	<b>2,105.9</b>	<b>2,419.5</b>
Rupee Securities	62.0	58.4
Treasury Bonds	1,819.3	2,095.1
Sri Lanka Development Bonds	183.8	223.0
Other	40.8	43.1
<b>Total Foreign Debt</b>	<b>2,329.3</b>	<b>2,767.3</b>
<b>Concessionary Loans</b>	<b>1,328.8</b>	<b>1,369.6</b>
Multilateral	624.6	670.7
Bilateral	704.2	698.9
<b>Non-concessionary Loans</b>	<b>1,000.5</b>	<b>1,397.8</b>
Multilateral	97.3	173.6
Bilateral	138.6	281.5
Market Borrowings	764.6	942.7
<b>Total Government Debt</b>	<b>5,133.4</b>	<b>6,000.1</b>

Source: Department of External Resources and Central Bank of Sri Lanka



Chart 5.29 &gt; Domestic Debt

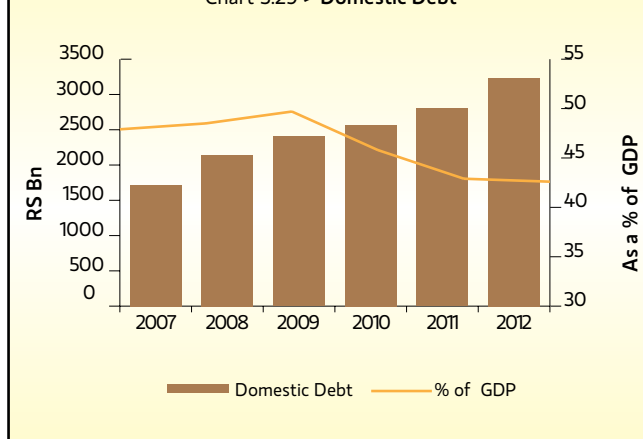


Chart 5.30 &gt; Composition of Domestic Debt - 2012

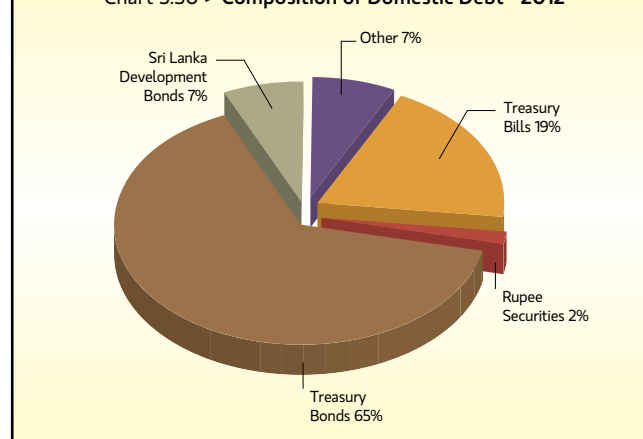
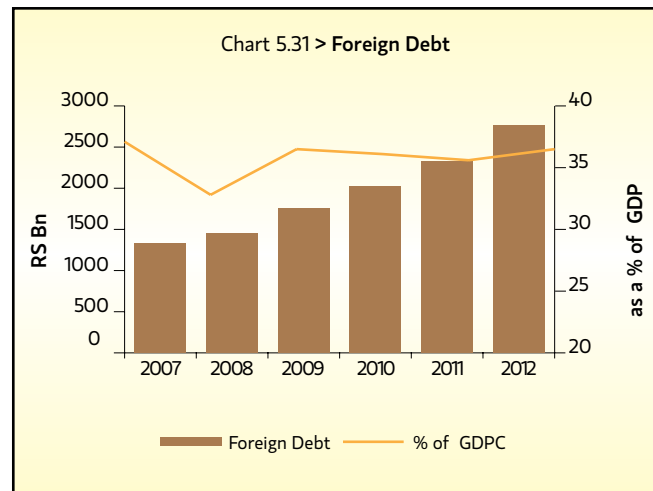


Table 5.31 &gt; Foreign Debt by Source 2012

Sources	Number of Loans	Amount (Rs.mn)
Japan	103	548,917
China	41	90,148
Germany	16	51,164
USA	71	41,386
ADB	124	448,421
IDA	113	349,937
Other	175	294,662
Export Credit	13	99,813
International Sovereign Bonds	4	445,063
Non Resident Investments in Treasury Bills	-	80,184
Non Resident Investments in Treasury Bonds	-	317,604
<b>Total Loans</b>	<b>660</b>	<b>2,797,299</b>

Sources: Department of External Resources and Department of Public Debt

The concessionality of the foreign loans declined further in 2012 as only 49 percent of the total foreign debt was on concessional terms in comparison to 57 percent recorded in the previous year. These loans were from both bilateral and multilateral development partners. In the bilateral category, the outstanding debt to Japan, China and India amounted to Rs. 549 billion, Rs. 90 billion and Rs. 78 billion, respectively. In the multilateral category, the debt to Asian Development Bank (ADB) amounted to Rs. 448.4 billion while that to the International Development Association (IDA) was Rs. 350 billion. The increase in the non concessional loans in the recent past was mainly due to the accommodation of foreign investments in government securities and the issuance of international sovereign bonds by the government. A gradual decline in the access to concessional foreign financing is observed in



the midst of rising per capita income, which is a trend consistent with the borrowing pattern of middle income countries.

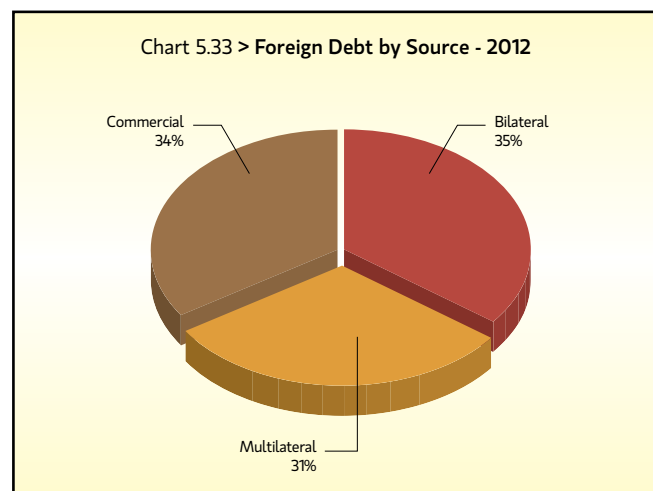
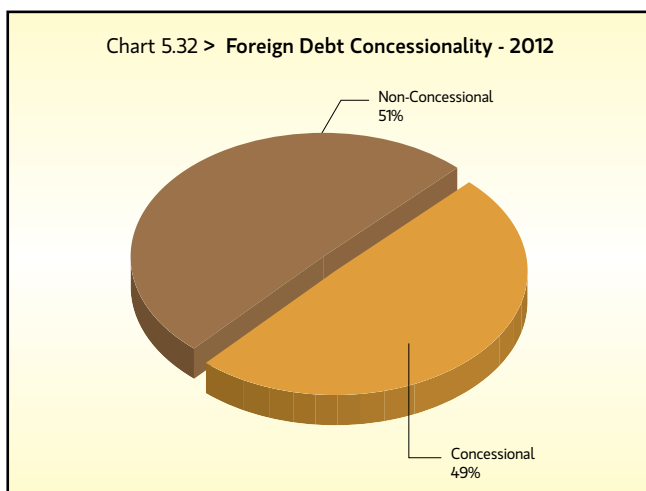


Table 5.32 > **Currency Composition of the Government Foreign Debt**

Currency	Percentage						
	2002	2007	2008	2009	2010	2011	2012
SDR	41.3	38.3	36.7	32.2	28.3	25.8	24.6
US Dollars	17.9	20.1	19.4	18.8	23.5	29.1	30.9
Japanese Yen	30.3	25.5	30.8	25.7	25.1	24.1	20.8
Euro	7.4	9.2	9.1	8.2	7.0	6.3	6.3
Other	3.1	6.9	4.1	15.1	16.0	14.7	17.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Memo: Total Foreign Debt (Rs. Billion)	721.9	1,326.5	1,448.7	1,760.5	2,024.6	2,329.3	2,767.3

Sources: Department of External Resources and Department of Public Debt

## 5.6 Debt Service Payments

In 2012, total debt service payments amounted to Rs. 1,017.5 billion of which Rs. 609 billion or 60 percent was for repayments while the balance 40 percent was on interest payments. Total debt service payments as a percentage of GDP declined further to 13.4 percent in 2012 from 17.1 percent recorded in 2009. Domestic interest payments as a percent of current expenditure also declined to 28.1 percent from 28.2 percent in the previous year. However, the lower growth in the government revenue and relatively high growth in debt service payments resulted in an increase in the debt service

payments as a percentage of the government revenue. It reached 96.8 percent in 2012 compared to 92.5 percent 2011 but was much lower than the 108.6 percent recorded in 2009. The interest payments as a ratio of revenue also increased to 39 percent in 2012 from 37 percent in 2011. These ratios are expected to improve in the medium term with the expected improvements in the government revenue, debt management and the cash flow operations of the Treasury towards containing budget deficit below 5.8 percent of GDP as per 2013 budget commitment.

Table 5.33 > **Debt Service Payments**

	Rs. Bn						
Item	2002	2007	2008	2009	2010	2011	2012
Interest	116.5	182.7	212.5	309.7	352.6	356.8	408.5
Domestic	105.9	161.4	182.2	274.0	297.1	288.1	317.7
Foreign	10.6	21.3	30.3	35.7	55.5	68.7	90.8
Repayments	167.8	316.3	380.3	516.0	467.9	538.7	609.0
Domestic	130.8	252.2	258.7	401.3	389.7	439.9	415.4
Foreign	37.0	64.1	121.6	114.7	78.2	98.8	193.5
<b>Total</b>	<b>284.3</b>	<b>499.0</b>	<b>592.8</b>	<b>825.7</b>	<b>820.4</b>	<b>895.5</b>	<b>1,017.5</b>
Domestic	236.7	413.6	440.9	675.3	686.8	728.0	733.1
Foreign	47.6	85.4	151.9	150.4	133.6	167.5	284.4

Sources: Department of Treasury Operations and Department of Public Debt

Table 5.34 > **Government Debt and Debt Service Indicators (Percentage)**

Indicator	2002	2007	2008	2009	2010	2011	2012
Total Debt/GDP	105.6	85.0	81.4	86.2	81.9	78.5	79.1
Domestic Debt/GDP	60.0	47.9	48.5	49.7	45.8	42.9	42.6
Foreign Debt/GDP	45.6	37.1	32.8	36.5	36.1	35.6	36.5
Debt Service/GDP	17.9	14.0	13.4	17.1	14.6	13.7	13.4
Debt Service/Revenue	108.6	88.6	90.5	118.0	100.4	92.5	96.8
Foreign Debt Service/Export Earnings and Remittances	8.3	7.6	12.7	12.6	9.4	9.6	14.2
Domestic Interest/ Current Expenditure	32.0	25.9	24.5	31.1	31.7	28.2	28.1
Total Interest/ Government Revenue	44.5	32.3	32.4	44.3	43.1	37.0	38.9

Sources: Department of External Resources, Department of Treasury Operations and Department of Public Debt

06

# FINANCING OF THE BUDGET

## 6.1 Government Debt Management Strategy

The debt management strategy of the government has been designed to ensure that the government debt is systematically reduced to proportion of GDP while refinancing government debt suitably and financing fiscal deficit to promote sustained growth with stability. The medium term direction of the country's debt management is primarily guided by the provisions in the Fiscal Management (Responsibility) Act (FMRA) No. 3 of 2003. The FMRA requires the reduction of government budget deficit to 5 percent of GDP in the medium term and maintain at a similar level thereafter, and the reduction of total government debt to 80 percent of GDP in 2013 and to 60 percent by 2020. The Medium-Term Macro Fiscal Framework (MTMFF), which spells out the macro-fiscal objectives of the government with a forward-looking approach, also provides the guidance to the medium-term debt management.

Within this medium term debt reduction strategy, the government's debt management strategy is primarily aimed at the improvement in the revenue account under which the primary deficit is phased out gradually through enhanced revenue and moderation in the growth of current expenditure while ensuring that public investment is not compromised in such adjustments. It further envisages that funds are raised at the lowest cost for financing the budget while ensuring adequate funds are also made available to service the existing debt<sup>1</sup>. In this context, the use of both domestic and foreign financing has been adopted depending on the market conditions, liquidity needs and financing the import cost in public investment for which funds are raised largely from foreign sources.

The government debt management strategy has focused on improving government securities

market in order to promote debt market as well as to improve competitive pricing in debt. In recent years, with a progress in deficit reduction coupled with the proportionate reduction in debt to GDP ratio as well as strong economic performance and positive medium term outlook, the government has resorted to mobilizing funds through long term debt instruments in both domestic and external markets. As such, the structure of the borrowings has also changed with domestic borrowings moving towards more marketable long term debt instruments with non-residents being allowed to invest in rupee denominated Treasury bills and Treasury bonds with exposure limits while making foreign borrowings through the issuance of 10 year sovereign bonds in the international capital market.

The country's overall development expenditure targets, reflected in the government public investment strategy, have the benefit of having multilateral and bilateral long term financing arrangements. Hence, the infrastructure development in recent years has been funded through such an exercise which on average is around US\$ 1,500 million per annum.

The country also gives the highest priority in its fiscal management to service debt and maturities. Prudent practice in debt management is reflected in annual budget their servicing to bilateral and multilateral development partners as well as domestic and foreign lenders.

Interest payments and loan repayments on foreign debt, on average is around Rs. 211 billion comprising Rs. 58 billion of interest and Rs. 153 billion of loan repayments. Annual interest on domestic debt is around Rs 351 billion. The repayment of domestic debt varies as per the variation in the maturity. In recent years, it

<sup>1</sup>A close co-ordination is maintained between both the General Treasury and the Central Bank with the objective of ensuring that the debt management strategy is consistent with monetary and fiscal policies. The co-ordination is maintained through continuous interface with the Central Bank, which acts as the government agent in public debt management.

Chart 6.1 &gt; Composition of Government Debt

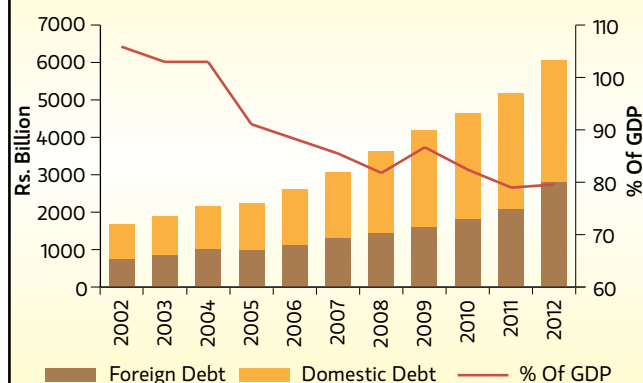


Chart 6.2 &gt; Domestic Debt: 2005-2012

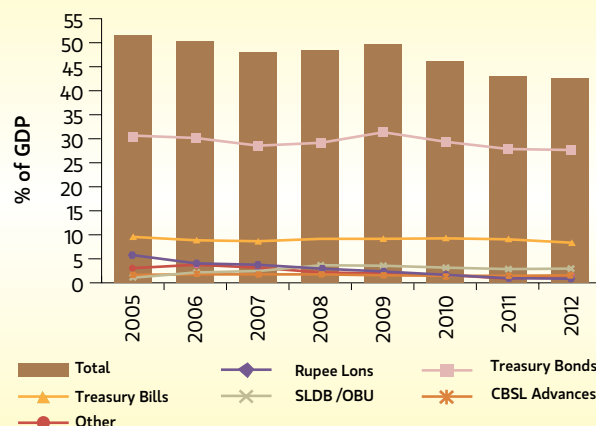


Chart 6.3 &gt; Foreign Debt: 2005 - 2012

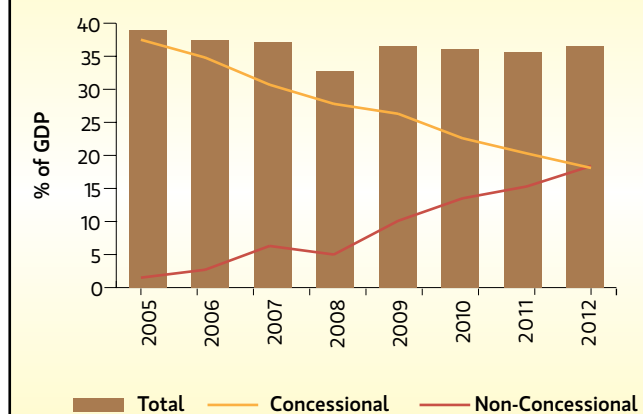
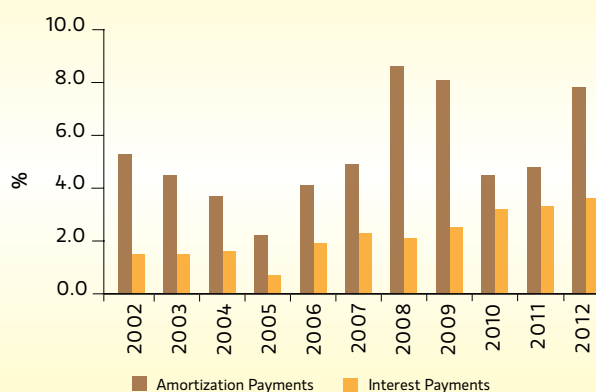


Chart 6.4 &gt; Government Foreign Debt Servicing as a Percentage of Earnings from Exports, Services and Remittances



has varied in the range of Rs 252 billion per year to Rs 415 billion. Accordingly, steps are being taken to even out maturity pattern to prevent bunching of debt.

## 6.2 Government Borrowing Programme – 2012

Financing of the resource gap in the budget is made in accordance with the provisions of the annual Appropriation Act. Accordingly, the gross borrowing limit to finance the resource gap in the budget approved by the Parliament for 2012 under the Appropriation Act No. 52 of 2011 amounted to Rs. 1,139 billion.

Complying with the borrowing limits set by the Parliament in 2012, a sum of Rs. 739.5 billion was raised from domestic sources, on gross basis, including rupee denominated Treasury bills and Treasury bonds issued to foreign investors, while the amount raised from foreign sources amounted to Rs. 365.7 billion, totalling at Rs 1,105.2 billion against the authorised limit of Rs. 1,139 billion.

The actual total gross domestic borrowings of Rs.739.5 billion in 2012 reflected a 4.6 percent increase over Rs.707.0 billion raised in 2011. The issuance of Treasury bills declined by 75 percent to Rs.22.8 billion and Sri Lanka Development Bonds (SLDBs) increased by 0.4 percent to

Rs.60.4 billion in 2012. Treasury bonds and bills accounted for 86.5 percent and 3.1 percent of the gross domestic borrowings, respectively. Out of this, Treasury bonds issued to the foreign investors accounted for 15 percent and 1 percent, respectively. Reflecting an increased appetite following the improved investor confidence, the government was able to attract foreign savings to domestic debt market. The government has set an exposure limit of 12.5 percent of outstanding Treasury bills and bonds to ensure such financing is made within prudential limits consistent with country's external resources.

With the enhanced investor confidence, supported by the Stand-by Arrangement (SBA) facility with the IMF and the revision of sovereign rating outlook by international rating agencies to B+ (Positive outlook), the government concluded its fifth international sovereign bond issue of US\$ 1,000 million with a maturity period of 10 years

successfully in July 2012. The sovereign bond issued in 2007 to the value of US\$ 500 million was repaid in 2012.

### 6.3 Domestic Financing

In financing the National Budget, domestic financial resources available by way of contractual savings institutions such as Provident Funds, Pension Funds, Insurance Agencies, and banking and other financial institutions are used by the government. In this process, borrowing from the non bank sources, including the contractual savings institutions, other non bank financial institutions and individuals is preferred as against the borrowings from the banking sector as the borrowings from the latter source could absorb a part of the credit that could otherwise be available to the private sector and also has a bearing on money supply.

Table 6.1 > **Government Borrowing Limits and Usage (Rs. Million)**

Item	2011		2012	
	Approved Limit	Usage	Approved Limit	Usage
<b>Gross Borrowing</b>	<b>997,000</b>	<b>994,090</b>	<b>1,139,000</b>	<b>1,105,205</b>
Domestic	658,100	707,078	832,277	739,507
Foreign	338,900	287,012	306,723	365,698
<b>Sources / Instruments of Financing</b>				
<b>Domestic Financing</b>	<b>658,100</b>	<b>707,078</b>	<b>772,277</b>	<b>739,507</b>
Treasury bonds	539,200	537,674	673,329	639,713
Treasury Bills (net)	40,000	92,064	50,000	22,808
CBSL Advances	15,000	16,864	17,908	16,549
SLDBs	63,900	60,192	56,040	60,437
Other	-	284	35,000	6,218
<b>Foreign Financing</b>	<b>338,900</b>	<b>287,012</b>	<b>366,723</b>	<b>365,698</b>
Bilateral	-	77,981	-	113,930
Multilateral	-	55,384	-	61,303
Export Credit	-	44,159	-	61,021
Markets	-	109,488	-	129,444
<b>Total Financing</b>	<b>997,000</b>	<b>994,090</b>	<b>1,139,000</b>	<b>1,105,205</b>

Sources : Department of Treasury Operations and Central Bank of Sri Lanka



### **Box 6.1 : Highlights of the Developments Related to the Government Securities Market in Sri Lanka**

The debt management strategy sets out the government's objectives, strategy and plans for the management of its domestic and foreign debt. Borrowing activities support the on-going refinancing of government debt coming to maturity and the execution of the budget plan of the government within the context of its fiscal policy stance and the borrowing programme. One of the main objectives of managing government debt is to provide the government with stable and consistent financing at a minimum cost subject to associated risks and constraints. Hence, debt management has received much attention as an important component of country's macroeconomic and financial policy framework.

Development of the government securities market is an integral part of the government's debt management strategy. An active government securities market will be beneficial to the government as it provides an alternative non-inflationary financing source, fosters a healthy capital market and improves the functioning of the financial system. It also provides direct and indirect benefits through better monetary management and widened investment opportunities.

In line with this, a number of institutional and policy changes have been introduced to improve the government securities market in Sri Lanka over the years while helping to improve its functional efficiency. In particular, periodical improvements in the necessary legal, institutional and regulatory framework, administrative processes and operational mechanisms have been made to ensure efficient and effective management of government debt. The development of the government securities market has enabled the Central Bank to strengthen its market oriented monetary management strategy. In this context, the key milestones are highlighted below.

- Changing the borrowing strategy by improving the primary and secondary markets for government securities as well as a market-based yield curve through the introduction of weekly auction system for Treasury bills in 1986 and commencement of the issuance of Treasury bonds in 1997.
- Opening up of a secondary market window in 1981, Repurchase window in 1993, Reverse Repurchase window in 1995 to develop the secondary market.
- Appointing Primary Dealers (PDs) in 1992 and introducing reforms to the PD system from time to time to expand the trading activities in both primary and secondary markets.
- Monitoring the activities of Primary Dealers in terms of financial soundness, performances and the market conduct through the development of a supervisory and regulatory system while reviewing and updating directions issued to PDs in line with the best practices in the financial sector.
- Modernizing the payment and settlement system with the introduction of a Real Time Gross Settlement (RTGS) system, Scripless Securities Settlement System (SSSS) and Central Depository System (CDS) in 2004 to improve efficiency and minimize risks in the payment and settlement system.

- Continuing to record the changes in ownership of government securities in the CDS on an ongoing basis and disseminating semiannual statements on holdings of government securities, monthly statements on transactions and payment statements to CDS account holders
- Introducing an electronic trading platform for government securities with a view to provide a market mechanism for price discovery and price transparency.
- Increasing the reliance on market-based borrowing instruments like Treasury bonds and Treasury bills gradually as opposed to non-marketable instruments to facilitate a broader and a more active secondary market for government securities, which will enable the government to keep its' funding cost low and stable.
- Enhancing the benchmark yield curve for longer tenures by issuing benchmark securities on a periodic basis and by minimizing fragmentation.
- Phasing out the non-marketable debt instruments such as Rupee loans.
- Retiring of non-marketable securities with the 'call option' and replacing them with Treasury bonds to develop the Treasury bond market.
- Retiring high cost debt to reduce interest cost.
- Taking measures to manage various underlying risks, including rollover risk, market risk and credit risk prudently.
- Disseminating information through the web.
- Broadening and diversifying the investor base to raise funds at competitive interest rates.
- Opening up of non-resident investments in government securities market, with exposure limits, to develop the market by broadening the investor base and to ease the pressure on government securities market;
  - Rupee denominated Treasury bonds were opened up in 2006, subject to a maximum limit of 5 percent of the total outstanding Treasury bonds, which was increased to 10 percent in 2007 and to 12.5 percent in 2011.
  - Rupee denominated Treasury bills were opened up in 2008, subject to a maximum limit of 10 percent of the total outstanding Treasury bills, which was increased to 12.5 percent in 2011.
- Opening up of the rupee denominated Treasury bill and Treasury bond market for Sri Lankan diaspora and migrant workers in 2009.
- Introducing a number of amendments to the existing laws, including the Local Treasury Bills Ordinance (LTBO) and the Registered Stocks and Securities Ordinance (RSSO), to create an enabling legal framework for the development of government securities market.
- Enacting a number of laws, including the Payments and Settlement Systems Act, Electronic Transactions Act, Payment Devices Frauds Act as well as legislation related to Anti-Money Laundering, Terrorist Financing and Financial Transactions Reporting, to strengthen the legal framework to improve the efficiency of the government securities market.
- Introducing the Bloomberg Bond Trading System for Primary Dealers in 2003.
- Commencing of the operations related to the Debt Securities Trading System (DEX) by the Colombo Stock Exchange (CSE) in 2004.
- Introducing a new foreign currency denominated debt instrument, Sri Lanka Development

Bond, in 2001 to lower the pressure on the government securities market.

- Obtaining sovereign ratings from two international rating agencies, Fitch Ratings and Standard and Poor's (S&P), for local and foreign currency debt in 2005, and from a third international rating agency, Moody's Investors Service, in 2010.
- Commencing the issuance of sovereign bonds in the international market in 2007 to lower the pressure on the government securities market.
- Adopting an independently floating exchange rate regime since 2001 by replacing the managed float exchange rate regime while limiting the Central Bank intervention to prevent excessive volatility in the short-term and to build up the country's international reserve position in the medium-term.
- Strengthening the inter-relationship between the money and debt securities markets.
- Strengthening the co-ordination between the monetary policy and fiscal policy to facilitate government securities market and yield curve development while facilitating a stable monetary growth.

### 6.3.1 Net Domestic Financing (NDF)

- In 2012, total net domestic financing (NDF) was Rs. 308.2 billion, which accounted for 63 percent of the overall resource gap of Rs. 489 billion in the budget<sup>2</sup>.
- In line with government strategy of using marketable instruments and the improvement of government securities market, the budget deficit in 2012 was primarily financed through marketable debt instruments.
- Accordingly, a sum of Rs. 254.2 billion was raised through the issuance of Treasury bonds, including the net investments by non-residents in Treasury bonds, which amounted to Rs. 99.6 billion. This accounted for 82.5 percent of the total NDF. Net borrowings from Treasury bills recorded at Rs. 22.8 billion, including Rs. 6 billion of non-resident investments, which accounted for 7.7 percent of the total marketable borrowings.

Chart 6.5 > Trends in Net Domestic Financing

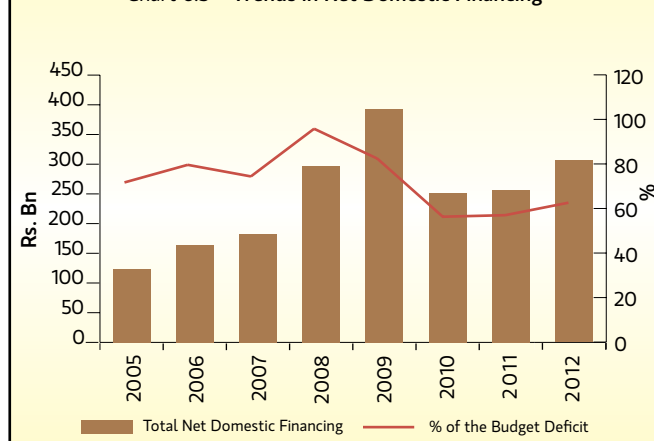
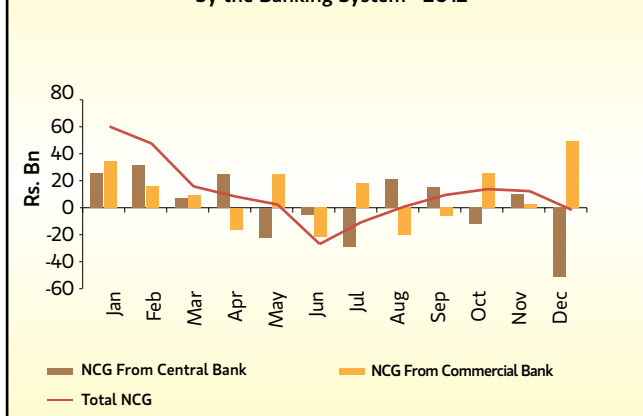


Chart 6.6 > Net Credit to Government (NCG) by the Banking System - 2012



<sup>2</sup>The budget deficit here refers to the deficit prepared in economic classification. See Chapter 5 for more details.

It accounted for 7.4 percent of the NDF in 2012. The net borrowings through SLDBs increased to Rs. 18.4 billion in 2012 from Rs. 5.3 billion in 2011, representing 6 percent of the total NDF. The balance 4.2 accounted for non-marketable borrowings of Rs. 12.8 billion.

- Of the total NDF, the share of short term borrowings declined to 12.7 percent in 2012 from 37.4 percent in 2011 and amounted to Rs.39.2 billion, while the share of medium to long term borrowings of Rs.269 billion in the total NDF reflected an increase to 87.3 percent in 2012 from 62.6 percent in 2011.
- As far as the ownership of the NDF in 2012 is concerned, borrowings from the banking system to finance the budget deficit declined to Rs. 131.5 billion from Rs. 191.9 billion recorded in 2011. With this, the share of bank borrowings in the total NDF also declined to 42.7 percent compared to 74.9 percent in the previous year. This was mainly due to the decline in the net borrowings from the Central Bank to Rs. 16.1 billion in 2012 from Rs. 185.8 billion recorded in 2011. The net borrowings from commercial banks rose to Rs. 115.4 billion mainly due to their increased holdings of Treasury bills and Treasury bonds.
- The net borrowings from the non-bank sector amounted to Rs. 71 billion, excluding the net foreign investments of Rs. 105.7 billion in government securities. Major contributors in the non-bank sector included the institutional investors like Employees Provident Fund (EPF), National Savings Bank (NSB) and Employees Trust Fund (ETF) as the guilt edged government securities provided these institutions with a risk free mode of investment for the funds generated by them. The share of non-bank borrowings increased to 23 percent of the total NDF compared to 15.4 percent recorded in 2011.
- Meanwhile, the net investments in Treasury Bills and Treasury bonds by foreign investors amounted to Rs. 105.7 billion in 2012 compared to Rs. 25.1 billion in 2011. The share of these investments in total NDF also increased to 34.3 percent from 9.8 percent in the previous year.

*The debt management strategy of the government has been designed to ensure that the government debt is systematically reduced to proportion of GDP while refinancing government debt suitably and financing fiscal deficit to promote sustained growth with stability.*

Table 6.2 > **Net Domestic Financing of the Government Budget Deficit: 2011 and 2012**

	Amount (Rs. Billion)		As a % of Total	
	2011	2012	2011	2012
<b>By Type</b>	<b>256.3</b>	<b>308.2</b>	<b>100.0</b>	<b>100.0</b>
Borrowing from Instruments	252.6	291.8	98.6	94.7
Treasury bonds*	181.0	254.2	70.6	82.5
Treasury bills*	92.1	22.8	35.9	7.4
Rupee Loans	-25.7	-3.6	-10.0	-1.2
Sri Lanka Development Bonds	5.3	18.4	2.1	6.0
Non Instrument Borrowings	3.7	16.4	1.4	5.3
Provisional Advances from the Central Bank	16.9	16.5	6.6	5.4
Import bills held by Commercial Banks	2.3	4.7	0.9	1.5
Other Liabilities to the Banking Sector Net of Bank Deposits	-15.5	-4.8	-6.0	-1.6
<b>By Maturity</b>	<b>256.3</b>	<b>308.2</b>	<b>100.0</b>	<b>100.0</b>
Medium to Long Term	160.5	269.0	62.6	87.3
Treasury bonds*	181.0	254.2	70.6	82.5
Rupee Loans	-25.7	-3.6	-10.0	-1.2
Sri Lanka Development Bonds	5.3	18.4	2.1	6.0
Short term	95.8	39.2	37.4	12.7
Treasury bills*	92.1	22.8	35.9	7.4
Provisional Advances from the Central Bank	16.9	16.5	6.6	5.4
Import bills held by Commercial Banks	2.3	4.7	0.9	1.5
Other Liabilities to the Banking Sector Net of Bank Deposits	-15.5	-4.8	-6.0	-1.6
<b>By Marketability</b>	<b>256.3</b>	<b>308.2</b>	<b>100.0</b>	<b>100.0</b>
Marketable	278.4	295.4	108.6	95.8
Treasury bills*	92.1	22.8	35.9	7.4
Treasury bonds*	181.0	254.2	70.6	82.5
Sri Lanka Development Bonds	5.3	18.4	2.1	6.0
Non - Marketable	-22.1	12.8	-8.6	4.2
<b>By Ownership</b>	<b>256.3</b>	<b>308.2</b>	<b>100.0</b>	<b>100.0</b>
Banks	191.9	131.5	74.9	42.7
Central Bank	185.8	16.1	72.5	5.2
Commercial Banks	6.0	115.4	2.3	37.4
Non Bank Sector	39.4	71.0	15.4	23.0
Foreign Investments in Rupee Denominated Government Securities	25.1	105.7	9.8	34.3

Sources : Department of Treasury Operations and Central Bank of Sri Lanka

\*Including investment by non residents

### 6.3.2 Interest Rates on Government Securities

- The interest rate structure in the primary market for government securities moved upward until May 2012, mainly in response to the tightened monetary policy stance of the Central Bank, which resulted in the increase of policy interest rates in early 2012, and tight liquidity conditions in the market. However, the primary market rates stabilized somewhat towards the latter part of the year with the lower supply of Treasury bonds to the market and the reduction of policy interest rates by the Central Bank.
- Consequently, the yield rates of Treasury bills in the primary market for maturity periods of 91 days, 182 days and 364 days closed at 10.00 percent, 11.32 percent and 11.69 percent, respectively, in 2012. The corresponding yield rates by the end of 2011 were 8.68 percent, 8.71 percent and 9.31 percent, respectively.
- The yield rates for Treasury bonds also increased in 2012 with 2 year, 3 year and 4 year maturities closing at 13.62 percent, 13.50 and 14.10 percent, respectively. The comparable rates as at end 2011 were 7.77 percent, 7.99 percent and 8.20 percent, respectively.
- Meanwhile, the average interest rate on SLDBs was LIBOR plus a margin of 4.03 percent in 2012 in comparison to an average of LIBOR plus 3.76 percent in the previous year reflecting the rise in risks and transaction

costs associated with volatile global market conditions. In 2012, Rupee loans of Rs. 3.6 billion were retired in comparison to Rs. 25.7 billion retired in 2011 in line with the government strategy of phasing out the borrowing from this non-tradable instrument.

- The overall average interest rate on the domestic debt remained almost unchanged at around 11 percent in 2012, which is in line with the average interest rate of 11.2 percent during the 2002-2012 period. In contrast, Treasury bond rates increased to 13.9 percent underscoring the cost of long term funds. Similarly, the average interest rate on foreign debt increased to 3.9 percent in 2012 with a gradual increase compared to the average interest rate of 2.2 percent during the period from 2002 to 2012.

Chart 6.8 > Secondary Market Yield Curve

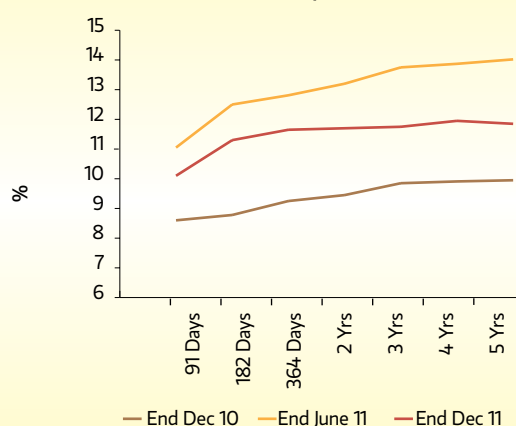


Chart 6.7 > Monthly Average Yield Rates of Treasury Bills: 2010 - 2012

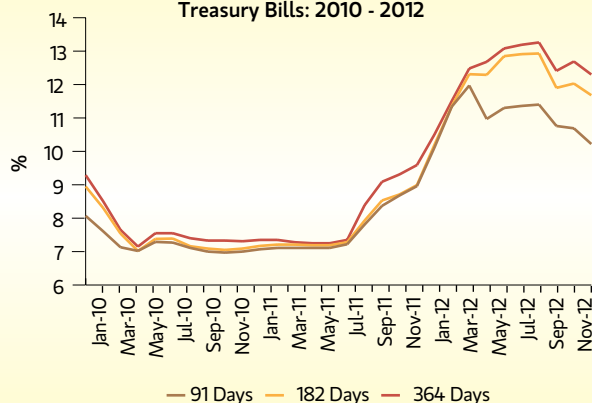


Chart 6.9 > Average Interest Rate of Government Debt: 2002 - 2012

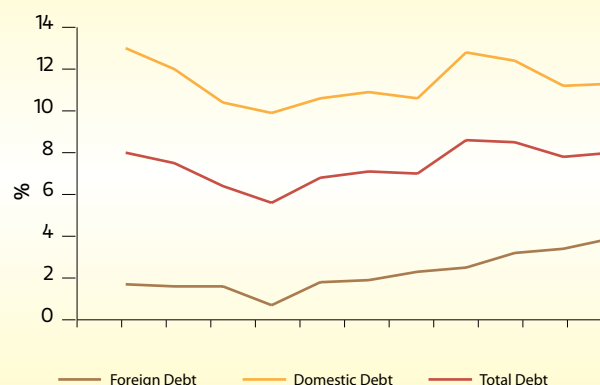


Table 6.3 > **Annual Average Yield Rates of Domestic Debt Instruments : 2008 - 2012**

Item	2008	2009	2010	2011	2012
Treasury bills (%)	18.3	8.6	7.4	8.9	11.0
Treasury bonds (%)	19.2	10.5	8.7	8.3	13.9
Rupee Loans (%)		12.6			
SLDBs (%)	LIBOR+2.94	LIBOR+4.91	LIBOR+3.86	LIBOR+3.76	LIBOR+4.03

Sources : Department of Treasury Operations and Central Bank of Sri Lanka

### 6.3.3 Domestic Debt

- Total domestic debt, excluding the rupee denominated Treasury bills and bonds issued to the foreigners, was Rs. 3,232.8 billion by end 2012. This reflected an increase of Rs. 428.7 billion or 15.3 percent over Rs. 2,804.1 billion recorded at the end of 2011. The ratio of domestic debt to total debt declined to 53.9 percent in 2012 from 54.6 percent in the previous year reflecting a lower weight in borrowings from the domestic sources. As a percentage of GDP also, total domestic debt declined to 42.6 percent in 2012 from 42.9 percent in 2011.

### Composition of Domestic Debt

#### Composition by Type

- Of the total outstanding domestic debt by the end of 2012, Treasury bonds and Treasury bills accounted for 64.8 percent and 19.4 percent, respectively. The balance accounted for SLDBs (6.9 percent), provisional advances from the Central Bank (3.4 percent), Rupee loans (1.9 percent) and other borrowings (3.6 percent).
- The stock of Treasury bonds increased by 15.2 percent to Rs. 2,095 billion in 2012 over 2011 while the stock of Treasury bills amounted to Rs.629 billion, an increase of 6.5 percent over 2011. Total SLDBs issued increased by 13.9 percent to Rs. 223 billion as at end 2012.

#### Composition by Maturity

- The medium and long term debt, which has a maturity period in excess of one year,

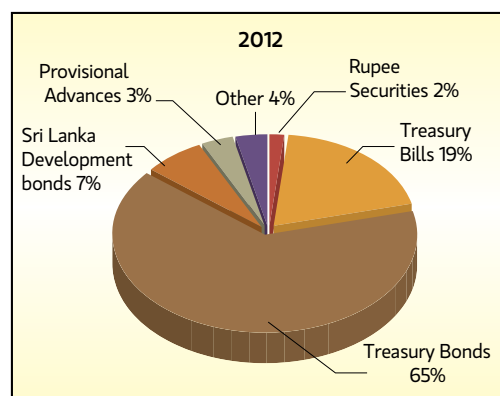
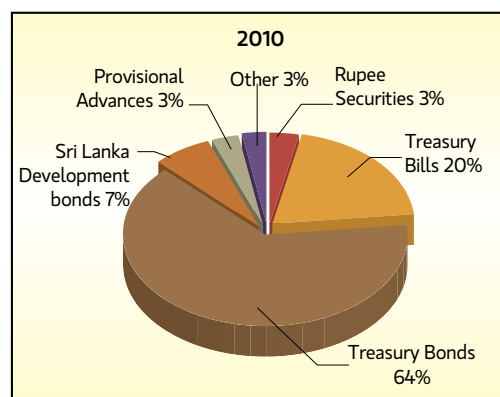
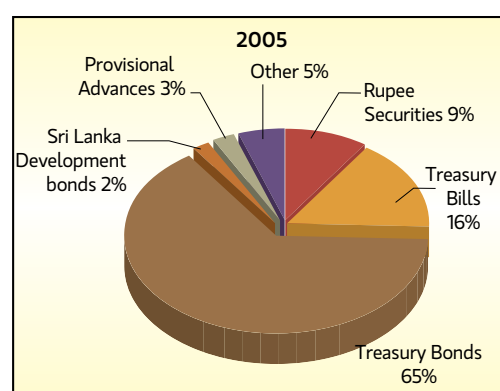
Chart 6.10 > **Composition of Domestic Debt by Type**



Table 6.4 > **Central Government Domestic Debt<sup>(a)</sup>**

Rs Million

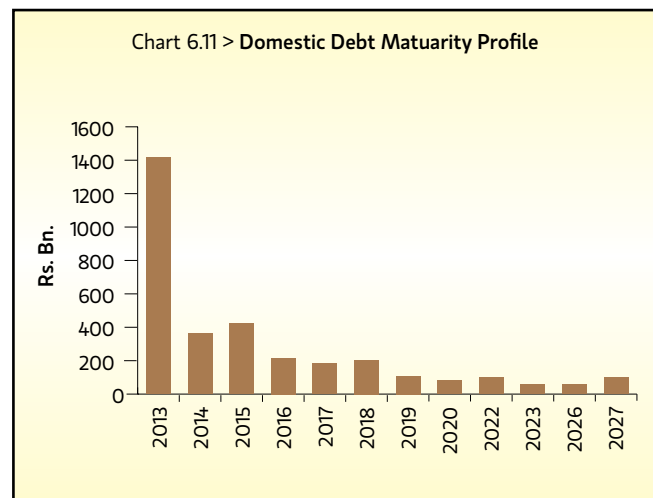
Item	2006	2007	2008	2009	2010	2011	2012
<b>Total Domestic Debt</b>	<b>1,479,230</b>	<b>1,715,198</b>	<b>2,140,228</b>	<b>2,400,955</b>	<b>2,565,662</b>	<b>2,804,085</b>	<b>3,232,813</b>
<b>By Type</b>							
Rupee Loans	116,713	131,509	130,009	112,292	87,709	61,961	58,386
Treasury Bills	257,732	307,012	402,600	441,032	514,442	590,885	629,070
Treasury Bonds	885,972	1,018,852	1,281,978	1,513,512	1,643,887	1,819,251	2,095,054
Sri Lanka Development Bonds	62,469	86,459	158,805	168,079	173,877	183,845	222,994
Provisional Advances	49,015	60,679	76,308	73,881	77,879	94,743	111,292
Other	107,329	110,686	90,528	92,160	67,869	53,400	116,017
<b>By Maturity</b>							
Short term	313,218	363,199	516,364	560,646	619,549	698,190	813,273
Treasury Bills	257,732	307,012	402,600	441,032	514,442	590,885	629,070
Provisional Advances	49,015	60,679	76,308	73,881	77,879	94,743	111,292
Other	6,471	-4,492	37,456	45,733	27,228	12,562	72,911
Medium and Long - Term	1,166,012	1,351,999	1,623,863	1,840,309	1,946,113	2,105,895	2,419,541
Treasury Bonds	885,972	1,018,852	1,281,978	1,513,512	1,643,887	1,819,251	2,095,054
Rupee Loans	116,713	131,509	130,009	112,292	87,709	61,961	58,386
Sri Lanka Development Bonds	62,469	86,459	158,805	168,079	173,877	183,845	222,994
Other	100,858	115,179	53,071	46,426	40,640	40,838	43,107
<b>By Marketability</b>							
Marketable	1,206,173	1,412,323	1,843,383	2,122,623	2,332,206	2,593,981	2,947,118
Treasury Bills	257,732	307,012	402,600	441,032	514,442	590,885	629,070
Treasury Bonds	885,972	1,018,852	1,281,978	1,513,512	1,643,887	1,819,251	2,095,054
Sri Lanka Development Bonds	62,469	86,459	158,805	168,079	173,877	183,845	222,994
Non - Marketable	273,057	302,875	296,845	278,332	233,456	210,104	285,695
<b>By Ownership</b>							
Banks	395,470	415,318	657,424	705,766	691,716	886,221	1,058,366
Central Bank	117,624	104,817	239,248	109,593	78,376	263,330	265,198
Treasury Bills	69,370	44,964	163,584	37,451	2,993	169,797	154,005
Provisional Advances	49,015	60,679	76,308	73,881	77,879	94,743	111,292
Other	-761	-826	-644	-1,739	-2,496	-1,210	-99
Commercial Banks	277,846	310,501	418,175	596,173	613,341	622,893	793,168
Rupee Loans	22,088	15,870	15,870	17,251	17,615	16,234	15,870
Treasury Bills	52,805	68,818	87,869	160,081	220,358	185,756	219,748
Treasury Bonds	46,595	58,416	90,081	188,576	162,215	206,547	242,819
Sri Lanka Development Bonds	62,469	86,459	158,805	168,079	173,877	183,845	222,994
Other	93,889	80,938	65,550	62,186	39,276	30,511	91,737
By Ownership	277,846	310,502	418,177	596,172	613,340	622,892	793,168
State Banks	154,354	130,272	144,641	167,860	138,708	193,698	283,426
Other	123,592	180,230	273,536	428,313	474,632	429,194	509,742
Non Bank Sector	1,083,660	1,299,879	1,482,804	1,695,189	1,873,945	1,917,864	2,174,447
By Type	1,083,660	1,299,879	1,482,804	1,696,189	1,873,945	1,917,864	2,174,447
Rupee Loans	94,525	115,539	114,139	95,040	70,094	45,727	42,516
Treasury Bills	135,557	193,230	151,146	243,499	291,091	235,333	255,317
Treasury Bonds	839,377	960,436	1,191,897	1,324,936	1,481,672	1,612,704	1,852,235
Other	14,201	30,574	25,622	31,713	31,089	24,100	24,379
By Ownership	1,083,660	1,299,879	1,482,804	1,695,189	1,873,945	1,917,864	2,174,447
National Savings Bank	166,457	192,413	204,067	257,084	286,514	314,319	330,150
Savings Institutions & Individuals	305,132	366,161	431,562	410,540	482,305	436,221	408,827
Employees' Provident Fund	469,618	575,460	676,310	806,192	861,341	950,474	1,173,870
Insurance Institutions	13,234	21,012	25,976	34,490	31,089	34,356	33,768
Finance Companies	6,361	8,826	11,422	10,756	12,856	11,064	17,040
Other	122,859	136,007	133,467	176,127	198,090	171,431	210,793

Sources : Department of Treasury Operations and Department of State Accounts of the General Treasury, and Public Debt Department of the Central Bank of Sri Lanka

(a) Excludes non-residents investments in Treasury bills and Treasury bonds, which are included in foreign debt.

accounted to Rs. 2,419.5 billion by the end of 2012, which is an increase of Rs. 313.6 billion compared to Rs. 2,105.9 billion recorded in 2011. Of the total domestic debt, this amounted to 74.8 percent, declining from 75.1 percent in the previous year and was mainly due to the marginal increase in short term debt during this period. Total Treasury bonds of Rs. 2,095 billion constituted 86.6 percent of the total medium to long term debt. The concentration of the government borrowings towards medium to longer term instruments facilitated the government to extend its yield curve during the year and even out debt repayments at maturity to prevent bunching.

- Of the total domestic debt, the short term debt, which has a maturity period of less than one year, amounted to Rs.813.3 billion by end 2012. This was an increase of Rs. 115 billion from Rs. 698.2 billion in 2011. Treasury bills continued to dominate by accounting for 77.4 percent of the total short term domestic debt of the government.
- Meanwhile, the average time to maturity



(ATM) of domestic debt increased to 3.25 years from 2.35 years in the previous year due to the increase in the reliance of longer term maturities. With the preference for Treasury bonds over short term instruments, the duration of domestic currency debt increased to 1.9 years at the end of 2012 from 1.8 years by end 2011.

Table 6.5 > **Maturity Structure of Domestic Debt - As at end 2012 (Rs.million)**

Year of Maturity	Instrument						Total	Maturity as a % of Total
	Treasury bills	Treasury bonds	Rupee Loans	SLDBs	OBUs	Other (Net of Deposits)		
2013	629,070	460,207	2,868	95,380	19,870	207,439	1,414,834	43.8
2014		323,405		40,818			364,223	11.3
2015		314,013	31,430	75,097			420,540	13.0
2016		204,069		11,699			215,768	6.7
2017		184,756					184,756	5.7
2018		203,834					203,834	6.3
2019		108,944					108,944	3.4
2020		80,899					80,899	2.5
2023		74,463	24,088				98,551	3.0
2026		60,365					60,365	1.9
2027		58,712					58,712	1.8
2028		21,387					21,387	0.7
<b>Total</b>	<b>629,070</b>	<b>2,095,054</b>	<b>58,386</b>	<b>222,994</b>	<b>19,870</b>	<b>207,439</b>	<b>3,232,813</b>	<b>100.0</b>

Sources : Department of Treasury Operations and Central Bank of Sri Lanka

### Marketability of Domestic Debt

- Reflecting the government strategy of relying more on marketable debt instruments to raise funds to finance the budget deficit, the stock of marketable debt increased by 11.8 percent to Rs. 2,947 billion in 2012 over Rs. 2,594 billion in 2011. Accordingly, of the total domestic debt, marketable debt accounted for 91.2 percent while the non-marketable debt was 8.8 percent (Rs. 285.7 billion). Treasury bills, Treasury bonds and SLDBs

constituted the portfolio of marketable debt instruments. The marketability of the domestic debt reflected a considerable change since 2002 which constituted of 61.4 percent (Rs. 582 billion) of marketable debt and 38.6 percent (Rs. 366 billion) of non-marketable debt. This reflects the structural shift in government securities market towards greater market orientation and transparency in deficit financing.

Table 6.12 > **Marketability of Government Domestic Debt**

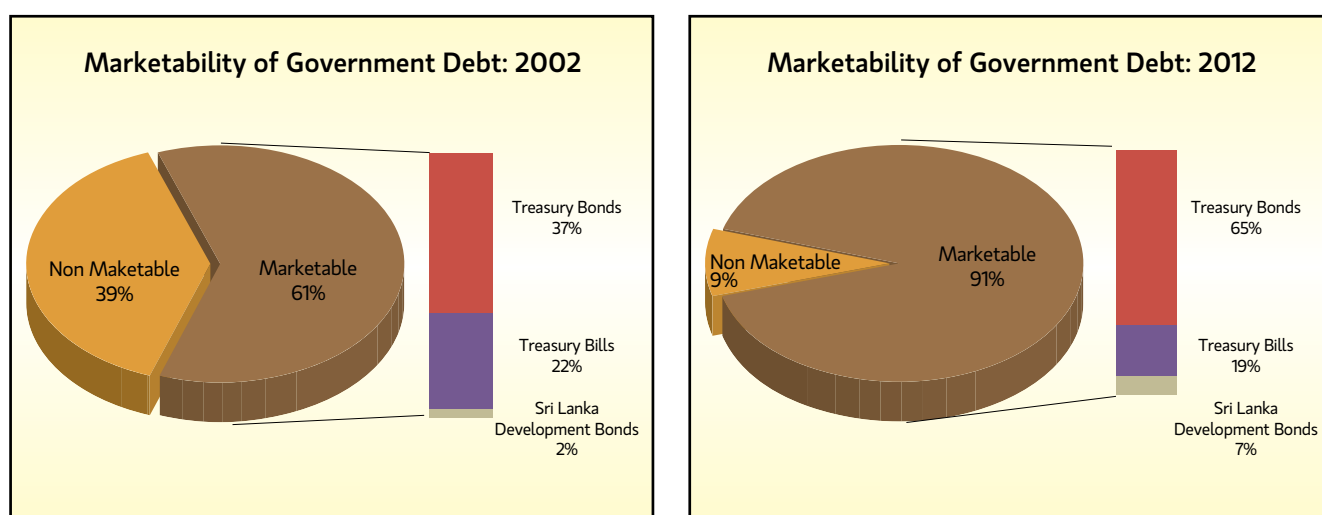


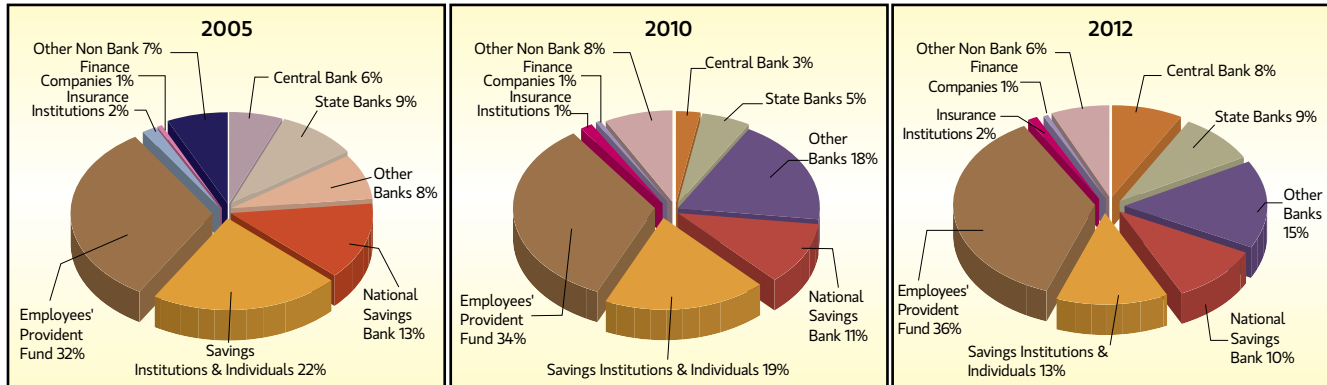
Table 6.6 > **Trends in Government Securities**

Item	2006	2007	2008	2009	2010	2011	2012
<b>Maturity Structure (%)</b>							
Short Term	20	21	22	21	23	22	23
Medium and Long - Term	80	79	78	79	77	78	77
<b>Marketability %</b>							
Marketable	91	91	93	95	96	93	96
Non-Marketable	9	9	7	5	4	7	4
<b>Investor Base (%)</b>							
Institutional Investors	59	61	56	54	55	47	39
Central Bank	6	3	9	2	0	9	8
Commercial Banks	10	10	11	18	18	22	37
Others	25	26	24	26	27	22	16
<b>Maximum Maturity in the Yield Curve (yrs)</b>							
Primary Market	6	10	10	10	10	10	10
Secondary Market	6	6	6	6	10	10	10

Sources : Department of Treasury Operations and Central Bank of Sri Lanka

## Ownership of Domestic Debt

Chart 6.13 > **Composition of Domestic Debt by Ownership**



- The share of non-banking sector of the total outstanding domestic debt declined to 67.3 percent in 2012 from 68.4 percent in 2011. The holding of domestic debt by the non-bank sector increased by 13.4 percent to Rs. 2,175 billion in 2012 due to the increase in domestic debt owned by EPF, NSB and Finance Companies. There was a decline in the investments by other non-bank investors during the year.
- Meanwhile, the government debt held by the banking sector increased by 19.4 percent to Rs. 1058.4 billion in 2012 and its share of the total domestic debt increased to 32.7 percent in comparison to 31.6 percent recorded in the previous year. The domestic debt held by the Central Bank increased marginally to Rs. 265.2

billion in 2012 as the Central Bank holdings of Treasury bills declined by Rs. 15.7 billion in comparison to the significant increase in the previous year. The commercial banks holdings of the government debt increased by 27.3 percent to Rs. 793.2 billion in 2012.

### Profiles of Key Institutional Investors

- The Employees Provident Fund (EPF), National Savings Bank (NSB) and Employees Trust Fund (ETF) are the key institutional investors who play a significant role in Treasury bond and Treasury bills markets. In particular, the EPF remains as the most significant investor in Treasury bonds and Treasury bills.

Table 6.7 > **Investments in Government Securities held by Employees Provident Fund and National Savings Bank (End Year) (Rs. Billion)**

Item	2006	2007	2008	2009	2010	2011	2012
<b>Employees Provident Fund</b>							
Treasury Bonds	396.4	448.8	539.6	658.5	768.4	874.4	980.4
Treasury Bills	4.7	5.0	0.0	0.4	5.9	0.0	31.8
Rupee Loans	56.0	68.9	68.5	56.6	40.9	23.1	23.1
<b>Total</b>	<b>457.2</b>	<b>522.6</b>	<b>608.2</b>	<b>715.5</b>	<b>815.2</b>	<b>897.5</b>	<b>1035.3</b>
<b>National Savings Bank</b>							
Treasury Bonds	108.6	125.2	153.2	185.2	214.0	239.8	241.8
Treasury Bills	30.6	28.1	18.1	39.0	48.6	56.0	57.5
Rupee Loans	20.9	19.9	18.8	18.8	12.2	9.2	6.9
<b>Total</b>	<b>160.2</b>	<b>173.2</b>	<b>190.1</b>	<b>243.0</b>	<b>275.5</b>	<b>305.0</b>	<b>306.1</b>

Sources: Employees' Provident Fund and National Savings Bank

\*Draft Accounts

**Employees' Provident Fund**

- The EPF<sup>3</sup> continued to be the country's largest pension and social security fund, and its total value increased by 12.4 percent to Rs. 1,144 billion in 2012 from Rs. 1,018 billion in 2011. Investments in government securities (Treasury bills, Treasury bonds and Rupee loans) constituted 93.6 percent of the total investment portfolio of Rs. 1,105.3 billion<sup>4</sup> in 2012, which is an increase of 15.3 percent over 2011 where the government securities accounted for 91.8 percent of its total investment portfolio.
- In 2012, the value of the Treasury bonds and bills held by the EPF increased by 15.7 percent to Rs. 1,012 billion from Rs. 875 billion in 2011. Of the total stock of Treasury bonds and bills of the government, which amounted to Rs.2,724 billion by end 2012, the share of the EPF, the single largest holder of government securities in the country, increased to 37.2 percent from 36.3 percent in 2011.

**National Savings Bank**

- In 2012, the asset base of NSB increased by 9.3 percent to Rs. 509.6 billion over 2011. The government securities<sup>5</sup> portfolio of NSB grew by 0.4 percent to Rs. 306 billion over the previous year. This accounted for 92 percent of the total investment portfolio of Rs. 332.3 billion by end 2012.

Table 6.8 > **Investment Portfolio of EPF**

Type of Investment	2011		2012(a)	
Treasury Bonds and Bills	874.6	88.7	1,012.1	91.6
Rupee Loans	23.1	2.3	23.1	2.1
Corporate Debentures	9.2	0.9	8.0	0.7
Equity	75.9	7.7	59.2	5.4
Reverse Repo	2.8	0.3	3.1	0.3
<b>Total</b>	<b>985.6</b>	<b>100.0</b>	<b>1,105.5</b>	<b>100.0</b>

Source : Central Bank of Sri Lanka

(a) Provisional

- Investments in Treasury bonds by NSB in 2012 increased by 0.8 percent to Rs. 241.8 billion, which accounted to 72.7 percent of its total portfolio of investments in government securities. NSB's stock of Treasury bills increased by 2.7 percent to Rs. 57.5 billion at the end of 2012 and accounted for almost 18 percent of the government investment portfolio.

**Employees Trust Fund Board**

- The ETF grew by 11 percent to Rs. 158.4 billion in 2012 from Rs. 142.4 billion in the previous year. Of the total fund, investments in government securities accounted for 82.7 percent in 2012 while another 6.6 percent was in Rupee loans thereby totaling to 89.3 percent of its funds investing in government securities.

<sup>3</sup>The EPF is managed by the Central Bank of Sri Lanka and had a total number of member accounts of 14.25 million with 68,771 contributing employers as at the end of 2012.

<sup>4</sup>Book value

### 6.3.4 Domestic Debt Service Payments

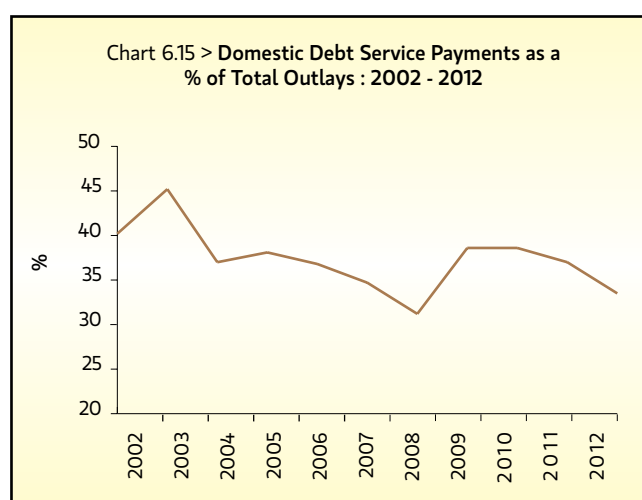
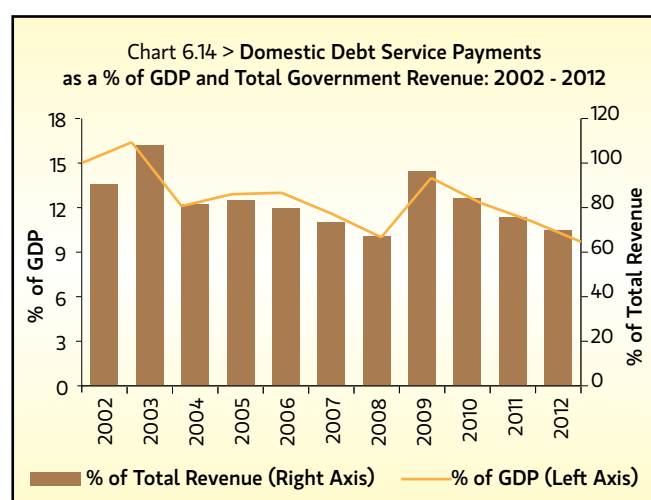
- Out of the gross domestic borrowings of Rs. 739.5 billion in 2012, total domestic debt service payments amounted to Rs. 733.1 billion in comparison to Rs. 728 billion recorded in 2011. Of the total, amortization payments amounted to Rs. 415.4 billion (56.2 percent), while the balance Rs. 317.7 billion (43.8 percent) was on interest payments. The amortization payments declined by Rs. 24.5 billion or 5.6 percent in 2012 mainly due to the lower amount of Rupee loan repayment and Sri Lanka Development bonds matured during the year. Meanwhile, the interest payments increased by Rs. 29.5 billion or 10.2 percent in 2012 as a result of the increased domestic interest rates in 2012.
- Total domestic debt service payments as a percentage of GDP declined to 9.7 percent in 2012 from 11.1 percent in 2011 reflecting the significant decline in the domestic amortization payments to 5.5 percent of GDP from 6.7 percent in the previous. The year 2012 recorded the lowest level of domestic debt service to GDP ratio for the 2002-2012 period. Meanwhile, domestic interest payments also declined to 4.2 percent of GDP from 4.4 percent in the previous year. In 2012, domestic debt service payments to the

total government revenue improved to 69.7 percent from 75.2 percent in the previous year due to the marginal growth in the domestic debt service payments. The ratio of total domestic debt service payments to total gross expenditure, including all debt service payments of the government, also improved to 33.5 percent in 2012 from 37.0 percent in 2011 as the government expenditure was managed in line with revenue trends.

Table 6.9 > **Domestic Debt Service Payments (Rs.Million)**

Year	Principal Repayments	Interest Repayments	Total
2002	130,786	105,897	236,683
2003	185,083	113,540	298,623
2004	147,740	105,878	253,618
2005	203,347	113,164	316,511
2006	247,536	133,787	381,323
2007	252,165	161,370	413,535
2008	258,720	182,198	440,918
2009	401,296	273,977	675,273
2010	389,672	297,127	686,799
2011	439,894	288,134	728,028
2012	415,441	317,659	733,100

Sources : Department of Treasury Operations, Department of State Accounts and Central Bank of Sri Lanka



## 6.4 Foreign Financing Towards Economic Development

### 6.4.1 Overview

Development of infrastructure has been a priority of the Government since 2005, having recognized the need for a well-developed social and economic infrastructure network to facilitate rapid economic development of the country in terms of the Mahinda Chinthana Development Policy Framework. This involves large investments in almost all economic subsectors including highways, transport, power, energy, ports, aviation, railways, Irrigation, water, sanitation and urban township development. Multifaceted small infrastructure including minor irrigation, access roads, community water, market places, schools, health centres and rural electrification occupies to center stage of rural centric development strategies.

The implementation of a large number of infrastructure and livelihood development initiatives, demining and resettlement programmes and the restoration of civil administration in conflict affected areas to accelerate development in those areas, and promote a well-integrated national development became an integral component in government development strategy since the end of conflict in 2009.

The post 2005 foreign financing partnership comprised the World Bank, Asian Development Bank (ADB), OPEC Fund for International Development (OFID), International Fund for Agriculture Development (IFAD) as multilateral partners and Japan, India, China, Korea, Western countries and Middle East region as key bilateral partners.

Accordingly, within the limited fiscal space available, the Government has committed to maintain public investments at around 6 - 7 percent of Gross Domestic Product (GDP) while consolidating fiscal reforms towards a further reduction in budget deficit through improvement in revenue account. In the context of limited domestic resources and associated balance of payments challenges with large public Investments, the Government resorted to continuous development partnerships for financing such development expenditure through long term foreign financing arrangements.

The country's consolidation as a middle income economy together with a gradual reduction in Official Development Aid (ODA) by advanced economies, ADB and the World Bank during the last two decades made gradual reduction in Grant Aid as well as concessional financing for development to developing countries.

Against this background, the Government has formulated appropriate project financing modalities having regarded to debt servicing and balance of payment implications and maturity structure in foreign financing arrangements. As a result, the Government has gradually moved towards mobilizing long term funds for implementation of development projects that are important to create investment opportunities to the private sector and generate export of goods and services.

Considering a diverse range of terms and conditions, the Government has been able to maintain a proper blend of concessional and



non-concessional financing with available concessional financing from multilateral and bilateral sources as well as financial markets to keep the cost of overall borrowing at an affordable level.

In doing so, the Government has also directed such funding for financing economic infrastructure that will lead to foreign exchange earning capacity through increased exports of goods and services, remittance income from overseas employments, tourism, on one hand, and foreign exchange savings from import replacement activities such as involvement in heavy industries, food, dairy, sugar, light engineering, pharmaceutical, textile, renewable energy etc. on the other hand. As a result of such compensation and with high growth in GDP, external debt to GDP has declined from 56.3 in 2002 to 47.8 In 2012.

In addition to the use of available foreign financing, the Government has taken steps to broaden the base of local financing available

for implementation of public investment programmes. Investment Fund Accounts established in the commercial banks in terms of the budget proposal of 2011 to use tax savings in banking institutions for long term lending are now providing better access to development financing for State Owned Business Enterprises, and Public Corporations.

The Government has provided grants and technical assistance to Asian and African countries to support their development activities. Action has already been taken by the Government to strengthen foreign economic ties with friendly countries through providing services through technical assistance and small project financing using the expertise available in several ministries and agencies in the field of vocational training, poverty alleviation, strengthening rural economy, advancement in education, health, irrigation, construction activities and banking and accounting services.

*Considering a diverse range of terms and conditions, the Government has been able to maintain a proper blend of concessional and non-concessional financing with available concessional financing from multilateral and bilateral sources as well as financial markets to keep the cost of overall borrowing at an affordable level.*

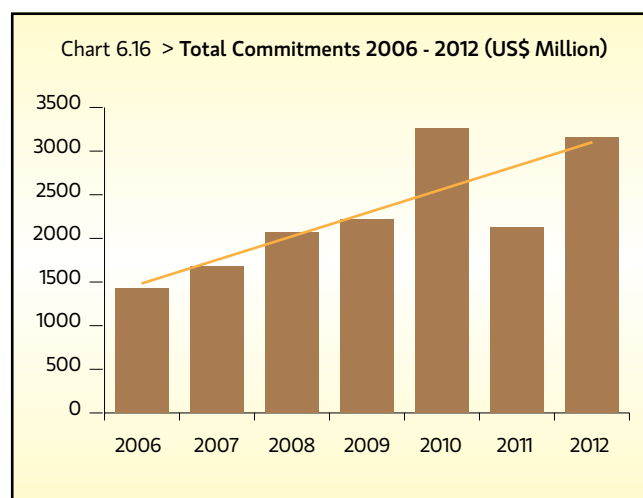
### 6.4.2 Foreign Financing Commitments

Foreign financing commitments have gradually increased during the period from 2006 to 2012 at an annual average rate of 19 percent. The major part of foreign financing from development partners obtained during this period was allocated to implement a large number of economic infrastructure development projects covering roads expressways, bridges, power, ports, airports, water supply, irrigation and railway.

Although the total commitments have slightly declined in 2011 in all types of financing compared with 2010 as commitments for financing some key development projects were made in 2010, but it improved again in 2012.

The total value of the foreign financing commitment made by development partners and lending agencies in 2012 was US\$ 3,152 million of which project loans accounted for US\$ 2,789 million and grant assistance accounted for US\$ 363 million. Out of the

total commitments during 2012, 33 percent was made by China while another 22 percent was from India, 17 percent from Japan, 11 percent from the World Bank, 3 percent each from the Asian Development Bank (ADB) and Netherlands while the remaining 14 percent of the total commitments was received from other development partners and lending agencies.



Source: Department of External Resources

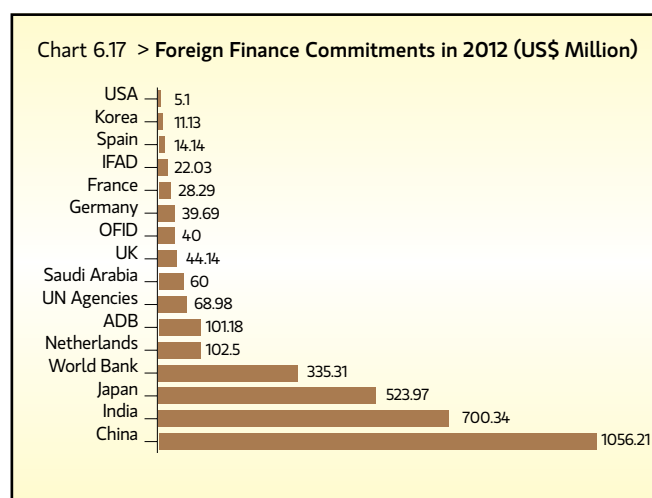
Table 6.10> Foreign Financing Commitments by Development Partners in 2012 (US\$ Mn)

Development Partner	Loan	Grant	Total
<b>Bilateral</b>	<b>2,302.47</b>	<b>283.04</b>	<b>2,585.51</b>
China *	1,056.05	0.16	1,056.21
France	28.29		28.29
Germany	34.42	5.27	39.69
India	443.06	257.28	700.34
Japan **	508.74	15.23	523.97
Korea	11.13		11.13
Netherlands	102.50	0.00	102.50
Saudi Arabia	60.00	-	60.00
Spain	14.14	0.00	14.14
USA		5.10	5.10
UK	44.14	0.00	44.14
<b>Multilateral</b>	<b>486.53</b>	<b>80.97</b>	<b>567.50</b>
ADB	99.68	-	99.68
IFAD	22.03	0.00	22.03
OFID	40.00	-	40.00
UN Agencies	0.00	68.98	68.98
World Bank	324.82	10.49	335.31
<b>Total</b>	<b>2,789.00</b>	<b>362.51</b>	<b>3,151.51</b>

Source: Department of External Resources

\* Including a loan arranged for Sri Lanka Ports Authority under a Government guarantee

\*\* Including a loan arranged for Airport and Aviation Services (Sri Lanka) Limited under a Government guarantee



Source: Department of External Resources

Table 6.11 > **Foreign Loan Agreements Signed during 2012**

Development Partner	Description	Agreement Date
<b>Asian Development Bank</b>	Northern Road Connectivity Project - Add. Financing	19-Nov-12
	Northern Road Connectivity Project - Add. Financing	19-Jun-12
<b>Banco Bilbao Vizcaya Argentaria S.A. (BBVA Bank of Spain)</b>	Veyangoda Railway Crossing Flyover Project	19-Jun-12
	Veyangoda Railway Crossing Flyover Project	19-Jun-12
<b>Co-op Centrale Raiffeisen-Boerenleenbank (Rabo Bank of Netherlands)</b>	Development of Nuwara Eliya District General Hospital	05-Apr-12
	Development of Hambantota District General Hospital	05-Apr-12
<b>China Development Bank Corporation</b>	Moragahakanda Development Project	28-Jun-12
<b>The Export-Import Bank of China</b>	Financing of Material Required for Lighting Sri Lanka Eastern Province Project	16-Jan-12
	* Hambantota Port Development Project - Phase II	17-Sep-12
	* Hambantota Port Development Project Phase II	17-Sep-12
	* Hambantota Port Development Project - Phase II	17-Sep-12

Development Partner	Description	Agreement Date
<b>Govt.of the Federal Republic of Germany (KFW)</b>	Construction of the Mahamodara Maternity Hospital, Galle	16-Aug-12
<b>The Government of India</b>	Greater Dambulla Water Supply Project 1	17-Jan-12
	Restoration of Northern Railway Services	17-Jan-12
<b>The Government of Japan</b>	Habarana-Veyangoda Transmission Line Project	28-Mar-12
	Improvement of Basic Social Services Targeting Emerging Regions	28-Mar-12
	** Bandaranaike International Airport Development Project- Phase II	28-Mar-12
<b>The Government of the Republic of Korea</b>	Improvement of Padeniya -Anuradhapura Road Project (Supplementary Loan)	02-Nov-12
<b>HSBC Bank PLC (UK)</b>	Constructions of 210 Permanenet Rural Steel Bridges	24-Jul-12
<b>Int. Bank for Reconstruction &amp; Development (IBRD) of the Word Bank.</b>	Metro Colombo Urban Development Project [MCUDP]	18-May-12
<b>International Development (IDA) Association of the Word Bank</b>	Additional financing for E_Sri lanka Development Project	01-Mar-12
	Transforming the School Education System as the Foundation of a Knowledge Hub Project	18-May-12
<b>Int. Fund for Agricultural Development</b>	Iranamadu Irrigation Development Project	30-Jan-12
<b>Natexis Banque (France)</b>	Reconstruction of 46 Bridges on National Road Network	05-Nov-12
<b>OPEC Fund for International Development</b>	Road Network Development Project	08-Oct-12
<b>Saudi Fund For Arab Economic Development</b>	Road Network Development Project	30-Oct-12

Source: Department of External Resources

\* Including a loan arranged for Sri Lanka Ports Authority under a Government guarantee

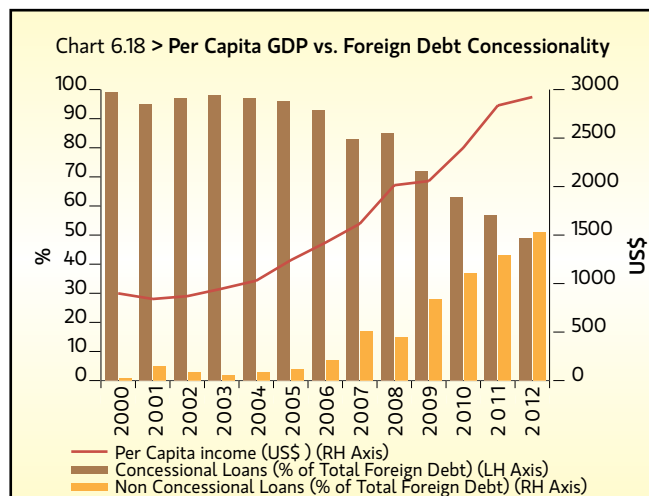
\*\* Including a loan arranged for Airport and Aviation Services (Sri Lanka) Limited under a Government guarantee

Table 6.12 > **Grant Agreements Signed during 2012**

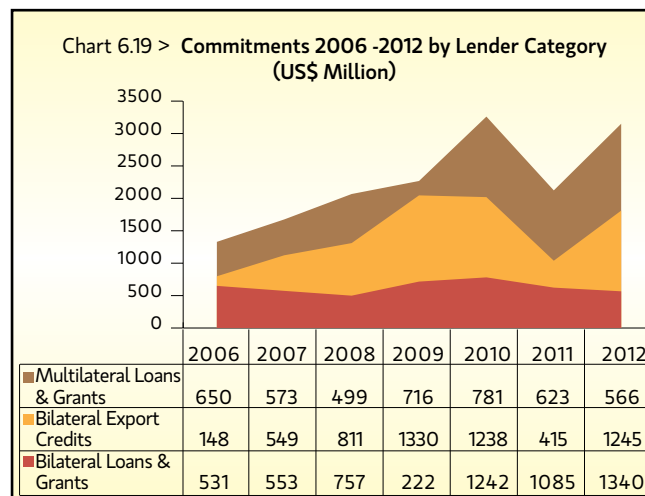
Development Partner	Agreement Date	Project Name	Amount (in Agreement Signed / Currency)	
			Currency	Amount (million)
<b>China</b>	2012/05/04	Provision of Sports Good for Youth in Jaffna, Kilinochchi and Mullaitivu	CNY	1
<b>FAO</b>	2012/05/08	Integrated Management of Weligama Coconut Leaf Wilt Disease.	US\$	0.3
	2012/04/05	Irrigation & Agricultural Livelihood Dev. in Kilinochchi & Mullaitivu.	EUR	3.3
<b>Germany</b>	2012/01/31	Vocational Training Institute of in the North of Sri Lanka	EUR	4
<b>India</b>	2012/01/17	Construction of 49000 housing units in Nothern, Eastern, Central & Uva Provinces.	INR	13,190
<b>Japan</b>	2012/03/06	Rehabilitation of Kilinochchi Water Supply Scheme	JPY	677
	2012/03/06	Improvement of Japanese Language Learning Equipment of the University of Kelaniya and Sabaragamuwa	JPY	48.4
	2012/03/06	Provision of Industrial Products	JPY	300
	2012/05/25	Human Resource Development Scholarship	JPY	211
<b>IBRD</b>	2012/11/20	PHRD Grant for Metro Colombo Towards a Flood Resilient Urban Environment	US\$	0.9
<b>IDA</b>				
	2012/03/22	Strenthening Institute of Chartered Accountants Sri Lanka	US\$	0.5
	2012/07/17	Global Food Crisis Response Programme	US\$	6.5

Development Partner	Agreement Date	Project Name	Amount (in Agreement Signed / Currency)	
			Currency	Amount (million)
	2012/11/30	Diri Sawiya' Assisting People with Disabilities through Cash Transfers and Training Project	US\$	2.6
<b>USA</b>	2012/09/27	Strengthened Partnership for Social Integration (Enhancement)	US\$	1.4
	2012/09/27	Increased and Equitable Economic Growth (Enhancement)	US\$	3.7
<b>United Nations Development Program (UNDP)</b>	2012/06/25	Strengthening Plan Implementation Capability Phase II (Enhancement)	US\$	0.01
	2012/06/25	Capacity Building through South-South Cooperation. (Enhancement)	US\$	0.04
	2012/06/25	Local Governance Project (Enhancement)	US\$	3.2
	2012/07/10	Sri Lanka Community Forestry Programme	US\$	4.8
<b>United Nations High Commissioner for Refugees (UNHCR)</b>	2012/12/04	Strategic Support to Operationalize the Road Map towards safer Sri Lanka	US\$	2.2
	2012/03/01	Assistance to Return and Reintegration of IDPs in Sri Lanka.	LKR	5.7
<b>UNICEF</b>	2012/10/05	Assistants to Return & Reintegration of IDPs in Sri Lanka	LKR	11
	2012/06/15	Country Programme 2008-2012 UNICEF (Enhancement)	US\$	26
<b>World Food Programme (WFP)</b>	2012/08/21	Protected Relief & Recovery Operation in Sri Lanka. (Enhancement)	US\$	28

Source: Department of External Resources



Source: Department of External Resources



## Trend of Foreign Financing Commitments

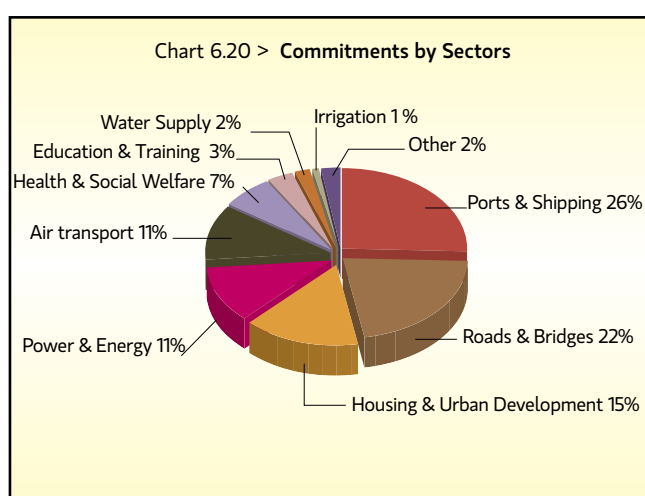
The composition of foreign financing has changed significantly during the past few years since the country graduated to a middle income economy. The amount of concessional loans in the annual loan portfolio has declined gradually from US\$ 2,615 mn in 2006 to US\$ 1,475 mn in 2012 while non-concessional financing has increased from US\$ 260 mn to US\$ 1,677 mn during the same period. The non-concessional foreign financing extended by development partners and lending agencies in the advanced countries and Asian emerging countries in the form of export credit, or buyer's credit was utilized for implementation of the major economic infrastructure development projects initiated by the Government in recent past.

The Government borrowing of foreign non-concessional financing for implementation of commercially viable development projects which can generate sufficient cash flow to service the respective loans has increased during the last few years. The amounts of external debt, optimal debt profile, external funding needs, debt utilization, and future debt service capacity and risks factors have been considered by the Government when deciding the amount of non-concessional borrowings. The greater part of such foreign financing has been obtained

for implementation of essential economic infrastructure development projects in ports, power and highways.

## Sector-wise Distribution of New Commitments

Of the total foreign financing commitments in 2012, 71 percent amounting to US\$ 2,226 mn was earmarked for development of economic infrastructure mainly ports & shipping (26 percent), roads and bridges (22 percent), power & energy (11 percent) and air transport (11 percent).



Source: Department of External Resources



## Foreign Financing Disbursements

The total amount of foreign financing disbursements as at the end of 2012 was US\$ 1,986 mn of which US\$ 1,835 mn or 92 percent was disbursed from project loans and the remaining US\$ 151 mn or 8 percent was disbursed from foreign grants.

Out of the total disbursements in 2012, 24 percent or US\$ 484 mn was for the development projects funded by China. The Improvement and Rehabilitation of Priority Roads Project, Northern Roads Rehabilitation Project and the Colombo Katunayake Expressway Project are the main projects made by this high disbursement. About 19 percent of the total disbursement or US\$ 396 mn was for Japanese funded projects namely, the Greater Colombo Urban Transport Development Project (US\$ 72 mn), the Upper Kotmale Hydro Power project (US\$ 67 mn). The disbursement for projects supported by the Asian Development Bank was US\$ 302 mn (15 percent of the total disbursement) and reported mainly from the Colombo Port Expansion Project and the Clean Energy and Access Improvement project. Disbursement under the projects supported by the Government of India, World Bank and other development partners and lending agencies accounted for 14, 8 and 20 percent of the total disbursement in 2012 respectively.

## Committed Undisbursed Balance

The total committed undisbursed balance of foreign financing available for development projects and programmes as at the end of 2012 stood at US\$ 7,145 mn. Japanese funded projects accounted for 20 percent or US\$ 1,395 mn of this amount and Chinese funded projects accounted for 18 percent or US\$ 1,291 mn. The amount

Chart 6.21 > Composition of Disbursements 2012 by Major Development Partner

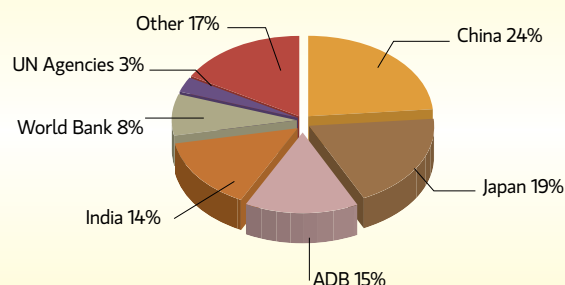
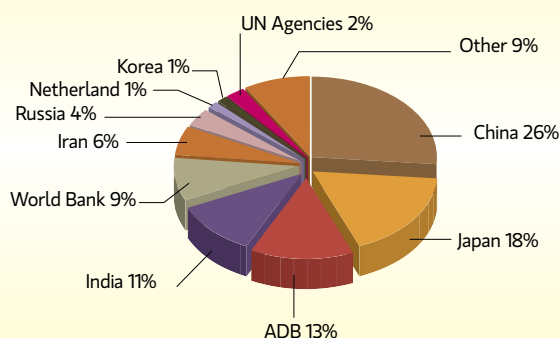


Chart 6.22 > Committed Undisbursed Balance (US\$ Million 2012.12.31)



Source: Department of External Resources

of the committed but undisbursed balance of foreign financing from ADB funded projects was US\$ 1,065 mn (15 percent of the total value) and Indian funded projects and World Bank funded projects accounted for US\$ 873 million (12 percent) and US\$ 676 million (9 percent) respectively.

## Utilization Rate of Foreign Financing<sup>1</sup>

Table 6.13 > **Utilization Rate 2012**

Development Partner	Utilization Rates %
<b>Bilateral</b>	<b>21.30</b>
Japan	20.37
China	22.62
India	25.48
Netherland(Ex)	23.31
Sweden(Ex)	100.00
UK(Ex)	92.59
Denmark(Ex)	21.44
France	70.34
Korea	30.75
Australia(Ex)	32.79
Austria(Ex)	80.43
Other Bilateral	8.19
<b>Multilateral</b>	<b>25.27</b>
ADB	24.95
World Bank	21.66
Other Multilateral	37.07
<b>Total</b>	<b>22.28</b>

Source: Department of External Resources

According to the stipulated standard, the satisfactory level of the overall utilization ratio should be between 20-25 percent if the average implementation period of projects is 4-5 years. With the remedial measures taken by the Government and development partners

Table 6.14 > **Utilization Rates by Development Partners 2012**

Development Partner	Utilization Rates %
ADB	24.9
World Bank	21.7
Advance Asian Economies	25.6
Emmerging Economies	22.6
SAARC Countries	25.5
Advance Economies	64.7

Source: Department of External Resources

to improve the project management system including procurement, efficient cash flow arrangements, use of commercial borrowings to address the funding gaps in economic infrastructure projects and better treasury operation in Budget Management the utilization rate of foreign financing projects has gradually increased during the last five years.

## External Debt Portfolio

The external debt as at the end of 2012 is US\$ 20.3 billion, an increase of about 10 percent over the last 10 years period. The external debt portfolio consists of US\$ 13.6 billion (68 percent) as concessional loans, while the remaining US\$ 6.7 billion (32 percent) is non-concessional loans including commercial loans.

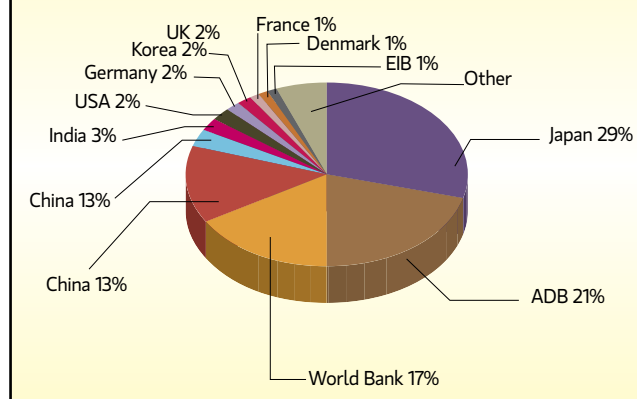
Table 6.15 > **Composition of External Debt**

Components	External Debt Outstanding (US\$ Mn) at the end of			Absolute Variation (US\$ Mn)		Percentage Variation	
	2010	2011	2012	2011	2012	2011	2012
Multilateral	6,085	6,341	6,639	257	298	4.2	4.7
Bilateral	6,439	7,002	7,160	563	157	8.7	2.2
Export Credit	1,801	2,252	2,965	452	713	25.1	31.6
Commercial	2,038	3,034	3,530	996	496	48.9	16.4
Total External Debt	16,362	18,629	20,293	2,267	1,664	13.9	8.9

Source: Department of External Resources

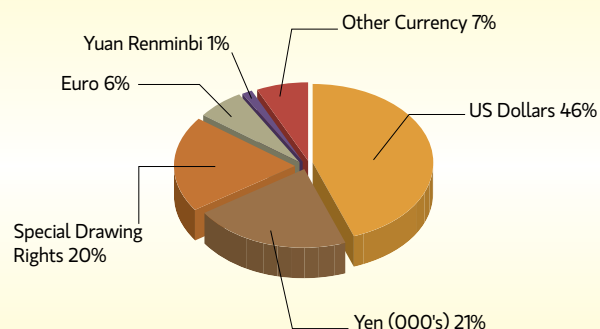
<sup>1</sup> The ratio depicted the average life of the project and efficiency of the project implementation. The utilization rate indicates the ratio of total disbursements to total committed undisbursed balance.

Chart 6.23 &gt; Debt Compositions by Development Partners in 2012



Source: Department of External Resources

Chart 6.24 &gt; Currency Composition of Outstanding Debt



Source: Department of External Resources

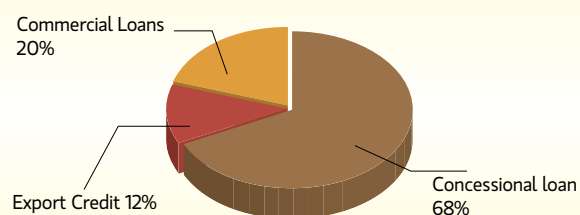
The total external debt has increased by around 9 percent during 2012 in comparison to 14 percent in 2011.

About 29 percent of the cumulative external debt at the end of 2012 represented loans from Japan and 22 percent represented loans obtained from the Asian Development Bank. About 17 percent of the total external debt represented the loans raised from the World Bank, while 13 percent accounted for loans from China. The remaining 19 percent of the total external debt represented loans obtained from other development partners and lending agencies.

### Currency Composition of Foreign Debt

The currency composition of foreign debt at the end of 2012 reflected that 93 percent of the total external debt was in four major currencies namely US dollars, Special Drawing Rights (SDR), Japanese Yen and Euro. US dollar denominated debt accounted for 46 percent of the total external debt as at the end of 2012 followed by Japanese Yen (22 percent) SDR (20 percent) and Euro (6 percent).

Chart 6.25 &gt; Type of Loans in foreign Outstanding Debt



Source: Department of External Resources

The share of concessional loans in total outstanding debt as at the end of 2012 was 68 percent while financial loans and export credit represented 20 percent and 12 percent of the total outstanding debt respectively.

### Duration of Loan Period

Even though there were no significant changes observed in respect of the grace periods, repayment periods, and the grant element of

the external debt stock in 2012, the average time of maturity of foreign currency debt had decreased to 15.8 years as at the end 2012 from 16.2 years in 2011.

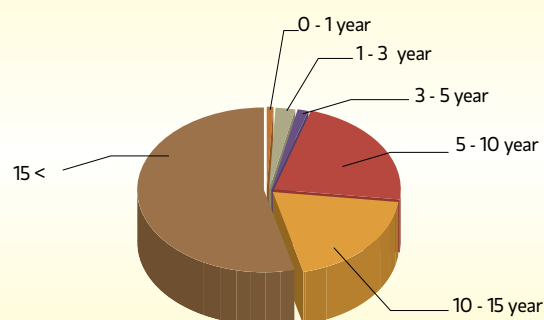
### Average Interest

The average interest rate of foreign currency denominated debt excluding Sri Lanka Development Bonds (SLDBs) increased to 3 percent in 2012 in comparison with 2.2 percent in 2011. An increase in loan flotation charges of major development projects funded by bilateral development partners and slight increase of LIBOR rates compared to 2011 are also contributed the increase in average interest rate on foreign loans.

### Maturity Structure of Foreign Outstanding Debt

Out of the total outstanding foreign debt of US\$ 20.3 billion, 3 percent will mature during the next three years, and 1 percent in next 3-5 years. About 26 percent will mature during the next ten year period from 2013 to 2022 and another 20 percent will mature during subsequent five year period commencing 2023. The remaining 52 percent will mature after fifteen years.

Chart 6.26 > Maturity Structure of Outstanding Foreign Debt



Source: Department of External Resources

Table 6.16 > Maturity of Foreign Debt with Sovereign Bonds as at 15th Nov. 2012

Maturity Period	No. of Loans	Amount US\$ Mn	% of Total Debt
1-0	16	25	0.13
1-3	20	514	2.53
3-5	30	280	1.38
5-10	89	4,534	22.34
10-15	97	3,955	19.48
15<	256	10,991	54.14
<b>Total</b>	<b>508</b>	<b>20,300</b>	<b>100.00</b>

Source: Department of External Resources

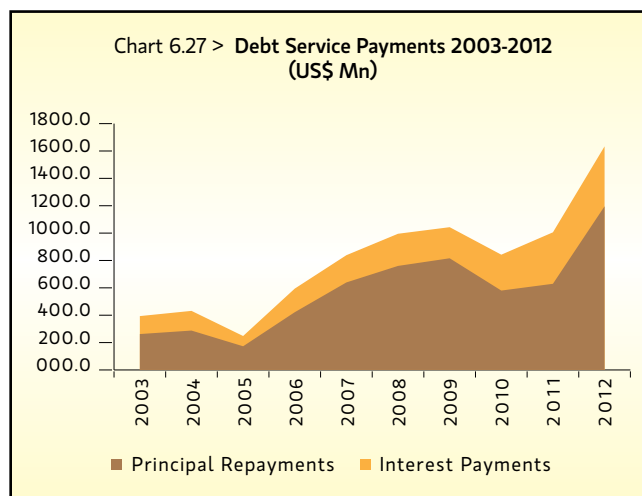
### The 5th US\$ International Bond Issue on the 17th July 2012

The issue of US\$ 1 billion 10 year International Sovereign Bond was priced at a yield of 5.875 percent per annum. Bank of America, Merrill Lynch, Barclays Capital, Citigroup and HSBC acted as joint Lead Managers/ Book Runners on the transaction. The People's Bank acted as the co-manager on the transaction.

Fitch Ratings, Moody's and Standard and Poors rated the issue at 'BB -' with a stable outlook, 'B1' with positive outlook and 'B+' with a stable outlook, respectively. The final order books stood at US\$ 10.5 billion, and an oversubscription ratio of 10.5 times. The number of investors increased to 425 from 315 in 2011. Distribution was very well diversified with Asia taking 27 percent, Europe 29 percent and the USA 44 percent. Global fund managers were the largest investors in the transaction, representing 90 percent, with banks/private banks and others taking 6 percent and 4 percent respectively. Sri Lanka's previous four issuances in 2007 (5 year), 2009 (5 year), 2010 (10 year) and 2011 (10 year) were priced at yield of 8.25 percent, 7.40 percent, 6.25 percent and 6.25 percent, respectively.

## Foreign Debt Repayment

The total foreign debt service during 2012 was US\$ 1,635 mn including maturity of US\$ 500 of sovereign bonds issued in 2007. Out of the total debt repayment, principal repayment was US\$ 1,197 and interest payment was US\$ 438 mn.



Source: Department of External Resources

### Box 6.2: Sri Lanka Classified as 'Less Indebted' by UN-ESCAP

Sri Lanka has been classified as "less indebted" in five out of six debt indicators which assess external debt vulnerability of a country, by the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP).

Table 6.17 > **Assessment of External Debt Vulnerability of Sri Lanka – 2012**

Indicator	(UN-ESCAP) Definition Levels			Sri Lanka 2012
	Less Indebted	Moderately Indebted	Highly Indebted	
Disbursed External Debt Outstanding/Gross National Income	<30%	>30% and <50%	>50%	37.0%
Disbursed External Debt Outstanding / Exports of Goods and Non-Factor Services	<165%	>165% and <275%	>275%	112.6%
Total External Debt Service Payments/Exports of Goods and Non-Factor Services	<18%	>18% and <30%	>30%	10.7%
External Interest Payments/Exports of Goods and Non-Factor Services	<12%	>12% and <20%	>20%	3.7%
Net Present Value of External Debt/Gross National Income	<48%	>48% and <80%	>80%	40.0%
Net Present Value of External Debt/Exports of Goods and Non-Factor Service	<132%	>132% and <220%	>220%	130.0%

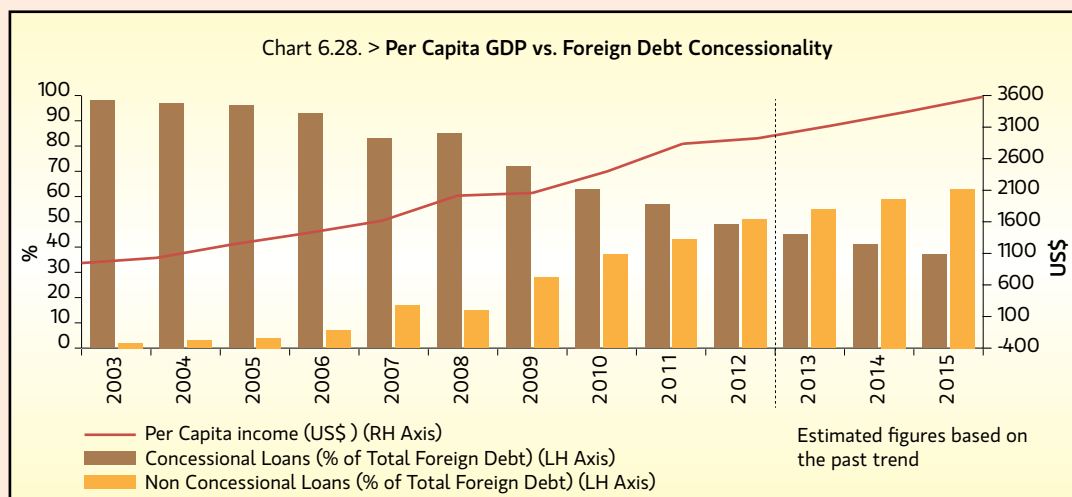
Source: Manual on Effective Debt Management, UN-ESCAP

Accordingly, the only indicator in which Sri Lanka is placed in the "moderately indebted" category is the "Disbursed external debt outstanding to Gross national income" category, where Sri Lanka's indicator value is 37%, which is moderately above 30% of the specified limit for the 'Less indebted category'.

It is important to note that these values have been recorded by Sri Lanka at a time when public debt risk that emanating from global economic slowdown, has been rising in many economies.

### Box 6.3: Decline in Non-concessional Financing and Options for Public Investment

Over the past several decades, the country has enjoyed concessional financing from multilateral financing agencies such as the International Development Association (IDA) of the World Bank, the Asian Development Bank (ADB), International Fund for Agricultural Development (IFAD), United Nations Development Programme (UNDP), OPEC Fund, European Investment Bank and bilateral development partners such as Japan, South Korea, France, Austria, Germany, Denmark, the USA, Australia, Kuwait, Saudi Arabia, Netherlands, Sweden, China and India. These concessional financing have been extended in the form of outright grants, credits with longer maturities with a longer grace period and low interest, and / or as mixed credit (loan and grant combined). However, as the country moves towards an upper middle income economy with increased demand for public investments, the availability of concessional funding has begun to reduce.



*Non concessional loans include Sovereign Bonds issued by the Government and Commercial Loans obtained by the State Enterprises under Government Guarantee*

The concessional assistance from western bilateral partners such as UK, France, Germany, Netherlands, USA, Norway, Denmark, Sweden, Spain and Finland which are generally available for low income countries with per-capita income below US\$ 1025 has considerably diminished and financing in the form of export credit has taken a prominence. The global economic downturn as well as the recent Euro Zone crises has also underpinned the reduction of concessional financing to low income countries in general.

Showing a similar pattern, concessional financing from multilateral partners has also come down over the past few years. The ADB's share of concessional financing has gradually declined where as the non-concessional financing from the Ordinary Capital Resources is on the rise. The country has also taken steps to approach non-concessional window of the World Bank-International Bank for Reconstruction and Development (IBRD) to expand financing options.

In 2012, the share of the concessional financing and non concessional financing as a percentage of total foreign debt was about 50 percent of the total foreign debt represented non concessional financing including non Concessional Loans which include Sovereign Bonds issued by the government & commercial loans obtained by the State Enterprises under Government guarantee.



As access to concessional financing is limited, the Government has gradually moved towards mobilizing long term funds with maturity generally exceeding 15 years while channelling such funding for financing of the economic infrastructure development projects that will raise country's foreign exchange earnings capacity through increase in export of goods and services as well as import replacement activities. Accordingly, these funds are utilized to meet large investments in priority sectors such as energy, roads, highways, ports and aviation, irrigation and water supply schemes. In this context, it is vital to assess the economic viability of projects to be financed through foreign financing and capacity of generating adequate resources to service debt in future. Accordingly, the Government has streamlined the project approval process to select commercially viable development projects to be financed on foreign non concessional and commercial terms.

### 6.4.3 External Assistance from Sri Lanka

In line with the country's graduation a middle income country, Sri Lanka has extended grant and technical assistance to Asian and African countries. Action has been taken to export country's surplus rice production to less developed countries that required assistance through the World Food Programme (WFP). The government also had preliminary discussion with friendly countries to strengthen Sri Lanka's foreign economic ties with an income level on

par with ours or economic development lower than ours by exchanging technical expertise with them. The experience that the country has made in the areas of alleviating poverty, strengthening the rural economy, advancement in education, health, irrigation, construction activities, banking, and accounting services could be used for such assistance. Accordingly, such services are provided through technical assistance and small project financing using the expertise available in several Ministries and agencies.

#### **Box 6.4: Provision of Grant Assistance of US\$ 10 Million to the Government of Maldives for Construction of a 4.8 km Long Asphalt Concrete Road**

The Government of Sri Lanka provided a grant assistance of US\$ 10 million to the Government of Republic of Maldives in 2011 for construction of 4.8 km long asphalt concrete road starting from Sunset Bridge through Maradhoo and Feydhoo in Addu Island in Maldives in recognition of the strong and cordial relationship between the two countries. The initiative would assist to strengthen the mutual understanding and bilateral relationship between the two nations and improve the trade and investment prospects between the two countries.



The road has a 7 meter (m) wide asphalt concrete carriageway 1.5 m to 2.0 m wide raised foot walks on both sides and street lighting. The construction was assigned to the Road Development Authority (RDA) which has the required knowhow and technical capabilities with the assistance of M/s International Construction Consortium (Pvt) Limited of Sri Lanka.



**Box 6.5: Provision of Grant Assistance of US\$ 1.5 million to the Government of Uganda for Establishment of Sri Lanka–Uganda Friendship Vocational and Technical Training Centre in Uganda**



*During the State Visit of H.E the President of the Republic of Uganda in November, 2012*

The Government of Republic of Uganda sought grant assistance and technical cooperation from Sri Lanka for upgrading and strengthening of Masulita Vocational and Technical Training Centre (MVTTC) in Uganda as the Sri Lanka - Uganda Friendship Vocational and Technical Training Centre. In response, the Government of Sri Lanka has agreed to extend grant assistance and technical cooperation not exceeding US\$ 1.5 million to the Government of Republic of Uganda towards upgrading and strengthening of MVTTC with a view to improve access to quality education in Uganda as a gesture of goodwill.

The project will rehabilitate/renovate all the existing buildings of MVTTC and new constructions of 1320 square meter asphalted access roads, 800 meter storm water drains and culverts and 340 meter long paved walking paths will also be carried out. The project will also provide technical assistance to MVTTC through the Ministry of Youth Affairs and Skill Development (MYASD). The MYASD will provide a programme for training of ten officials of the Government of Uganda in Sri Lanka for a period of two months in technical fields and also depute three Sri Lankan experts to Uganda to establish/upgrade technical training programme for a period of two months for rendering technical assistance as agreed by the both parties.

The total cost of the project is approximately Rs. 170 million of which, around Rs. 146 million will be allocated for the renovation of the existing buildings and external work of the above training centre and the remainder will be allocated for vocational training programmes for trainers to be conducted by MYASD. The construction works of the project is expected to commence in 2013 and to complete the project before the end of 2015. For the purpose of achieving the above objective, the construction work of the project will be assigned to Sri Lankan contractor "VS Hydro (Pvt.) Ltd" currently deployed in Uganda which has the required knowhow and technical capabilities. Sri Lankan skilled labour will be used for the construction works while the construction material which exported from Sri Lanka will also be utilized where as possible.

A Memorandum of Understanding (MOU) between the two countries on the implementation of the above project was signed during the State Visit of H.E the President of Uganda to Sri Lanka on 13th November, 2012.

## 6.5 Foreign Financing from Development Partners



ADB is an international development finance institution owned by 67 members, 48 of which are from the Asia and Pacific region. Sri Lanka is a founding member of the ADB.

ADB's main financing instruments comprise loans, technical assistance, grants, equity investments and policy dialogues. Although most lending is in the public sector and to governments, ADB also provides direct assistance to private enterprises of member countries.

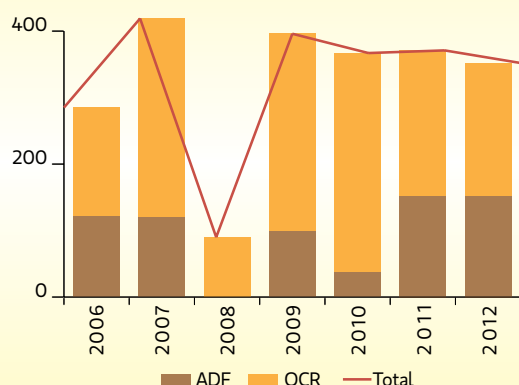
**Table 6.18 > Subscription to capital stock and voting power**

	No. Shares	Percentage
Sri Lanka	61,560	1.09
Other	10,552,457	98.91
Voting Power		
	No. Votes	Percentage
Sri Lanka	101,164	0.76
Other	13,166,321	99.24

**Table 6.19 > Cumulative ADB lending to Sri Lanka since 1968 as at end 2012**

Sector	Loans (No)	Amount \$ million	%
Education	11	351.90	6.0
Energy	17	807.75	14.0
Roads	25	1456.20	25.1
Water	20	862.67	14.9
Multi Sector	8	300.47	5.19
Other	88	2012.31	34.81

**Chart 6.29 > Annual Commitments 2006 - 12 (US\$ Mn)**



### Box 6.6: Development Cooperation with the Asian Development Bank (ADB)

Since the first loan approval of US\$ 2 million for tea factory modernization in 1968, Sri Lanka has raised around US\$ 5.6 billion through loans, grants and technical assistance projects. The Government has paid a total sum of US\$ 924.6 million for capital repayment and US\$ 459.2 million for interest payment at the end of 2012. The portfolio grew from 24 loans in 2000 to 38 on-going sovereign loans totaling US\$ 2.4 billion in 2012. Of the total net loan amount, nearly 50% has been disbursed.

In the last two decades from 1985-2005, Sri Lanka borrowed from the ADB mainly for the agriculture, transport and financial sectors reporting 19, 18 and 10 percents of the total borrowings respectively. Consequent to the shift towards infrastructure development in terms of the government's economic policy strategies under "Mahinda Chinthana- Ten year Horizon Development Framework" and the "Mahinda Chinthana- Vision for the Future", the total amount borrowed has increased substantially over the last 6 years. The proceeds of the loans have been allocated to implement strategic development projects in focused areas to support economic development.

The funding arrangements of the ADB are basically available through Asian Development Fund (ADF) loans which are provided at concessional terms and the Ordinary Capital Resources (OCR) provided at near-market rates.

The ADF resources which are borrowed at concessional rates are mainly provided to general and technical education which involves long gestation period to generate sufficient returns on investment. Education projects implemented with ADB financing including Secondary Education Modernization Project (US\$ 86 million) and Education for Knowledge Society Project helped to modernize secondary education infrastructure in order to increase access, enhance quality and relevance, and improve service delivery. Technical Education Development Project introduced innovative programs and facilitated to increase access.

Table 6.20 > **Terms and Financial Charges of ADF and OCR Credit Facilities**

	ADF	OCR
Terms	Fixed term, 25-year repayment period including a grace period of 5 years	Repayment period is up to 26 years, including 5 years grace period.
Interest Charges	2% throughout the tenor.	Floating rate - LIBOR plus 0.4% on effective spread
Commitment Charges	Not Applicable	Fixed 0.15% per annum based on undisbursed balance plus 0.1% Maturity premium

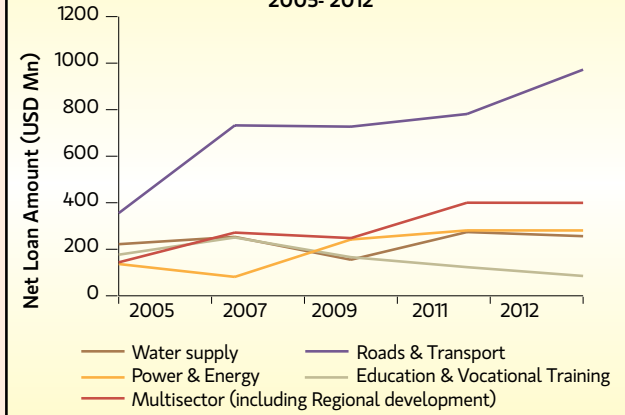
Sri Lanka borrows OCR resources to finance economic and social infrastructure development projects with higher economic returns with productive capacity in support of the increase in economic growth in the medium term. A significant amount of OCR borrowed from ADB during the last 6 years has invested in development of national and provincial roads as well as Colombo South Port break water development to expand export capacity in the economy.

The Government, with the support of ADB has developed a Road Sector Master Plan covering all aspects of road network improvement and construction of expressways, national highways and provincial roads as an integrated network. A corresponding investment plan including strategies to increase private sector participation in road maintenance has also been developed. Strategic investment in Colombo South Port break water development financed through ADB US\$ 300 million and Government US\$ 180 million funding mix helped Sri Lanka to facilitate private sector investment in port development. Accordingly, private investment

of US\$ 500 million has made to construct the first container terminal on Built Operate and Transfer (BOT) basis with the handling capacity of 2.4 million ETU<sup>1</sup> per year.

Borrowing from ADB is also being used in the power sector to accommodate rapidly growing electricity demands. Particularly ADB financing has been used to increase clean power supply, improve efficiency and reliability in the delivery of electricity and minimizing system losses. Government is currently implementing three power projects with ADB assistance; Clean Energy and Access Improvement Project, Clean Energy and Network Efficiency Project and the Sustainable Power Sector Project.

Mixed credit (ADF and OCR mix) obtained from ADB have largely been provided to improve basic services such as water supply and sanitation, electricity for remote villages and livelihood support. The OCR resources borrowed under this strategy are invested in water supply and sanitation, electricity and other productive sectors expecting that sufficient income will generate through these investments to repay the loans. Government has used these mixed investments to reduce the financial cost of providing water supply services to Batticaloa, Polonnaruwa, Muttur,

Chart 6.30 > **Trend in Sectoral Distribution of the ongoing portfolio 2005- 2012**<sup>1</sup> ETU- Equivalent terminal units

Hambantota, Vauniya, Mannar, Chilaw and Puttalam areas through the Secondary Towns and Rural Community Based Water Supply Project and the Dry Zone Urban and Sanitation Project. The Government has obtained 2 loans (US\$ 90 million) from the ADB in 2011 to implement the Jaffna-Killinochchi Water Supply and Sanitation Project (JKWSSP). Having considered the urgency of providing drinking water to the Northern part of Sri Lanka, the Government has decided to complete the project within 5 year period starting from 2011. However, recruitment of consultants has been delayed by 8 months, posing serious concern on the completion of the project on time. Therefore, it is necessary to ensure that the project is completed within the timeframe by reducing extra time taken for procurement process while assigning clear responsibilities to respective project officials.

Table 6.21 > **Loans and Technical Assistance 2012 (US\$ Mn)**

Loans		Technical Assistance	Total
Sovereign	Non sovereign		
352.0	15.0	5.65	372.65

Appropriate mix of ADF and OCR resources are also being used to improve rural electricity services as well as connectivity between remote villages.

### Medium Term Borrowing Ceilings

The medium term resource requirement is decided by the government and ADB through bilateral consultations after negotiation in regular interval, taking in to account the development priorities of the government, cost advantages of mobilizing ADB financing for preferred sectors, overall availability of the resources, debt service and economic viability of proposed projects, cost of

borrowing, past experience and technical expertise available with the ADB in certain economic sectors.

### Country Assistance Programme

The government and ADB have finalized the Country Partnership Strategy (CPS) for 2012-2016 which underlines the medium-term strategy and operational program for utilizing ADB financing, called. During the preparation of CPS, government priorities in terms of the targets specified in the government's economic policy strategy; "Mahinda Chinthana- Vision for the Future" as well as the investment needed to achieve them have been taken into consideration.

Major investment areas under ADB partnership-

- Roads and transport
- Water supply
- Power and energy
- Education & Skills Development

Table 6.22 > **Portfolio Performance Quality Indicators 2011- 2012**

No of on-going loans as of end 2012 -		38
	2011 (US\$ Mn)	2012 (US\$ Mn)
Contract awards/Commitments	301.7	182.7
Disbursements	271.8	293.6

Figure: Badulla - Mahiyangana Road rehabilitated with ADB assistance





Sri Lanka's Country Operation Business Plan (COBP), 2013-15, which identifies lending and non-lending project pipelines, follows the strategic priorities identified in the CPS 2012-16. The COBP reflects the agenda of a middle income country, emphasizing areas such as education and skills development, road network optimization, water supply service improvement and sustainable energy. Accordingly, over the next three years Sri Lanka's annual average resources envelop will be around US\$ 300 mn. Out of the total US\$ 900 million that is earmark for the period 2013-2015, a substantial portion will be absorbed by the education, water, transport and energy sectors. In order to support the implementation of the National Education Sector Strategic Plan for General Education Government plans to obtain financial assistance of US\$ 200 million through ADB Results-based Financing Modality in 2013.

Government encourages ADB also to support the on-going sectoral development programmes of the government rather than sticking to project based financing. This will help to develop the respective sectors in a consolidated and comprehensive manner while minimizing duplications. Accordingly, the proposed financing for implementation of the National Education Sector Strategic Plan for General Education will be provided as a programme loan supporting on-going education sector development programme of the government.

Table 6.23 > **Debt Maturity structure**

No. of Loans	US\$ Mn	Years to mature
01	0.13	1-4 years
10	36.28	5-9 years
103	2,516.75	Over 10 years

## Development Partnership with Asian Development Bank

For nearly five decades, the partnership between Sri Lanka and the Asian Development Bank (ADB) has resulted a wide range of development projects in support of country's economic and social development programme. The annual borrowing from ADB currently

stands around US\$ 300 million or 0.7 - 0.8 percent of the GDP.

The current portfolio of US\$ 2,223 million is spread across 7 sectors with roads & transport as the largest sector (29% of the portfolio) followed by water supply and sanitation (17%), power and energy (12%), port (13%) and multi sector including regional development (18%).



Visit of ADB's Board of Directors October, 2012

Table 6.24 > **ADB Loan Portfolio and Sector Distribution**

Sector	No. of Loans	Amount (US\$ Mn)	%
1. Road & Transport	10	672	29%
2. Water Supply, Sanitation and Waste Management	10	400	17%
3. Education & Skill Development	6	175	7.3%
4. Power & Energy	6	285	12%
5. Port	1	300	13%
6. Finance & Fiscal Management	5	88	3.7%
7. Multi sector (including regional development)	18	406	18%
<b>Total:</b>	<b>25</b>	<b>2223</b>	<b>100</b>

Source: Department of External Resources

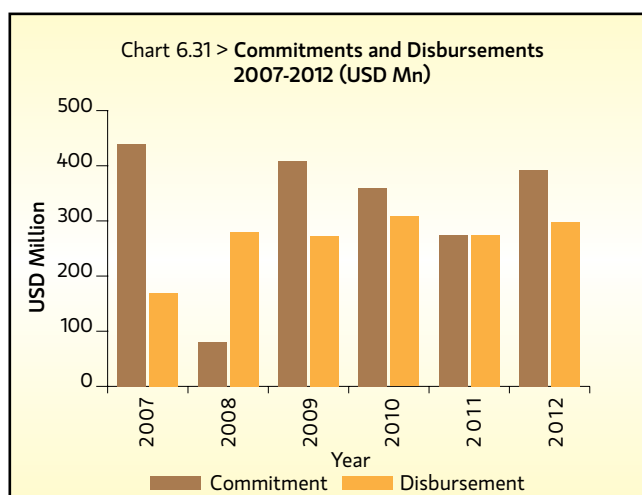
The ordinary Capital Resources (OCR) borrowed from ADB at nearly market rates are generally invested in projects that generates sufficient economic return to repay the loans in the medium to long term while the resources borrowed from the Asian Development Fund (ADF) at concessionary rates are channelled to the sectors that need a somewhat longer period to produce results. The existing medium-term strategy and operational programme for utilizing ADB financing; the Country Partnership Strategy (CPS) for 2011-2016 period focuses mainly on (a) inclusive and sustainable economic

growth, (b) catalyzing private investment and (c) human resource and knowledge development.

The Government has taken all efforts to utilize the total loan amount under concessionary financing and ADB has increased ADF allocation to Sri Lanka to US\$ 262 million for the 2013-14 period from US\$ 189 million allocated for the 2011-12 period. Sri Lanka's ADF allocation increased as a result of the higher rating received for performance on macroeconomic policies, the quality of public sector management and the performance in portfolio management.



Library Building Constructed at Gampaha with ADB Assistance



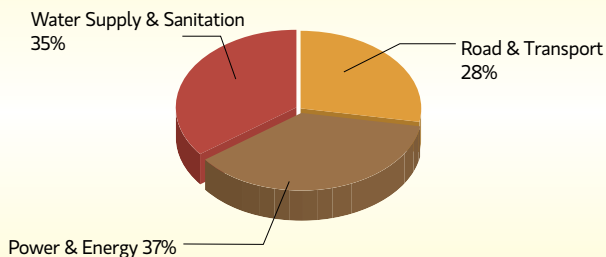
## Commitments and Disbursements (2007-12)

The annual commitments from ADB during the past five years have been varied with an average annual commitment of US\$ 320 million, depending on resource requirement from different economic sectors and government priorities.

### Commitments in 2012

The total commitment made by the ADB in 2012 in terms of concessionary and non-concessionary loans amounted to US\$ 392 million in compared to US\$ 275 million in 2011. These commitments include US\$ 130 million for the Power & Energy Sector, US\$ 124 million for the Water Supply & Sanitation Sector and US\$ 98 million for the Transport Sector. The higher commitments for power and water supply sectors reflects the priority given by the Government to provide urgent basic infrastructure needs of the people in the conflict affected areas.

Chart 6.32 > Commitments for Priority Sectors 2012



### Disbursements in 2012

The total disbursement achieved under the ADB funded projects in the year 2012 was US\$

298 million, exceeding the annual disbursement target. It includes US\$ 102.5 million for the Road and Transport Sector, US\$ 52.4 million for the Port Sector, US\$ 54.5 million for Regional Development, US\$ 10.7 million for the Education Sector, US\$ 16.8 million for the Water Supply & Sanitation Sector, US\$ 44.3 million for the Power & Energy Sector and US\$ 17 million for other sectors.

Apart from this assistance, the non-lending programme consists of several technical assistances to support the development of selected economic sectors such as roads and transport, water supply and sanitation, power and energy, education and skills development. These technical assistance programmes are either linked to future projects or stand alone to strengthen the institutions in the respective sectors. There are 19 such non-lending programmes currently in operation. The total value of these programmes is estimated at US\$ 12.7 million and this will be provided on grant basis.

Table 6.25 > **Projects with Slow Progress in 2012**

1. Dry Zone Urban Water Supply and Sanitation Project
2. Jaffna- Killinochchi Water Supply Project
3. Conflict Affected Region Emergency Project
4. Clean Energy and Access Improvement Project
5. Local Government Enhancement Sector Project
6. Grater Colombo Waste Water Management Project

### Exploring new financing modalities

In the background of higher resource requirements for development financing, the Government has taken steps to negotiate a multi-tranche financing facility (MTFF) by phasing large investment programmes into two or more financing tranches/agreements. This will increase the flexibility for planners to plan their projects to suit the emerging needs of the economy while reducing the transaction cost



and time associated with borrowing separate loans for implementation of mega infrastructure development projects.

Accordingly, the Government has negotiated an MTFF in an amount up to US\$ 300 million with ADB to finance the Grater Colombo Water and Waste Water Management Improvement programme with the objective of rationalizing the water supply services in the Grater Colombo and suburbs by reducing the Non-Revenue Water (NRW).

Also, multi-tranche financing facilities have been requested from the ADB to finance the human capital development programme of the Government over next 8-10 years. Accordingly ADB has agreed to provide US\$ 385 million to support the Education Sector Development Framework and skills development programme of the Government. All these programmes will have a sector wide approach supporting the medium term expenditure frameworks of the respective sectors. The financing will be linked to results based disbursements while having a demand driven and balanced approach with private sector participation. This will help the Government to create a quality and student friendly education system which contributes to a knowledge economy and provides the required skills and virtues to face the emerging needs in the future.

The MTFF provides a number of advantages over project based financing. The commitment of financial resources over a number of years will provide flexibility to design a long -term development programme based on sectoral needs and priorities. As a result, implementation of ad-hoc projects in isolation from the sectoral development programmes could be minimized.

Therefore, the local resources could be channeled to finance other priority projects.

The long-term financing facility will ensure connectivity between development activities and sustainability of development programmes. This new approach will minimize the time taken for project preparation and designing while reducing the associated transaction cost. Also the MTFF will improve the coordination between respective agencies and institutions.

### Loans negotiated in 2012

Government has negotiated US\$ 352 million of new loans with ADB in 2012 which are summarised in the following table.

Table 6.26 > **New Loans Negotiated in 2012 (US\$ Mn)**

Name of the Project	Amount	Objective
Northern Road Connectivity Project	98.0	Rehabilitate 80 km of national roads and 120 km of provincial roads in the Northern and North Central Provinces
Dry Zone Urban Water & Sanitation Project	40.0	Provide safe drinking water to Chilaw, Puttalam, Vavuniya and Mannar
Grater Colombo Water & Waste water Management Improvement Investment Programme (Tranche 1)	84.0	Multi-Tranche Financing Facility for Reduction of Non-Revenue Water
Clean Energy and Network Efficiency Project	130.0	Achieve future energy requirements by increasing the clean power supply and improving the efficiency and reliability of the delivery of electricity.



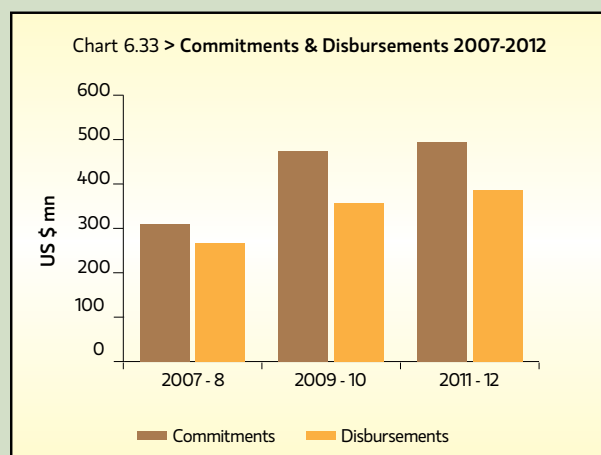
World Bank group is an international development finance institution established in 1944 to support governments in their efforts to invest in development of social and economic infrastructure. It is a co-operate body owned by 187 countries both developed and developing that has obtained membership. Sri Lanka is a founder member of the World Bank Group. Under the World Bank Group, there are complimentary institutions i.e. International Bank for Reconstruction and Development (IBRD), International Development Association (IDA), Multilateral Investment Guarantee Agency (MIGA), and International financing cooperation (IFC) to provide assistance to achieve its overall goal.

Table 6.27> **Subscription to Capital Stock and Voting Power**

	Amount Subscribed US\$ mn*	%	Number of Votes	%
<b>IBRD (188 member Countries)</b>				
Sri Lanka	381.7	0.22	4,372	0.23
Other	177,171.1	99.78	1,875,496	99.77
<b>IDA ( 172 member countries)</b>				
Sri Lanka			85,236	0.38
Other			22,594,687	99.62
<b>MIGA (179 member countries)</b>				
Sri Lanka	5.71	0.27	710	0.32
Other	1911.08	99.73	217,921	99.68
<b>IFC (184 member countries)</b>				
Sri Lanka	7,135	0.30	7,901	0.31
Other	2,391,957	99.70	2,532,135	99.69

\* Millions in 1944 US\$

Source – World Bank Group Headquarters



## Box 6.7: Development Cooperation with World Bank Group

**IBRD** assists middle-income countries through loans, guarantees, and analytical and advisory services. The loans are usually with a repayment period of 15 to 20 years, with 3-5 year grace period.

**IDA** provides interest-free loans that have repayment period of 25-30 years with 5 year grace period to the world's poorest countries that have little or no capacity to borrow on market terms. It helps recipient countries provide access to basic services such as education, health care, clean water, and sanitation. IDA also supports reforms and investments aimed at boosting productivity and creating jobs.

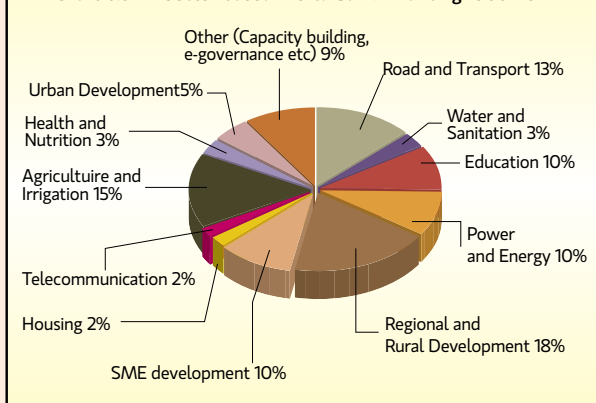
**IFC** promotes growth in the developing world by financing sustainable private sector investments and by offering technical assistance and advice to governments and businesses.

**MIGA** encourages foreign direct investment in developing countries by guaranteeing foreign investors against loss caused by non commercial risks. It also provides technical assistance to help developing countries promote investment opportunities and uses its legal services to smooth potential impediments to investment.

World Bank group has been a long standing partner in Sri Lanka's social and economic development since its first development credit for Aberdeen- Laksapana Power Project in 1954. Since then the Government has received 118 development loans, credits and grants totaling more than US\$ 4.6 billion as of 31st December 2012 covering vast range of sectors. This constitutes total Grants of US\$ 364 million and Loans of US\$ 4.2 billion. Of the total net loan amount of US\$ 3.52 billion has been disbursed and it is nearly 83 percent of the total amount.

Government has paid a total sum of US\$ 0.78 billion as principle repayment and US\$ 0.64 billion for interest payment at the end of 2012.

Chart 6.34 &gt; Sector based World Bank Financing 1966-2012

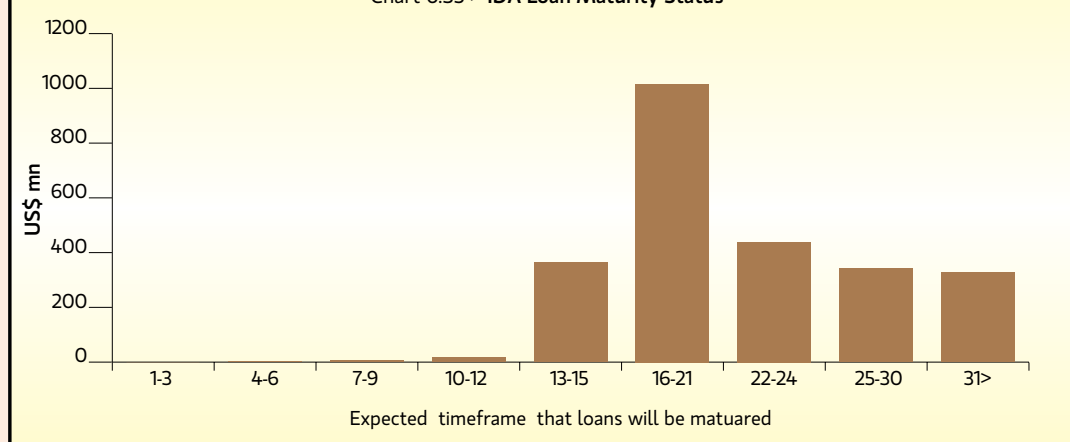


The current portfolio of World Bank for Sri Lanka amounted to US \$ 1040.4 million and is spread across 8 sectors with regional development as the largest sector (24% of the portfolio) followed by road construction & rehabilitation (19.7%), education (13.4%) and other sectors including metro Colombo development, dam safety, small & medium enterprise development and tourism development. The transition of Sri Lanka into the status of a Middle Income Country (MIC) has widened the potential to obtain blend borrowing from International Development

Association (IDA) and International Bank for Reconstruction and Development (IBRD). In addition, accessibility to obtain International Finance Corporation's (IFC) assistance for public enterprises and the private sector has also been increased.

World Bank Group's Country Assistance Strategy (CAS) FY 09-12 was prepared in 2008 mainly focusing the government's intention to develop conflict affected areas of the Northern and Eastern provinces. However, as the country context has considerably changed from 2009 onwards and the entire country is on a strategic development and structural transformation. The Country Partnership Strategy (CPS) of the World Bank for FY 13-16 was formulated, focusing on the emerging economy's challenges in the long run. This included realigning public spending and policy with the needs of a middle income country, paying particular attention to obtain foreign financial assistance for sector based development programs to achieve long term development perspectives of the country.

Chart 6.35 &gt; IDA Loan Maturity Status



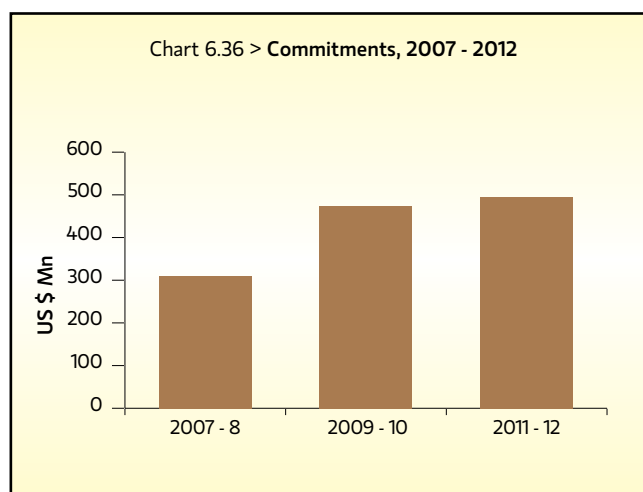
## Development Partnership with World Bank

Sri Lanka has fulfilled eligibility criteria to obtain blend borrowing from International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) since December 2010, as the country has entered into a rapid development pathway of a middle Income Country (MIC). Highly concessional IDA loans basically support for programs aimed at uplifting the economic development and improving living conditions while IBRD supports promoting sustainable economic development and reducing poverty by providing loans, guarantees and related technical assistance.

In this context, Sri Lanka continued to mobilize financial assistance extended by World Bank to address long term strategic and structural development challenges of the country through Country Partnership Strategy (CPS) of the World Bank for FY 13-16. Facilitating sustained private and public investment, supporting the structural shifts in the economy and improving living standards and social inclusion are the three main pillars of partnership which synchronize country systems in a flexible context.

In the meantime, the Country has taken further steps, during 2012, to encourage World Bank to adopt programme based financing rather than focusing on individual projects in order to improve effectiveness of public spending.

Sri Lanka was able to mobilize US\$ 1135.3 worth of loans and US \$ 37.8 million grants from the World Bank for the period of year 2007-2012. Total of thirty six (36) agreements have been signed during 2007-2012 period out of which 22 were loan agreements and 14 were grant agreements. Of this most of the projects are mainly for regional development, social development and infrastructure development. There are two education development programs aimed at promoting equitable access to primary



and secondary education, and enhancing relevance & quality of the higher education while strengthening alternative higher education. Furthermore, improving efficient service delivery & equity access for public sector health were focused in the project aimed at health sector budget support. Improving of overall capacity of land use and economic activities in the Colombo Metropolitan area were the main focus of the project under Urban Development sector.

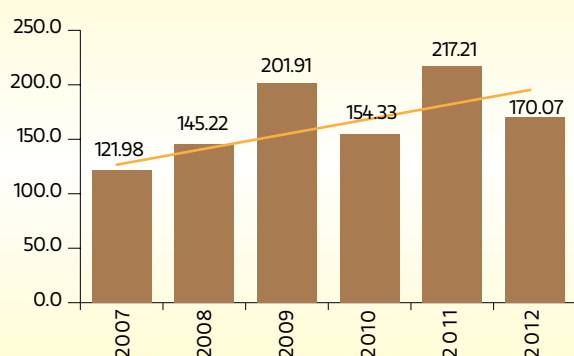


Kantale Trincomalee Road (RSAP 11-phase 1)

During the period of year 2012, 24 development projects have been implemented with an investment of US\$ 1043.9 million and considerable amount of investments have been derived to the regional development covering Northern and Eastern area.

Moreover, the government was able to obtain additional financing for e-Sri Lanka Development Project during 2012 to maintain the current momentum of e-governance activities. The project will enhance growth and equity access to and use of information and communication in remote areas with online public service facilities for e-business while promoting competitiveness of the private sector, particularly small and medium enterprises (SMEs). Grant assistance extended by World Bank under Dirisaviya program focuses mainly on the cash support and training for people with disabilities to improve their living standards.

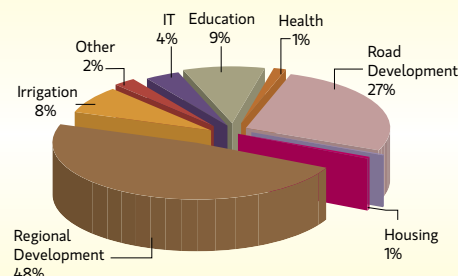
Chart 6.37 > Disbursements, 2007 - 2012



Fund disbursements increased 23 percent during 2007-2012 period and highest level of disbursement of US\$ 217.21 million has been recorded in 2011. Relatively low disbursement in 2012 has resulted from procurement and procedural delays pertaining to regional development projects and poor performance of statistical component of the Public Sector Capacity Building project.

However, disbursement in relation to regional development sector was the highest during 2012 followed by the second highest was for the infrastructure development sector. A considerable amount of US\$ 16 million was disbursed for the education sector.

Chart 6.38 > Sectoral Disbursements in 2012



Rehabilitation of Chandrika Weva under Dam Safety Project

Furthermore, action was taken in 2012 to review and restructure ongoing development projects funded by World Bank to address ground realities and new development challenges in the areas of focus. Sustainable Tourism Development project, which was originated to convert the aspirations of being a tourism hub in the region and Public Sector Capacity Building Project were the projects that were restructured successfully. Meanwhile, performance of the Community Livelihood in Conflict Affected Areas (Re-Awakening) project, and Local level Nutrition Intervention project activities were reviewed and loan proceeds were reallocated among the project categories, within the original scope of the project in order to achieve higher economic and social benefits.





*Rehabilitation of Ridiyagama Dam under Dam Safety Project*

## Metro Colombo Urban Development Project

Having identified the need for creation of competitive and dynamic cities to reach the government's desire of becoming an upper-middle income economy, the government initiated Metro Colombo Urban Development Project (MCUDP) which is jointly financed by the IBRD of World Bank and the Government of Sri Lanka from April 2012 to June 2017. The Metro Colombo Region is the international gateway to Sri Lanka and houses most of the country's important institutions and services and manufacturing facilities and, therefore, there is a need to tap into the competitive advantages of the Metro Colombo Region to accelerate growth.



*Aluth Mawatha Culvert / Main Drainage*

The aim of the MCUDP is to complement the ongoing urban regeneration programs of the Government of Sri Lanka by reducing the physical and socioeconomic impacts of flooding in the Metro Colombo Region and improving priority

Table 6.28 > **Projects initiated in 2012**

Project Name	US\$ Mn
1 Metro Colombo Urban Development Project	213
2 Transforming the School Education System as a Foundation of a Knowledge Hub Project	100
3 Additional Financing for E Sri Lanka Development project	11
4 Warehouse Receipt Financing Project	6.5
5 Metro Colombo Urban Development Project	0.9
6 ICASL	0.5
7 "Dirisayiva" Assisting People with Disabilities through Cash Transfers & Training	2.59

local infrastructure and services. The Project area will comprise four urban local authorities: the Colombo Municipal Council, Dehiwela-Mount Lavinia Municipal Council, Sri Jayawardenapura-Kotte Municipal Council, and Kolonnawa Urban Council.

## Transforming the School Education System as the Foundation of a Knowledge Hub project (TSEP)

Sri Lanka has identified promoting high quality general education as a foundation to transform the country to a knowledge hub. To assist this effort, World Bank has provided a loan of US\$ 100 million for Transforming the School Education System as the Foundation of a Knowledge Hub project under Sri Lanka's Education Sector Development Framework and Programme (ESDFP) 2012-2016. The project envisages enhancing access, equity and quality of primary and secondary education to provide a foundation for the knowledge-based economic and social development. Accordingly, preparation of education sector master plan, establish school based teacher development programs, strengthening education management & development at zonal & divisional levels, establish a content & language integrated learning framework have

been selected to reflect and ensure the future prospects of the education sector program. Performance of the project is measured by Disbursement Link Indicators (DLIs) and these indicators are used to release World Bank disbursement tranches and recognized as disbursement linked indicators (DLI) within a negotiated framework.

### **Health Sector Budget Support/ Second Health Sector Development Project**

The Government has also focused its attention on obtaining foreign assistance for sector based development programmes to realize long term development perspectives of the country in a more flexible manner. Under these initiatives, the Government has succeeded in obtaining IDA funding of World Bank for a credit facility of US\$ 200 million for Health Sector in order to achieve desired objectives of the Second Health Sector Development Programme (SHSDP), which has been formulated under the National Health Development Plan (NHDP) 2013 – 2017, in line with the Mahinda Chinthana Goal of ‘improved living standards, social inclusion and equitable access’. The SHSDP is expected to benefit the whole population of the country, especially the poorer and more vulnerable

population groups who depend more on public health services. The programme will benefit directly those who are vulnerable to under nutrition; Maternal and Child Health (MCH) problems, continuing emerging and re-emerging communicable diseases (tuberculosis, dengue, leptospirosis, HIV/ Aids; rabies and other zoonotic diseases) and Non Communicable Diseases (NCD). Children under five years of age, pregnant and lactating women and adolescent girls are being targeted for nutrition interventions, while young working aged and elderly women and men are expected to benefit more from NCD interventions. The Government and World Bank has agreed to measure the progress of the performance of SHSDP through the achievement of mutually agreed Disbursement Linked Indicators (DLIs), which is an innovative financing instrument to capture the development result of the project.

In the financial years 2013 and 2014, the total IDA lending is expected to be US\$ 577 million where total IBRD lending is expected to be US\$ 450 million. Furthermore, the blend of IDA and IBRD funds for 2013 is declared as US\$ 500 million and 2014 as US\$ 527 totaling to US\$ 1,027 for the next two years.

*In the meantime, the Country has taken further steps, during 2012, to encourage World Bank to adopt programme based financing rather than focusing on individual projects in order to improve effectiveness of public spending.*



# JAPAN

Japan's Official Development

Assistance (ODA) has played a significant role over 60 years for the social and economic development of Sri Lanka. Japanese Yen Loan Packages have been extended from 1965 onwards on an annual basis. Japanese assistance is provided through the Japan International Cooperation Agency under various schemes as Yen loans, Grant Aid, Technical Cooperation and Development Studies.

Table 6.29 > **Cumulative lending from Japan as at end 2012**

Sector	Loans (no)	Amount (JPY million)	%
Power and Energy	24	218,330	23
Road	17	162,151	17
Water			
	14	99,497	11
Agriculture and Irrigation	10	44,783	5
Other	41	394,439	44

Initially, ODA Yen Loans were provided mainly for import of commodities and fertilizer from Japan. In 1970s, Japanese ODA was further expanded covering a wide spectrum of sectors including power and energy, water supply and drainage, ports, roads, transport, aviation, health, agriculture and irrigation, disaster management, telecommunication and rural development. Since the first loan obtained in 1965, the Government has secured financial assistance from Japan totaling to US\$ 6,879 million through 106 project loans and 15 commodity loans and US\$ 1,287 million of grant assistance.

Table 6.30 > **Debt Maturity Structure**

No of Loans	US \$ mn	Years to mature
91	3,569.95	Over 10 years

## Box 6.8: Sri Lanka – Japan Development Cooperation

Being one of the leading development partner of Sri Lanka, Government of Japan has made its highest commitment in 2012 by committing US\$ 521 million for implementation of priority development projects in the areas of aviation, power and energy, health, higher education and water supply.

About 90 percent of the Japanese assistance is provided in the form of Yen Loans which is extended on annual basis. The annual commitments by Japan to Sri Lanka have now exceeded US\$ 500 million. In the past, Sri Lanka obtained development assistance from Japan at concessional rates for agriculture, irrigation, poverty alleviation and transport. With the transformation of Sri Lanka to a middle income country, a larger share of Japanese development assistance is now allocated for infrastructure development.

The New Economic Policy Framework of Japan which was released in July 2004 and the Mahinda Chintana: Vision for a New Sri Lanka -Development Policy Framework of the Government recognize the following aspects as essential for the economic development of Sri Lanka.

- Reconstruction and development of the conflict-affected areas to ensure achievement of dividends of peace.
- Development of infrastructure for economic growth.
- Reducing regional disparities through comprehensive development
- Strengthening disaster management and climate change mitigation measures.
- Raising the capability of the services sector to increase the foreign exchange earnings.

Based on the above guidelines, the Government of Sri Lanka has obtained continuous support from the Japan for implementation of development projects highlighted in the Government policy framework.

Table 6.31 > **Terms and Conditions of Yen Loans**

Terms	Interest Rate	Repayment Period	Conditions for Procurement
General Terms	1.4%	25 years including 7 years grace period	Untied
Preferential Terms	0.3%	40 years including 10 years grace period	Untied
STEP	0.1%	40 years including 10 years grace period	Tied

The Government of Japan introduced a special loan scheme called Special Terms for Economic Partnership (STEP) in 2003. Under the STEP, loans are offered at more concessionary terms of interest at 0.10% per annum and repayment period of 40 years inclusion of a 10 year grace period. However, a minimum of 30% of the goods and services, procured under the loans has to be sourced from Japan. The preferential terms loans are provided for projects related to Global Environmental Problems and Issues, Health and Medical Services, Disaster Prevention and Human Resource Development. Having different schemes of loans as STEP Loans and Preferential terms loans with concessional rates have become an advantage for the Government to maintain proper blend of concessional and non concessional loans towards long term debt sustainability since the number of concessional loans are gradually declining due to the transformation of middle income stage.

The Government has secured more Japanese assistance for development projects in the areas of electricity, water, aviation and port. Meantime, with the aim of strengthening State Owned Enterprises (SOE) the Government has facilitated SOEs to obtain direct financial assistance from Japan. Accordingly, Airport and Aviation Service (Sri Lanka) Ltd obtained a loan of Japanese

Yen 28,969 million in 2012 with Treasury Guarantee to improve the facilities of the Bandaranaike International Airport.

Japan has provided funds for the construction of road section from Kottawa to Kurudugahahetekma of Southern Expressway and technical assistance for installation of toll system throughout expressway. Also, the Government has secured financial assistance from Japan for Greater Colombo Urban Transport Development project which includes construction of an outer circular highway (OCH) linking seven high priority trunk roads and express ways to mitigate traffic congestion in Colombo Metropolitan area and enhance the connectivity with other regions.

To meet the increasing demand of electricity with the rapid economic development, the Government has mobilized financial assistance for the development of Power and Energy sector by investing in all three stages in Power Supply including Generation, Transmission and Distribution. Accordingly, construction of Vavniya Kilinochchi Transmission Line was completed in 2012. Also, Japan committed new loans in 2012 for implementation of Habarana Veyangoda Transmission Line and the Greater Colombo Transmission and Loss Reduction Project.

### **Grant Assistance from Japan**

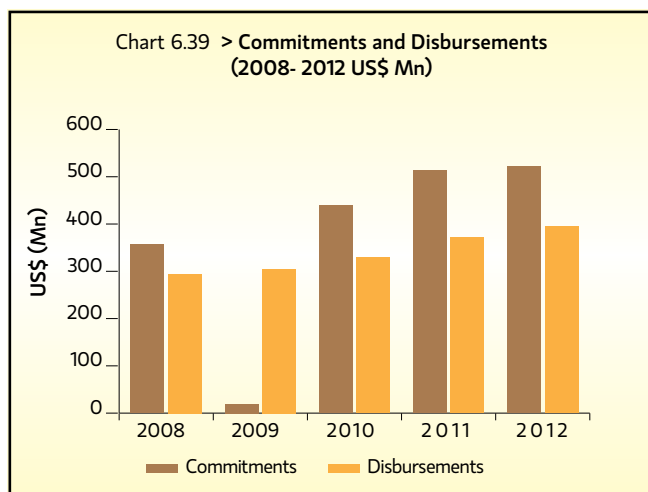
In addition to the grant assistance providing under Technical Cooperation and Development Studies in parallel to Yen Loan Package, Japan is providing different grant aid schemes such as General Grants, Non project Grants, Cultural Grants and Science and Technology Grants (SATREPS) and 2KR food Production Grants to Sri Lanka. In 2012 Japan provided grant assistance for improvement of language laboratory in Sabaragamuwa University and Kelaniya University, rehabilitation of Killinochchi water supply scheme and provision of medical equipment for Government hospitals.

## Development Partnership with Japan

Year 2012 was a landmark year in Japanese and Sri Lankan Development Cooperation as it was the commemorative year of 60 years of excellent friendship between the two countries.

### Commitments and Disbursements

During the last five years the annual average commitment from the Government of Japan was around US\$ 363 million and the total commitment for the same period was US\$ 1,862 million.

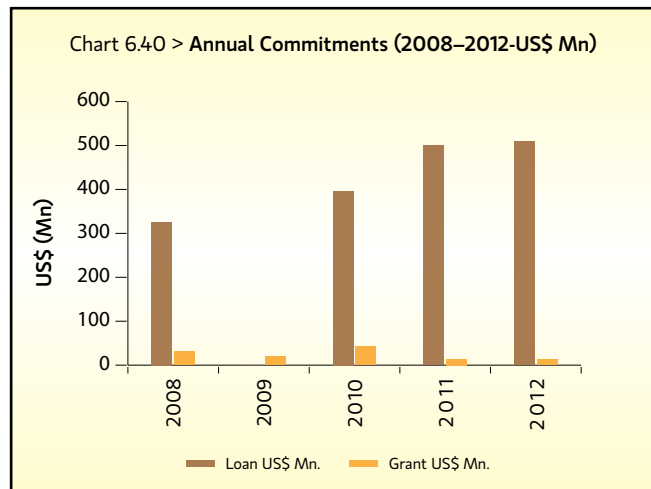


Source: Department of External Resources

Over the last three year period annual disbursement has also been increased progressively. The total disbursement in 2012 was 395.8 US\$ million. This is an increase of more than 25.5 percent compared with the disbursement figure for 2008.

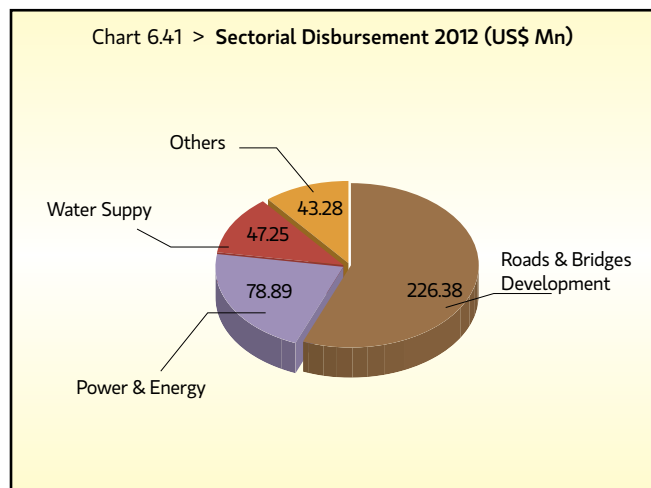
### Annual Commitments

Total Commitments provided by the Japanese Government through concessionary loans and grants in 2012 was US\$ 521.3 million. This included three loans signed in 2012 amounting to US\$ 508.7 million; Bandaranaike International Airport Development Project - Phase 2 US\$ 346 million, Habarana - Veyangoda Transmission Line Project US\$ 115.3 million, Improvement of Basic Social Service Emerging Regions US\$ 47.4 million.



Source: Department of External Resources

The total Japanese grant commitment in 2012 amounted to US\$ 12.5 million. This included Japan Grant Aid for Provision of Industrial Products US\$ 3.7 million, Project for Rehabilitation of Killinochchi Water Supply Scheme US\$ 8.3 million & Project for Improvement of Japanese Language Learning Equipment of the University of Kelaniya and Sabaragamuwa University US\$ 0.5 million.



Source: Department of External Resources

The total disbursement of Japanese assistance in the year 2012 was US\$ 395.8 million which is significant achievement compared to the average disbursement level of US\$ 339.2 million over the last five years. Out of the total disbursement in 2012, US\$ 226.38 million

was reported for development of Roads and Bridges and US\$ 78.89 million for development of Power & Energy. Disbursement reported through water supply projects and other sectors amounted to US\$ 47.25 million and US\$ 43.28 million respectively.

## Bandaranaike International Airport Development Project Phase II

The objective of this project is to attain a high standard of safety and convenience through constructing a new passenger terminal building, remote apron and other related facilities in the Bandaranaike International Airport thereby contributing to the economic development of Sri Lanka.

The country peaceful environment significantly affects increasing of the number of over-flights considerably during last two years. It created the opportunities for Sri Lanka to earn massive amounts of foreign currency compared with other south Asian countries. As a result, the Government has provided a guarantee for Sri Lanka Airport Aviation Services Limited to raise financial assistance from the Government of Japan to improve and modernize the support facilities at Bandaranaike International Airport (BIA). This was secured as a direct borrowing package by Airport and Aviation Services (Sri Lanka) Limited in line with the Government strategy of revitalization of the State Owned Business Enterprise (SOBE). This strategy helps to enhance the revenue generation activities of SOBE while keeping financial autonomy. The project was aimed of facilitating foreign earnings by enhancing the infrastructure development within the airport premises. Accordingly, a sum of US\$ 346 million has obtained to construct a two-storey passenger terminal building with two terminals for arrivals and departures. This would help to meet the increasing demand of the tourism sector which is estimated that more than 8 million international passengers will arrive the country in 2015. The following activities are proposed



*The visit of Deputy Prime Minister Mr. Katsuya Okada in May 2012 to improve bilateral ties with Sri Lanka*

to be carried out under the project in order to achieve the following objectives.

- a) To minimize the overcrowding of passengers by constructing a two-storey passenger terminal building and establishing two terminal for arrivals and departments
- b) To construct Pier No. 02 with 8 gates and 14 aerobridges
- c) To construct an aircraft parking apron and improve utilities such as water supply, electricity and waste water disposal system.

This project will generate sufficient economic benefits within the country to recoup investment cost earlier than the 40 year repayment period. This project provides infrastructural development to attract foreign investors and citizens of the world while enhancing the capacity of the airport facilities at the Bandaranaike International Airport (BIA) to accommodate increasing air traffic demand and helping to achieve the Government target of 2.5 million of tourists' arrivals in 2016.

## Rehabilitation of Kilinochchi Water Supply Project

The objective of the project is to reduce the number of waterborne diseases and uplift the health standards of people in Kilinochchi District by improving water purification facilities

in the area through rehabilitation and restoring the operational activities of the existing water supply scheme in Kilinochchi, which was damaged by terrorists during the conflict period.

Rehabilitation of the Kilinochchi Water Supply Project was initiated in 2012 with Japanese grant assistance of US\$ 8.3 million. The project helps to meet the increasing demand of water for non domestic water owing to the constructions of institutions including trade and vocational training centers and private institutes, religious places as well as emerging industries after end of the conflict. This project also aims at fulfilling the expected water demand in year 2020.

Accordingly, the project focuses on the construction of a new water intake, raw water transmission line from the intake, water treatment plant and two water towers at Kilinochchi and Paranthan with 1000m<sup>3</sup> and 450 m<sup>3</sup> capacities respectively to realize the project objectives. In addition a distribution pipeline covering 42km is to be constructed to distribute water to the Paranthan area and Iranamadu junction connecting over 1500 houses benefiting more than 20,000 people in 14 Grama Niladhari divisions in the Kilinochchi District.

### **Project for the Improvement of Basic Social Service Targeting the Emerging Regions**

The Government of Sri Lanka initiated this project in 2012 with funding assistance of US\$ 47.4 million to fulfill the following objectives.



#### **(a) Expansion of the production capacity of the State Pharmaceuticals Manufacturing Corporation (SPMC)**

Improvements of SPMC is carried out by installing four new manufacturing machines with higher capacity along with other supporting processing machinery to enhance the production of 4000 million tablets per annum to meet the pharmaceutical requirement of the Government.

#### **(b) Strengthening of secondary hospitals and providing modern and quality care services**

Four selected secondary hospitals in Central, Sabaragamuwa, North Western and Eastern provinces will be upgraded with the required facilities to function as core hospitals in the region in order to reduce overcrowding in tertiary medical institutions and to reduce mortality and morbidity in the local community. In addition, it is intended to provide 124 high technological ambulances to hospitals in Central, Sabaragamuwa, North Western, North Central, Uva, Eastern and Northern Provinces. This project will generate sufficient economic benefits within the country to recoup investment cost earlier than the 40 year repayment period inclusive of a grace period of 10 years.



## Vavuniya – Kilinochchi Transmission Line Project II



The project overall objective is to enhance transmission capacity of the power system to benefit households, small and medium sized businesses and public services in the Northern Province.

The Government of Sri Lanka aims at reinforcing the transmission network in the Northern Province, which was damaged by the terrorists, by reconnecting the 132KV transmission line from Vauniya to Kilinochchi and constructing a grid sub-station in Kilinochchi in order to ensure reliable, adequate and efficient electricity supply to consumers in the areas thereby contributing to peace building of the northern province through the improvement of their living environment, and also to develop the regional economy. US\$ 15.2 million was utilized for this project.

The loan was provided at concessionary rates with a repayment period of 40 years including a grace period of 10 years. The project was



implemented by the Ceylon Electricity Board (CEB) under the supervision of Ministry of Power and Energy. The Vavuniya-Kilinochchi Power Transmission Line was inaugurated by His Excellency Mahinda Rajapaksa at a ceremony held on 25th of September 2012 in Kilinochchi under the “Uthuru Wasanthaya” Program.

In line with the development policy framework of Sri Lanka, the Government has included four projects with high priority for financing under the 43rd Yen Loan Package for fiscal year 2012/2013. It included the Greater Colombo Transmission and Distribution Project to cater to the increasing demand for electricity of the capital city, the Major Bridges Construction Project aiming at enhancing connectivity by constructing 37 bridges in the national road network island wide, the Landslide Disaster Protection Project to mitigate the impact on economic activities and human lives of unexpected disasters and the Anuradhapura North Water Supply Project to provide safe drinking water for people in Anuradhapura North area. In line with The Government’s massive infrastructure development drive, the value of the Annual Yen Loan Package was raised in 2012 from the previous level of 350-400 US\$ million to over US\$ 500 million.

Table 6.32 > **Grant Agreements Signed with the Government of Japan during the Period from 2008 to 2012**

			Amount US\$ Mn
2008	2008/02/29	Improvement of Anuradhapura Teaching Hospital	1.0
	2008/05/13	Improvement of Curative Healthcare Services at the Teaching Hospital of Anuradhapura	17.3
	2008/05/13	Non Project Grant Aid	12.5
2009	2009/01/29	Improvement of Anuradhapura Teaching Hospital (Phase II)	4.3
	2009/03/19	2KR Food Security Project for Underprivileged Farmers	5.4
	2009/12/04	Introduction of Clean Energy by Solar Electricity Generation System	9.7
2010	2010/01/19	Reconstruction of Five Bridges in Eastern Province (Detail Design)	0.3
	2010/03/26	The Project for the Improvement of Central Function of Jaffna Teaching Hospital	24.8
	2010/11/25	Reconstruction of Five Bridges in Eastern Province	14.5
2011	2011/02/10	Improvement of Cartoon Production Facilities at Sri Lanka Rupavahini Corporation	0.5
	2011/03/31	Food Security Project for Underprivileged Farmers	4.3
	2011/09/13	Project for Construction of Manmunai Bridge Across the Batticaloa Lagoon	15.6
2012	2012/03/06	Rehabilitation of Kilinochchi Water Supply Project	8.3
	2012/03/06	Improvement of Japanese Language Learning Equipment of the University of Kelaniya and Sabaragamuwa	0.6
	2012/03/06	Provision of Industrial Products	3.6

## Development Partnership with Korea

The Government of Korea has played a significant role in the economic development of Sri Lanka, especially during the last 5 year period between 2008 and 2012 through extending grant and loan assistance for development projects. The total assistance obtained from Korea during the last 5 year period was US\$ 188.5 million. Of this US\$ 188.5 million US\$ 175 million was loan assistance while the remaining US\$ 13.5 million was grant assistance.

The Korean International Cooperation Agency (KOICA) provides grant assistance. KOICA annually provides US\$ 3-5 million grant assistance to Sri Lanka in order to promote international cooperation, and thus contributes to the economic and social development of Sri Lanka. Construction of Godagama Hospital, Establishment of an Integrated Waste Management System, Development of Communications, Ocean & Meteorological Satellite Data receiving/ analysis System in the

Department of Meteorology and Hambantota International Convention Centre were some of the projects funded with grant funds from KOICA during the last 5 year period.

During 2012, three Records of Discussions on Area Traffic Management System for the Colombo Metropolitan Region of Sri Lanka (US\$ 6 million), Modernization and Upgrading of Automobile Centres in the College of Technology and Technical Colleges (US\$ 3.0) and Detailed Feasibility Study and Detailed Design for Digili Oya Multipurpose Reservoir in the Nilwala Ganga Basin (US\$ 2.5) for grant projects were signed among KOICA, Ministry of Finance and Planning and relevant line Ministries for grant projects.

The Economic Development Cooperation Fund (EDCF) of the Export Import Bank (Exim Bank) of Korea provides loan assistance to Sri Lanka. EDCF loans have been offered on very concessionary terms especially after 2009. During the last three years the annual interest rate for EDCF loans was 0.15% and the



repayment period was 40 years including a 10 year grace period. It was noted that the amount of loan assistance obtained from Korea has increased considerably since 2008.

With the increase of loan assistance from Korea to Sri Lanka, the Government of Korea proposed to sign a Framework Arrangement between the two Governments in 2008 indicating the ceiling for projects to be financed through EDCF funding for an agreed time period. Accordingly, the first Framework Arrangement was signed in 2008 between the two Governments authorizing the Sri Lanka Government to obtain loans from EDCF upto US\$ 140 million for the period 2008 to 2009. The Padeniya - Anuradhapura Road Improvement project, the Lanka Network Stage II project and the Ruhunupura Water Supply project were financed by Korea on concessional terms during that period under the first Framework Arrangement. Similarly, the second Framework Arrangement was signed in 2010 authorizing the Government to obtain US\$ 200 million from Korea between 2009 and 2012. The Government of Korea committed US\$ 110 million to finance the Hatton - Nuwara-Eliya Road Improvement project, the Construction of a Solid Waste Disposal Management project, the Establishment of Gampaha College of Technology and Colombo Vocational Training Centre project and the Padeniya - Anuradhapura Road Improvement project (Supplementary loan) during 2009 -2012 under the 2nd Framework Arrangement. Between 2009 and 2012, loan agreements between the two Governments were signed only for the Hatton - Nuwara-Eliya Road Improvement project and Supplementary loan for the Padeniya - Anuradhapura Road Improvement project. However, action was taken to complete the necessary formalities to sign loan agreements for the other two projects during that period. The third Framework Arrangement was signed between the two Governments in 2012 authorizing US\$ 290 which includes US\$

Table 6.33 > **Commitments from Korea from 2008 to 2012 (US\$ Mn)**

	Loan	Grant	Total
2008	56.8	6.2	63.0
2009	69.0	-	69.0
2010	40.0	-	40.0
2011	-	5.0	5.0
2012	11.13	8.0	19.1
<b>Total</b>	<b>176.9</b>	<b>19.2</b>	<b>196.1</b>

90 million available from the Second Framework Arrangement for the period between 2012 and 2015. The highest commitment of US\$ 69 million during the last five year period was made in 2009 for the implementation of the Ruhunupura Water Supply project. The second highest commitment of US\$ 56.8 million was made in 2008 for implementation of the Improvement of Padeniya - Anuradhapura Road Project and the Lanka Network Project. The total loan commitment made in 2012 was US\$ 11.13 million that was for the Supplementary loan for Padeniya - Anuradhapura Road Improvement project. In addition, arrangements were made in 2012 to commit US\$ 33.5 million for the implementation of the Construction of the Solid Waste Disposal Facilities project.

The total disbursement from Korea for the last five year period from 2008 to 2012 was US\$ 140 million (approximately). The highest disbursements of US\$ 38.7 million and US\$ 37.8 million were recorded during this period in 2012 and 2010 respectively.

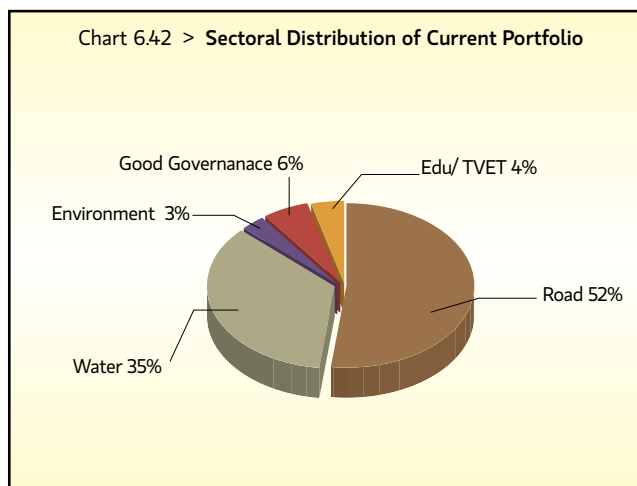
In analyzing sectoral distribution of Korean financing, it is noted that financial assistance obtained from Korea during the last 5 years has been mainly used for development projects in the sectors of roads, water supply, environment, good governance and vocational training.

Table 6.34 > **Disbursements from Korea from 2008 to 2012**

2008	17.0
2009	21.4
2010	37.8
2011	35.8
2012	38.7
Total	139.6

Of the total assistance received from Korea during this period, the highest amount has been used in the road sector. It is around US\$ 103 million that accounts for 52% of the total Korean assistance received by Sri Lanka during the last five year period. The next highest amount of around US\$ 69 million has been used for the water supply sector which represents 35 % of the total Korean assistance received by Sri Lanka during that period.

The Government of Korea introduced the Country Partnership Strategy (CPS) in 2012 which indicates how Korea intends to assist Sri Lanka to achieve its development objectives for the period 2012-2016. The priority areas of the CPS are Economic and Social Infrastructure (Promoting balanced economic and social growth by strengthening road connectivity and establishing a foundation for environmentally sustainable growth by improving water supply management), Education- technical and vocational education and training & secondary education (Increasing international competitiveness through human resource development) and Good Governance

Chart 6.42 > **Sectoral Distribution of Current Portfolio**

Source: Department of External Resources

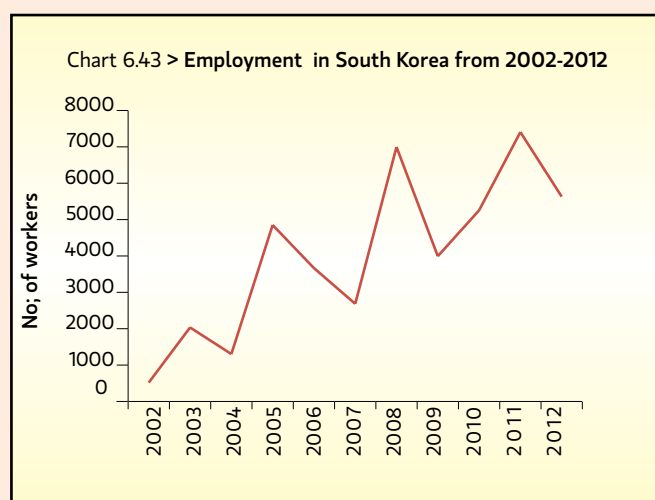
(Enhancing the productivity and transparency of the public sector through e-Government and capacity building).

The Ministry of Strategy and Finance of the Republic of Korea introduced a Knowledge Sharing Programme (KSP) in 2010 in order to share Korea's development experience and thereby promote socio-economic development of other nations. In particular, the Knowledge Sharing Programme consists of policy research, development, consultation, and capacity building. Under this programme, 10 officials in 2011 and 23 officials in 2012 from Ministries and Government agencies went to Korea and participated in a one week study tour covering the area of promoting export & foreign direct investment and enhancing the competitiveness of the SME sector.

### Box 6.9 : Sri Lankan Labour in Korea

The Government of Korea has ensured ease of gaining unskilled employment opportunities for its overseas workers including Sri Lankans. In accordance with a MoU signed between South Korea and fifteen other countries allowing nationals of those countries entry into the Korean labour market, Sri Lanka is also a signatory to the MoU. Sri Lankan workers occupy fifth place in a list of 14 countries whose labour is in demand in Korea.

The Korean companies directly hire Sri Lankan nationals after a strict language screening test and on recommendations provided by other Korean companies in the island. To fulfill



this requirement, large numbers of Sri Lankans have been queuing up to sit the language exam. Even though most Sri Lankans work in unskilled jobs but can expect the minimum salary of 4,110 Korean won (Rs. 42,744) for a maximum eight hour work shift.

The highest recruitment of 7,406 unskilled workers during the past decade was reported in 2011 and the second highest of 6,996 unskilled workers was reported in 2009. In 2012, Korea recruited 5,631 Sri Lankan workers.

Table 6.35 > **Record of Discussions (RoDs) signed between KOICA and Government of Sri Lanka during last 5 Years Period (2008-2012)**

Project	Amount (US\$ Mn)
1. The Rehabilitation of Schools in Eastern Province( Ampara, Batticaloa Districts)	1.9
2. Constructions of Schools in Killinochchi Districts	5.0
3. The development of Communications, Ocean and Meteorological satellite Data Receiving/Analysis system	2.0
4. Integrated Waste Management System in High Level Road	4.5
5. Area Traffic Management System for Colombo Metropolitan Region of Sri Lanka	6.0
6. Modernization and Upgrading of Automobile Centers in the college of Technology and Technical Colleges	3.0
7. Detailed feasibility study and Detailed Design for Digili Oya Multipurpose Reservoir in Nilwala Ganga Basin	2.5

### Box 6.10: Ruhunupura Water Supply Development Project

The national policy plan wishes to develop Southern Province of the country with the preliminary objective of raising the economic, health and living standards of people in the province. This project envisaged development centered around the Hambantota Harbor which is identified as having great potential for port related development due to its location in an important navigational route linking East and West. By developing piped water supply system and providing safe and reliable water to the project area, project aims at supporting smooth and timely implementation of the Ruhunupura Development Plan and contributing to the industrial development and economic growth in the project area.



The main components of the project are source improvement and construction of an intake at Ridiyagama tank, construction of a 17,500 m<sup>3</sup> per day treatment plant at Koggala, supply and laying of 45 km of water transmission system, construction of 4 ground reservoirs and 4 elevated towers and supply and laying of 400 km long distribution pipe network.

The total cost of the project is US\$ 115.7 mn of which US\$ 76.3 is provided by the Government of Korea. The project is to be completed by the end of 2013.

### **Box 6.11: Improvement of the Anuradhapura - Padeniya Road Project**

This project was implemented with the objective of providing high mobility transportation between Padeniya and Anuradhapura.

The project includes widening and improvement of 80.8km in length with 14.0m in width the Padeniya-Anuradhapura road with two lanes paved with asphalt concrete and with an addition of four lanes in town areas. The total cost of the project is US\$ 70 million of which US\$ 55 mn was provided by the Government of Korea through the Economic Development Cooperation Fund of the Export-Import Bank of Korea on concessional terms.

The direct and indirect effects of the Project are expected to shorten the travel time, reduce vehicle operating costs, decrease traffic accidents, improve the quality of public transportation services and provide the basic framework for regional economic growth by facilitating the movement of passengers and freight between the regions.

The road of the project area was partly damaged and weakened due to the unexpected heavy rainfall from October 2010 to February 2011. This led to additional project work and the damage was estimated at US\$ 13 mn. The Government of Sri Lanka decided to finance the cost overrun through a EDCF supplementary load as it did not suffice self financing source for the additional cost.

EDCF provided the supplementary loan in Korean Won not exceeding the equivalent of US \$ 11.13 million in 2012 to complete this project. By the end of December 2012, 98% of this project was completed.





## China

**The Rubber- Rice Pact,** signed on December

18, 1952, was the starting point in post independent bilateral collaboration between Sri Lanka and China, leading the way to a closer and stronger economic cooperation between the two countries. It was followed by the establishment of diplomatic relations, in 1957. Today, China has emerged as a main bilateral development partner of Sri Lanka in terms of infrastructure development.

Table 6.36> **Loan Assistance from China 1971-2012**

Funding Source	No of Projects	Amount in US\$ Mn
ExIm Bank	25	3,989
CDB	03	866
ICBC	01	70
<b>Total</b>	<b>29</b>	<b>4,925</b>

The Government mobilizes loan assistance from China mainly from the ExIm Bank of China and China Development Bank (CDB). In addition, Industrial and Commercial Bank of China (ICBC) is providing development assistance to Sri Lanka for the implementation of commercially viable development projects.

Table 6.37> **Cumulative Chinese Financial Assistance to Sri Lanka including loans and grants (Since 1971 as at end 2012)**

Sector	No. of Loans & Grants	Amount (US\$ Mn)	%
Roads & Bridges	19	1,642	32
Power & Energy	11	1,751	34
Ports & Shipping	5	1,183	23
Aviation	2	232	5
Other	27	318	6
<b>Total</b>	<b>64</b>	<b>5,126</b>	<b>100</b>

The total grant assistance offered by the Government of China by signing Economic and Technical Cooperation Agreements between the two Governments is RMB 1,206 mn (Approximately US\$ 201 mn).

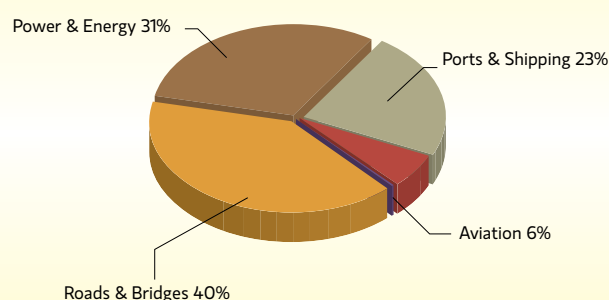
## Box 6.12: Sri Lanka – China Economic Cooperation

China has become one of leading development partners of Sri Lanka in the recent past. The total assistance extended by China during the period from 1971 to 2012 was US\$ 5,126 mn of which US\$ 4,818 mn (around 94%) was extended during the last 8 years. The funds received under loan assistance has been invested in high priority strategic development areas of roads, aviation, power and energy, highways, irrigation and ports.

The landmark projects implemented with Chinese assistance in the recent past include the Southern Expressway, Hambantota Port Development Project, Norochcholai Coal Power Project (900 MW), Mattala International Airport Project, Colombo-Katunayake Airport Expressway Project, Rehabilitation and Reconstruction of Priority Road Projects, Moragahakanda Development Project and Nelum Pokuna Art Theatre.

The important aspects of Chinese assistance are (a) shorter processing period, (b) availability in larger amounts and (c) favourable terms compared to commercial lenders.

Chart 6.44 > **Sectoral Distribution of Chinese Assistance 2008 - 2012**



The active portfolio of Chinese assistance currently stands at US\$ 3,876 mn. In 2012, a major portion i.e. US\$ 1,566 mn or 40 percent of the total portfolio was invested in the roads, transport and highways followed by the power & energy sector with a total investment of 31 percent of the total portfolio.

Around 23 percent has been invested in the ports & shipping sector development.

#### Memorandum of Understanding signed 2008-2012

- 2012-between the Government of Sri Lanka and the ExIm Bank of China to streamline a new project pipeline for concessional financing for a five year period beginning in 2013.
- 2012- between the Government of Sri Lanka and the ExIm Bank of China to extend further cooperation for financing, more infrastructure projects in future under Buyer's Credit Facility.
- 2011- between the Government of Sri Lanka and the China Development Bank on the provision of financial assistance of US\$ 1.5 billion to promote cooperation in the areas of roads and bridges, ports, power supply, irrigation, power etc.

Table 6.38> **Exchange of Letters Signed Between Sri Lanka and China 2008 - 2012**

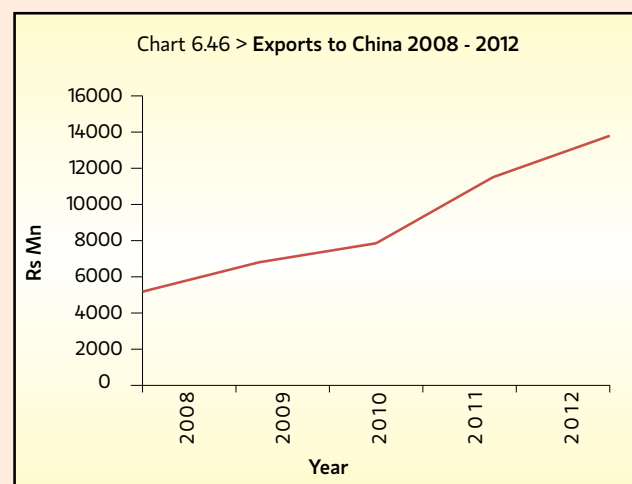
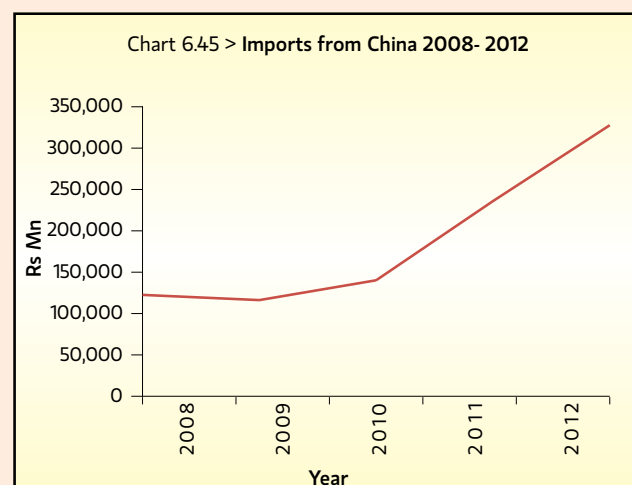
Project Name	Year	Amount US\$
Reparation and Refurbishment of the Superior Court Complex	2009	29,292
Donation of Machinery and Equipments	2009	2,423,118
Technical Cooperation for National Performing Art Theatre	2011	888,888
Provision of Sports Good for Youth in Jaffna, Kilinochchi and Mullaitivu	2012	158,628
Technical Cooperation for SBMEC and BCIS	2012	476,190
Donation of one Siemens 1.5 TESLA MRI Scanner	2012	1,952,380

#### An impressive increase in Chinese tourists in 2012

The government is planning to attract 2.5 million tourists by 2016 as part of a five-year plan for the Tourism Industry. In 2012, tourist arrivals to Sri Lanka continue to boom with an

impressive increase of 58 percent of Chinese tourists. Chinese arrivals to Sri Lanka in the last year was 25,781. In 2012, promotion campaigns launched aimed at increasing arrivals from China. Journalists and TV crews from China visited the island to promote Sri Lanka's tourism and increase its exposure to Chinese audiences. Sri Lankan Airlines has also increased flights to key Chinese cities such as Beijing, Shanghai and Guangzhou. The Sri Lankan government has targeted China as main focus for tourism growth. For 2013, the target of Chinese tourist arrivals has been set at 60,000 and expect to exceed 100,000 by 2015.

Trade between China and Sri Lanka from 2008 to 2012





The two countries are placing their highest interest in boosting two-way trade and promoting investments in addition to collaborating on large-scale projects. The imports from China are increasing continuously and in 2012 Rs 14 billion worth of

imports from China were recorded. With the expansion of economic relations between two countries, Sri Lankan exports to China has also increased rapidly from Rs 5,180 mn in 2008 to Rs 13,796 mn in 2012, balancing the trade gap.

### The Fifth Session of the Joint Committee on Trade and Economic Cooperation



The Fifth Session of the Joint Committee on Trade and Economic Cooperation between the Government of the Democratic Socialist Republic of Sri Lanka and the Government of the People's Republic of China was held in Colombo on 24th April 2013. Secretary of the Ministry of Finance and Planning and Economic Development led the Sri Lanka

delegation and HE Chen Jian Vice Minister of Commerce of China led the Chinese delegation. The delegations conducted fruitful discussions on the promotion of trade, tourism and investment between the two countries focussing on improving exports from Sri Lanka to China as well as promotion of Chinese investment in Sri Lanka. Prospects of promoting Sri Lanka as a popular tourist destination among Chinese tourists also discussed.

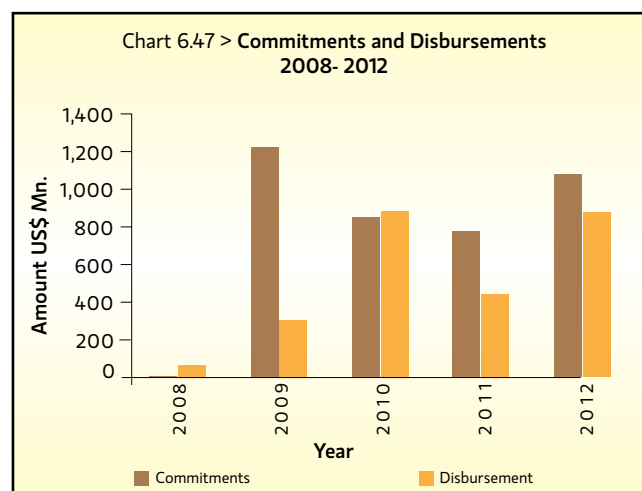
The strategic decision of the government to expand the infrastructure facilities at the Colombo Port has opened up good opportunities for Chinese investors to explore the investment opportunities in Sri Lanka. The construction of the first container terminal was started by a joint venture company with Chinese participation at a cost of US\$ 500 mn.

### Development Partnership with China

The China's assistance has remarkably increased since 2005 with the implementation of mega economic infrastructure projects as identified in the Development Policy Framework of the Government with financial assistance from China.

#### Commitments and Disbursements 2008 - 2012

During the past five-years, China has made a total commitment of US\$ 3,609 mn. comprising loan funds of US\$ 3,599 mn and grant funds of US\$ 10 mn. The highest commitment, of US\$ 1,206, was recorded in 2009 and it was followed by US\$ 1,056 mn and US\$ 829 mn in 2012 and 2010 respectively.



Source: Dept of External Resources

The current projects portfolio of China contains 29 loans and 03 grants. The total disbursement of these loans and grants during the last five-year period was US\$ 2,512 mn. The disbursement of US\$ 865 mn in 2012 was recorded as the highest disbursement in the period under review.

Table 6.39 > **Commitments from China from 2008 to 2012 (US\$ mn)**

	Loan	Grant	Total
2008	-	-	-
2009	1204	2	1206
2010	821	8	829
<b>2011</b>	<b>760</b>	<b>-</b>	<b>760</b>
<b>2012</b>	<b>1056</b>	<b>-</b>	<b>1056</b>
<b>Total</b>	<b>3841</b>	<b>10</b>	<b>3851</b>

Source: Department of External Resources

### Financial Assistance from the Export – Import (ExIm) Bank of China:

The Export – Import (ExIm) Bank of China, which plays a significant role in financing comparatively large scale projects, is the main source of Chinese loan assistance to Sri Lanka. These loans are in the form of Preferential Buyer's Credit Facility, the Government Concessional Loan Facility and Buyer's Credit

Facility available, according to the precedent records, in the ranges of US\$ mn 20 -200, US\$ mn200 - 900 and US\$ mn 20 - 310 respectively.

Preferential Buyer's Credit Facility is available in United States Dollars whereas Chinese Government Concessional loans are extended in Chinese currency which appreciates continuously in relation to United States Dollar. Therefore, the Government's policy was to obtain more assistance under Preferential Buyer's Credit Facility to finance projects that need large investments. Both Preferential Buyer's Credit Facility and Chinese Government Concessional Loan Facility have been offered at the fixed interest rate of 2% per annum. Consequently, the investment of loan funds under Preferential buyer's credit facility and Concessional loans are obtained for financing nationally important projects to ensure balanced regional development. As such, these funds have been strategically used for commercially viable mega investment projects such as Puttalam Coal Power, Development of Hambantota Port and Mattala International Airport. During 2012, the Government was also able to secure financial assistance through Preferential Buyer's credit facility and a concessional loan for Matara-Beliatta Section of Matara – Kataragama Railway Extension project.

### Mattala International Airport - A new gateway for investment.



An alternative international airport to Bandaranaike International Airport to capture the market share in the Asian region, promote the air-sea-transshipment hub operation, be a key component in the development efforts on the Eastern and Southern regions, and increase passenger, cargo volume and the new airport is specially designed as an environmental friendly carbon neutral airport.

### **Katunayake Expressway : Sri Lanka's second E Class highway**

Sri Lanka's second E Class highway; Colombo-Katunayake Expressway is nearing completion. The 25.8-kilometre-long expresway will link the commercial capital Colombo



with Bandaranaike International Airport, Katunayake and construction work would be completed by the August this year . It is estimated that upon completion of the expressway, commuters could travel from Colombo to Katunayake in 20 minutes. The total estimated cost of the project is US \$ 293.4 million. Exim Bank of China is funding US\$ 248.2 million of the total cost. The government has spent US\$ 45.2 million on the project.

### **Puttalam Coal Power Project**

The Puttalam coal power project is one of the mega power projects in the country and will add 900 MW of power to the national grid after the completion of the remaining two phases. Phase 1 of the coal power plant generates 300 MW of electricity and another 600 MW will generate from phase 2 and 3.

The project will cater to the increasing demand for electricity and also to supply steady and low cost electricity to the national grid compared with the other thermal power generation sources. As potential hydro power sources for power generation are limited and also hydro power generation is highly dependable on the rainfall in the catchment areas, power generation in the country is highly dependent on thermal power sources. Although the country experienced a severe drought in 2012, an uninterrupted supply of electricity was maintained due to the electricity generated through phase 1 of this coal power plant.

With the completion of the plant, the average electricity generation cost is expected to moderate. Annual foreign exchange savings from implementation of the project is estimated to be Rs. 61,051 mn. Accordingly, it is expected to recover the total debt service payments of the project within 3 and half years of commissioning of the project.

The amounts of loan assistance obtained from the ExIm Bank of China under the Government Concessional loan, Preferential Buyer's Credit and Buyer's Credit during the above period are given in the below Table.

**Table 6.40 > Loans Obtained from ExIm Bank of China from 2005 to 2012 (US\$ Mn) under the three Categories**

<b>Loan Category</b>	<b>US\$/mn</b>	<b>Terms of the Loan</b>
Government Concessional Loan	559*	annual interest rate of 2% with a repayment period of 20 years including a 5 year grace period
Preferential Buyer's Credit	1,791**	annual interest rate of 2% with a repayment period of 20 years including a 5 year grace period
Buyer's Credit	1,323	annual interest rate of US\$ 6 months LIBOR+2.4 with a repayment period of 15 years including a 3-4 year grace period
<b>Total</b>	<b>3,673</b>	<b>Weighted average interest rate is 2.3%</b>

\*Out of this amount US\$ 190 mn was obtained by Airport and Aviation Services (SL) Ltd. with a Government Guarantee.

\*\*Out of this amount US\$ 891 mn was obtained by Lanka Coal Company Ltd. with a Government Guarantee.

As shown in the above Table, around US\$ 2,350 mn or 64% of the total assistance from the ExIm Bank of China was obtained as Government Concessional Loans and Preferential Buyer's Credit during the period from 2005 to 2012. Loan assistance of US\$ 1,323 mn, which is 36% of the total assistance was obtained from the ExIm Bank of China under Buyer's Credit Facility. In addition, the Government of Sri Lanka obtains financial assistance from the China Development Bank (CDB) and Industrial and Commercial Bank of China (ICBC) for financing development projects.

### **Financial Assistance from the China Development Bank (CDB)**

CDB has been providing loans for road rehabilitation projects on very reasonable terms. However, since the recent past, CDB tends to provide more loan assistance for commercially viable projects. The important feature of the lending offered by the CDB is that they extend a lump sum amount of funds under one loan allowing implementation of several projects at a competitive interest rate. Further, CDB procedure for disbursement of funds is completely different to that of other development partners and there is a possibility

to undertake a large portion of the contracts with the participation of local contractors. The processing time for loans from CDB is relatively short compared to that of the other lending agencies. Hence, during the period 2010 to 2012 the Government of Sri Lanka obtained US\$ 866 mn from CDB for major infrastructure development projects that includes a loan of US\$ 214 mn obtained in 2012 for Moragahakanda Development project.

### **Financial Assistance from the Industrial and Commercial Bank of China (ICBC)**

In year 2012, the Government took the initiative to arrange a loan of US\$ 69.7 mn for Ceylon Electricity Board from ICBC for the implementation of the Broadlands Hydropower Project.

### **Grant Assistance from the Government of China**

Renewing and further strengthening the long standing bi-lateral relationship between the two countries, the Government of China annually extends grant assistance of US\$ 10 - 15 mn to the Government of Sri Lanka. These grant funds are utilized for construction of nationally important land mark buildings such as Nelum

Pokuna Performance Arts Theatre and repairing or modernizing buildings constructed using Chinese funds such as Bandaranaike Memorial International Conference Hall, Superior Court Complex, Lady Ridgway Hospital etc. In addition, widening and improvement of Kiribathgoda - Kadawata road was implemented with Chinese grant funds

With a view to upgrading of the health facilities in the country, the Government has requested grant funds from the Government of China for construction of a new Ambulatory Care Center at Colombo National Hospital and upgrading of Maternal and Childcare building at Ragama Teaching Hospital.

### **Moragahakanda Development Project**

The Government's Ten Year Development Framework for 2006 – 2016, Mahinda Chintana: Vision for a New Sri Lanka, has recognized the irrigation sector as a priority sector in the development of the country. As a result, the Moragahakanda Development Project took off the ground and has become a reality after a lapse of many years since its identification. This project became a priority addressing the issue of water shortage in Anuradhapura, Trincomalee, Polonnaruwa and Matale districts and also the requirement of a proper irrigation scheme for the development of agriculture in the Northern, Eastern and North-Western Provinces.



*Eastern and North-Western Provinces.*

Accordingly, the Government secured finance from CDB to implement Moragahakanda Development Project in 2012. The total project cost is US\$ 252 mn and CDB has extended US\$ 214.2 mn which is 85 percent of the total project

cost while the Government has contributed the remaining 15 percent which is equivalent to US\$ 38.1 mn. The project comprises construction of main dam, saddle dam, spillway, intake structure to Powerhouse, power house, tailrace, bottom outlets, outlet to Upper Elahera Canal and power transmission line.

The project will provide irrigation water facilities to 81,442 hectares of land in the dry zone and domestic and industrial water requirements of Anuradhapura, Trincomalee, Polonnaruwa and Matale districts. Water supply capacity in these districts will be increased from 28 mcm to 91 mcm and the project will generate 25MW of hydropower electricity that will be added to the national grid. It is expected that the annual agricultural benefits from paddy cultivation alone would be around US\$ 30.1 mn as a result of the project while fresh water fish breeding industry would contribute around Rs. 1.67 mn to the national economy from the project.

In addition, through power generation, the country would annually save US\$ 2.49 million. Consequently, the Moragahakanda irrigation project would benefit around 100,000 families particularly the agricultural and inland fishery communities in several provinces. Moragahakanda Reservoir, which is being constructed under the Project would be the second largest reservoir built in Sri Lanka after Victoria Reservoir and would bring economic prosperity to the country.

### **Development Partnership with Middle East Region**

Sri Lanka enjoys close economic relationships with many emerging economies in the Middle East region. This includes Kuwait, Saudi Arabia, Iran and multinational agencies such as OPEC Fund for International Development (OFID). Recognizing the Government development priorities and the investment opportunities, they have committed for continued economic partnership with the Government of Sri Lanka.

Development assistance from Middle East region is largely concessional which carries low interest



rates, long tenors and grace periods. It basically supports for programs aimed at uplifting the economic infrastructure facilities such as power & energy, roads and bridges while achieving long term development outcomes focusing on health, irrigation and education.

The total commitment of the development Partners in Middle East Region for the period of 2007 -2012 was US\$ 778.2 million and they have made a substantial commitment of US\$ 100 million during 2012. Of which, US\$ 60 million was committed by the Saudi Fund for road network development and the balance US\$ 40 million by the OFID for the same purpose.

The proceeds of the above two loans of US\$ 100 million borrowed for Road Network Development Project will be utilized for improvement and rehabilitation of 208 km of thirteen national roads and reconstruction

of a bridge on Polgahawela-Kegalla road. Implementation of this project will improve the road connectivity, ensure smooth traffic flow, avoid delays in travel and prevent wasting of time on the road, especially in high traffic corridors which is vital to economic development of the country.



The Kingdom of Saudi Arabia has offered financial aid worth US\$ 60 million for the construction of road networks in Sri Lanka  
Signing of the loan on 30.10.2012

Table 6.41 > **Terms on Credits**

Donor	Interest %	Administrative charges %	Commitment fee	Repayment period including grace period	Grace period
SFD	2	-	-	20	5
KF	1 -2.5	0.5	-	20-025	4-5
OFID	2.7 -3.2	1	-	20	5
OFID Blend Facility	4.6	-	-	20	5
Iran	LIBOR or Commercial Interest Reference Rate + 1%	0.125	0.125	7-15	5

Chart 6.48 > **Commitments and Disbursements 2007- 2012**

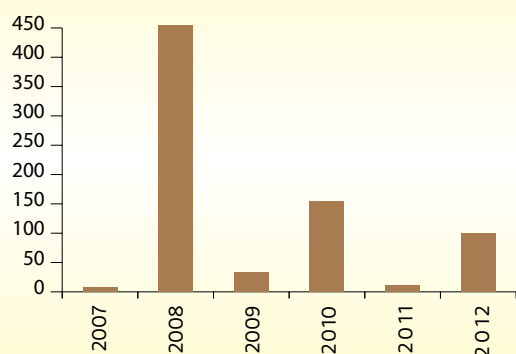
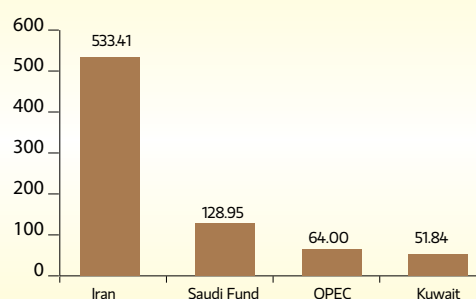


Chart 6.49 > **Commitments (USD million), 2007 – 2012 by donor**

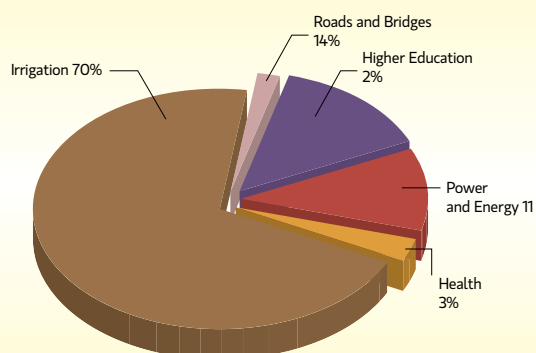


Source: Department of External Resources

Financial commitment of US\$ 450 million provided in 2008 by the Government of Islamic Republic of Iran through the Export Development Bank of Iran for implementation of the Uma Oya multipurpose development project shows a substantial increase in Iran assistance to Sri Lanka during the period 2007 - 2012.

Out of the total commitment of US\$ 760 million made by the development partners in Middle East region during last six years, US\$ 532.0 Mn was committed for the development of irrigation sector in the country. Moreover, US\$ 108 million, US\$ 88.7 million, US\$ 20 million and US\$ 17.5 million were committed for the development of road, power & energy, health and higher education sectors respectively from 2007 to 2012 period.

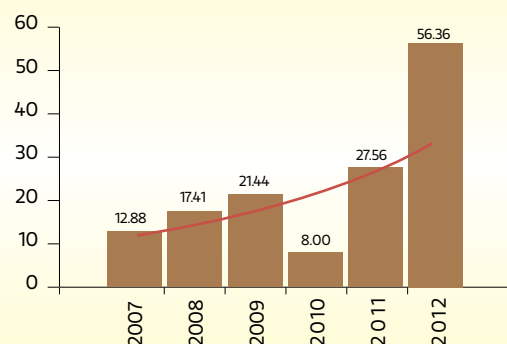
Chart 6.50 > Sectoral distribution of Commitments 2007 – 2012



Source: Department of External Resources

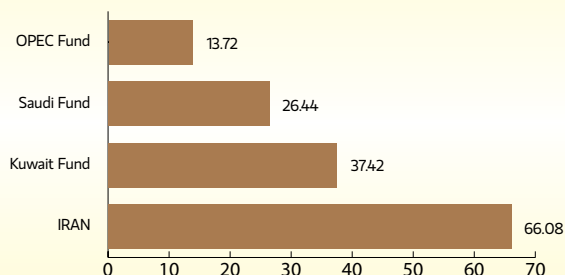
A visible increase of disbursements shows in recent past accounting to US\$ 58.8 million in 2012 which is more than a three hundred percent increase over the US\$ 12.9 Mn disbursement in 2007. The highest disbursement is in 2012, was mainly towards the Uma Oya multipurpose project and Implementation of Rural Electrification project which jointly account for US\$ 48.4 million.

Chart 6.51 > Disbursements (US\$ million), 2007 – 2012



Source: Department of External Resources

Chart 6.52 > Disbursements, (US\$ Mn.) 2007 - 2012 by Donor



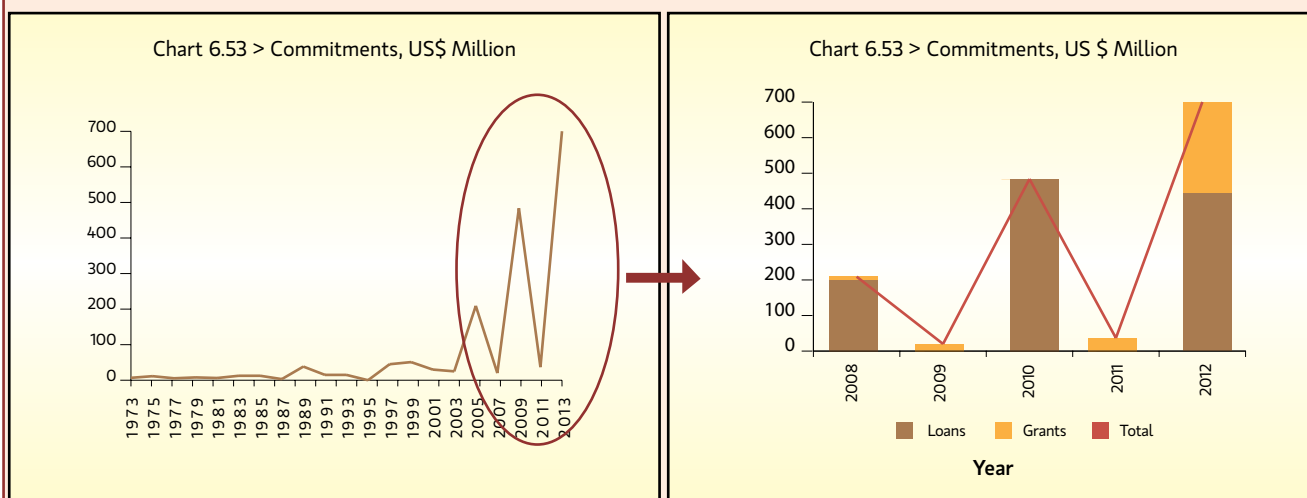
Source: Department of External Resources

Initiatives were taken by the Government to mobilize foreign financing through Kuwait and OFID funds for reconstruction of 25 bridges and to improve the conditions of national highways in Western Province which will display in the annual commitment in 2013.



### Box 6.13: Sri Lanka- India Development Cooperation

Sri Lanka continues to have strong bilateral relationship in promoting trade and development of both nations. India-Sri Lanka aid relations which go back to the early 1970's where the first ever bilateral agreement was inked in 1973 for US\$ 6.75 million to finance import of commodities. Since then, the total receipt was US\$ 1,753.45 million as at 31st December 2012. Of which US\$ 1,389.95 million was obtained as loans and the balance US\$ 345.5 million was received as grant assistance.



Source: Department of External Resources

Sri Lanka has expanded its external borrowing from India after 2006 to support country's development initiatives. The total commitment for the period of 2008 – 2012 was US\$ 1,448 million. The highest commitment for a single year was recorded in 2012 at US\$ 700.34 million. This was mainly due to a grant of US\$ 257.28 million to construct 49,000 housing units in Northern, Eastern, Central & Uva provinces and loans assistance of US\$ 382.37 million for the Restoration of Northern Railway services and US\$ 60.69 million for Greater Dambulla Water Supply Project Phase I. During 2008 – 2012, the total grants assistance received were US\$ 321.4 million and the total loans obtained were US\$ 1,126.9 million.

Table 6.42 > **Development Assistance from India, 2008 - 2012**

	Project Name	Agreement Date	Commitment (US\$)	Disbursement (US\$)	% of Utilization
<b>Loans</b>					
1	India Dollar Credit Line Agreement	31/03/2008	100,000,000	48,975,153.47	49.0
2	Upgrading of Railway Line Colombo Matara.	23/07/2008	100,000,000	97,723,686.23	97.7
3	Upgrading of Railway Line Colombo Matara Phase II	10/3/2010	67,400,000	61,797,541.08	91.7
4	Railway Line Omanthai-pallai, Madhu-Tallai-mannar & Medawachchiya (Phase I)	26/11/2010	416,390,000	220,986,372.76	53.1
5	Greater Dambulla Water Supply Project 1	17/01/2012	60,690,000	33,194,844.33	54.7
6	Restoration of Northern Railway Services	17/01/2012	382,370,000	74,626,270.56	19.5

India's development assistance is based on the priorities set by the Government of Sri Lanka. Majority of such funds were channeled to meet the expenditure of reconstruction and resettlement in the conflict affected areas of the country particularly for reconstruction of railway infrastructure in the North and humanitarian relief, rehabilitation and resettlement of Internally Displaced Persons during the humanitarian operations carried out during 2006 - 2009.



Northern Railway Track Lying

During the period of 2008-2012, India's highest commitment was for the development of railway sector amounting to US\$ 966 million. Out of which, US\$ 798 million was obtained for reconstruction of railway lines in Northern Sri Lanka under an India Line of Credit. Southern Railway Project which received a concessional line of credit of US\$ 167.4 million is nearing completion.

Table 6.43 > **Indian Assistance, 2008 – 2012**

Project Name	Agreement Date	Commitment (US\$)	Disbursement (US\$)	% of Utilization
<b>Grants</b>				
1 Setting up of Facilities at Rural Vocational Training Centre, Nagawillu, Puttalam	16/04/2008	657,642	563,010.34	85.6
2 Establishment of 150-Beded District Hospital at Dickoya, Hatton	16/04/2008	8,534,282	1,609,945.14	18.9
3 Humanization Assistant for North and East Province	3/12/2009	20,061,740	16,625,424.66	82.9
4 Vocational Training Center Vantharamoolai, Onthachchimadam & Batticaloa	21/04/2011	3,053,392	2,251,041.86	73.7
5 Vocational Training Centre at Nuwara Eliya , Sri Lanka	11/7/2011	2,016,069	1,206,558.44	59.8
6 Rehabilitation of the Harbour at Kankasanthurai.	21/07/2011	2,200,000	19,508,000.00	97.5
Additional	22/10/2011	17,800,000		
7 1,000 housing units in Northern Province	28/12/2011	9,837,085	8,644,000.73	87.9
8 49,000 housing units in Northern, Eastern, Central & Uva	17/01/2012	257,283,209	1,613,546.80	0.6

Source: Department of External Resources

During 2008 -2012 period, India's second largest commitment was for the livelihood development with US\$ 288 million. This comprises US\$ 267 million for the development of 50,000 housing units was totally received by way of a grant. Financial commitment of US\$ 20.0 million from India channeled for the rehabilitation of Kankasanthurai which will help restoring traditional commercial linkages of both domestic and the region.

## 1. Technical Cooperation

Cooperation in the field of Science, Research & Technology is an important component of India-Sri Lanka bilateral relations. The two countries have been cooperating in this field for several decades in a various fields. There has been a regular exchange of human resources, knowledge, training, exploratory visits etc. Many joint workshops have been held in both destinations to strengthen the identified specific areas of cooperation.

Having identifying the opportunities in promoting SMEs in handloom, power-loom and textiles, necessary steps have been taken to sign a MoU between two countries with a view to develop the concerned areas including trade relations, skills development, fashion industry and development of compliance standards. This initiative is expected to boost Government's divi naguma initiative to promote backyard economic links to SMEs.

### Tourism

The post conflict developments after 2009, has improved the growth momentum in tourism sector in the country. All time high of 176,340 Indian tourists arrivals recorded during 2012, topped the list. The increase of Indian visitors in 2012 over 2011 moderate to 2.9% following a sharp rise of 51.7% and 35.1% in 2010 and 2011 respectively. In reverse, it is noted that over 250,000 Sri Lankans visited India in 2011-2012.

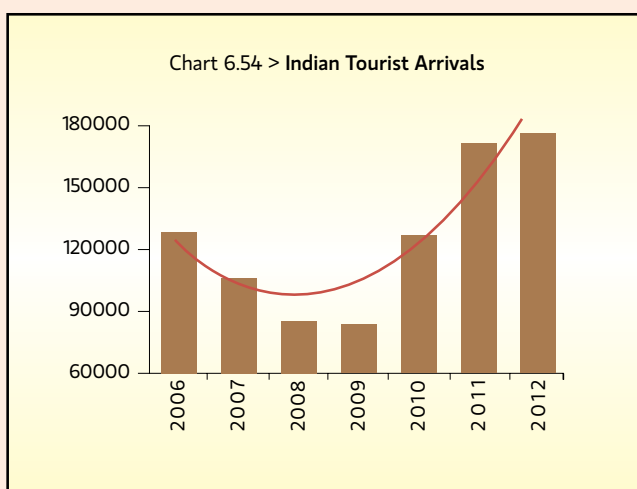


Table 6.44 > Top Five Markets 2011 & 2012

Rank	Country	Arrivals	
		2011	2012
1	India	171,374	176,340
2	UK	106,082	114,469
3	Middle East	57,501	56,169
4	Germany	55,882	71,642
5	France	48,695	56,863

Source: Central Bank of Sri Lanka, Tourism Development Authority

Noting the potential to enhance two-way tourism traffic, both countries agreed to finalize the MoU on cooperation in the field of tourism and an agreement on Bilateral Air Services and expedite the resumption of ferry services between Colombo - Tuticorin & Talaimannar - Rameswaram with a view to improve connectivity.

### Free Trade Agreement

Total Sri Lanka-India trade of US\$ 4,207 Million decreased by 15 percent in 2012 with compared to the year 2011. Exports to India increased at a slower rate than the imports from India during the last few years. However, the total imports from India declined to 19 percent of the total imports in 2012 which was 23 percent in 2007.

Chart 6.55 &gt; Exports to India (US\$ Mn)

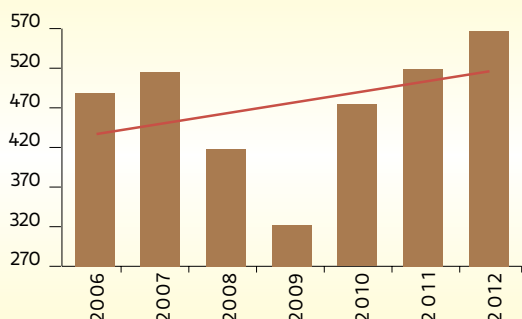
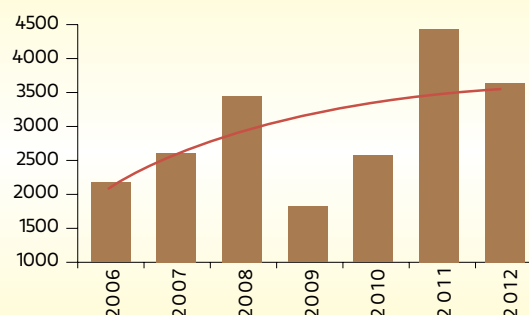


Chart 6.56 &gt; Imports from India (US\$ Mn)

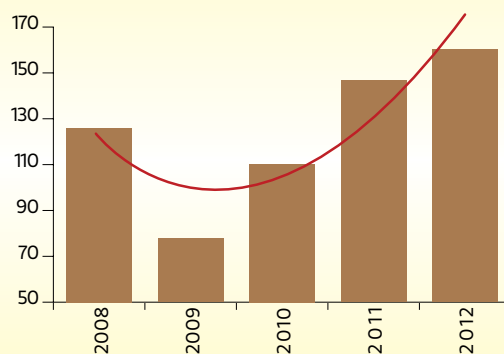


With a view to create enabling environment for free trade activities and accordingly the institutional cooperation of taxation, the governments of Sri Lanka and India concluded (has formally signed) a revised agreement for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income. The agreement was tabled at the Parliament of Sri Lanka and hoping to have the rectification from our Parliament before June this year. Have identifying the strong foundation that customs could provide to address the concerns with regard to FTA progress, a delegation of Sri Lanka customs will visit India during the year 2013 to iron out the issues connected with customs arrangements.

### Investments & joint ventures to strengthen State Enterprises

India's direct investment to Sri Lanka has increased over the period which was US\$ 110 million in 2010 and US\$ 150 million in 2011. Policy shifts towards investment promotion strategy, social & political stability, improved infrastructure, low tax regime and skilled labour have further increased the FDI inflow to US\$ 160.2 million in 2012 registering a 9 percent growth. Indian Investments have been diversified in many areas such as oil distribution, construction, telecommunication, banks, manufacturing, tourism, hotels and renewable energy sectors. Joint investment by state enterprises of two governments of mutual interest and private investments from India in light engineering (auto mobile parts), tourism, pharmaceutical industry, etc, are also encouraged with a view to promote exports of goods and services from Sri Lanka.

Chart 6.57 &gt; FDI from India (US\$ Mn)



Source: Board of Investment

Both countries identified the importance of enhancing bilateral cooperation in the areas of New and Renewable energy. In this context, coal power plant in Sampur is a landmark initiative undertaken by the two countries which will be implemented by a Joint Venture Company with equal equity. Joint Venture and Shareholder Agreement was signed in the year 2011 between Ceylon Electricity Board (CEB) and National Thermal Power Corporation (NTPC) in this regard. Financial assistance from the Government of India for the project is expected to be around US\$ 100.0 million which will be extended by way of a line of credit.

Apart from cooperation in a bilateral framework, India and Sri Lanka are also cooperating in various activities under the umbrella of SAARC, BIMSTEC and SDF to broaden the cooperation between two countries.

Table 6.45 > **MoUs and Agreements between Sri Lanka and India 2008 -2012**

No	MoU/Agreement	Date & Venue	Line Ministry/ Agency
1	Memorandum of Cooperation between Sri Lanka Institute of Development Administration, Colombo and the Lal Bahadur Shastri National Academy of Administration, Mussorie.	13th October 2007, New Delhi	Ministry of Public Administration and Home Affairs
2	Agreement between Sri Lanka and India in the Fields of Science & Technology.	16th September 2008, New Delhi	Ministry of Technology & Research
3	MoU signed to construct 150 bed hospital at Dickoya near Hatton in the Central Province.	16th April 2008.	Ministry of Health
4	Programme of Cultural Cooperation between Sri Lanka and India for year 2010-2012.	09th June 2010, New Delhi	Ministry of Cultural & the Arts
5	Treaty between Sri Lanka and the India on Mutual Legal Assistance in Criminal Matters.	09th June 2010, New Delhi	Ministry of Justice
6	MoU between Sri Lanka and India on Setting up of a Women's Trade Facilitation Centre & Community Learning Centre at Batticaloa in Sri Lanka.	09th June 2010, New Delhi	Child Development and Women's Affairs
7	Exchange of letters between Sri Lanka and India Consulates in Jaffna and Hambantota.	20th August 2010,	Ministry of External Affairs
8	MoU between the Ministry of Ports and Highways of the Sri Lanka the Ministry of Shipping of India.	07th January 2011	Ministry of Ports and Highways
9	Indemnity Agreement between Sri Lanka and India on Wreck removal work at Kankasanthurai Harbour, Sri Lanka.  MoU between Sri Lanka and India on the Rehabilitation of the Harbour at Kankasanthurai, Sri Lanka.	21st July 2011, Colombo	Ministry of Ports and Highways

No	MoU/Agreement	Date & Venue	Line Ministry/ Agency
10	MoU between Sri Lanka and the India for Setting Up of a Three-Tier English Language Training System in Sri Lanka.	13th September 2011, Colombo	Ministry of Education
11	MoU between Sri Lanka and India on Cooperation in the Field of Agriculture	17th January 2012, Colombo	Ministry Agriculture
12	MoU between Sri Lanka and India for Implementation of Indian Grant Assistance for 49,000 Housing Units in Northern, Eastern, Central and Uva Provinces of Sri Lanka.	17th January 2012, Colombo	Ministry of Economic Development
13	MoU between the Telecommunication Regulatory Commission, Sri Lanka (TRCSL) and the Telecom Regulatory Authority of India (TRAI).	17th January 2012, Colombo	Ministry of Telecommunication and Information Technology
14	MoU between Sri Lanka and India regarding Indian Grant Assistance for Implementation of Small development Project through Local Bodies Non-Governmental organizations Charitable Trusts & Education and Vocational Institutions.	09th June 2012, New Delhi	
15	MoU among Sri Lanka and India, the Power Grid Cooperation of India Ltd, & the Ceylon Electricity Board on the Feasibility Study for Interconnection of India-Sri Lanka Electricity Grids	09th June 2012, New Delhi	Ministry of Power & Energy
16	Agreement between Sri Lanka and India on the Transfer of Sentenced Persons	09th June 2012, New Delhi	Ministry of Rehabilitation and Prison Reforms & Ministry of Justice
17	Agreement between India and Sri Lanka on Combating International Terrorism, organized Crime and Illicit Drug Trafficking	January 2013, New Delhi	Ministry of Justice and Legal Division of the MEA
18	Revised Double Taxation Avoidance Agreement.	22nd January 2013, New Delhi	Department of Inland Revenue
19	MoU regarding Buyer's Credit between the Government of Sri Lanka and the EXIM Bank of India	4th April 2013	Ministry of Finance and Planning & Ministry of Defence and Urban Development

*India's development assistance is based on the priorities set by the Government of Sri Lanka. Majority of such funds were channeled to meet the expenditure of reconstruction and resettlement in the conflict affected areas of the country.*



## Development Partnership with India

The government of India has become one of the major bilateral development partners of Sri Lanka providing credit lines as well as grant facilities for over 40 years. After India emerged as a large economy with the newly industrializing countries of Asia, and being given recognition in the immediate neighborhood, Sri Lanka strengthened the foreign aid relationship with India. Apart from these credentials, GOSL emphasizes the benefits that are accruing in terms of promoting goodwill, long term economic cooperation and sharing knowledge & skills between the two countries.

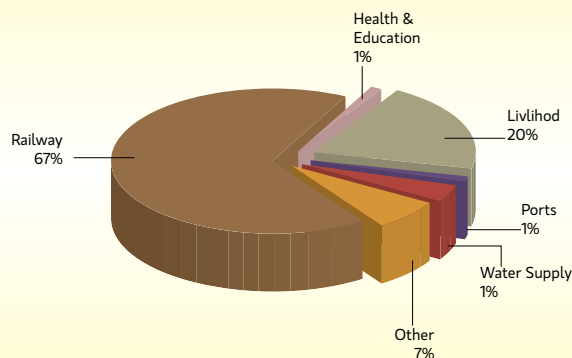


*Installed Signal Boxes in Northern Railway Line*

Development assistance from India by way of credit or grant assistance is mainly aimed at improving economic infrastructure facilities, livelihood-restoration, education, healthcare, capacity-building and cultural & economic revival of the country.

The highest commitment for a single year, recorded in 2012, was US\$ 700.34 million mainly due to government investment of US\$ 382.37 million on the restoration of Northern Railway Services. During the period of 2008 - 2012, India made the highest commitment to the development of Railway lines/ services accounting for around US\$ 966 million, which

Chart 6.58 > Commitment by sector during 2008 - 2012



*Source: Department of External Resources*

is 67 percent of the total commitment. Of this, US\$ 798 million was committed to the development of Railway Lines from Omanthai to Pallai, Madawachchiya to Madhu, Madhu to Talaimannar, Pallai to Kankesanturai and setting up of signaling & telecommunication systems for the Northern Railway Line.

Twenty percent of India's commitment was for the livelihood sector during the period 2008 - 2012. This consists of construction of 50,000 housing units in Northern, Eastern, Central & Uva provinces with a commitment of US\$ 267 million which was totally received by way of a grant. Of which 1000 pilot Houses in Northern Province has already been completed at a cost of US\$ 10 million. The balance 49,000 houses with a cost of US\$ 257 million includes reconstruction of 38,000 houses under the owner- driven model for IDPs in the Northern and Eastern Provinces, repair of 5,000 houses under the owner-driven model for IDPs in the Northern and Eastern Provinces and construction of 6,000 houses by agencies for vulnerable sections of IDPs in the Northern and Eastern Provinces & for Indian Origin Tamils in the Plantation sector in the Central and Uva Provinces. The agreement was signed on 17th January 2012 and the project is being implemented. Indian investment for the



development of water supply sector is US\$ 60.7 million through the Greater Dambulla Water Supply Project which was obtained as a Buyers Credit Facility from EXIM Bank of India in 2012.

The total disbursements have gradually increased over the years and monotonically increased during the last few years. The total disbursements made during the last five years period from 2008 to 2012 were US\$ 578.98 million. Of which 91 percent is from loan funds and the balance 9 percent is from grant funds. The highest ever disbursement of US\$ 294.93 million was recorded in 2012.

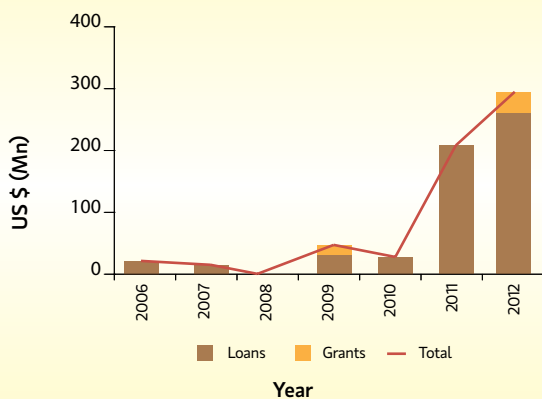
This was largely due to the accelerated development activities particularly, the economic infrastructure projects such as upgrading of Railway Lines of Colombo-Matara, Omanthai-pallai, Madhu-Tallaimannar

& Medawachchiya; upgrading of northern railway services; rehabilitation of the Harbour at Kankasanthurai and Greater Dambulla Water Supply Project 1.

In this context, from 2008 - 2012, the highest disbursement was made on railway development which was around US\$ 441 million. Increased disbursement in 2012 which accounts for US\$ 295 million is the cause of this significant level of growth.

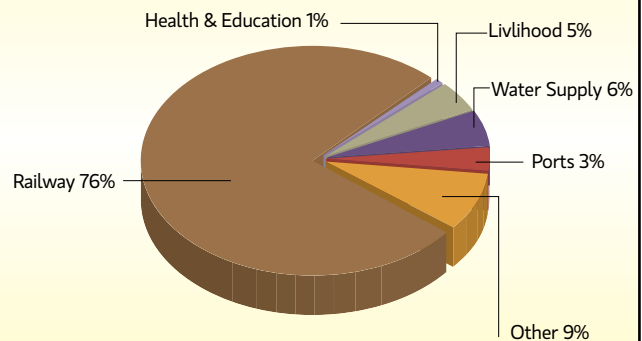
India has committed US\$ 20.0 million to the renovation of the Kankasanthurai Harbour and the disbursements as at 31st December 2012 were US\$ 19.5 million. Construction of a 150-bed hospital in Dickoya commenced under grant assistance of US\$ 8.5 million and has disbursed 19 percent of its loan value as at 15th February 2013.

Chart 6.59 > Disbursements, 2006 - 2012 USD Million



Source: Department of External Resources

Chart 6.60 > Disbursement by sector during 2008 - 2012



## Development Partnership with Advanced Economies

At present financial assistance obtained from Advanced economies<sup>1</sup> are basically received in four modes i.e. export credits, commercial credits, traditional loan assistance and grant assistance. Foreign financing under export credits have basically been invested in commercially viable projects which can generate sufficient economic benefits and or revenue flows to cover loan repayments.

One of the major advantages of utilizing export credits is that project targeted groups can enjoy the project benefits early due to the short period of the project cycle compared with traditional financing. Secondly, advanced and precious technologies of these countries are transferred to Sri Lanka along with these credit facilities. Therefore, most of borrowings from these sources have been utilized mainly to develop economic infrastructure such as roads, bridges and water supply and social infrastructure such as development of hospitals and improvement of healthcare facilities with a view to providing quality, high-tech and reliable healthcare facilities to the people.

The grant assistance received from advanced economies mobilized to achieve objectives of the human resource development sector with a special emphasis on education, health, livelihood support and good governance. The total aid commitments from advance economies have increased around 80 percent during 2012 compared to 2011.

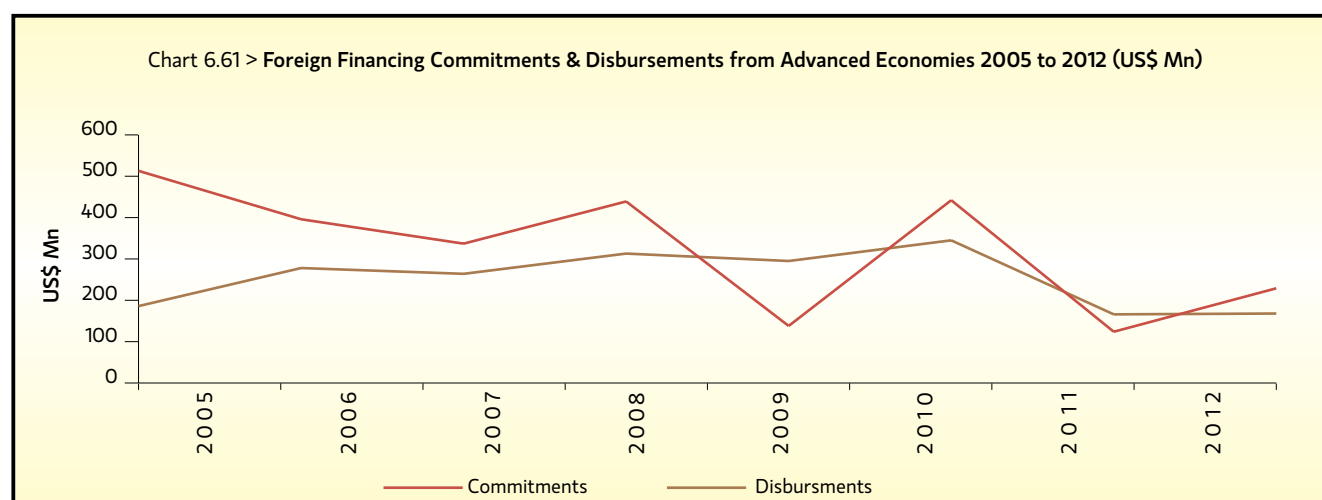
## Export Credit Facilities

Majority of financial assistance obtained from advanced economies are received in a form of export credit facility loans. Usually 80 – 85 per cent of the total project cost is covered under export credit facility loans. However, some lenders i.e. Austria finances 100 percent of the project cost excluding taxes. Export credit facilities are mainly channeled through, HSBC Bank, BBVA Bank, Nordea Bank, RABO Bank, US EXIM Bank, UniCredit Bank of Austria, Export Credit Insurance Corporation of Australia etc. The remaining 15 – 20 per cent of the cost of these projects is financed by commercial credit facilities obtained from foreign and local banks. At present, the Government has been promoting local banks to provide the commercial credit facilities with a view to get them involved in the development process of the country.

## Commitments and Disbursements from Advanced Economies

Financial assistance in terms of commitment and disbursements from advanced (Western) countries to Sri Lanka has increased by 88 percent and 19 percent respectively in 2012. The main reason for this trend is the prudent and flexible external financing strategy employed by the Government that directs borrowing authorities to borrow from low cost financing sources with favorable financial terms available at the time. Limitation of access to concessionary financial sources such as other multilateral development partners is also a reason for the increase in commitment from advanced countries. The commitments made in 2012 from these development partners were mainly invested in the sectors of healthcare, water supply, transport and vocational training.

<sup>1</sup>German, Sweden, Canada, Denmark, European Union, Spain, Russia, United States of America, Hungary, the Netherlands, Australia, France, Belgium, Austria, United Kingdom, Norway, Australia



	2005	2006	2007	2008	2009	2010	2011	2012	Total
Commitments (US\$ Mn)	513	396	337	439	138	442	124	234	2,623
Disbursements (US\$ Mn)	186	278	264	313	295	345	166	198	2,045

Source: - Ministry of Finance & Planning

## Foreign Financing commitments made in 2012

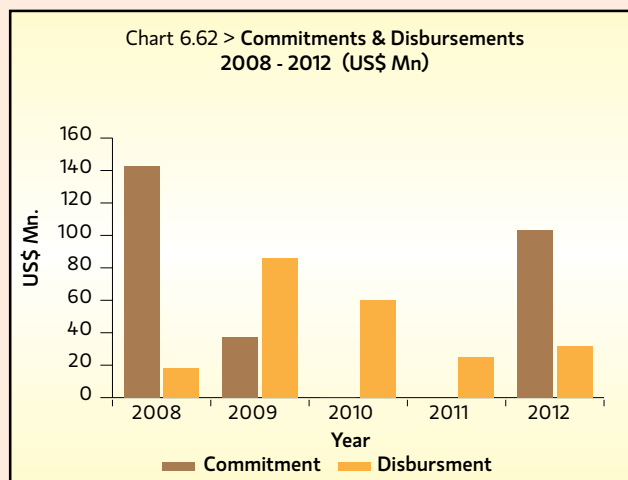
The following projects have been implemented in 2012 with external financial assistance under commercial & export credit facilities.

Table 6.46 > **Foreign Financing Commitments 2012**

Development Partner	Project	Amount (US\$ Million)
France	Widening and Reconstruction of 46 Bridges on the National Road Network	28
Netherlands	Development of Hambantota General Hospital	55.5
Netherlands	Development of Nuwara Eliya General Hospital -	46.9
German - KFW	Completion of Mahamodara Maternity Hospital	34.4
Spain	Veyangoda Flyover	14.2
HSBC-UK	Rural Bridges (210) - Buyer's Credit Facility	44
Germany - GIZ grants	Vocational Training Institute in the North of Sri Lanka	5.3
The Government of USA - Grant	Strengthen Partnership for Social Integration	1.4
The Government of USA - Grant	Increased and Equitable Growth	3.7
German - GIZ Grant	SME Development	0.3
<b>Total</b>		<b>233.7</b>

### Box 6.14: Development Partnership with the Netherlands

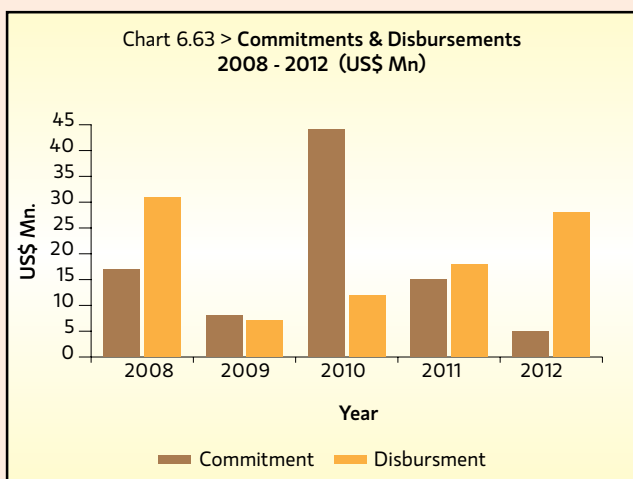
The Government of Sri Lanka has obtained financial assistance of US\$ 693.8 million from the Government of Netherlands by means of grant, loans and export credits. Netherlands has extended Euro 123 million under the ORET Programme for financing of the Upgrading of Disaster Response Network in the Western Province and Selected Urban Areas (DRNP), Enhancement and upgrading of Advanced Technological Institutions (ATIs) at Mattakkuliya and Labuduwa under the Sri Lanka Institute of Advanced Technological Education (SLIATE), Implementation and Augmentation of Negombo Water Supply Project and Construction of Dikkowita Fisheries Harbour.



### Box 6.15: Development Partnership with United States

Development cooperation partnership between Sri Lanka and the United States (US) dates back even before 1956. Financial assistance from US to Sri Lanka is channeled through the United States Agency for International Development (USAID). US extends its development cooperation by means of grant assistance as well as loans. The first grant assistance from US was extended in 1978 for a sum of US\$ 3 million

for the Malaria Control Project. US has provided US\$ 744.3 million worth of grant assistance so far to finance a diverse range of projects like agricultural development, water management, forest management, research & development, enterprises development, emergency assistance, food relief, good governance, technology transfer, livelihood supports etc.

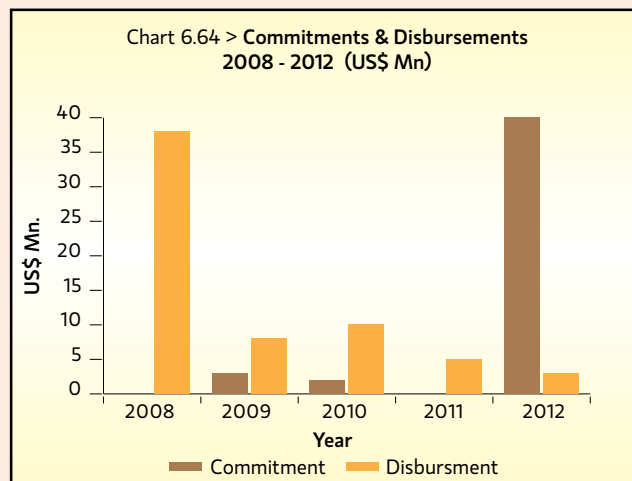


Sri Lanka obtained the first loan from US in 1957 for US\$ 2.5 million for the importation of commodities. Since then, US has extended loan assistance amounting to US\$ 992.3 million, out of which US\$ 30 million has been obtained under export credit facilities. US loan assistance was mainly obtained for the sectors of food importation (PL 480 programme), agriculture, hydro power generation, fertilizer import, agricultural research & development, water shed management, township development, Mahaweli development, defence and health etc.

### Box 6.16: Development Partnership with Germany

Sri Lanka obtained loans and grants assistance from Germany to implement various development projects throughout the country. Construction of the Embilipitiya Paper Mill in 1973, purchase of eleven Locomotives, Construction of Randenigala and Rantambe Dam Projects and Sapugaskanda Diesel Power Plant Project are few flagship projects implemented in the past. Sri Lanka utilized German assistance mainly for development of Electricity, Small & Medium Enterprise, Water Supply and Vocational Training sectors.

Sri Lanka received the first German financial assistance in 1966. Since then, Sri Lanka has received a sum of US\$ 1,242 from Germany.



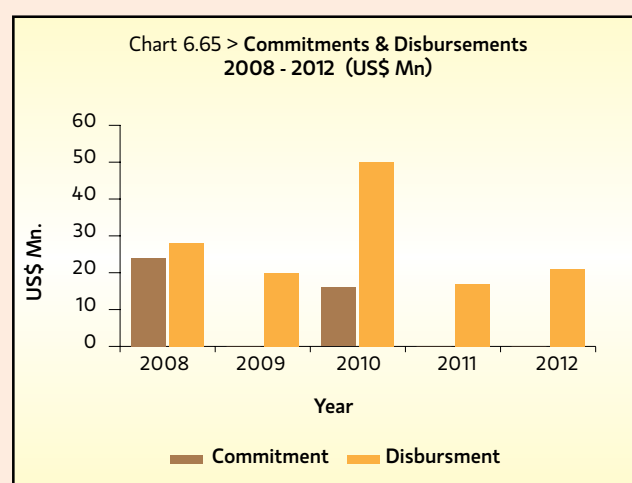
This includes loans and grants of US\$ 792.7 million and US\$ 449.6 million respectively.

### Box 6.17: Development Partnership with France

Sri Lanka has been receiving financial assistance from France since 1971. The total financial assistance obtained from France up to 2012 is around US\$ 360 million of which, US\$ 313.5 million has been obtained through export credits and loan assistance. This assistance was invested largely in telecommunication, power transmission lines, construction of bridges in the national road network and Water supply and improvement of Health services in Sri Lanka.

French assistance comes mainly under two categories.

- Sri Lanka is a recipient of the Emerging Country Fund (RPE financing) which is governed by the French Ministry of Economy, Finance, Trade and Industry.
- AFD (Agence Francaise de Development) is a specialized financial institution whose task is to implement the French Government's economic and social development aid policy. It operates in over 60 countries including Sri Lanka and provides untied



financing through grants and loans with different levels of concessionality.

Trincomalee Integrated Infrastructure Project is one of the major projects funded by AFD with a financial assistance of US\$ 76 million after the tsunami devastation in 2004. It consists of 3 main components; construction of roads and bridges, providing drinking water facilities and electricity distribution in the Trincomalee District and surrounding areas.

### Box 6.18: Development Partnership with Australia

Sri Lanka has obtained development assistance from Australia since the beginning of the Colombo Plan in 1950. Sri Lanka obtains grant assistance from the Australian Government through Australian Aid for International Development (AusAID). The Government of Australia also provides loan assistance from Commercial Banks and Export Credit Insurance Corporation of Australia (EFIC) through the Australian Trade Commission. The country has benefited in various ways through financial assistance from Australia.

Australia's grant aid increased significantly, aftermath of Tsunami in 2004 and to provide humanitarian assistance to the conflict affected people. Accordingly, assistance obtained to meet the basic humanitarian needs including food aid, demining support for the clearing of around 60 km<sup>2</sup> of land repairing or reconstruction around 2,700 houses in Northern Province and providing seeds and agricultural equipment to around 30,000 rural families.

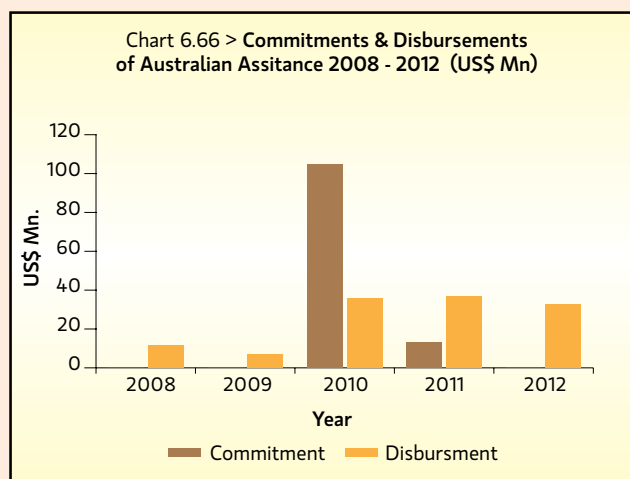
#### Major Ongoing Projects Funded under the Financial Assistance from Australia

- The importation of Dairy Animals Project (Phase I) -US\$ 12.94 mn
- Integrated Water Supply Scheme for Ampara District Project (Phase III)-US\$ 105.19 mn

Extending loan assistance from commercial banks and EFIC through the Australian Trade Commission commenced in 1999 and since then around US\$ 232 mn worth loan assistance was obtained particularly for the sectors of water supply, agriculture and livestock development.

#### Commitments and Disbursements 2008 - 2012

The highest commitment of US\$ 105 mn was recorded in 2010 for the period of last five years for financing the Integrated Water Supply Scheme for Ampara District needs including food aid, demining support obtained to meet the basic humanitarian.



## Major Projects being implemented in 2012

### 1. Dikkowita Fishery Harbour Project

The project for the Construction of Dikkowita Fishery Harbour commenced in 2008 with the financial assistance of Euro 59 mn. Out of the total cost of the project, a sum of Euro

17.3 mn was provided by the Government of Netherlands under its Development Related Export Transactions (ORET) Programme on grant basis. The balance Euro 33,748,740 provided by the Hong Kong & Shanghai Banking Corporation Ltd (HSBC) as an export credit loan. In addition, the Government of Sri Lanka has contributed around Euro 8 million in this regard.



The proposed fishery harbor will have a 13 hectare of harbor area enclosed by 1100 meters of rubble mound breakwaters with a berthing facility for 490 fishing boats of different sizes with maximum draft of 2.3 meters and 1150 meters of berthing length for parking of boats. It will also have facilities such as a building for catch, receiving, cleaning and auctioning the fish, cold stores, freezing facilities and ice plants, other buildings related to fishery activities, slipways for ship repairs and utilities.

Implementation of this project would contribute to the expansion of the fish production and fisheries exports of the country and in the long run many fishery families will benefit from this project. Further, it is estimated that employment opportunities created during the construction

phase of the Dikkowita fishery harbor, would be offered on a priority basis to the residents in the area. It is reported that this is the largest fishery harbor in South Asia.

## **2. Reconstruction of 46 Bridges on the National Road Network**

Financing arrangements have been concluded during 2012 with the Government of France to obtain a loan of Euro 22 million to initiate reconstruction of 46 bridges in Western, Southern, Uva, Sabaragamuwa, Central and North Western Provinces. Replacement of these structurally weak and narrow bridges on national road network will help to mitigate traffic congestion and traffic accidents while improving the connectivity of the road network.

## **3. Implementation of Development of Hambantota and Nuwara Eliya General Hospitals**

Development of Hambantota and Nuwara Eliya General hospitals projects commenced in 2012 with financing facility of Euro 78 million from Rabo Bank of Netherlands. As a result of this construction of a nine storied, 800 beds new hospital in Hambantota with modern medical equipment and other healthcare facilities, nearly 675,000 people living in Hambantota and other peripheral areas will have opportunities to obtain high quality health facilities. The Nuwara Eliya Hospital which is a four storied, 600 beds new hospital with modern medical equipment and other healthcare facilities, will benefit nearly 700,000 people in upcountry.

## **4. Construction of 210 Steel Bridges in Rural Areas**

The Government has obtained a credit facility of GBP 28 million in 2012 from the Hong Kong & Shanghai Banking Corporation Ltd (HSBC) of UK to construct 210 steel bridges varying in lengths from 06-30 meters throughout the country. This project will facilitate transportation needs in many rural areas of the country by improving access to remote areas. Therefore, rural communities will be greatly benefited



*Sky view of Dikkowita Fishery Harbour*



*Dikkowita Fishery Harbour premises*



from improved access and they will have better opportunities to enhance economic and social activities. It is expected to commence the implementation of this project in the first half of 2013.

### 5. Vocational Training Center in Killinochchi

Setting up a new vocational training institute in Killinochchi is a vital project which is currently in progress with the grant assistance of Euro 4 million from the German International Cooperation (GIZ) and the loan assistance of Euro 3 million from KfW Bank of Germany. Under this project, it is expected to establish a complete vocational training center at Killinochchi inclu-

ding adjacent buildings and to provide technical assistance, equipment, machines and training materials. The proposed vocational center will have a capacity to cater annual intake of 200 trainees (600 in the extended version). Further, both short term and long term training programmes in the fields of Metal Technology, Electronics, Automotive sector, IT, Agriculture and food security will be offered. Objective of this project is to improve the quantity and quality of the technical vocational training in Sri Lanka while contributing to the stabilization and peaceful development of the North by improving the employability and social economic reintegration of the graduates and participants in the training courses.

Table 6.47 > **Major Projects Negotiated in 2012**

Development Partner	Project	Amount (US\$ mn)
The Netherlands - Export Credit	Upgrading the National Blood Transfusion Service of Sri Lanka with State of the Art Technology	32.64
The Netherlands - Export Credit	Peripheral Blood Banks Coming under the National Blood Transfusion Services	24.23
Spain - Export Credit	Greater Ratnapura Water Supply - Scheme 1	28.73
Austria - Soft Loan	Supply, installation, Commissioning, Testing and Training of 2 Nos. of Cardiac Catheterization Systems and 2 Nos. Echo Cardiography Machines for the Cardiology Unit of the National Hospital of Sri Lanka.	2.92
Austria - Soft Loan	Mahiyaganana Water Supply Project.	12.79
Austria - Soft Loan	Enhancement of Advanced Technical Institute Kandy.	9.2
EIB - Credit Line	Green Energy Global Loan	110.7
German - GIZ Grant	SME Development	3.69
HSBC Denmark - Export Credit	Modernization of Processing Factories of MILCO (Pvt) Ltd	45
<b>Total</b>		<b>269.9</b>

## Development Partnership with United Nations Agencies

The United Nations Agencies such as United Nations Development Programme (UNDP), Food and Agriculture Organization (FAO), United Nations Children's Fund (UNICEF), World Food Programme (WFP), World Health Organization (WHO), United Nations Population Fund (UNFPA), United Nations High Commissioner for Refugees (UNHCR), International Labour Organization (ILO), International Fund for Agriculture Development (IFAD) and UN Habitat in Sri Lanka work together with the Government and other development partners, to overcome the challenges mainly in the development of livelihood, health, education, agriculture, and also humanitarian assistance.

Since 1952, the UN agencies have been contributing to Sri Lanka's development process through implementation of various projects and programmes.

Accordingly, the United Nations Development Assistance Framework (UNDAF) for the period of 2013 – 2017 was signed in October 2012 between GOSL and UN Agencies by providing a strategic direction to implement UN supported projects and programmes in line with the development priorities of the Government. The overall objective of the new UNDAF is to support sustainable economic growth with equitable access to implement the quality social services and strengthen human capabilities.

### Box 6.19: Financing Commitments and Disbursements from UN Agencies during 2012 (US\$ Mn)

The total commitments made by the WFP in 2012 was US\$ 27.96 million which was fully funded for the implementation of the Protracted Relief and Recovery Operation in Sri Lanka while the total commitments made by the UNICEF in the same year was US\$ 26 million. Major commitments made by the UNDP in 2012 apart from enhancements of other projects, were US\$ 4.79 million

for the Community Forestry Programme. Commitments of the FAO were made in 2012 for the implementation of the projects of Integrated Management of the Weligama Coconut Leaf Wilt Disease and an Irrigation and Agricultural Livelihood Development in Kilinochchi and Mullaittivu Districts. A financial commitment of US\$ 22.2 million from IFAD was made for the Iranamadu Irrigation Development Project in Kilinochchi district in 2012.

The highest disbursement of 39.5 percent in 2012 was recorded by UNICEF funded projects while the second highest of 24.6 percent was by IFAD projects. The WFP funded projects have recorded 14.6 percent disbursements whereas the disbursements made by FAO and UNDP in 2012 were approximately US\$ 4.1 million and US\$ 3.6 million respectively. UNHCR has distributed US\$ 0.4 million as a shelter cash grant to IDPs in Vavuniya, Kilinochchi, Mullaittivu, Mannar and Jaffna.

Chart 6.67 > Commitments & Disbursements 2008 - 2012 (US\$ Mn)

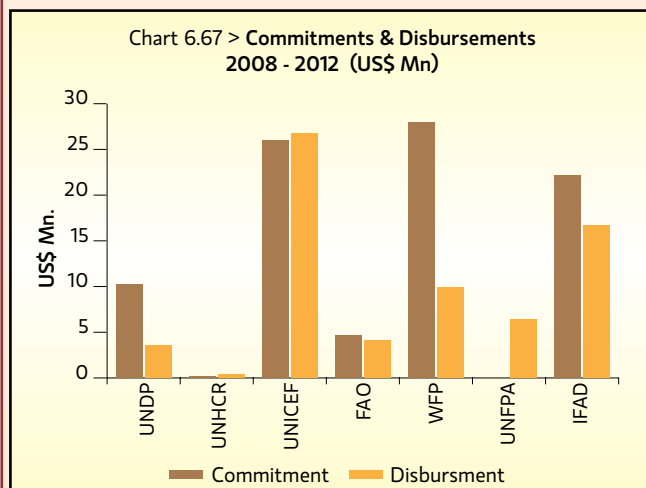


Table 6.48 > **Key Results areas under UNDAF**

<b>Key result areas under UNDAF</b>		
<b>Result area</b>	<b>Baseline</b>	<b>Target</b>
Poverty headcount ratio (% of population living below national poverty line)	National (N) = 8.9%	N = 4.2%
Increase in average household Income of agricultural sector workers	National Average- LKR 4,768 per month	LKR 10,000
Reducing Unemployment rate	N = 4.2%	N = 3.2%
Percentage of households with improved sources of drinking water by sector	Safe drinking water N = 89%	N= 95%
Percentage of households with improved not shared sanitation coverage	Exclusive toilet in Households N = 83%	N= 100%
Percentage of Reduction in under nutrition of under 5s (Stunting and underweight)	Stunting = 17.3% Underweight = 21.1%	8.65% 10.5%

## Online Volunteering Service

The Online volunteering service is one of the United Nations Volunteer (UNV) programme's corporate tools to mobilize volunteers for the development process of member countries.

It provides broader pool of knowledge and resources to the recipient organizations. Online volunteers not only provide valuable skills and expertise but also lead to obtain new ideas and fresh prospective from various backgrounds and cultures.

### Box 6.20: Community Forestry Programme to support 90,000 farmers in the Dry Zone

The Government of Sri Lanka and the UNDP jointly launched a Community Forestry Programme in 2012 to increase forest cover and support small scale farmers living in Sri Lanka's dry zone.

A grant assistance of US\$ 4.79 million was provided by Australian Aid for International Development (AusAid) through UNDP for this project.

This programme aims to regenerate an additional 23,000 hectares of forest and increase the income of around 90,000 rural people. In addition, this programme provides microfinance mainly to support bee farming,

paddy and vegetable cultivation, fruit gardens, food processing, handicrafts and livestock development with the aim of reducing dependency on traditional forest resources.



### Box 6.21: Sri Lanka's Rice Donation to Somalia and East Africa

Signifying the first rice donation to WFP, the Government of Sri Lanka has donated a total of 10,000 metric tons of white rice to the drought affected people in Somalia and East Africa through WFP in Sri Lanka. This donation supported WFP's efforts to provide critically required food and nutritional assistance to the Somali Refugees who are located in camps in Ethiopia. The first transshipment of 500 metric tons of rice equivalent market value of US\$ 4 million was made in March 2012.

Further, the Government has also pledged 500 metric tons of red rice to assist the

WFP to provide mid day meal to Sri Lankan schools under its Protected Relief and Recovery Operation (PRRO) Project.



## International Fund for Agricultural Development

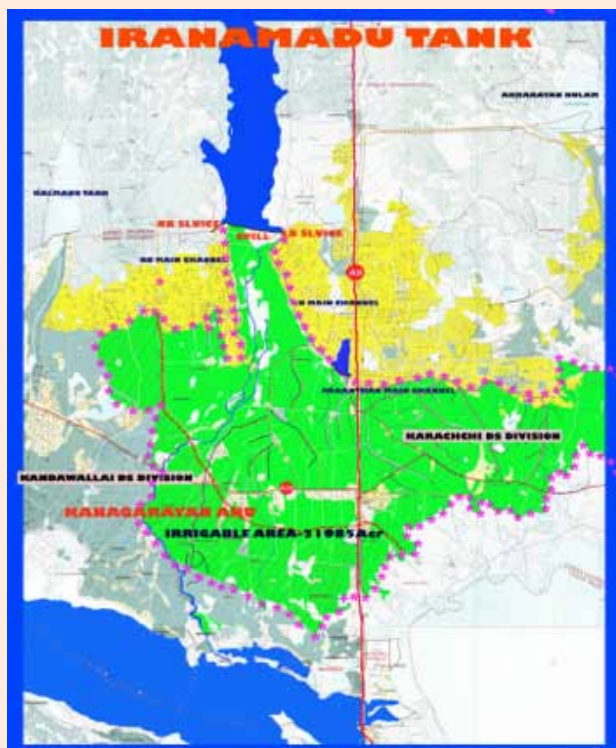
Since 1978, the International Fund for Agricultural Development (IFAD) has been a strong partner in Sri Lanka with a total loan assistance of about US\$ 400 million in poverty reduction projects in rural areas of the country

benefiting some 550,000 rural households. Savings and credit schemes initiated by IFAD under the above projects show modest effects on poorer families through the stronger empowerment gained.

Table 6.49 > **Major Projects Negotiated in 2012**

Name of the Project	Cost (US\$ Mn)
<b>Loans</b>	
Dry Zone Livelihood Support and Partnership Programme (2005-2012)	23
Post-Tsunami Coastal Rehabilitation and Resource Management Programme (2006-2013)	24
Smallholder Plantation Entrepreneurship Development Programme (2007-2014)	23
National Agribusiness Development Programme (2010-2015)	25
Iranamadu Irrigation Development Project (2012-2017)	22
<b>Grants</b>	
Participatory Coastal Zone Restoration and Sustainable Management in the Eastern Province	7

### Box 6.22: IFAD New Commitment 2012 - Iranamadu Irrigation Development Project (IIDP)



The agriculture sector contributes a major share to the economy of the Northern Province in Sri Lanka and therefore, irrigation plays a vital role in this Province. There are 54 major and medium irrigation schemes in the Northern Province including Iranamadu Irrigation Scheme in the Kilinochchi district. Around 50 percent of the land in the Kilinochchi district is utilised for agriculture while almost 45 percent of the agriculture land is used for paddy cultivation.

The Iranamadu Irrigation Scheme in Kilinochchi district comprises the largest reservoir in the Northern Province and has the water holding capacity adequate to provide irrigation facilities to 8,455 hectares of paddy lands. Due to the disturbing situation prevailed in the Northern Province over decades, satisfactory maintenance of this Scheme could not be carried out. In addition, severe damage caused by heavy floods have

worsened the situation. As a result, the Iranamadu Scheme has been functioning well below its potential and at a high risk of failure and therefore, the water losses are very high adversely affected cultivation to a significant extent during the Yala season.

In considering the request made by the Government of Sri Lanka, IFAD has agreed to provide a loan of Special Drawing Rights (SDR) 14.35 million (approximately US\$ 22.2 mn) to implement the Iranamadu Irrigation Development Project and the Financing Agreement to obtain the above loan assistance was signed between the Government of Sri Lanka and IFAD in January, 2012.

Under this project, it is expected to rehabilitate irrigation infrastructure including 30 km of main canals, 135 km of branch and distributor canals, 123 km of field canals and 95 km of drainage canals of the downstream of Iranamadu tank. Further, it is expected to improve the agriculture production and marketing in Kilinochchi.



## Foreign Financing for Development of Conflict Affected Areas

The Government has progressed well in restoration of basic social and economic infrastructure facilities in conflict affected Northern, Eastern and adjoining provinces since 2005. Two multi-pronged regional development strategies, i.e “uthuru Wasanthaya” and “Negenahira Novodaya” were implemented as the major programmes in addressing immediate requirements as well as long standing development in the Northern and Eastern Provinces. The government incurred over Rs 7.53 billion during 2009- 2011 for welfare of IDPs. The demining process targeting public places such as farm lands, schools and hospitals etc was accelerated with the help of domestic and international non-governmental organizations and more than 95% of the land had been cleared from land mines by end of 2012.

The reconstruction programme of social and economic infrastructure included short, medium and long term projects aiming at decent, peaceful and active life for people in the area. This programme included rehabilitation and reconstruction of housing facilities, water supply, sewerage, hospitals, schools, roads and railway network, bridges and culverts, highways, irrigation schemes, vocational training facilities, electricity facilities, courts and administrative buildings. By end of 2012, nearly US\$ 3,189 million from multilateral and bilateral funding sources have been mobilized along with local funds for this purpose. Fast tracked infrastructure development such as highways, main bridges, railways, irrigation systems, education and health facilities, ports, fishing infrastructure and housing have been given high priority in this programme. India, Japan, China, France, Germany, Spain, Australia, International Development Association (IDA) of World Bank and the Asian Development Bank have supported the government’s rehabilitation and reconstruction programme by allocating

Table 6.50 > **Foreign Financing for Development of conflict affected areas from 2005 - 2012**

Donor	US\$ Mn.	
	Loan	Grant
Finland		9
France	115	
India	799	330
Japan	257	172
Kuwait	18	
Saudi Fund	11	
Netherlands		2
Sweden		15
Switzerland		1
Korea		11
Germany	23	40
USA		29
Spain	28	
France	45	
Australia	110	
China	488	
Austria	11	
ADB	509	45
European Community		39
FAO		22
IFAD	22	
IDA	348	24
UNDP		3
UNFPA		13
UNHCR		2
WFP		136
<b>Total</b>	<b>2,782</b>	<b>884</b>

a substantial share of their development assistance to Sri Lanka to restore these infrastructure facilities.

The key development initiatives funded by Indian assistance include restoration of Northern railway services through reconstruction of Omathalai-Pallali, Madhu-Thaleimannar, and Medawachchiya railway lines, rehabilitation of harbor at Kankasanthurai, vocational training centers at Vantharamoolai, Onthachchimadam and Batticaloa, and housing projects at a total cost of Rs 1,093 million.

France has extended support to upgrade economic infrastructure in Trincomalee through implementation of Trincomalee Integrated Infrastructure Project and the Trincomalee water supply scheme.

A major part of Japanese assistance has been allocated to restoration of electricity, rehabilitation of roads and bridges and provision of drinking water. The major projects implemented with Japanese funding include Vauniya-Killinochchi transmission line (US\$ 29.5 million), Manampitiy, Mannar and Manmunai bridges (US\$ 40.8 million), rehabilitation of Killinochchi water supply scheme and implementation of Eastern Province Water Supply Project (US\$ 61.4 million), development of Provincial and rural roads in Eastern Province (US\$ 42.9 million) and improvement of central functions of Jaffna Teaching hospital (US\$ 24.9 million).

A substantial share of the cost associated with rehabilitation of Northern roads has been provided by Chinese Government. These assistances have been allocated to rehabilitate A009 road, Puttlam-Marichchikade-Mannar road, Navatkuli-Karative- Mannar road, Mullative-Kokilai road, Jaffna - Point Pedro road, Jaffna - Kankasanthurai road, Jaffna-Palali road, Oddusudan - Nedunkerny road and Mullaitivu- Puliyankulam road.

The Asian Development Bank (ADB) has also provided funding assistance to rehabilitate priority road sections in the Northern and Eastern Provinces through Northern Road Connectivity Project, the Eastern and North

Central Provincial Road Project and the Conflict Affected Regions Emergency Project. ADB has also extended support for the provision of basic utilities including electricity and water supply, rehabilitation of minor irrigation tanks and provision of administrative and legal infrastructure in the Northern Province. Funding assistance from Sweden and from Saudi Fund has also been utilized for rehabilitation of Provincial roads in the North East of Sri Lanka and rehabilitation of the Batticaloa- Trincomalee road.

A large part of German assistance to rehabilitation of Northern Province has been allocated for rehabilitation of electricity supply to Jaffna region, infrastructure development programme in Batticaloa district and SME development in the Eastern Province. Government of Korea has extended financial support to improve basic education facilities in Eastern Province and vocational training facilities in Jaffna through upgrading 11 schools in Ampara and Batticaloa and upgrading Jaffna Technical College as a Collage of Technology. South Eastern University has been upgraded with modern facilities with funding assistance from Kuwait.

The funding assistance from the IDA has largely been utilized to reconstruction of housing units, rehabilitation of roads, improvement of services provided by the Local Authorities, community development and nutrition interventions and tourism development in the Northern and Eastern Provinces. Some of the major projects supported by other development partners since 2005 are summarized in the below table-



Table 6.51 > **Major Development Projects Funded by other Development Partners since 2005**

Development Partner	Project
World Food Programme	<ul style="list-style-type: none"> <li>Assistance to vulnerable groups for peace building in conflict affected areas</li> <li>Assistance to Tsunami victims in Sri Lanka</li> </ul>
IFAD	<ul style="list-style-type: none"> <li>Iranamadu Irrigation Development Project</li> </ul>
FAO	<ul style="list-style-type: none"> <li>Enhancing food security among farm families in Eastern Sri Lanka</li> <li>Emergency agriculture and food security assistance for IDPs</li> <li>Northern integrated agricultural recovery and growth project</li> </ul>
European Community	<ul style="list-style-type: none"> <li>North and East Road Rehabilitation Programme</li> <li>North – East Housing Reconstruction Project</li> </ul>
Austria	<ul style="list-style-type: none"> <li>Rehabilitation of Eastern Railway line</li> </ul>
Australia	<ul style="list-style-type: none"> <li>Integrated water supply scheme Ampara</li> </ul>
France	<ul style="list-style-type: none"> <li>Implementation support for Jaffna-Killinochchi water supply and sanitation project</li> </ul>
Spain	<ul style="list-style-type: none"> <li>Supply and construction of pre-fabricated Metal bridges</li> </ul>
USA	<ul style="list-style-type: none"> <li>Improved integration of targeted disadvantaged groups into the community and peace process supported</li> </ul>
Finland	<ul style="list-style-type: none"> <li>Water supply project in Ampara District</li> </ul>

## 6.6 Development of Human Resources in the Public Sector; A new approach

Sri Lanka has now entered a rapid development path to reach its economic goal of doubling per capita income to pass the US\$ 4000 by 2016. Parallel to this development, the changing structure of the national economy demands more skilled professionals in the public service who have specialized in different subject areas which are becoming important in the emerging economic scenario. In this context, the knowledge and skills of Government officials should be enhanced in their respective fields, particularly in the fields of e-governance, change management, project planning and management, trade facilitation, debt management, financial markets, agriculture, aquaculture etc.

Having recognized this need, the Department of External Resources which is the focal point for mobilization of foreign training programmes maintains regular dialogue with relevant

development partners to identify new foreign training opportunities in the areas where development of public officials are required.

Accordingly, Sri Lanka benefits from technical assistance programmes provided by countries such as Japan, Korea, China, Singapore, Malaysia, Thailand, Australia, India, Pakistan and the multilateral development agencies such as Asian Development Bank, World Bank and other Development Partners to provide new knowledge and skills to public servants.

### Long term Foreign Training Programmes

The long-term training programmes, including Diplomas and Master Degrees which are currently provided by major development partners such as Australia, Japan, Korea, Thailand and China are very helpful for the Government officials to improve their managerial capacity and analytical and decision making skills. During the last five year period, Sri Lanka has benefitted from around 250 long term training opportunities provided by these

development partners. In 2011 and 2012 Sri Lanka has obtained 53 and 54 of such Long term opportunities respectively.

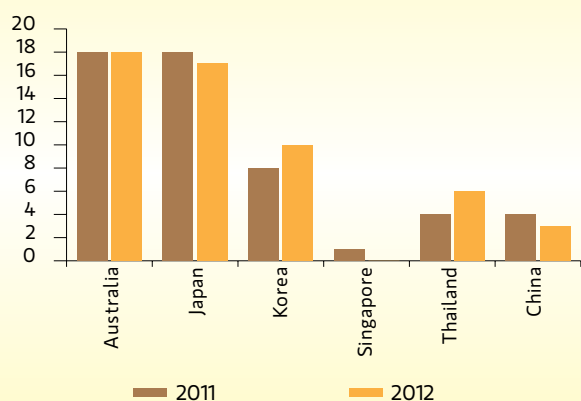
Australia has been the leader in the provision of Master Degree Programmes to Sri Lanka in key subject areas including governance, environment, education and health under the Australian Development Scholarship Programme. Compared with previous years, a large number of officials (around 100) had applied for this programme in 2012 due to the awareness programmes which were conducted by the Aus Aid in collaboration with the Department of External Resources and the relevant Government agencies. A total of 30 applicants have been selected to follow the Master Degree programmes in Australian Universities from 2013 based on their academic qualifications, their enthusiasm to contribute to the development of the country and willingness to face challenges during this process. Out of these, 80 percent has been provided to the public service and the balance 20 percent has been provided to the private sector.

Japan is the second largest development partner of long term training programmes and Japan annually provides 15 scholarships

to Sri Lankan public officials to follow Master Degree Programmes in four reputed Japanese Universities in the fields of public policy and public finance, public administration, regional development, macroeconomics and development economics under the 1st Framework (2010- 2013) of the Japanese Development Scholarship (JDS) Programme. Up to end of 2012, 45 scholarships have been provided under the 1st Framework of this programme and 15 candidates of the 1st batch have successfully completed their Master Degree Programmes. Thirty scholars of the second and third batches of this framework are currently following their studies in Japan. Discussions to finalize the second framework of this programme have already been made. It is expected to widen the target group, universities and the areas of the studies in line with the Government priorities.

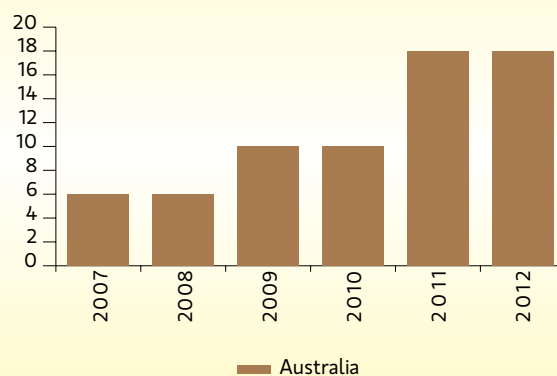
Korea and Thailand also annually provide around 28 and 10 opportunities respectively for public officials to follow Master Degree Programmes in Korean and Thai Universities in the fields of fisheries, information technology, development policy, agriculture, public administration, rural development, international studies, and trade and women in development.

Chart 6.68 > Number of Long Term Scholarships received in 2011 & 2012



Source: Department of External Resources

Chart 6.69 > Australian Long Term Scholarships



Source: Department of External Resources

### Short Term Foreign Training Programmes

Short term training programmes including individual and country focused group training programmes have been provided by more than 15 development partners in various fields. They also contribute to improve the capacities of the public officials.

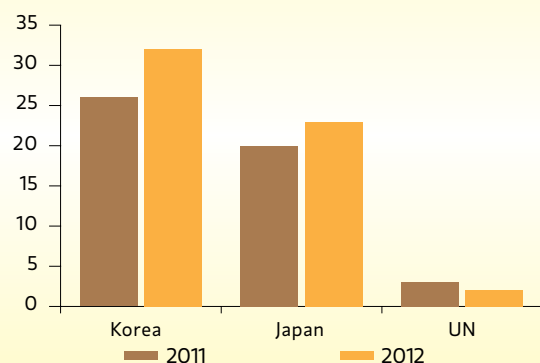
However, Japan, Korea, China, ADB, Singapore, India, Colombo Plan, Commonwealth Secretariat and Thailand play a vital role by way of providing short term training opportunities to the Sri Lanka in the areas of economic development, agriculture, power and energy, environment, livestock, health, governance, transport, water, ports sector development, education and public sector development. During the last five year period, Sri Lanka has obtained 3,581 short term training opportunities. Sri Lanka has utilized 670 and 725 short term training opportunities in 2011 and 2012, respectively which is an increase of 25% and 44% compared to 2010.

### Volunteer Service

In addition to the foreign training programmes, Korean International Cooperation Agency, Japan International Cooperation Agency,

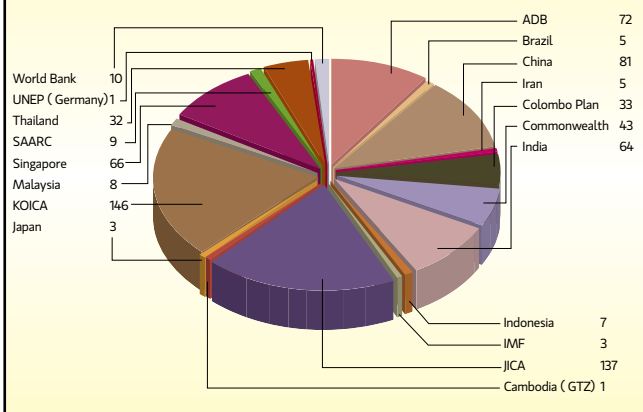
United Nations Agencies such as UNDP, FAO, WFP, and Aus Aid also provide the services of volunteers and experts who have specialized in various fields such as computer science, web designing, information technology, Korean language, Japanese language, sports, community development, and vocational training etc. as per the requests made by the relevant line ministries. All relevant expenses for these volunteers are borne by the relevant development partners. Annually Sri Lanka obtains 60, 30, and 20 volunteers from agencies in Korea, Japan, and UN respectively. The following graph shows the number of volunteers from KOICA, JICA, and UN agencies in 2011 and 2012.

Chart 6.71 > Number of Volunteers



Source: Department of External Resources

Chart 6.70 > Foreign Training Opportunities received from Development Partners in 2012



Source: Department of External Resources

The Government of Sri Lanka has also obtained the services of Australian volunteers over the last few decades which was curtailed in 2006 due to the conflict situation in Sri Lanka. The Government of Australia has entered in to an Agreement with the Government of Sri Lanka in December 2012 to obtain the services of Australian volunteers to work with people and the local authorities to enhance their skills and strengthen the local organizations, communities and networks.

Table 6.52 > **Foreign Training Opportunities Received by the Ministries during 2012**

Ministry	Malaysia	Iran	GTZ- Cambodia	UNEP	ADB	Aus Aid	Brazil	JICA	Japan	IMF	World Bank	China	Colombo Plan	CFTC	ITEC-India	Indonesia	Korea	SAARC	Singapore	Thailand	Philippines	Total
Local Government & Provincial Councils	2	2			1			43				10	8	4	7	1	35		12	13		138
Finance and Planning	2		1		36	3		6	3	3	4	14	1	3	4	1	12	2	6			101
Public Administration & Home Affairs								14				1	1	5	2		20		2			45
Economic Development	1				8	2		4				7	3	1	1		8		2	3		40
Environment					1	1		10					4		1		16		3	2		38
Agriculture						1	2	4				8			2	2	6			12		37
Defence & Urban Development				1		1		2				5	1	2	6		4	1	5			28
Industry & Commerce					2	1		1	1			10	5	1			2		3			26
Education	1						1					1	2			1	17		1			24
Power & Energy	1				8			4				2			5		1		1			22
Health					1	3		10				2							5	1		22
Higher Education					1							5	1		2	1	6	2		1		19
Water Supply & Drainage					3			6			4						2		3			18
Technology & Research	1							1				4			3		2	1	1	2		15
Fisheries & Aquatic Resources							2	3				6		1		2	1					15
Port & Highways					2			9						1					1	1		14
Traditional Industries & SED								1				1	3	1	6				2			14
Disaster Management					1			4					2		2		2		2			13

Youth Affairs & Skills Development	2	1		1	1	2	6		13
Irrigation & Water Resources Management	1	6		1	2		1	1	12
Presidential Secretariat	1	2	1		4	3			11
External Affairs	4				4		1		9
Civil Aviation		3						6	9
Plantation Industries				4		4			8
The Parliament					5	2		1	8
Child Development and Women affairs						3	5		8
Transport	2	2		2					6
Land & Land Development	1	2			1		1	1	6
National Heritage	1		1						3 5
Labour & Labour Relations	1	1				1		2	5
Livestock & Rural Community Development		2		1		1		1 5	
Social Services		3	1			1			5
Justice				1		2	2		5
Construction & Engineering Services					1	2		1	4
Prime Minister's Office								4	4
Foreign Employment & Welfare	1						2		3
Mass Media and Information		3							3
Postal Services					1	2			3
Culture and Arts	2								2

Minor Export Crop Promotion	1										1										2					
Public Management Reforms	1										1										2					
Productivity Promotion	1										1										2					
Cooperatives and Internal Trade											1										1		2			
Bribery Commission											2												2			
Indigenous Medicine											2												2			
State Resources																					2		2			
Private Transport	1																						1			
Rehabilitation & Prison Reforms	1																						1			
University Grant Commission											1												1			
Human Right Commission											1												1			
Department of Auditor General's											1												1			
National Language and Social Integration																					1		1			
Agrarian Services & Wild life																							1		1	
Total	8	5	1	1	72	18	5	152	5	3	10	84	33	43	64	8	156	9	66	38	3	784				

Table 6.53 > **Received Foreign Training Opportunities**

<b>Sector</b>	<b>No. of opportunities</b>
Human Resources Development	79
Environment	66
Economic Development	64
Public Finance & Public Policy	40
Regional Administration	35
Power & Energy	34
Industry & Trade	33
Agriculture	31
Small & Medium Enterprise Development	30
Education	30
Mass Media & Information Technology	30
Health	28
Disaster Management	22
Security & law	22
Infrastructure Development	18
Aus Aid Masters Programmes (various fields)	18
Water Supply & Sanitation	17
Fisheries & Aquatic Resources	16
Poverty Reduction	15
Regional Development	13
Social Services	13
Transport	13
Project Management	13
International Relations	12
Plantation Industries	10
Languages	10
Airport & Aviation	15
Livestock Development	8
Culture & Heritage	7
Management	7
Food & Nutrition	7
Port Development	6
Road Development	6
Irrigation	5
Tourism	5
Women Empowerment	3
Mapping & Surveying	2
Sports	1
<b>Total</b>	<b>784</b>





07

# REFORMS

## 7.1 Overview

In the context of Sri Lanka being a rapidly developing middle income country, adopting continuous changes through policy reforms is essential to improve efficiency and productivity, explore new potentials and sustain a high growth in the economy, in a highly competitive global economic environment. Such reforms not only involve having to balance the National Budget within affordable resources, but involve having to carry out necessary changes to reduce gaps in trade through export promotion and import replacement activities, and also to narrow gaps in savings and investments through the promotion of savings and reorienting consumption. These changes hence would inevitably involve the Government taxation policy, the management of the exchange rates and interest rates and trade and tariff policy, through which the real economy could be influenced to be guided in the desired direction of development. In the real economy, the productive use of land and other natural resources is vital in the context of the resource limitations and in view of the bio diversity and environmental dimensions. Labour being the primary source of income to the majority of people, the creation of gainful opportunities to the labour force requires a continuous transformation in education, skills development, and development of human capital. Sustaining labour diversity and mobility and productive deployment of such resources require flexibility in the related regulatory sphere.

The Public Service taking the forefront in providing universal access to education, health, social security and welfare, also being the service provider to the primary sectors of the economy as well as to the general public, in particular to the needy segments in the society, requires to be re-oriented to be able to meet emerging challenges of a

middle income economy, in particular the Government's commitment to go beyond Millennium Development Goals (MDGs) and reach a poverty free country situation. State Owned Business Enterprises being strategic in the areas of critical infrastructure development and in the provision of essential services such as roads, electricity and energy, water and irrigation, ports in the real sector and banking, insurance leasing in the financial sector, require to be cost efficient while also being reliable market leaders. The private sector requires to be guided by a predictable and stable economic and political environment together with improvements made to upgrade best practices and corporate governance with required changes to statutes, regulations and guidelines to meet changing demands. The SMEs being the bedrock of the economy, needs to be well integrated both to the upstream corporate economy as well as to the downstream household economy, to be able to sustain an inclusive development. Underscoring these, the Government intensified multifaceted reform initiatives to transform Sri Lanka as an upper middle income economy by 2015 as envisaged in Mahinda Chintana National Development Policy Framework.

In the backdrop of a favourable macroeconomic environment, sustained public investments in infrastructure, the incremental reforms carried out since 2005, coupled with peace and reconciliation progress, Sri Lanka has been able to shift to a higher growth path since 2010 with an 8 percent annual growth for two consecutive years followed by a growth rate of 6.4 percent in 2012, despite adverse implications from the vagaries of weather, continued high oil prices, global uncertainties and the depressed growth environment. Inflationary pressure in the economy has been reduced from 22.6 percent in 2008 to 7.6 percent in 2012. The Fiscal deficit has been

reduced from 9.9 percent of GDP in 2009 to 6.4 percent of GDP in 2012 and external resources have been stabilized at around US\$ 7 Bn. in comparison to the low reserve level of US\$ 2.4 Bn. in 2008.

The overall improvements achieved by Sri Lanka have been shared in many spheres. The country's general rating has been upgraded to B1 and a Positive Outlook, by international rating agencies such as Standard and Poor's, Moody's and Fitch. In the Doing Business Index ranking of the World Bank, Sri Lanka has improved its ranking from the 96<sup>th</sup> position in 2012 to the 81<sup>st</sup> position in 2013. This report has been ranked 2<sup>nd</sup> best globally among the most reformed countries. Improvements made in starting a business, registering property, getting credit, and tax reforms done in 2011-2012 has attributed to the overall improvement of the country's ranking.

The world's most renowned and largest travel guide book and digital media publisher "The Lonely Planet" has named Sri Lanka as the number one destination in the world to visit in the year 2013, and has gone on to describe the multi-faceted experiences an international traveler can look for, fused with novelty and indulgence.

Sri Lanka has recorded a Human Development Index (HDI) at 0.715 in 2012, ranking 92<sup>nd</sup> position out of 187 countries improving from its position in 2011, which was 97<sup>th</sup> position with the HDI recorded at 0.691. Sustained investments on education, health, livelihood support programmes including Divineguma, Samurdhi, agricultural subsidies and high investments on infrastructure development have attributed to this achievement.  
<http://med.gov.lk>

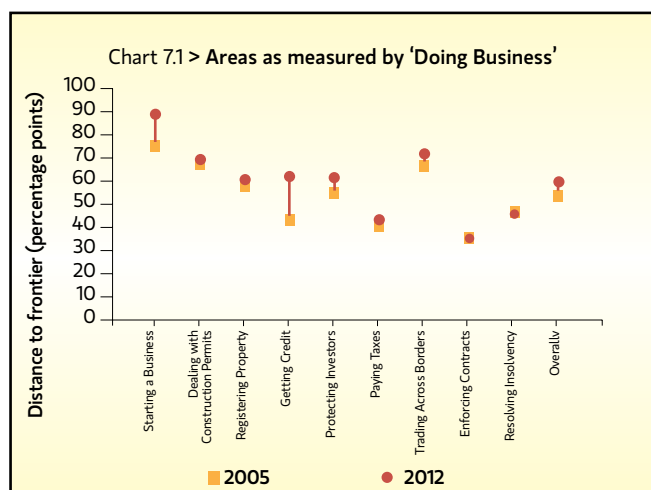
According to the Multidimensional Poverty Index (MPI) which identifies multiple deprivations at the individual level in 3 dimensions; education, health, and the

standard of living. The percentage of multidimensionally poor people in Sri Lanka, has reduced from 3.9 per cent in 2006/07 to 2.7 in 2009/10 and has further declined to 1.9 per cent in 2012/13 (HIES preliminary results), due to the drop in child mortality and improved nutrition, schooling, access to safe drinking water, sanitation, housing assets etc. attributable to continuous public investment that have been made to address poverty from a multi dimensional perspective.

In the area of Information Technology, Sri Lanka made significant advancements in the Networked Readiness Index (NRI) published in the 'Global Information Technology Report (GITR) of the World Economic Forum and INSEAD. While Sri Lanka was ranked 71<sup>st</sup> out of 142 countries in 2011, it improved to the 69<sup>th</sup> position out of 144 countries, in 2012. Sri Lanka is now ahead of Indonesia, Thailand, Vietnam and the Philippines.

*...Such reforms not only involve having to balance the National Budget within affordable resources, but involve having to carry out necessary changes to reduce gaps in trade through export promotion and import replacement activities, and also to narrower gaps in savings and investments through the promotion of savings and reorienting consumption...*

## How far has Sri Lanka come in the areas measured by Doing Business



Note: The distance to frontier measure shows how far on average an economy is from the best performance achieved by any economy on each Doing Business indicator since 2005. The measure is normalized to range between 0 and 100, with 100 representing the best performance (the frontier). The overall distance to frontier is the average of the distance to frontier in the 9 indicator sets shown in the figure. See the data notes for more details on the distance to frontier measure.

Source: Economic Profile: Sri Lanka; Doing Business 2013, Smarter Regulations for Small and Medium-Size Enterprises; © 2013 The International Bank for Reconstruction and Development / The World Bank ; <http://www.doingbusiness.org/-/media/giawb/doing%20business/documents/profiles/country/LKA.pdf>

## Sri Lanka the best destinations to travel 2013 - 'Lonely Planet'



## 7.2 Fiscal Responsibility

Continued emphasis was given by the Government to further improve transparency and accountability of its fiscal operations. The Constitution stipulates that Parliament has full control over Public Finance and sets out the overall framework in relation thereto. The related operations are required to be carried out in compliance with different Acts enacted by Parliament in respect of revenue, borrowing, debt servicing, expenditure authorization, reporting and accountability mechanisms to ensure effective management of Public Finance while operations carried out in terms of such Acts are subject to audit by the Auditor General and are also subject to scrutiny by the Parliamentary oversight Committees On Public Accounts and Public Enterprises (COPA and COPE). While taxes form part of Government revenue, loans are also raised by the Government, both local and foreign, to meet expenditure itemized in detail in the Budget Estimates submitted to Parliament following the presentation of the annual Appropriation Bill. Refloating of existing loans, are subject to complex operational processes but are carried out within Parliament approved ceilings, in compliance with the applicable Acts, and also well within the overall ceiling prescribed in the Appropriation Act for the relevant Financial Year.

The Parliament authorizes through the annual Appropriation Act, limits on expenditure as well as borrowings, for each year. While loans are raised to meet cash flow requirement and the conduct of regular Treasury operations in a timely manner, the Appropriation Act specifies the maximum amount of loans to be raised whether in or outside Sri Lanka, on behalf of the Government. Loans are raised in compliance with the provisions of such Laws, subject to the ceilings specified in such Laws and within the overall authorized limits specified in the Appropriation Act for the respective year. All these activities are managed by the Department of Public Debt of the Central

Bank of Sri Lanka, in close consultation and coordination with the General Treasury in terms of Annual Budget operations. Hence, all loans are serviced in accordance with the provisions of the applicable Laws. Debt servicing aspects are also carried out under the provisions of the annual Appropriation Act. There is a provision empowering the Minister to limit expenditure previously authorized contained in the Appropriation Act, to be used in the event where circumstances demand usage, to facilitate the management of public finance. This has not been exercised in the near past and hence is of 'stand by' nature. The general practice in incurring unauthorized expenditure is to have Supplementary Estimates approved by Parliament. In the event of an unexpected fall in the Government Revenue in unmanageable magnitudes or if an authorized program is to incur greater expenditure, such situations could be financed from a non-performing vote elsewhere, in the form of a useful contingent instrument to manage unforeseen circumstances. The power of the Minister to limit expenditure previously authorized contained in the Appropriation Act, to be used in the event of situation where circumstances demand usage, was done away with, by requiring approval of the Cabinet of Ministers in such a situation.

The Monetary Law Act (MLA) provides for the administration and regulation of the financial system and confers and imposes upon the Monetary Board of the Central Bank, the powers, functions and responsibilities necessary for same. As far as domestic loans are concerned, under Section 89 of the MLA the Central Bank provides Provisional Advances, on the basis that every advance shall be repayable within a period of not exceeding 6 months, and the total of such advances outstanding at any point of time shall not exceed an amount equivalent to 10 percent of the estimated Government Revenue in the Budget Estimates



of the relevant Financial Year. Such advances are free of interest. Section 114, requires that the views of the Monetary Board should be obtained prior to raising a foreign loan on monetary implications, with special reference to debt servicing capacity and Balance of Payments.

The Government also raises loans under the Local Treasury Bills Ordinance with a maturity not exceeding one year, subject to authorized outstanding limits set out therein. The Public Debt Department of the Central Bank on behalf of the Government, conducts this operation through Primary Dealers recognized by the Central Bank. The Treasury Bills operations are conducted to meet uneven cash flow situations that arise from revenue lags and expenditure leads. Recognizing such situations, the law requires that the Central Bank itself subscribes to such issues of Treasury Bills. However, depending on Monetary Policy considerations pertaining to domestic liquidity and money supply, the Central Bank also uses its holding of Treasury Bills to conduct monetary policy operations by trading (purchasing and repurchasing) such Bills. Since the Central Bank has during the last 20 years increasingly moved towards conducting monetary policy based on the market instruments such as interest rates and exchange rates, the determination of yield rates of Treasury Bills is left to market forces, unless the Central Bank considers that an intervention is necessary, in an exceptional circumstance. Further, in terms of Registered Stocks and Securities Ordinance, Treasury Bonds which are of medium to long term maturity, are floated by the Public Debt Department of the Central Bank, at the request of the Treasury, to meet Government borrowing requirements as permitted in the annual Appropriation Act. The maturity and interest rates of these bonds depend on the medium to long term yield curve, assessment of the availability of liquidity at different maturities and Government's cash flow needs. These operations are also conducted through Primary

Dealers recognized by the Central Bank. The rate of interest of Treasury Bonds is therefore market determined. Both Treasury Bills and Treasury Bonds also have secondary market transactions. As in the case of Provisional Advances, a fair amount of Treasury Bills and Treasury Bonds are floated to re-finance existing loans at maturity. Further, Rupee Loans are also issued under the Registered Stocks and Securities Ordinance. However these administrative debt instruments are no longer issued as the country has shifted away from such instruments in the backdrop of financial sector reforms carried out since 1977, and only a declining stock of Rupee Securities remains under this category. Up to a 12.5 percent of outstanding Treasury Bills are also permitted for foreign investments as per a Monetary Board decision to reflect global integration of the country's financial market.

In addition, Foreign Loans are raised in terms of Foreign Loans Act No. 29 of 1957. The Government raises such loans under 4 categories. The first category consists of loans raised from Multilateral Development Agencies such as the World Bank (WB) and the Asian Development Bank (ADB). The terms and conditions of these loans are common to all member countries, based on accepted categorizations. Selection of various projects and programs are determined through a consultative process between respective agencies, line ministries, and the Ministry of Finance and Planning under the guidance of the Cabinet of Ministers. Such projects and programs and the related financing arrangements are reflected in the Annual Budget Estimates submitted to Parliament. The second category involves Government borrowings from well-established bilateral Government development agencies. The terms and conditions of these loans are determined by such bilateral Government development agencies and are common to all countries eligible to borrow from such agencies. Currently, Sri Lanka borrows from Japan



International Cooperation Agency (JICA), Economic Development Cooperation Fund (EDCF) of Korea, Saudi Fund for Development (SFD), OPEC Fund for International Development (OFID), Kuwait Fund for Arab Economic Development (KFAED), Kreditanstalt für Wiederaufbau (KfW) etc. The third category consists of borrowings from EXIM Banks of various Governments i.e. India, China, Korea, USA, and Malaysia, Hungary and Japan (JBIC) and reputed credit agencies which lend for project financing. The maturity structure, interest rates and other terms of such loans are negotiated through an intensive process under the guidance and approval of the Cabinet of Ministers. The term-structure of such loans also varies from project to project, depending on the socio-economic benefits and gestation periods of such projects.

Since the Sri Lankan economy has graduated to a middle income country status exceeding its per capita income well beyond US\$ 1,000, the available concessional funds are fast depleting. In fact many Scandinavian and European countries no longer provide outright grants and concessional loans to Sri Lanka as the country is no longer a Less Developed Economy (LDE). They lend through export import banks and their terms are largely market guided. The available funds from UN Agencies such as the World Food Program (WFP) are also no longer accessible unless in exceptional circumstances. Truly concessional funding from ADB (ADF) and World Bank (IDA) are also on the decline. Middle income country status and the post conflict situation further reduce the access to concessional funding and outright grants.

The fourth category of borrowings are raised from foreign financial markets, under the Foreign Loans Act and foreign currency denominated Sovereign International Bonds are issued in international markets, with the participation of internationally reputed financial and legal advisors and fund managers selected through a competitive bidding process. Such

borrowings are all within the overall ceiling specified in the relevant annual Appropriation Act. The tenure and interest rates of such loans depend on the size of the loan, market conditions and the international sovereign country rating.

The Fiscal Management (Responsibility) Act No. 3 of 2003 aims at ensuring that the Financial Strategy of the Government is based on Principles of Responsible Fiscal Management. This Act also facilitates public scrutiny of fiscal policy and ensures the dissemination of fiscal information to the public and to Parliament in a timely manner. The Act also gives targets to be maintained in relation to GDP and fiscal liabilities. While reporting compliance has been fully ensured since 2005, impracticalities arose on Government Guarantees in relation to GDP and the Debt to GDP ratio that required realignment to recent trends in policy reforms. Hence, in the presentation of the Budget 2013, His Excellency the President made reference to the new path of debt reduction and Government Guarantees.

As announced in the 2013 Budget Speech in November 2012, two amendments were made to the Fiscal Management (Responsibly) Act i.e. to increase in the ratio of Government Guarantees in relation to GDP from 4.5 percent to 7 percent and fix the Debt to GDP ratio at 80 percent for 2013 to be reduced to 60 percent by 2020. These amendments were considered essential to insert numerical values to reflect the current thinking regarding the future path of fiscal policy development. At the time this Act was introduced in 2003 by the then Government, the country was on a fundamentally different policy regime in which policy thrust was placed on divesting state assets, downsizing the public service through a recruitment freeze and retrenching state sector employees, deregulating the role of the State and placing reliance entirely on the private sector for economic development, and the anticipated positive impact through the

peace accord that was signed with LTTE to stop hostilities and restore peace. The Debt to GDP ratio at that time was 104 percent. The numerical values reflected in the Act therefore corresponded to scenarios of an economy which short-lived and in which the fiscal and macro performance lagged behind. However, this policy strategy changed following the change of the Government in 2004 Elections.

This Government which was elected in 2004 moved away from reliance on privatization, deregulation and private sector dominance, towards a more balanced approach which places a significant role for the Government and State Enterprises, while facilitating private sector activities, with special emphasis on the revival of SMEs and infrastructure development, as per the new policy regime announced in 2005, in line with Mahinda Chintana - Towards a New Sri Lanka. The failure of the Peace Accord and the resumption of hostilities by the LTTE upto the forceful disruptions to the Mavil Aru irrigation system in 2006 which compelled the Government to implement humanitarian operations to liberate terrorist occupied areas in the Eastern Province and later in the Northern Province. This demanded a new approach with regard to the Security Forces and financial resources for related activities. The 2004 December Tsunami also demanded the Government to concentrate on the resettlement and reconstruction work in affected areas, which required the construction of around 100,000 houses, the road network, fishery harbour facilities, schools and health facilities, and restore business establishments and livelihood activities. The consequences of infrastructure having been neglected in the past compelled the Government to commit for public investment in power generation, roads and highways, sea and air ports, irrigation, water supply, education, health and rural development. The successful conclusion of humanitarian operations in the Eastern and Northern Provinces also compelled the Government to prioritize demining, resettlement, livelihood

improvements and infrastructure development in those areas. What is notable is that the Government was successful in completing demining and resettlement operations in a short period of 3 years.

The defeat of LTTE in 2009, restoration of peace island wide, the successful completion of several public investment projects in the areas of power generation, ports and air ports, irrigation etc., and the implementation of far reaching reforms such as those relating to the taxation structure, enabled the Government to raise country's growth potentials. In this backdrop, the Government placed emphasis to consolidate these gains and placed the country on a realistic and credible direction. The year 2013 has been selected as the base year to fix the Debt to GDP ratio at 80 percent, to be reduced towards 60 percent by 2020. This has been worked out on the assumption that the economy will sustain an annual growth rate above 7 percent and an inflation rate of around 6 percent. The underlying fiscal deficits will be 5.8 percent of GDP in 2013, with a gradual reduction towards 4 percent thereafter. Such a scenario permits a debt reduction towards 60 percent before 2020. Further, the Government has encouraged state enterprises to decrease their reliance on the Government Budget, to raise funds for their capital needs. In the backdrop of this being the usual path followed by several emerging economies, it is complementary that the Government provides Government Guarantees to secure best terms and conditions for such funding arrangements that are based on the respective Balance Sheet and on the strength of a strong financial rating. This mechanism also enables the Government to have a greater hold on such enterprises by being able to require them to fulfill prudential requirements if they wish to obtain a Government Guarantee. Certain funding agencies often require Government Guarantees for their financing arrangements in order to ensure that these enterprises will have the unfettered support of the Government.

Apart from the above, as volumes have grown in operations such as petroleum purchasing which involves the engagement in almost US\$ 5 billion international transactions, it is justifiable for banks to require Government Guarantees in support of such financing arrangements. A Government Guarantee is a contingent liability and hence the consequent burden is less on Government fiscal operations as compared to a direct borrowing by the Government. Furthermore, since each public enterprise is required to organize their financing, they will be compelled to obtain market acceptability through best practices and exposure to international ratings.

A List of Regulations published by the Ministry of Finance and Planning in 2012, is at Table 7.12

## Foreign Exchange and Financial Market

In the background of a surge in imports far in excess of the growth in exports which exerted a considerable pressure on the management of country's external reserves, and in the context of a highly volatile movements in the international commodity prices and major currencies of the world, the Government announced in the Budget 2012, the need for greater flexibility in the exchange rate regime. Consequently the Central Bank reduced its involvement in the foreign exchange market and allowed the exchange rate to move along with market conditions. The exchange rate policy regime was supported by a tight monetary policy stance to moderate the aggregate demand particularly in respect of imports. It was further complemented by the Government adhering to the announced fiscal deficit reduction path which required containing the Budget deficit at 6.2 per cent of GDP in comparison to 7 per cent of GDP in 2011. Import based taxes in respect of heavy imports such as all types of motor vehicles were raised to curtail imports. The exposure limits of banking and financial institutions were also tightened to protect financial system stability.

Greater financial liberalization to encourage banking and financial institutions to mobilize long-term external funds was announced in the 2013 Budget presented to Parliament in November 2012, upon the stability brought into the foreign exchange and financial markets in 2012.

To strengthen the risk assessment and capital planning processes of banks and also to ensure that local Banks align themselves with reforms and international best practices, a consultation paper was issued by the Central Bank in 2012 to the banking sector, as part of its supervisory review process. This was done in accordance with Pillar II of Basel II and in continuance with Basel II implementation in January, 2008. Further, to strengthen the financial reporting mechanism of financial institutions in line with international standards, the application of International Accounting Standards (IAS) 32, on the accounting requirements for the presentation of financial instruments, 39 on the recognition and measurement of financial assets, financial liabilities and certain contract to buy or sell non financial items, and International Financial Reporting Standards (IFRS) on the disclosure of information about the significance of financial instruments to an entity and the nature and extent of risks arising from them both in quantitative and qualitative terms and the parallel Sri Lanka Financial Reporting Standards (SLFRS), were introduced in 2012.

To create a level playing field in relation to banking operations, having analyzed the trends in the market interest rates, the maximum annual interest rates that a licensed banks could charge on housing loans and credit card advances were increased to 16 per cent and 28 per cent, respectively. Observing that each bank has different age limits for identifying senior citizens, a common threshold age limit of 55 years was introduced to ensure that all senior citizens will benefit on an equal footing. Since Corporate Governance compliance and transparency and accountability are essential

to ensure the stability of the banking sector, licensed banks incorporated in Sri Lanka were requested to obtain prior approval of shareholders for any special payments/benefits made to bank directors at their retirement in addition to normal remuneration and also to incorporate such special payments/benefits to the remuneration policy of the bank. Further, banks were requested to extend such special payments/benefits to bank directors on an arm's length basis and to make a disclosure in the related Annual Report. With a view to streamline the categorization of banking outlets that are opened under various names such as branches, extension offices, student savings units, mobile banking units etc. the branch approval procedure was rationalized, by requiring licensed banks to reclassify the existing banking outlets into two categories, namely branches and student savings units. The number of rating agencies was increased with the recognition of ICRA Lanka Limited, a fully owned subsidiary of ICRA Limited of India as an approved external credit assessment institutions recognized in relation to regulatory requirements applicable to licensed banks.

## Debt and Equity Market

Following the successful entry by the Government to the international capital markets and the conversion of the medium term Government bonds into long-term bonds at much lower rates of interest during 2012, and the solid presence of Sri Lanka in Sovereign Bond Markets, Bank of Ceylon was able to mobilize 5 year maturing investments from international capital markets. This enabled premier commercial banks to have exposure to international ratings and have greater integration with foreign exchange transactions. The Government also permitted other commercial and development banks to follow the same trend in order to supplement domestic resources with international capital infusions in support of financing activities of exports of goods and services.

In line with the same trend, the equity market was supported with enhanced incentives for resource mobilization through Unit Trusts and debenture issues by listed companies. International traded currencies including emerging market currencies such as the Indian Rupee and Chinese Yuan were recognized as acceptable currencies for foreign exchange transactions, particularly for exports, tourism and related services. The Government also adopted a new legal framework in support of free port activities of such services under which the Hambantota and Colombo Ports are to be promoted as transshipment hubs and free ports to promote the export of goods and services.

## 7.3 Taxation

Taking into consideration the recommendations of the Presidential Commission on taxation given in October 2010, and recognizing the regional and global challenges faced by Sri Lanka in its endeavor to emerge as an upper middle income country, concerted efforts have been made to reform the tax regime.

Key reforms done in 2011-2012 were on the thrust that a simplified tax structure, with a broader base and lower rates, will be conducive to position Sri Lanka as a country with a competitive edge in the region. Debit Tax, Business Turnover Tax, Regional Infrastructure Development Levy, Social Responsibility Levy that were done way in 2011, was helpful reduce the operation of multiple taxes and thereby improve the quality of tax administration within a simplified tax system to the benefit of the people. VAT rates were unified, taking forward the VAT simplification process. The amalgamation of provincial Turnover Tax and the national level Nation Building Tax (NBT) together with revenue sharing arrangements between the Government and Provincial Councils, further simplified the tax system. The threshold of the annual turnover for VAT and NBT was increased to Rs.12 Mn. to facilitate SME Sector functions, while also easing the

administrative burden through the reduction of a large number of small tax payer files managed by the Inland Revenue Department to improve its productivity. Targeted tax incentives were introduced to boost Identified activities such as IT-BPO, telecommunications, import replacement activities and capital market transactions.

In keeping with the reform thrust and direction towards broadening the tax base, as announced in the 2013 Budget, the coverage of VAT was extended to wholesale/ retail levels where the quarterly turnover is of over Rs. 500 Mn., which enabled the applicability of VAT throughout the value chain consisting of production, distribution and the ultimate consumption. An all inclusive 5 per cent levy was imposed on the gross collection of the activities of Betting and Gaming on a monthly basis in lieu of multiple taxes which were applicable. Registration with the Inland

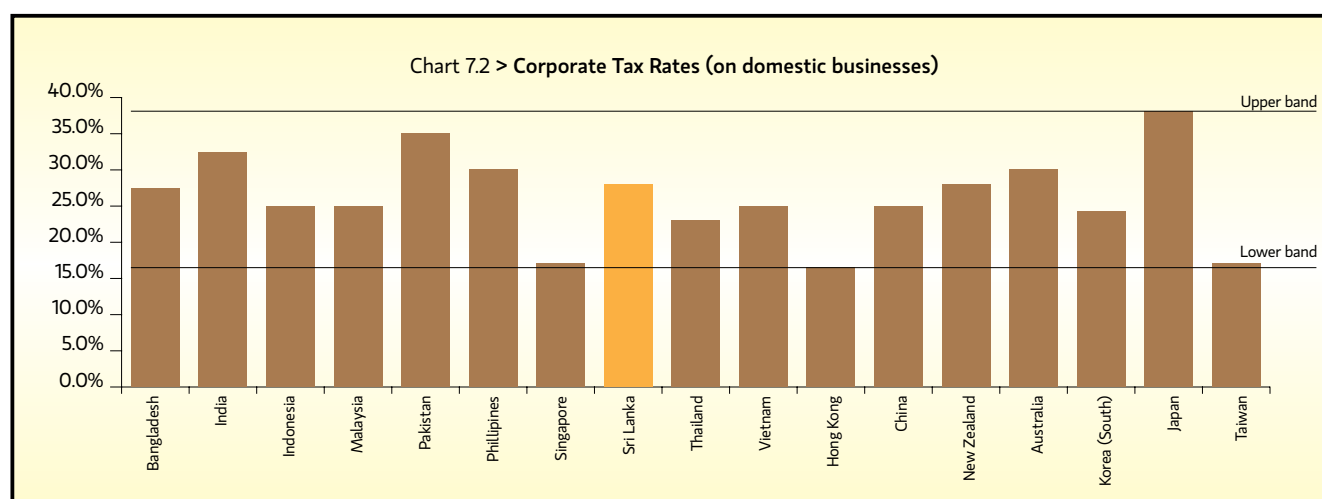
Revenue Department was made mandatory to carry out such activities. This was to ensure tax compliance with regard to such activities and them within an effective regulatory regime that was so far lacking, while confining to those who are already in operation.

The details of 2013 tax related legislation are given at Table 7.12

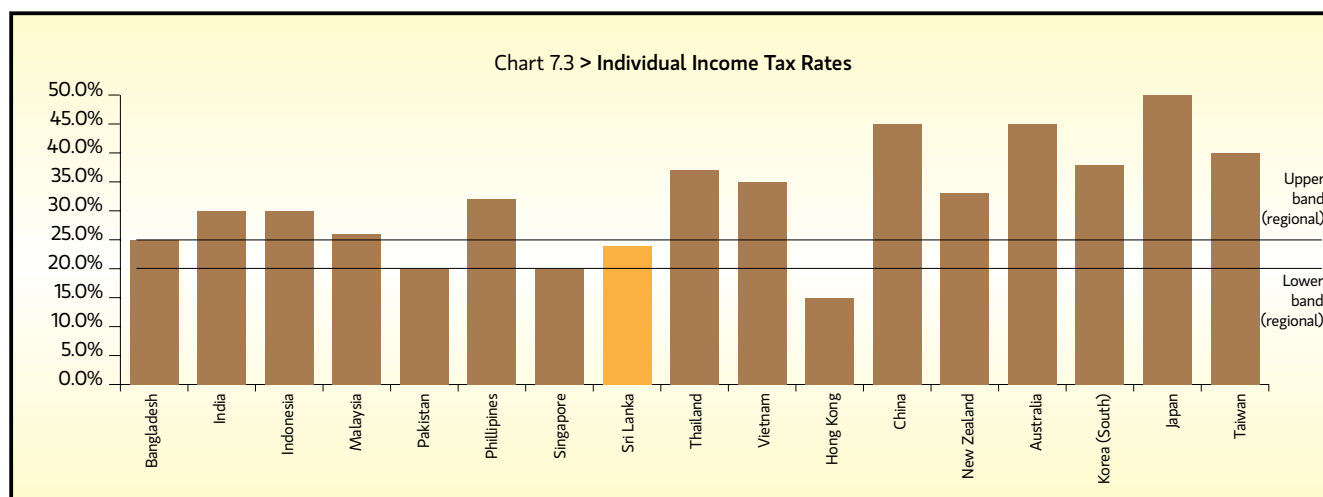
The incremental tax reforms that have been carried out since 2005 and accelerated in 2011-2012 has resulted in Sri Lanka being placed within upper and lower boundaries viz-viz the other countries in the Asia Pacific Region, in relation to corporate and personal income tax.

Income Tax applicable to interest income, to the high paid services such as IT personnel and airline pilots were made 10 and 15 per cent respectively while income for services paid in foreign exchange was made tax free.

### Comparative analysis of the tax rates prevailing in the region



Source : Ernst & Young, The 2012 worldwide corporate tax guide



Source : Ernst & Young, Worldwide Personal Tax Guide, 2012-2013

Table 7.1 > **Countries that have double tax treaties with Sri Lanka as of end 2012**

Australia	India (Rev.)	Netherlands	Singapore
Bangladesh	Indonesia	Norway (Rev.)	Sweden (Rev.)
Belgium	Iran	Oman (Limited)	Switzerland
Canada	Italy	Pakistan (Rev.)	Thailand
China	Japan	Philippines	U.A.E. (Limited)
Denmark (Rev.)	Korea	Poland	U.A.E. (Comprehensive)
France	Kuwait	Qatar	U.K.
Finland	Malaysia (Rev.)	Romania	U.S.A
Germany (Rev.)	Mauritius	Russia	U.S.A.Protocol
Hong Kong (Limited)	Nepal	Saudi Arabia (Limited)	Vietnam

Source: Ernst & Young

Table 7.2 > **Comparison of the tax on dividend, interest and royalty as per the double tax treaties with Sri Lanka**

	Treaty WHT rates		
	Dividend	Interest	Royalty
Bangladesh	15%	15%	15%
India	15%	10%	10%
Indonesia	15%	15%	15%
Malaysia	15%	15%	7.5/15%
Pakistan	15%	10%	20%
Philippines	15%	15%	15%
Singapore	15%	10%	15%
Thailand	15%	10/25%	15%
Vietnam	15%	10%	10%
Hong Kong	Limited Treaty		
China	15%	10%	10%
New Zealand	No Treaty		
Australia	15%	10%	10%
Korea (South)	10/15%	10%	10%
Japan	10%	15%	0/7.5%
Taiwan	No Treaty		

Source: Ernst & Young

Note: The above are the maximum rates of income tax on dividend, interest and royalty. Lower rates required by domestic law would prevail.

### Tax Interpretation Committee

One of the key administrative reform initiatives was the establishment of the Tax Interpretation Committee, in the Inland revenue Department setup in April 2011 in terms of the Inland Revenue Act No. 10 of 2006, to ensure consistency, credibility and transparency in the tax administration, while taking away the discretionary powers till then held by individual officers of the Inland Revenue Department, on interpretations. This Committee is headed by a Senior Deputy Commissioner General of the Inland Revenue Department. As announced in Budget 2013 a time bar of 6 months was introduced within which an interpretation has to be given. The

committee has given 54 interpretations out of 135 requests referred till end 2012. What is notable is that most of the interpretations were sought in relation to Income Tax, primarily on whether a particular income falls within the definition of employment income, or trade or business income. The unattended numbers denote requests pertaining to which further information has been requested by the Committee and requests that cannot be dealt with in terms of the mandate of the Committee. Once an interpretation is given, it is circulated among all officers of the Inland Revenue Department to ensure uniformity in the application.



Table 7.3 > **Comparison of the tax on dividend, interest and royalty as per the double tax treaties with Sri Lanka**

Tax Type	Area	No of Interpretations Issued	No of Requests pending
<b>Income Tax</b>	WHT on debt Securities	8	
	Employment Income	7	
	Deductions allowed in ascertaining profits and income	5	
	Dividends	3	
	Exemption under section 17 A	2	
	SME sector	1	
	Qualifying Payments	1	
	Concessionary rates	1	
	Rental Income	1	
	<b>Sub Total</b>	<b>29</b>	<b>18</b>
<b>VAT</b>	Liability for VAT	5	
	Zero rated Supply of a Company	4	
	Exemptions	3	
	Deferment facility on imports	2	
	Investment Fund Account	1	
	<b>Sub Total</b>	<b>15</b>	<b>8</b>
<b>NBT</b>	Computation of Liable Turnover	6	
	Definition of fully owned		
	Government undertaking	1	
	Liability of service	1	
	<b>Sub Total</b>	<b>8</b>	<b>10</b>
<b>NBT</b>	Liability of Transferring of Shares	2	
	<b>Sub Total</b>	<b>2</b>	<b>0</b>
	<b>Total</b>	<b>54</b>	<b>36</b>

Source: Inland Revenue Department

### Default Tax Recovery Unit

In a Default Taxes (Special Provisions) Act, No. 16 of 2010 introduced a streamlined and speedier process for the recovery of taxes in default in a time bound manner and to write off taxes in default pending for a long period of time, in certain circumstances. The Act also requires that future tax in arrears should be maintained at a reasonable limit and makes the officials entrusted with this task more accountable towards the collection of taxes. The Commissioner General of Inland Revenue is made duty bound to ensure that the aggregate

of any taxes not including any penalty component or any part held over or deferred, which is in default under any law set out in the schedule as at the end of any Calendar Year from January 2010 over the aggregate of taxes in default as at the end of the preceding year, should not exceed 3 per centum of the total tax collected. A concerted effort is being made by the Inland Revenue Department towards achieving this target, by requiring the senior management to issue Assessment Notices having given careful consideration

Table 7.4 > **Outstanding Default Taxes - as at 31.12.2012**

Description	Government Ins. & Co-Op Societies	Unidentified Taxes	Uncollectible Taxes	Others	Total
Default Taxes Transferred to the Unit during the Year 2011	40,228.9	5,551.2	-	95,145.1	140,925.2
During the Year 2012 Up to December)	-	-	-	(1,320.5)	(Rs. Mn) (1,320.5)
<b>Balance as at 01.01.2012</b>	<b>40,228.9</b>	<b>5,551.2</b>	<b>-</b>	<b>93,824.6</b>	<b>139,604.7</b>
Default Taxes Transferred to the Unit after 01.01.2012	-	554.8	-	-	554.8
Identified / Uncollectible Taxes	-	-	91.9	(91.9)	-
Issued Journal Transfers			-	(18,142.5)	(18,142.5)
Reduction of arrears Up to December 2012	(4,949.5)		-	(11,281.6)	(16,231.1)
<b>Balance as at 01.01.2013</b>	<b>35,279.3</b>	<b>6,106.0</b>	<b>91.9</b>	<b>64,308.6</b>	<b>105,785.9</b>

Source: Inland Revenue Department

Table 7.5 > **Default Tax Recovery Unit - Progress as at 31.12.2012**

Period	Cash Collection	Refund Setoff	Credit Given ESC etc	Discharged	Total
During the Year 2011 Up to December)	79.7	-	-	1,240.7	1,320.4
Reduction of arrears Up to 31.12.2012	252.6	477.8	434.6	15,066.0	(Rs. Mn) 16,231.1
	<b>332.3</b>	<b>477.8</b>	<b>434.6</b>	<b>16,306.7</b>	<b>17,551.5</b>

Source: Inland Revenue Department

to all relevant facts. An expeditious and an efficient process was also introduced pertaining to the collection of taxes. A register is being maintained with details on all taxes in default, charge numbers in relation to taxes, the tax imposed, the penalty proposed, any tax held over or deferred and the total tax collectable, adopting a format provided in that regard. The Default Tax Recovery Unit was operationalized in 2012.

### Tax Appeals Commission

Tax Appeals Commission that was established under the Tax Appeals Commission Act No. 23 of 2011, to ensure that tax appeals will be determined by members of an autonomous

body, primarily to pave way for expeditious decisions and for such decisions to be given by a panel of independent experts constituting the Commissions, with an input from a legal panel.

By an amendment made to the Act as per Budget 2013, proposed in November 2012, the number of Commission members was increased from 3 members to 9 members to be able to constitute 3 panels of three members in each, to expedite the dispensation of tax appeals. Provision was also made to enable the deposit either in cash equivalent to 10 per cent of the tax payable, or by way of bank guarantee equivalent to 25 per cent of the tax payable, pertaining to the deposit which is a prerequisite to be able to proceed with an

appeal, on the basis that any cash deposit could be set off against the tax payable as per the determination and any bank guarantee would be returned when the tax payable as per the determination is paid.

Provision was further made to enable an importer or exporter to refer an appeal to

the Tax Appeals Commission, in the event a determination required to be made by Customs is not given within a period of 90 days, on any dispute relating to the imposition or exemption of Customs Duty on any goods, on any condition or exception in relation to Customs Duty on any goods, or any classification or description of any goods imported into or exported from Sri Lanka.

Table 7.6 > **Appeals from the Board of Review - Position as at 31.12.2012**

Category	Income tax	VAT	ESC	WHT	SD	Total
No. of Appeals Received from the Board of Review	40,228.9	5,551.2	-	95,145.1	140,925.2	76
Determinations issued	-	-	-	(1,320.5)	(1,320.5)	17
Determinations pending	40,228.9	5,551.2	-	93,824.6	139,604.7	20
Appeals withdrawn	-	554.8	-	-	554.8	02
Appeals settled	-	-	91.9	(91.9)	-	03
Part held			-	(18,142.5)	(18,142.5)	34

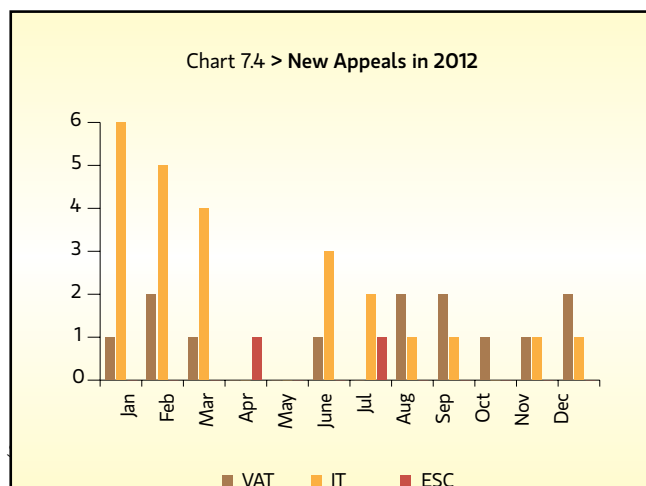
Source: Inland Revenue Department

Table 7.7 > **New Appeals - Position as at 31.12.2012**

Category	Income Tax	VAT	ESC	Total
Intentions to Appeal	52	24	05	81
No .of Appeals Received	36	18	02	56
Held up/ Jurisdictional issues	01	-	-	01
Determination Issued	16	08	-	24
Pending Determination	05	02	01	08
Appeals ongoing	12	07	01	19
Settled with CGIR	02	01	-	03

Source: Tax Appeals Commission

Chart 7.4 &gt; New Appeals in 2012

Table 7.8 > **Cases referred to the Court of Appeal - as at 31.12.2012**

	IT	VAT	Total
Old Cases	01	-	01
New Cases	09	01	10

Source: Tax Appeals Commission

## Procurement Management

In the context policy reforms towards improvement in Public Financial Management, a Cost Estimate Examination Committee was appointed by the Cabinet of Ministers in August 2012 comprising of senior Government officials to study the scope, time, quantity, price and other related reasons attributable to cost variations for which approvals were sought from the Cabinet of Ministers. In the year 2012 this committee has perused 18 such requests for cost variations, from 9 line Ministries. Public Finance Circular No. 2 of 2012 was also simultaneously issued setting out the details required to be mandatorily included when seeking approval for a cost escalation, so that thoughtful consideration could be given prior to granting such approvals.

The number of Standing Cabinet Appointed (Special) Procurement Committee that were introduced in year 2011 in relation to Procurements over Rs. 150 Mn. were enhanced from 20 to 28 for the benefit of 17 Ministries that engaged in high value procurements, to expedite such procurements in a more transparent and accountable manner. In January 2012, circular instructions were issued to streamline the process pertaining to the award of contracts to community based organizations (PFD/PMD/Clari/11/02).

The objective was to ensure that community based organization with related expertise and sufficient financial strength could only be given such awards, to ensure successful implementation. This circular also required the conduct of a community based audit to ensure transparency and accountability. The appeal procedure in relation to high value procurements was strengthened with the issuance of a Supplement to the Procurement Guidelines (No. 24 ) in March 2012. The key features include the stipulation of a time limitation pertaining to the submission of an appeal, the key responsibilities of the appeal board and the line ministry Secretary and the need to inform the outcome of the appeal to an appellant while giving reasons. A Supplement to Procurement Guidelines (No 25) in July 2012 on payments made to procurement committees, negotiation committees, technical evaluation committees / project committees and supporting staff. Procurement Guideline (No 26) was issued in August 2012 to extended autonomy to Sri Lankan missions abroad to proceed with their small value procurements, where the value of less than US \$ 2000, adopting a process that is in line with the overall framework of the respective country. Procurement Guideline (No 27) was also issued in August 2012, on the composition of a Technical Evaluation Committee, to ensure a fair representation of expertise and to limit

the number of committees in which an officer could serve at any given time, to ensure the dedication of sufficient time.

In January 2013, the imprest of 5,000 and the adhoc imprest of Rs. 20,000 that was available to incur miscellaneous expenditure was topped up with the issuance of a debit card to the value of Rs. 100,000 to support and stream line small procurement in government institutions. Further a circular was also issued (PFD/PMD/03/41) to encourage the participation of domestic manufactures in government procurement, to ensure that greater benefits would treacle down to the society.

### **Restructuring Under-performing Entities**

In order to maximize growth and economic activity, the Government proceeded to identify entities that have substantial growth potential but are underperforming for a considerable period of time for reasons beyond their control, due to the related stakeholders being engaged in protracted disputes that

have remained unresolved or where related lands or assets have not being utilized for a substantial period of time, in a manner that enable reaping their commercial or business potentials, in the interest of its stakeholders and the general public. As announced in the 2011 Budget, one Underperforming enterprise and 36 Underperforming Assets were vested with the Government in terms of the Revival of Underperforming Enterprises or Underutilized Assets Act No. 43 of 2011.

The revival of these entities made progress in 2012 with the Cabinet of Ministers having appointed a Cabinet Sub - Committee, five Competent Authorities, a Valuation Panel etc., in compliance with the Act. Restructuring was done adopting enterprise based solutions. In line with the spirit of the Act that requires the payment of just and equitable compensation to aggrieved parties in a timely manner, having completed the valuation, compensation in relation to Ceylinco Leisure Properties is being paid, and the compensation in respect of other entities is being finalized by the Valuation Panel.

Table 7.9 > **Position of entities so vested as at 31.3.2013.**

<b>Enterprise/Asset vested with Government</b>	<b>Position</b>
Hotel Developers (Lanka) Plc	Now a 100% Government owned entity. A Management contract has been signed with World Hilton. Compensation being finalized. The land is being leased to the entity by the Land Commissioner on a 99 year lease. The Government loan was converted into equity.
Pelawatte Sugar Industries Limited (vesting of land)	The Sugar sector engaged in the production of sugar / by products and is being utilized to expand cultivation of sugar cane and factories are being modernized by Lanka Sugar Company which is 100 per cent Government owned.
Sevanagala Sugar Industries Limited (vesting of land)	
Ceylinco Leisure Properties Limited	Sino Lanka, a consortium of investors constructing a multi faceted Hotel and accommodation facility. Compensation being paid to claimants.

Sinotex (Lanka) Ltd-Part I	Being revived by Kansay Nerolac Paints Ltd and M/s JAT Holdings Pvt. Ltd, the new investors.
Sinotex (Lanka) Ltd-Part II	Being revived by Lanka Preit pvt. Ltd and Brandix Lanka - Expo Lanka, the new investor.
Jaqalanka Ltd.	Being revived by Bachhavet Enterprises, the new investor.
Plymouth Industries (Pvt) Ltd.	Being revived by NIVO International, the new investor.
D.C. Apparel (Pvt) Ltd.	Being revived by Sterling Jerco Company Pvt. Ltd., the new investor.
Adamjee Extractions (Pvt) Ltd.	Being revived by Piramal Glass Pvt. Ltd. the new investor.
Cosmos Macky Industries (Pvt. ) Ltd.	Being revived by Fonda Global Engineering Pvt. Ltd, the new investor.
Tendon Lanka (Pvt) Ltd. (part)	Being revived by Dimo Lanka Ltd. the new investor.
Tendon Lanka (Pvt) Ltd. (part)	being given to MAS Industries, the new investor.
Rican Lanka (Pvt) Ltd.	Being revived by , Attotech Company, the new investor.
Composite Tower Solutions (Pvt) Ltd.	being given to Andry Holding (China) Co./CN industries, the new investor.
Sri Chirag (Pvt) Ltd.	being given to Chemical Industries, the new investor.
Continental Vanaspathi (Pvt) Ltd.	being given to BCC Lanka, the new investor.
Cosco Plymer Lanka (Pvt) Limited	Being given to J J Children-wear (Private) Ltd. the new investor.
Hy Fashion Garments (Pvt) Ltd.	being given to Concord Apparel, the new investor.
Suchir Neb Project Pvt. Ltd	
Intertrade Lanka (Pvt.) Ltd.	
Former Cashew Corporation Land	Vested with the UDA for urban development activities.
Lanka Tractors Ltd Properties Situated at Pettah and Narahenpita	
Charmers Granaries	
Colombo Com. Badulla Properties	Released to the relevant Government Agent/s - for public purposes such as paddy storage facilities.
Seetha's Fashion Site - Polonnaruwa	
Collings Garments Site	
Needle Crafts (Pvt) Ltd.	Released to the relevant Government Agent/s - to be used for public purposes.
Macfa Apparel Pvt. Ltd.	
Ruhunuputha Apparels (Private) Ltd.	
Polymers Exports (Private) Ltd.	

Enterprise/Asset vested with Government	Position
Yobeedha Associates (Private) Limited	
Dynamic Clothing (Private) Limited	
Great Wall Thread Man. (Pvt) Ltd.	
Royale Exports (Private) Limited	
Sinotex ( Remaining Portion)	
Cabool Lace Lanka (Pvt) Limited	Arrangements in progress to find suitable investors.
Health Food Products (Pvt) Ltd.	
Sanjaya Garments (Private) Limited	
Hy Fashion Garments (Pvt) Ltd.	
Data Food (Private) Limited	
Former Cashew Corporation Land	

## Education

The Education sector continued to show improvements in the backdrop of concerted reform efforts made by the Government since 2005 to improve the quality of education, with diverse skills. Parallel to the infrastructure improvements incrementally carried out throughout the country, primarily aimed at creating a child friendly school environment. The compulsory period of education has been widened from Grade 9 to the Ordinary Level aiming at quality improvements in general education access to children.

Reflecting recent reform initiatives in education "Mahindodaya Schools" plan was put in place to be implemented countrywide with 3 such schools being setup for each divisional secretariat division and with a total number of 1,000 schools, that would contain extensive facilities such as laboratories for science, ICT, language and mathematics, to make education more relevant to the demands of the labour market of a middle income country. Five Feeder primary schools are to be attached to

each Mahindodaya School in a bid to permit suitable children in primary school to gain access to Mahindodaya schools. In the year 2012, two schools were elevated under a pilot project as Mahindodaya Schools, with a further 1,716 primary schools having been developed in 2012, with the participation of School Development Societies, to be connected to Mahindodaya Schools. Distance learning centers are to be setup in Mahindodaya Schools to promote Distance Learning that is fast gaining grounds in the world as an alternate and cost effective mode of learning. This is also expected to maximize the use of Computer laboratories to enable children including those from rural areas to have access to global education institutes of repute that offer diplomas and degrees through the distance learning modality.

Having carried out research in 2012, the Technology Stream was introduced to the GCE Advanced Level from January 2013, in selected 100 secondary schools, spread Island wide.



More teachers were recruited to teach subjects of demand such as mathematics, English, science and ICT and also to ensure a fair deployment of teachers to remote schools. The total number of teachers that was 214,562 in 2010 has risen to 219,788 with the recruitment of 4,806 teachers in 2012. In addition to the 9 Teacher Training Centers that are in operation in Sri Lanka, to further promote Teacher Education, the construction work of the South Asian Teacher Training Center that will be equipped to provide regional training facilities to train teachers was commenced in the suburb of Meepe, in 2012.

Reflecting overall improvements, several indicators showed improvements in 2012. The literacy rate has improved to around 96.4 percent in 2011/ 2012 from around 91 percent in 2005. The ICT literacy rate surpassed 35 percent in 2011/ 2012 from around 8 percent in 2005. Going beyond Millennium Development Goals, the Near Universal Primary Education Enrolment Rate has increased to around 98.3 percent in 2011/2012 from around 90.2 in 2005. The secondary education enrolment rate has increased to 98 percent in 2011/ 2012 from around 97.7 percent in 2005. The child - teacher ratio has declined to around 18:1 in 2011/ 2012 from around 20:1 in 2005. The intake of students to State Universities rose to 22,016 in 2011/ 2012 from 14,850 in 2005, accommodating a large share of eligible students for tertiary education.

University Townships are being developed to transform the vicinity of universities as townships thus promoting community development. Under a pilot project Jayawardenepura University township commenced development in 2012, while initial work on the Ruhuna and Jaffna University township development is in progress. Stepping away from the traditional subject areas approach, universities have placed emphasis on new subject areas such as Fisheries and Marine Sciences, Tea Technology & Value Addition, Mineral Resources & Technology,

Tourism, Physical Education and Sports Science & Management. Our Universities have recorded improvements in their global rankings in 2012. For examples the Colombo University has moved from the 2,186 place in 2011 to 1,681 place in 2012 while the Moratuwa University has moved from 2,198 place in 2011 to 2010 place in 2012.

## Power and Energy

The power sector continued to receive priority attention of the Government in 2012, in recognition of its direct contribution to the economy. The electrification level of the country has been increased to 93 percent in 2012, complemented by the scheme introduced in 2012 to enable more people to meet the initial installation cost of electricity connections, to ensure access to electricity. The total installed generation capacity has increased to 3,312 MW in 2012 from 2,818 MW in 2010, with low cost coal and hydro capacity having been prioritized and transmission losses having been reduced to 11 percent in 2012, recording a positive improvement in efficiency and productivity in the sector. The Government has commenced a shift to move away from more expensive fuel fired power generation to relatively cheaper coal power, thermal and alternative energy sources, to create a more cost efficient and a sustainable power mix, with power sector reforms. In line with government vision to promote clean energy that was further supported through the tax policy reforms, several investments were made in Non Conventional Renewable Energy (NCRE) such as solar and wind powered plants, mini hydro, Bio Mass Plants etc.

However, the gap between the average cost of electricity and final user tariff has increased due to the rise in oil prices and wide variations in the availability of hydro power due to fluctuations in the rainfall. Consequently, electricity tariff revisions were made in February 2012 and subsequently in

May 2013 making the tariff structure more on a cost reflective criteria. While in February 2012 the electricity tariff was revised with the imposition of the Fuel Adjustment Charge (FAC), in May 2013, the tariff adjustment involved a revision in the unit tariff and the fixed charge with subsidized tariff still kept for those consuming below 90 units per month. In this backdrop, around 75 per cent of electricity consuming households still consume electricity below cost. Adjustments have also been made to commercial and industrial use, with the intention of reducing excessive losses of the CEB and also to promote such users to gradually shift to alternative energy use, while also adopting production processes that are more energy efficient.

Steps were also taken to move towards a more cost reflective pricing for petrol, diesel and kerosene in February and later in December 2012. A further adjustment was made in January 2013 with the pricing of diesel and furnaces oil, moving away from the subsidized pricing strategy with the exception of kerosene. By way of institutional reforms, in 2012 a Chief Executive Officer with expertise was appointed to the CPC. The intention was to give an impetus to the management capabilities of the CPC, through assistance to the Board to take well informed decisions, and operate as a viable state owned business enterprise. The use of greater flexibility in relation to petroleum pricing and term procurement arrangements, together with institutional and management reforms, one would expect the CPC break-even and reduce borrowings from the banking system in support of fiscal and financial sector reforms aiming at low inflation and interest rates.

## Water and Irrigation

Sri Lanka provides safe drinking water to almost 84 percent of its population, while around 43.5 percent of the population has access to pipe-borne water. In the wake of water becoming

a scarce commodity globally, Government reforms placed emphasis to give priority to address concerns prevailing in relation to water and irrigation, primarily to promote the efficient use and preservation of water.

The biggest challenge in the area of pipe borne water is to bring down the ratio of non revenue water. While non-revenue water accounts to around 30 percent island wide, in the Colombo Municipality limit this is around 49 per cent, with measured water released on social considerations accounting to 8 per cent thereof. This is very high even in terms of accepted international standards, which is around 20 per cent. Several factors have been identified as attributable to this high percentage of non revenue water, such as leakages in the outlived Colombo water pipeline network, illegal tapping of water and defective meters.

Reforms have been initiated by the NWSDB in 2012 using Government funds to replace 450Km of deteriorated pipelines with new pipelines by 2016, of which 14 KM of laying has already been completed in 2012 while the laying of another 56 Km and the removal of around 800, 500 water stand posts are also in progress.

However, since the majority of pipelines in the Colombo city is around 60-70 years old and is in a dilapidated situation, it was felt that overall attention is a dire need. In a major reform initiative, in 2012 the Government negotiated a Multi Tranche Financing Facilities (MTFF) up to USD 300 million equivalent, with the Asian Development Bank to supplement Government initiatives in the Greater Colombo Water and Waste Water Management Improvement programme. This program will focus on the reduction of non – revenue water while improving the water supply and wastewater management services in Greater Colombo area over the next 6 years. Moving in the Government direction towards the introduction of cost reflective pricing, the water tariff was

also revised by 20 per cent in September 2012. Since variations of water supply and demand and the differences of water scarcities between different districts in Sri Lanka are visible in the districts in the dry zone, that account for more than 75 percent of irrigated water withdrawals for agriculture and food production, the Government placed emphasis on the need to ensure cautious water usage and management. In line with the national water policy, irrigation sector strategy placed priority to construct multi-purpose reservoirs with trans - basin diversion facilities that enable the harvesting of water that otherwise gets runoff to the sea, at best levels, while also rehabilitating the existing irrigation system to improve ground water availability through water management, and by improving the efficient use of irrigated water. Since the water use efficiency of the irrigation sector in Sri Lanka is considered low compared to other Asian countries, new water efficient cultivation methods, crop diversification and advanced irrigation techniques such as drip irrigation, were continued to be promoted in 2012.

## Free Ports

In line with the Government vision to elevate Sri Lanka as a regional commercial and maritime hub, much emphasis has been placed towards the development of Ports and related activities through infrastructure development and the creation of an enabling framework. The two international sea ports at Colombo and Hambantota have been developed to attract investments to connect Sri Lanka to the global shipping, trade and logistical centers. With its new breakwater facility nearing completion with a public investment of around US\$ 400 Mn, and a foreign investment of US\$ 500 Mn. in the largest PPP arrangement in the country, Colombo Port has improved its rank by being placed in the 32nd place in the Container Ports classification. The Hambantota Port that was designed to functions as a service and logistics hub, expanded its activities in

2012. Selected cargo handling activities have been totally shifted away from the Colombo Port to Hambantota Port since June 2012. The completion of the second International Airport facility along with the extension of the Southern Expressway to connect country's two International Airports are expected to elevate transshipment capabilities to be able to meet the growing demand s of international shipping and aviation.

As announced in the Budget 2013, the legal framework to be able to declare identified areas as free ports and bonded areas, dedicated for offshore business activities was also put in place. The offshore businesses identified under this framework include entreport trade, transshipment business, logistic services such as warehousing and multi country consolidations and front and back end services for foreign buyers. It is expected that these new activities will demand new infrastructure and services including international finance, that will boost exports of goods and services, in addition to attracting global businesses to be relocated in Sri Lanka, and will facilitate the realization Government vision to make Sri Lanka a commercial hub.

## Health

Expanding its policy vision to achieve a healthier nation that contributes to its economic, social, and human development, health sector reforms were continued to be carried out through the expansion of preventive, curative and rehabilitative services. Reforms captured with the modernization of infrastructure facilities recognised the fact that the state hospital network caters to approximately 85 percent of inpatient care and 60 percent of outward patient care, in addition to the supply of healthcare through Medical Officers of Health who support at divisional secretariat levels. On average the Government spends around Rs. 100 Bn. annually on account of health services, with around 80 percent

being used to provide a countrywide effective health delivery system. A study was carried out in 2012 to enhance the related research capacity on the prevention and treatment of communicable and non communicable diseases and an allocation of Rs. 300 Mn. was made for such research and development work through the 2013 Budget.

The 1000 hospital development program aimed at fulfilling the basic bio medical equipment requirements of secondary level hospitals were initiated in 2012. While the program to strengthen facilities at base hospitals continued, 250 ambulances were provided to hospitals Island wide in 2012, to impose mobility among hospitals and with best equipped regional centers. While five hundred such centers have been already setup in this continuing effort. In the backdrop of malnutrition remaining to be a concern with almost half the population remaining below the required average minimum level of nutritional consumption per day, thus impacting educational and productivity standards etc. steps were intensified in 2012 to address this issue through the Divi Neguma initiative and the Action Plan drawn by the Presidential Taskforce on Nutrition. A notable improvement is that the stunt rate in children has declined from 19.6 percent in 2009 to 13.1 percent in 2012. The 3,836 Maternity and Child Health Clinics located island wide and continuing to serve related needs in a satisfactory manner were upgraded in 2010 - 2012. Considering the increasing elderly population attributable primarily to increased longevity, emphasis was placed by the Government to setup dedicated wards in hospitals providing specialized elderly care, and to setup elderly homes, having introduced tax policy reforms to support the move through the promotion of private investment in these areas. The remuneration and incentives structures of medical personnel and those in the paramedic segments were also improved to be able to retain quality manpower in the state medical sector.

Underpinning these developments, Sri Lanka's health indicators continued to record progress way ahead of neighbouring Asia, being among best in relation to developing countries and even sometimes comparable to standards in developed countries. Sri Lankans enjoy an average life expectancy of 75 years, topping the region. The maternal mortality rate improved to around 31 per 100,000 live births and the child mortality rate to around 9 per 1000 live births.

## 7.4 Service Delivery and Capacity Developments

Many service delivery improvements have been achieved in Sri Lanka especially with the aid of Information technology. Supporting such advancements achieved, the ICT literacy rate in Sri Lanka has surpassed 35 per cent in 2012 from 8 per cent in 2005. e- Network Redyness - in the backdrop of ICT advancements made through initiatives led by ICT Agency (ICTA) and all its stakeholders, as already noted Sri Lanka made significant advancements in the Networked Readiness Index (NRI) while Sri Lanka was ranked 71st out of 142 countries in 2011, it improved to the 69th position out of 144 countries, in 2012.

e-Service Platform - as approved by the Cabinet of Ministers, all electronic services (e-Services) provided by the Government were required to be delivered via 'Lanka Gate', accessible via [www.srilanka.lk](http://www.srilanka.lk) Sri Lanka's first transactional e-Services platform. Key transactional e-Services launched under this initiative include the Issuance of Motor Vehicle Revenue Licenses in the Western Province (which is being replicated in Southern and Sabaragamuwa provinces).

Digital Certificates - other e-Services launched in 2012 include the Issuance of Exam Certificates, obtaining copies and online submission of re-correction applications, offered in collaboration with the Department of Examination. The digitization of over 18 million

birth, marriage and death certificates was completed by end 2012 and was made available through multiple Divisional Secretariats. Over 650 Chief Information Officers and over 15,000 other government officers were given ICT training. An advanced e-government education program was conducted at PIM for over 300 senior officers.

Nenasalas and e-teaching - over 730 Nenasalas established at grassroots level have been setup throughout the country, exceeding the original target of 200, to promote an all inclusive IT strategy that will benefit masses including those at village level and in remote areas. Nenasalas users are 64 per cent female, and 76 per cent youth. Of the 730 established, 690 Nenasalas remain in operation today. About 66 per cent of Nenasala-s are financially self-sustaining. They have become breeding grounds for ICT-enabled rural entrepreneurship, and have been incorporated into other government programs for rural and community-driven development. The program has established partnerships with multinational companies, NGOs and aid agencies, resulting in rural BPOs across the country.

In addition the 'Nanasa' online education facility, provided through the Dialog gateway and the Education Ministry, facilitates the teaching of specialized subjects such as science, mathematics, English and Sinhala to children in schools without sufficient teachers, using satellite connections. In 2012 this facility was extended to around 1,500 schools. The WEB Patashala program provided through etisalat Lanka, Micro Image and the Education Ministry also support similar subject-wise teaching using the worldwide web. The curricula for grade 4 and above are taught using a dongle being used for internet connectivity. This facility enables students to submit questions for which answers are provided, was further spared in 2012.

The Online Visa Application Processing Service (Electronic Travel Authority - ETA) is

activated by the Department of Immigration and Emigration. The "Lanka Government Payment Service" (LGPS) connected to ETA has facilitated use of electronic payments, ensuring over 2,700 daily visa applications being processed smoothly for tourists and others entering the country, enabling easier and faster online revenue collection amounting to approximately US\$ 12.27 Mn in 2012. The "Lanka Government Cloud" (LGC), which offers "Infrastructure as a Service" (IaaS), enabling Government organizations to deploy IT systems and servers on a 24/7 basis for a nominal service fee, was also launched in September 2012. The Government SMS (GovSMS) and Mobile portal also provide multiple eService delivery options for government organizations offering eServices.

Land Titling and e- Slim initiative, to carry out the title registration process, which is treated as superior to the traditional document registration process, was introduced with the enactment of the Title Registration Act No.21 of 1998. Popularly known as the 'Bim Saviya' program, this is designed to issue state guaranteed Title Certificates in place of Deeds registered with the Registrar General in Land Registries and Grants issued under the Land Grant (Special Provisions) Law. An all island survey of land is in progress to prepare a cadastral map to enable the preparation of individual maps to be issued with regard to every allotment of land in the country and to enable related registrations. This system will grant a clear title and boundaries to each allotment of land, verified by the state, thereby eliminating title issues pertaining to land through marketable title that is expected to boost economic and trade activities, by making all lands acceptable collateral. A complete database of land will thereby be developed that will be frequently updated, providing updated information of all land resource of the country, to facilitate proper land management.



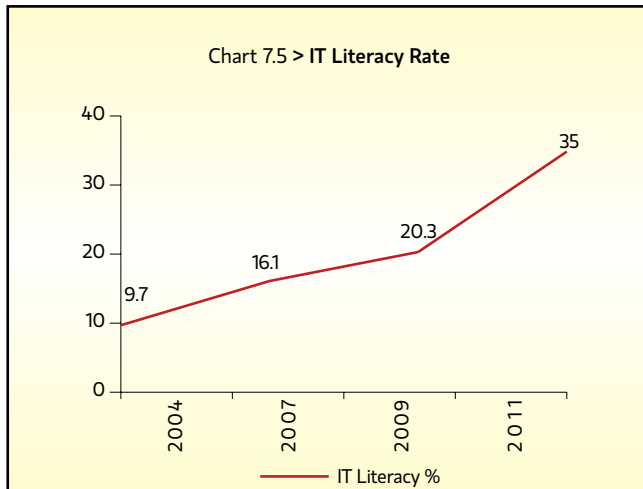
Introducing automation to the process of issuing of land permits, land grants and releasing lands on long term lease, which was earlier done manually, the State Land Information & Management System (eSLIMS) was launched at the Provincial Land Commissioner's Department (Western Province). This work was initiated and planned in 2012 and was launched in January 2013. This system will be rolled out to other areas in the near future. Currently there are over 40 land registries across the country and it is estimated that over 20 million deeds are being stored in those registries. Access issues faced by Lawyers and Notaries, malpractices including destroying of such records and distortion of information are to be minimized with e-solutions proposed to be provided through the E-Land Registry Project. This will elevate the position of Sri Lanka in the doing business indicator by improving land registration related activities. This project will be piloted in Delkanda, Colombo, Gampaha and Mannar and one other Registry in the North. Improvements of Deed Registration system will also be enhanced through 'eLand Hub'.

e-population Register system reflects another key improvement made in the government service delivery mechanism. This system was launched in June 2012, the objective of which is to have a National Database of Citizen Information, including the full name, date of birth, marital status, gender, address and place of birth, to be able to verify the identities of citizens when providing government centric facilities, while protecting privacy rights of each citizens. The system went live in Colombo (13 Divisional Secretariats), Puttalam (14 Divisional Secretariats) and Kurunegala (31 Divisional Secretariats) Districts in 2012. This system is currently being replicated elsewhere. Regulations under the Electronic Transactions

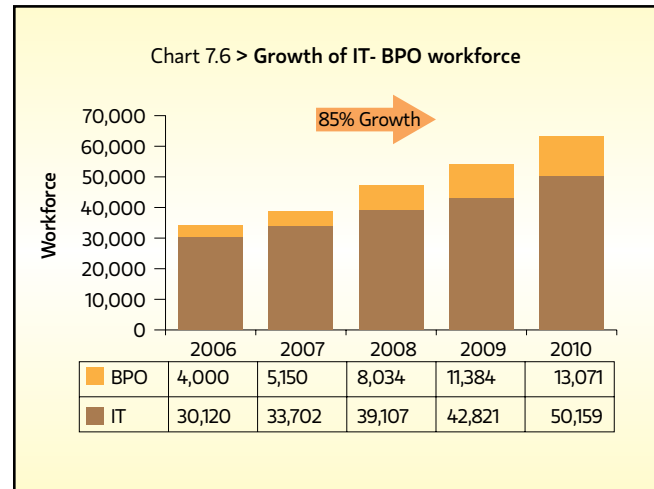
Act will give legal effect to the new format of documents issued through the e-Population registry.

e-Society Program has so far supported 222 pilot initiatives and innovations, helped to improve the IT literacy of rural communities and disadvantaged groups across the country. It addressed a variety of thematic priorities including education, health, agriculture, and small business development as well as preservation of cultural heritage. It includes diverse ICT applications such as electronic patient record systems in rural hospitals, digital content for rural libraries, and English self-learning software for rural school leavers and contributes to the growth of locally relevant content in local languages, raises awareness about digital content and ICT use for rural development, raises ICT and Internet literacy and mobilize grassroots organizations for ICT-enabled innovation. The local content development program has resulted in creating a considerable growth of local language contents and the outreach of the program led to raising awareness - e-literacy, and capacity building reaching many rural communities. In recognition of the e-Swabhimani impact, the World Summit Award (WSA) has selected Sri Lanka as a venue for the WSA 2013 conference in November 2013.

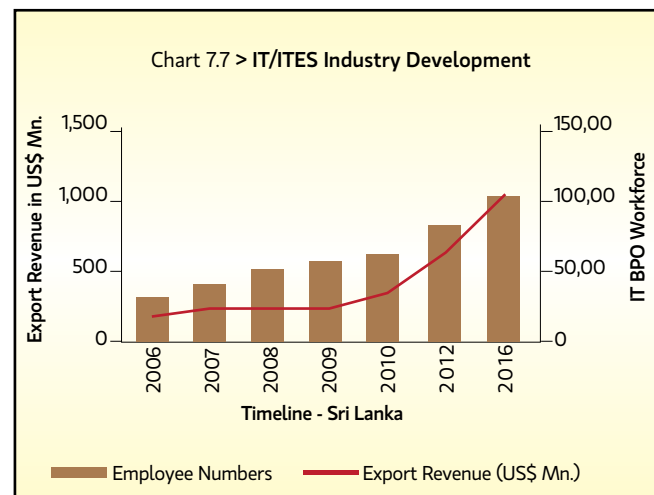
Whilst export revenues from IT-BPO sector has grown at 22% per annum reaching over US\$ 500 million (See attached graph), with Government investing US\$ 4.4 Million (during 2005-2012) towards ICT private sector capacity building, enhancing competitiveness and market creation. ICT sector has emerged as the 5th largest export earning sector providing over 60,000 employment opportunities, with over 180,000 indirect employment.



Source; ICTA/Department of Census and Statistics



Source; ICTA



Source; ICTA/EDB 2006 -2010, CBSL 2011 -2012

...Currently there are over 40 land registries across the country and it is estimated that over 20 million deeds are being stored in those registries. Access issues faced by Lawyers and Notaries, malpractices including destroying of such records and distortion of information are to be minimized with e-solutions proposed to be provided through the E-Land Registry Project...

...ICT sector has emerged as the 5th largest export earning sector providing over 60,000 employment opportunities, with over 180,000 indirect employment...



### Revenue and Fiscal Administration Technology Improvements

The Ministry of Finance and Planning in its continuous efforts in the areas of institutional development made further progress in the year 2012. ICT improvement and related knowledge improvements gained momentum. Having carried out feasibility studies, a Local Area Network and a Wide Area Network was introduced to digitally integrating the Inland Revenue Department head office with its branch network island wide. A Data Centre at Jawatta Road, Colombo 5 and a Disaster Recovery Centre at Kurunegala, was setup as a preparatory step to facilitate the expected automation. Having had discussions on a Government to Government basis, the Singapore Government has confirmed willingness to provide technical assistance to introduce a Revenue Administration Management Information System (RAMIS) for the Inland Revenue Department to automate its business processes. A Memorandum of Understanding is expected to be signed shortly between the Information Development Authority of Singapore and the Ministry of Finance and Planning to promote technology partnership is in progress, having gone through an International Bidding Process the award is due to be made shortly to the successful bidder to implement an Integrated Treasury Management Information System (ITMIS) to automate the operations of the General Treasury.

### MILODA - Academy of Financial Studies

Acknowledging that Capacity Development and improvement of the quality of the human resources of the Ministry of Finance, the Revenue Collecting and other key agencies of the Government is paramount, a training centre for the benefit of the public sector financial market, *MILODA* - Academy of Financial Studies, that has State of the Art facilities was opened at Times Building. In the true spirit of its name, *MILODA* is expected to be an institution that will energize the knowledge building process that



imparts knowledge to ministries of finance in the region, as a member of a network of learning centers of international repute in the region. A Memorandum of Co-operation has been finalized between the Lee Kuan Yew School of Public Policy, Singapore to strengthen Mutual Co-operation. The Academy which is co-supported by the Government of Japan, has facilities such as An Intelligent Digital Lecture Theatre – presumably the first of its kind in Sri Lanka, that provides facilities to conduct interactive sessions between the lecturer and learners, 2 modern auditoriums with 200 and 400 seating capacities which are also equipped with media and video conferencing facilities, 3 IT labs that has around 200 IT terminal facilities, 5 lecture rooms that can accommodate around 40- 50 participants, a cyber café, a VIP lounge etc.

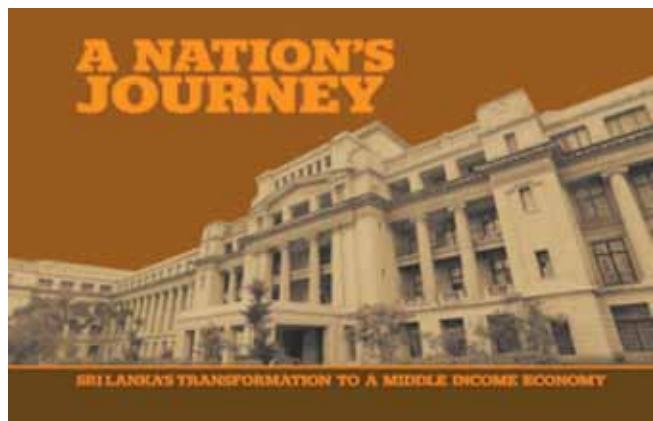
### **Publication - 'A Nation's Journey'**

The publication 'A Nation's Journey - Sri Lanka's Transformation to a Middle Income Country', was released to coincide with the opening of *MILODA* - Academy of Financial Studies. This publication outlines the key milestones that the Ministry of Finance has primarily managed in Sri Lanka's transition to a middle income country. It captures a bird eye-view of this transformation over 65 years, having gone through many challenges - involving a shift from the colonial institutional setup to a post independent era, from a closed economy to a market economy, from conflict to peace and from a poor income country to a middle income country. The publication depicts the proud history of Sri Lanka's Treasury, and is intended to pay a silent tribute to all those who have contributed in many ways in this transformation. The publication also captures the key outcomes of the Public Investment Strategy of the present Government that has enabled Sri Lanka to witness a rapid transformation in its development landscape, bringing about an all-round infrastructure development through the mobilization of both domestic and foreign sources to provide gainful opportunities to its people and future generations.



### **Capacity Development facilitated by the MOFP**

In addition to training programs coordinated through the External Resources Department and made available to the deserving officers in the public service, specific training programs has taken place through the training initiatives carried out by the Fiscal Management Efficiency Project facilitated by the Asian Development Bank. In the year 2012 through to-date, in preparation towards the proposed automation envisaged at the MOFP and the IRD, around 50 officers of the Inland Revenue Department, Ministry of Finance and Planning and other key institutions coming under the purview of the Ministry of Finance and Planning were trained



on e-governance and change management aspects at the E-Governance Leadership Centre of Singapore. Another batch of around 15 officers, comprising of technical staff and system administrators of the Inland Revenue Department were trained in the area of Data Centre Technologies and Maintenance Activities in Seoul, South Korea. In the area of local training, 1100 in all categories of staff of the IRD were trained in Colombo by Samsung/ Microsoft. Commencing from the latter half of 2011 to-date, several batches of staff totaling around 85 were trained in the Lee Kuan Yew School of Public Policy, Singapore in the areas of Strategic Management, Public Finance and Investment and Procurement and similar programs are scheduled to be continued through 2013.

### Free Legal Aid to the deserving

The vulnerable groups and the deserving who seek free legal aid were continued to be granted such assistance on a countrywide basis through the Legal Aid Commission established in 1978, to ensure equal access to justice. The number of centers through which such services are provided has grown to 72 by 2012 from

10 in 2005. The Legal Aid Commission has during 2012 handled a total of around 33,500, while concluding around 5,850 out of them and provided around 47,500 advices. There are over Seventy court based Regional LAC centers throughout the country which are connected through a network to the Head office indicating the rapid growth of wider access to justice in Sri Lanka with well over 100 Attorneys being employed by the LAC to appear in courts and other tribunals. The LAC has diversified its services, having established Units for migrant workers, the elderly, women & children, prison inmates and conduct Legal Aid clinics, Legal awareness & training programs for the general public and public officials. Legal awareness programs have been conducted for targeted areas including the Northern and Eastern, and Central and North Central provinces. Further, a countrywide Neethi Udanaya Program was also conducted by the LAC. The Certificate Course in Para-Legal Studies which was commenced in 2011 was continued with the intake of a further batch in 2012. A special damage Recovery Unit related to Motor Accidents (DRUMA) was also established at the LAC Head Office in Colombo in 2012, to provide motor accident related legal advice.

Table 7.10 > **Legal Aid Commission January - December 2012**

No	Center	Cases brought forward	New Cases	Total	Concluded cases	Cases taken forward	Advice given
1	Colombo	2558	430	2988	311	2677	2820
2	Kandy	1492	341	1833	698	1135	1232
3	Kurunegala	1069	216	1285	82	1203	1063
4	Anuradhapura	1130	295	1425	296	1129	1106
5	Monaragala	642	163	805	87	718	601
6	Ampara	353	118	471	66	405	426
7	Nuwara Eliya	352	100	452	11	441	327
8	Kegalle	513	91	604	27	577	224
9	Ratnapura	321	154	475	74	401	409
10	Avissawella	498	165	663	39	624	529
11	Polonnaruwa	527	121	648	14	634	487

No	Center	Cases brought forward	New Cases	Total	Concluded cases	Cases taken forward	Advice given
12	Matale	513	123	636	27	609	347
13	Bandarawela	330	152	482	74	408	314
14	Kuliyapitiya	464	168	632	81	551	2075
15	Panadura	208	171	379	79	300	2392
16	Mahiyanganaya	484	106	590	13	577	529
17	Gampaha	733	125	858	203	655	845
18	Horana	297	170	467	56	411	845
19	Mathugama	350	80	430	24	406	207
20	Chilaw	529	142	671	66	605	1005
21	Negombo	791	97	888	747	141	376
22	Attanagalla	225	135	360	60	300	406
23	Dambulla	269	90	359	22	337	566
24	Maho	162	104	266	86	180	521
25	Marawila	113	123	236	71	165	295
26	Deniyaya	214	95	309	60	249	517
27	Warakapola	228	73	301	23	278	245
28	Mawanalla	219	78	297	42	255	355
29	BAttharamulla	284	158	442	127	315	1299
30	Nugegoda	286	123	409	58	351	779
31	Walimada	228	108	336	22	314	484
32	Vavunia	300	95	395	34	361	207
33	Kanthale	150	61	211	30	181	278
34	Mt. Lavinia	218	146	364	20	344	375
35	Tissamaharama	223	120	343	30	313	511
36	Baddegama	169	79	248	6	242	678
37	Thambuththegam	101	44	145	1	144	180
38	Embilipitiya	190	253	443	205	238	2751
39	Nawalapitiya	169	83	252	21	231	186
40	Hatton	175	187	362	161	201	1091
41	Badulla	162	159	321	125	196	751
42	Hinguragoda	161	63	224	2	222	1213
43	Walasmulla	108	180	288	122	166	742
44	Wallawaya	363	163	526	95	431	1861
45	Kaduwela	200	149	349	12	337	369
46	Mannar	149	104	253	73	180	620
47	Muththur	55	35	90	35	55	116
48	Tangalle	76	92	168	7	161	435
49	Mullathivu	174	197	371	249	122	278
50	Akkaraipattu	574	201	775	99	676	288
51	Balapitiya	493	118	611	20	591	661
52	Galle	288	118	406	47	359	1216
53	Hambantota	330	110	440	3	437	411
54	Matara	278	291	569	184	385	2710

No	Center	Cases brought forward	New Cases	Total	Concluded cases	Cases taken forward	Advice given
55	Kalmunai	364	184	548	101	447	133
56	Kalutara	454	123	577	18	559	1271
57	Batticaloa	896	244	1140	49	1091	1013
58	Trinco	192	153	345	133	212	270
59	Jaffna	308	154	462	8	454	284
60	Balangoda	31	89	120	30	90	398
61	Valachchenai	144	214	358	137	221	373
62	Pothuvil	64	167	231	60	171	450
63	Kakirawa	43	102	145	39	106	527
64	Wariyapola	46	58	104	13	91	244
65	Point Pedro	0	35	35	5	30	94
66	Kadawatha	0	76	76	6	70	325
67	Chawakachcheri	25	25	50	2	48	86
68	Polgahawela	0	41	41	4	37	100
69	Galgamuwa	0	23	23	4	19	179
70	Pugoda	0	2	2	0	2	93
71	Kebithigollawa	0	5	5	0	5	13
72	Homagama	0	25	25	1	24	28
Total		24055	9383	33438	5837	27601	47435

Source: Legal Aid Commission

### Implementation of Recommendations of the Lessons Learnt and Reconciliation Commission (LLRC)

Since the defeat of the LTTE terror in May 2009, having suffered for 30 long years, Sri Lanka has embarked on a reconciliation process based on recommendations of an independent Lessons Learnt and Reconciliation Commission (LLRC) appointed in May 2010. The 8 member commission that consists of eminent persons representing all communities, after extensive hearings and having analyzed over 1,000 oral and 5,000 written submissions, presented its Final Report in November 2011. It contained 135 recommendations focusing five major areas - International Humanitarian Law Issues, Human Rights, Land Return and Resettlement, Restitution & Compensatory Relief and Reconciliation.

What is noteworthy is that consequent to the high priority that was accorded by the Government to revive affected areas, many of the LLRC recommendations had been already implemented or were in the process of being implemented through different projects and programs. A National Plan of Action to implement the recommendations of the LLRC was prepared and it was approved by the Cabinet of Ministers in July, 2012. The implementation responsibility was casted upon 19 line Ministries, the Presidential Secretariat, the Attorney General's Department and the Presidential Task Force for Resettlement, Development & Security in the Northern Province. The National Plan of Action identified 86 recommendations as significant and accorded implementation propriety.



Table 7.11 > **Agencies involved in the implementation of LLRC recommendations**

No	Focus area	No of Recommendations	No of Agencies Involved
1	International Humanitarian Law Issues	06	05
2	Human Rights	48	13
3	Land Returns and Resettlement	23	05
4	Reconciliation	50	16
5	Restitution & Compensatory Relief	08	04

Source; Presidential Secretariat

Major achievements made so far include the resettlement of around 225,476 families, involving 762,038 Internally Displaced People (IDPs). Landmines in a land area of 2,065,962,916 sqm., have been removed having spent around Rs.11,448 Mn., by removing 768,097 devices. Access to livelihood has been restored. Agricultural lands and water resources that were suspected as contaminated have been cleared. The A9 Road is being reconstructed.

Schools, the irrigation system and water tanks, the road network, telecommunication system and electricity have been restored enabling public use. The rehabilitation of ex LTTE cadres and disarming militant groups has also taken place. The civil administration is fully functional at district, divisional and grass root level. During 2010- 2012 over 77,000 foreign passport holders have visited these areas.

The ongoing progress includes the establishment of a Court of Inquiry in January 2012 to inquire into alleged civilian casualties during the last phase of the humanitarian operation. Out of 2729 complaints received regarding disappearances of persons to the Terrorist Investigation Division, 1616 has been completed while the balance is being completed.

Having conducted a snap Census in the Northern province in 2011, a Census on deaths/ injuries to persons and damage to properties due to the conflict from 1983 to 2011, on the progress of resettlement and on missing persons is due to be conducted based on a house to census, is to be conducted shortly by the Census and Statistics Department with the assistance of the Ministry of Public Administration. Rs. 150 Mn. was allocated in November 2012, and a further Rs. 200 Mn is due to be allocated. In the Budget 2013 presented in November 2012, Rs. 400 Mn. was provided for the implementation of land related LLRC recommendations and Rs. 800 Mn. to improve land ownership aspects/title.

An inter-ministerial committee is making progress with a gaps analysis on the needs of children and women, health, plantation, industries, education, livestock and community development. There is a dedicated task team working, to identify the needs of the plantation sector. The capacity of Rehabilitation of Persons, Properties and Industries Authority (RAPPIA) has been strengthened. Compensation has been paid to 677 persons under compensation schemes, while Rs. 200,000 has been paid to religious places of worship. A further Rs. 238 Mn. has been granted to 1,853 under different loan schemes. A detailed progress of implementation could be accessed via [www.presidentsoffice.gov.lk](http://www.presidentsoffice.gov.lk)

Table 7.12 > **Regulations published by the Ministry of Finance and Planning - 2012**

<b>Gazette</b>	<b>Descriptions</b>	<b>Objective</b>
1783/34 2012/11/09	Ports and Airports Development Levy Act, No. 18 of 2011. Order under Section 3	To impose a concessionary rate of 2.5% on the importation of goods under specified HS Codes, to exempt the payment of Ports and Airports Development Levy on importation of goods under specified HS Codes, to exempt Levy on medical equipment for free health facilities
1783/22 2012/11/08	Fiscal Management Report	To publish the Fiscal Management Report - 2013
1783/21 2012/11/08	Export Development Act, No. 40 of 1979. Order under Section 14 (Import Cess)	To exempt Cess on imports for specified projects in the national interest, reduce upfront cost of local manufacturers through reduction/removal of Cess on raw materials, reduce Cess to enhance availability of affordable branded products for personal use, increase the Cess on the importation of some items that can be locally manufactured
1783/20 2012/11/08	Export Development Act, No. 40 of 1979. Order under Section 14 (Export Cess)	To exempt Cess on the export of scrap/waste generated by enterprisers registered under the BOI or Customs Manufacture-in-Bond, scheme under Temporary Importation for TIEP, to increase/impose Cess on export of raw, rubber, low value added mineral exports
1783/19 2012/11/08	Excise (Special Provisions) Act, No. 13 of 1989 Order under Section 3	To increase Excise (Special Provisions) Duty on Cigarettes, exempt electric motor bicycles, polymers of ethylene in primary forms from excise (Special Provisions) Duty
1778/42 2012/10/05	Excise Ordinance -Excise Notification No. 956	To amend the excise duty on spirit (Ethyl Alcohol) to be used in the manufacture of medicinal preparations/approved industrial and other use
1778/41 2012/10/05	Excise Ordinance - Excise Notification No. 952 to 955	To amend Excise Duty on Liquor
1778/40 2012/10/05	Increase of Excise Duty on Cigarettes	To increase the Excise (Special Provisions) Duty on Cigarettes
1778/32 2012/10/04	Stamp Duty (Special Provisions) Act, No. 12 of 2006. Order under Section 5	To exempt Share Certificate of initial share issues of a Company to another Company where both are owned/ controlled by Government or a Company which has an agreement with the BOI under the SDP Act of 2008 to a company owned/ controlled by the Govt. from Stamp Duty
1774/3 2012/09/03	Sri Lanka Export Dev. Act. No. 40/ 1979 Order - Sec. 14 (Import Cess)	To increase Cess on tiles, sanitary ware (sinks, cisterns, squatting pans, etc.), tableware and kitchenware
1764/20 2012/06/29	Mid-Year Fiscal Position Report	To publish the Mid Year Fiscal Position Report - 2012



Gazette	Descriptions	Objective
1764/5 2012/06/27	Export Development Act, No. 40 of 1979. Order under Section 14 (Import Cess)	Amend Cess payable on frozen vegetables, dried vegetables, fresh mandarins, wheat or mesline flour, malt extracts, ferrous waste and scrap imports, impose a Cess on bars/ rods of iron or non-alloy steel, tubes, wire of iron or non- alloy steel/pipes/ hollow profile of iron/ non alloy steel to support domestic manufacturers, prevent substandard imports.
1762/29 2012/06/13	Sri Lanka Export Development Act, No. 40 of 1979. Order – S. 14 (Export Cess)	To replace the Cess rates and units of export granite mentioned in the Extraordinary Gazette No. 1733/5 dated 21.11.2011 to minimize market difficulties granite blocks exports
1760/11 2012/05/30	Annual Report of Ministry of Finance and Planning	To publish the Annual Report of Ministry of Finance and Planning – 2011
1757/4 2012/05/09	Stamp Duty (Special Provisions) Act, No. 12 of 2006. Order under Section 5	To exempt share certificate on the transfer or assignment of any share belonging to the Government of Sri Lanka from Stamp Duty
1757/3 2012/05/09	Ports/ Airports Development Levy Act, No. 18 of 2011. Order under Section 3	To exempt plant, machinery or equipment imported by selected enterprises and goods imported for international transportation and to amend the Order on the importation of raw material used to manufacture pharmaceuticals
1752/17 2012/04/04	Stamp Duty (SP) Act, No. 12/ 2006. Order under Section 5	To exempt share certificate on the issue of any share to the Government from Stamp Duty
1751/30 2012.03.30	Excise Ordinance – Excise Notification No. 951	To amend the Excise Duty on spirit (Ethyl Alcohol) to be used in the manufacture of medicinal preparations and for approved industrial and other use
1751/29 2012.03.30	Excise Ordinance – Excise Notification No. 947 to 950	To amend the Excise duty on liquor, molasses, palmyrah, coconut and processed arrack, country made foreign spirits and malt liquor
1751/28 2012.03.30	Excise (Special Provisions) Act, No. 13 of 1989. Order under Section 3	To increase Excise (Special Provision) Duties on motor vehicles for the transportation of persons and certain motor vehicles for the transportation of goods
1747/01 2012.02.27	Excise (Special Provisions) Act, No. 13 of 1989. Order under Section 3	To exempt from the payment of Excise (Special Provisions) Duty on selected excisable motor vehicles /articles and to grant specific concessions from the payment of Excise (Special Provisions) Duty on specified excisable articles



08

# EXPENDITURE REVIEW

## 8.1 Overview

The Government Expenditure of Rs.1,575 billion in 2012 recorded an increase of 8.8 percent over the previous year. Total recurrent expenditure increased by 10.3 percent to Rs. 1,131 billion and amounted to 14.9 percent of GDP in comparison to 15.7 percent in 2011. Interest expenditure amounted to Rs. 408 billion and accounted for 36 percent of recurrent expenditure. It was 5.4 percent of GDP, almost same as last year. Non-interest public expenditure at Rs. 1,167 billion moderated and accounted to 15.4 percent of GDP as against 16.7 percent in 2011. Annual capital expenditure in support of public investment in progress amounting to Rs. 444 billion showed an increase of 5.1 percent in 2012. Accordingly, it was 5.9 percent of GDP. The bulk of the public investment supported physical infrastructure development totaling Rs. 267 billion in 2012 in comparison to Rs. 213 billion in 2011.

Within the overall fiscal consolidation towards lower budget deficit below 5.0 percent of GDP in the medium term, through the improvement in revenue account, the annual expenditure provisions are made in support of following broad areas of development.

- Sustained public expenditure in support of human resources development, infrastructure rehabilitation & construction and rural development in support of inclusive growth and development.
- Strengthening welfare programmes with specific focus on most vulnerable groups such as children, elderly, disabled and low income families to provide social security.

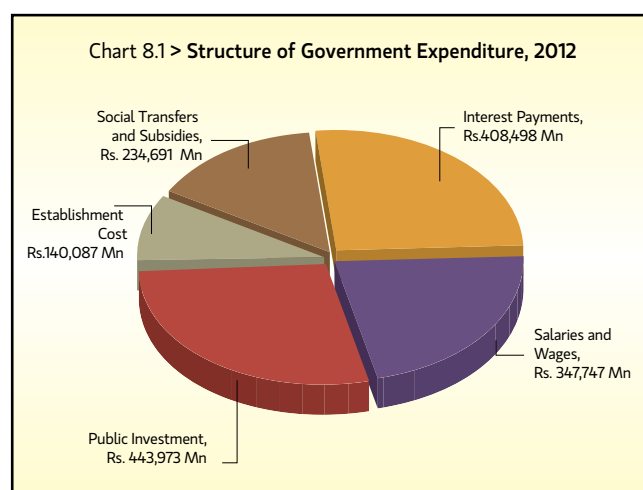
- Re-establishment of public security in Northern and Eastern provinces by providing infrastructure facilities such as restoration of police stations, court houses & administrative overheads and required basic accommodation facilities which had been destroyed and the consolidation of administration, civil security and defence related service capacity in the country.

The general trend of Public Expenditure ;

Table 8.1 > **Trend of Public Expenditure as a Percentage of GDP**

Item	2005- 2007	2008- 2010	2011- 2013	2014- 2016
Total Expenditure	24.2	23.7	21.2	20.8
Recurrent	18.0	17.3	15.1	14.5
Capital	6.2	6.4	6.1	6.3

Source: Department of National Budget



Source: Department of National Budget

**Salaries and Wages** - Expenditure on salaries and wages for public servants, including those in the provincial councils and security services increased by 8.8 percent to Rs.348 billion in 2012, in comparison to an increase of 6.3 percent in 2011 and contributed to 30.7 percent of total recurrent expenditure. This increase

is mainly due to the combined effect of the provision of all public servants with a special salary allowance equivalent to 10 percent of their basic salary, for the non-staff grade category from January 2012 and for the staff grade category from July 2012. Public sector salaries have expanded as follows;

Table 8.2 > **Distribution of Salary Cost as National and Provincial Public Services**

	<b>Rs. Mn</b>		
<b>Sector</b>	<b>National</b>	<b>Provincial</b>	<b>Total</b>
Education	15,812	52,489	68,301
Health	32,104	20,952	53,056
Civil Administration	31,232	10,343	41,575
Economic & Social Services	16,817	4,433	21,250
National Security	163,565	-	163,565
<b>Total</b>	<b>259,530</b>	<b>88,217</b>	<b>347,747</b>

Source: Department of National Budget

### Box 8.1: Cost of Public Sector Employees – 2012

For the payments of salaries, allowances and salary related other benefits for 1,279,849 public sector employees, the government has spent over Rs. 430 billion for a variety of services rendered by them. A further sum of Rs.111 billion was spent on a payment of pensions for 514,584 pensioners. This expenditure accounted to 72 percent of the non-interest recurrent expenditure of the government in 2012.

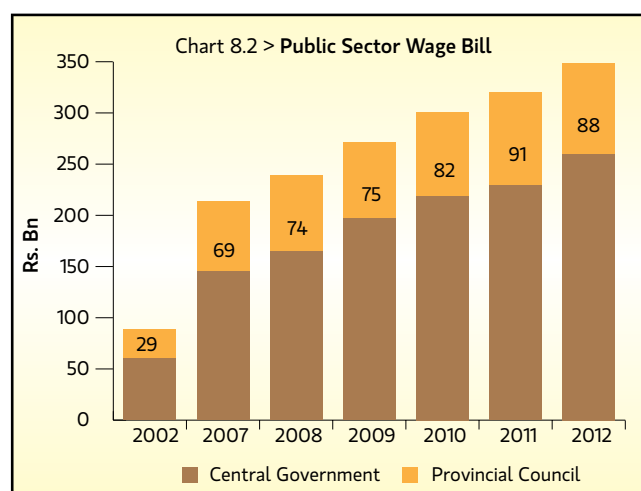
Table B.8.1.1 > **No. of Public Sector Employees and Cost of Service Delivery**

<b>Type of Beneficiaries</b>	<b>No of Beneficiaries</b>	<b>Type of Expenditure</b>	<b>Cost (Rs. Bn.)</b>
Civil Service	714,281	Salaries and Wages	348
Central Government	299,054	Property Loan Interest	1.5
Provincial Councils	329,652	Fuel/Transport allowance	05
Sri Lanka Police	85,575	Salaries of deceased and disabled Soldiers	15
Armed Forces	277,208	Salaries, EPF, ETF and other allowances of government institutions	35
Public Institutions	239,079	Government contribution to the Agrahara Medical Scheme	0.5
Local Government	49,281	Duty Concessions for Motor Vehicles	25
<b>Total Employees</b>	<b>1,279,849</b>	<b>Total</b>	<b>430</b>
No of Pensioners	514,584	Pension	111
<b>Grand Total</b>	<b>1,794,433</b>	<b>Grand Total</b>	<b>541</b>

Source: Department of National Budget and Department of Management Services

Revision of Transport Allowance for Grama Niladaries, Driver's Allowance for the members of Judiciary Service, On Call Allowances to doctors, Field Attendance and Transport Allowance to engineers and salary adjustment to the university academic and non-academic staff have been the other contributory factors for the increased expenditure on salaries and wages of the public service in 2012. It has been further increased due to the recruitment of graduates numbering over 50,000 during the period of 2011-2012 to the public service.

In 2012, public sector wage bill compared to 2007 increased by over 63 percent. Every year public sector salary increases and the rectification of salary anomalies are the main contributors to increase the wage bill of public sector. Minimum salary increase since 2006 for public sector employees are shown in the Table 8.3.



Source: Department of National Budget

Table 8.3 > **Minimum Increase of Salaries and Pensions for Public Sector Employees**

Implementation time line	Public Admin Circular No.	Salary Increase	Pensions Increase
January 2006	6/2006	Minimum monthly salary of Karyala Karya Sahayaka (KKS) was increased from Rs.7,900/- to Rs.11,730/- Salary ratio between KKS to Secretary to the Ministry was 1:4.05	Pensions brought to the 1997 salary scale of retired prior to 1997
	01/2006(I)	Introducing Cost of Living Allowance (COLA) of Rs.1,000/- per month	COLA of Rs.500/- was introduced
July 2006	12/2006	COLA increased to Rs.1,375/- Minimum Emoluments- Rs. 13,105/-	COLA increased to Rs.687/50
January 2007	02/2007	COLA increased to Rs.1,750/- Minimum Emoluments-Rs. 13,480/-	COLA increased to Rs.875/-
July 2007	17/2007	COLA increased to Rs.2,125/- Minimum Emoluments- Rs. 13,855/-	COLA increased to Rs.1,062/50
January 2008	02/2008	COLA increased to Rs.2,500/- Minimum Emoluments- Rs. 14,230/-	COLA increased to Rs.1,437/50
July 2008	15/2008	COLA increased to Rs.3,500/- Minimum Emoluments- Rs. 15,230/-	
January 2009	26/2008	COLA increased to Rs.4,500/- Minimum Emoluments- Rs. 16,230/-	COLA increased to Rs.2,000/-
November 2009	21/2009	COLA increased to Rs.5,250/- Minimum Emoluments- Rs.16,980/-	COLA increased to Rs.2,375/-
January 2011	28/2010	The Special allowance of 5% was introduced and COLA was increased to Rs.5,850/-  Minimum Emoluments - Rs.18,167/-	Pensioners who retired prior to 2006 were paid Rs.750/- per month  COLA increased to Rs.2,675/-
January 2012	31/2012	The Special allowance increased to 15%  Minimum Emoluments- Rs. 19,340/-	The payment to pensioners who retired prior to 2006 was increased to Rs.1,750/-

Source: Ministry of Public Administration and Home Affairs

## Box 8.2 > Financial Support to the Public Sector Employees

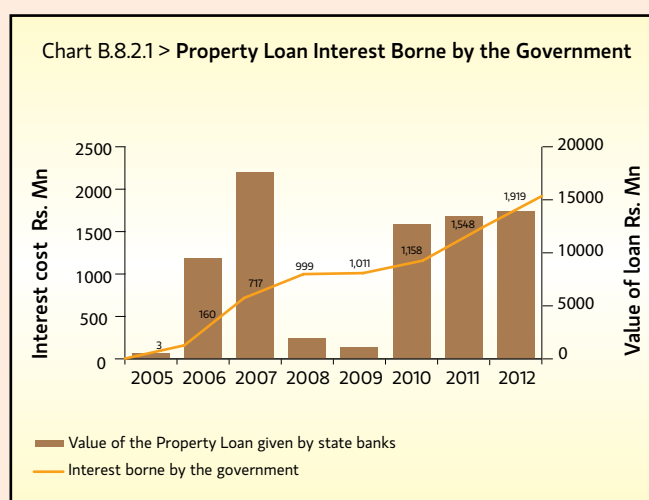
### Salary Advances

The establishment cost of the total expenditure includes the expenditure made for 3 categories of Advance Accounts operated under the public funds covering the areas such as Stores, Trading, Manufacturing and Loans for public employees. In 2012, Rs.18 billion has been allocated through this account and it is 46 percent increase to the amount provided in 2007.

The Public Officers' Advance Account provides opportunities to public employees to obtain advances from public funds during the year. The provision for this account in 2012 was Rs 12.2 billion, an increase of 37 percent compared to 2007 value of Rs. 8.9 billion.

### Property Loans

From the year 2005, property loans for government officers have been made through state banks. During the period from 2005 to 2012, the state banks have released Rs. 70,550 million for 82,363 government servants for housing. The government has subsidized the interest at an average of 10.6 percent costing over Rs.7,515 million during 2005-2012.



Source: Department of National Budget

### Concessional Duty on Vehicles

Staff grade public officers who have completed 6 years of service are allowed to purchase a motor vehicle on a concessionary duty rate. Employees of Academic staff and Senior Level Executives of non-academic staff of universities are eligible after 8 years of service while Senior Level Executives of public enterprises are allowed after completion of 12 years of service. During the period 2011-12, 17,411 duty concessionary motor vehicle permits were issued and 12,940 vehicles have been imported. The tax expenditure to the government was Rs. 56 billion.



**Establishment Cost** - The share of expenditure on establishment cost of government for utilities and services such as fuel, electricity, transport, travelling and building rent etc. was 8.9 percent of the economic outlay of the expenditure. This has slightly increased from 6 percent of expenditure in 2012 compared to that of in 2011. The overall increase of establishment cost of the government was mainly due to the accelerated implementation of development activities around the country, high cost of fuel, electricity, transport and expanded facilities for IT, air conditioners and accommodation of large number of public servants.

**Transfers and Subsidies**- This category of expenditure covers mainly subsidies for education, health, agriculture, transport and social protection schemes. In 2012, it accounted for 20.8 percent of the total recurrent expenditure. In comparison to average spending during the period 2009-2011, it was an increase of 14.4 percent in 2012. Increase in

pensions and welfare assistance was the main reason for this increase in 2012. Social security and welfare expenditure was Rs. 172 billion on account of pension and welfare assistance for injured and deceased security personnel which accounted to Rs 125 billion. The balance was for free medical supplies, Samurdhi cash grants and other welfare assistance to vulnerable groups due to introduction of new welfare schemes for parents of the employees of security forces, income support to elderly over 70 years of age and the adjustments made to the ongoing Samurdhi Cash programme and the expenditure grew by 8.4 percent.

The subsidies provided for fisheries, agriculture and other areas amounted to Rs. 48 billion of which Rs. 36 billion was for fertilizer subsidy. The agriculture sector subsidy witnessed an increase of 12 percent compared to such expenditure in 2011. Transport sector has also absorbed a significant amount of subsidy to cover operational losses of the Department of Railways and Sri Lanka Transport Board.

Table 8.4 > **Revisions made for Social Welfare and the Cost of Relief Assistance Schemes**

**Revisions to Social Welfare Assistance – 2012**

			Rs. Mn	
Scheme	Previous Rate*	New Rate*	2011	2012
Samurdhi Relief (Families)	210 - 615 900 1,500	750 1,200 1,500	9,044	10,553
Public Assistance	150 - 300	500	649	153
Elderly Assistance	100 - 300	1,000	394	403
Ranaviru Parents Assistance (per parent)	-	750	950	1,032
			291	141
<b>Total</b>			<b>11,328</b>	<b>12,282</b>

\*Rs. Per month

Source; Department of National Budget

Table 8.5 > **Funds Transferred from Central Government to the Provincial Councils**

Table 8.3 > Funds Transferred from Central Government to the Provincial Councils					Rs. Mn
Year	Recurrent (BG)	Capital		Revenue Transfers (NBT,SD & VRF)	Total
		Domestic	Foreign Assistance		
2002	31,022	5,308	450	-	36,780
2007	70,908	13,968	7,727	-	92,603
2008	76,891	12,419	8,466	-	97,776
2009	77,875	15,280	9,042	-	102,197
2010	85,443	16,979	11,621	-	114,043
2011	94,764	16,273	11,344	25,884	148,265
2012	92,059	11,197	14,367	27,624	145,247

Source: Department of National Budget

Government transfers to Provincial Councils (PCs) for recurrent and capital expenditure from the national budget has been extended on the basis of Block Grants (BG) for recurrent expenditure and the Criteria Based Grants (CBG) and Provincial Specific Development Grants (PSDG) for capital expenditure.

The transfer of funds to PCS was streamlined in order to minimize the inter-provincial disparities. With the Revenue Sharing arrangement introduced with effect from January 2011, the following revenue collection by the central government has been directly transferred to the PCs on the following basis.

- 33 1/3% of Nation Building Tax (NBT)
- 100% of Stamp Duty (SD)
- 70% of Vehicle Registration Fees (VRF)

A decline of government fund transfers to PCs can be seen in 2012 compared to 2011 due to the expanding of on going development projects at national level in electricity, water supply, irrigation, roads, urban development, schools and health facilities covering provincial

and intra provincial development as well for greater connectivity in development. The decline in recurrent transfers has been supported by the increased transfers through revenue sharing arrangement despite the moderate growth in government revenue in 2012 due to decline in imports. This trend is owing to more funds being diverted to line ministries which are dealing with major infrastructure development in national level covering all provincial requirements.

**Interest Payment** - The interest expenditure in 2012 amounted to Rs. 408 billion, a 14.3 percent increase compared to the previous year. However, interest cost as a percentage of GDP declined to 5.4 percent in 2012 from 5.5 percent in 2011. Domestic interest payments increased by 10.4 percent to Rs. 318 billion yet as a percentage of GDP it was decreased to 4.2 percent in 2012 from 4.4 percent in 2011. The interest payment for foreign debt was increased by 32 percent compared to the amount of Rs. 69 billion in 2011. The increased interest cost incurred in the background of exchange rate depreciation and higher interest rates witnessed in domestic debt market compared to the previous year.

Table 8.6 > : **Recurrent Expenditure of the Government**

Rs. Mn

Item	2002	2007	2008	2009	2010	2011	2012
<b>Total Current Expenditure</b>	<b>330,850</b>	<b>622,758</b>	<b>743,710</b>	<b>879,575</b>	<b>937,103</b>	<b>1,024,906</b>	<b>1,131,023</b>
<b>Salaries &amp; Wages</b>	<b>88,806</b>	<b>214,160</b>	<b>239,078</b>	<b>271,229</b>	<b>300,558</b>	<b>319,601</b>	<b>347,747</b>
Other Goods & Services	51,088	78,472	121,250	108,502	87,728	132,004	140,087
<b>Interest Payments</b>	<b>116,515</b>	<b>182,681</b>	<b>212,475</b>	<b>309,676</b>	<b>352,592</b>	<b>356,699</b>	<b>408,498</b>
Foreign	10,617	21,311	24,209	35,698	55,464	68,565	90,839
Domestic	105,898	161,370	188,266	273,978	297,128	288,134	317,659
Pensions	31,123	68,822	74,922	85,139	90,995	99,962	111,682
Losses of Enterprises	7,998	10,639	12,942	14,126	15,929	12,999	11,817
Assistance to Statutory Bodies	12,093	25,746	26,407	27,049	28,817	32,164	34,979
Fertilizer Subsidy	2,446	11,000	26,450	26,935	26,028	29,802	36,456
Welfare Payments and Subsidies*	20,781	31,238	30,186	36,919	34,456	41,675	39,757
<b>As a % of GDP</b>							
<b>Total Current Expenditure</b>	<b>20.9</b>	<b>17.4</b>	<b>16.9</b>	<b>18.2</b>	<b>16.7</b>	<b>15.7</b>	<b>14.9</b>
Salaries & Wages	5.6	6.0	5.4	5.6	5.4	4.9	4.6
Other Goods & Services	3.2	2.2	2.7	2.2	1.6	2.0	1.8
Interest Payments	7.4	5.1	4.8	6.4	6.3	5.5	5.4
Pensions	2.0	1.9	1.7	1.8	1.6	1.5	1.5
Losses of Enterprises	0.5	0.3	0.3	0.3	0.3	0.2	0.2
Assistance to other Statutory Bodies	0.8	0.7	0.6	0.6	0.5	0.5	0.5

\* Include Samurdhi, Refugee assistance, School text books, School uniforms, School nutrition programme, Thripasa programme

Source: Department of National Budget

**Public Investment** - Sustaining expenditure on education, health, rural development, welfare, and infrastructure development is the main thrust of the government policy. Such investments ensured the sustainability of achieving higher living standards of people while facilitating the private sector investment by providing the necessary infrastructure. The government has been able to consistently maintain its share of public investment at about 6 percent of GDP since 2006. Out of Rs. 444 billion, capital expenditure amounting to Rs.177

billion has been spent on acquisition of fixed assets such as land, office complexes and other assets through several ministries and agencies while Rs.267 billion has been transferred to government enterprises for development activities in roads, electricity, water, irrigation, etc. The Public Investment of Rs 444 billion accounted for 5.9 percent of GDP and it is a marginal decline compared to the average investment in the last three year period (from 2009-2011) which has recorded an annual average of 6.5 percent of GDP.

Table 8.7 > **Government Expenditure**

	Rs. Mn						
	2002	2007	2008	2009	2010	2011	2012 (Prov.)
<b>1. Current Expenditure</b>	<b>330,850</b>	<b>622,758</b>	<b>743,710</b>	<b>879,575</b>	<b>937,103</b>	<b>1,024,906</b>	<b>1,131,023</b>
<b>Salaries and Wages</b>	<b>88,806</b>	<b>214,160</b>	<b>239,078</b>	<b>271,229</b>	<b>300,558</b>	<b>319,601</b>	<b>347,747</b>
<b>Central Government</b>	<b>24,383</b>	<b>61,799</b>	<b>65,315</b>	<b>71,859</b>	<b>75,817</b>	<b>83,072</b>	<b>95,965</b>
Education	2,785	11,213	11,179	12,602	13,429	14,614	15,812
Health	6,644	18,440	19,952	22,531	24,323	27,766	32,104
Other	14,954	32,146	34,184	36,726	38,065	40,692	48,049
<b>Provincial Councils*</b>	<b>29,213</b>	<b>69,366</b>	<b>73,791</b>	<b>74,634</b>	<b>81,887</b>	<b>90,818</b>	<b>88,217</b>
Education	15,775	36,209	38,519	38,959	44,526	51,948	51,982
Health	5,550	13,239	14,084	14,244	17,684	20,071	20,113
Other	7,888	19,918	21,188	21,431	19,677	18,799	16,122
<b>Defense</b>	<b>25,748</b>	<b>60,185</b>	<b>73,509</b>	<b>94,189</b>	<b>110,335</b>	<b>112,703</b>	<b>126,950</b>
<b>Police and Public Security</b>	<b>9,462</b>	<b>22,810</b>	<b>26,463</b>	<b>30,547</b>	<b>32,519</b>	<b>33,008</b>	<b>36,615</b>
<b>Establishment Cost</b>	<b>51,088</b>	<b>78,472</b>	<b>121,250</b>	<b>108,502</b>	<b>87,728</b>	<b>132,004</b>	<b>140,087</b>
<b>Central Government</b>	<b>20,784</b>	<b>25,725</b>	<b>46,950</b>	<b>42,970</b>	<b>38,618</b>	<b>71,741</b>	<b>92,740</b>
Education	3,617	4,471	4,603	4,652	4,834	5,794	6,102
Health	11,113	15,950	17,521	18,268	19,920	24,192	24,565
Other	6,054	5,304	24,826	20,050	13,864	41,755	62,073
<b>Defense</b>	<b>23,417</b>	<b>41,671</b>	<b>61,201</b>	<b>50,695</b>	<b>33,471</b>	<b>43,400</b>	<b>32,631</b>
<b>Police and Public Security</b>	<b>5,510</b>	<b>9,660</b>	<b>10,024</b>	<b>11,727</b>	<b>12,527</b>	<b>13,079</b>	<b>11,040</b>
<b>Provincial Councils*</b>	<b>1,377</b>	<b>1,416</b>	<b>3,075</b>	<b>3,110</b>	<b>3,112</b>	<b>3,784</b>	<b>3,676</b>
<b>Social Transfers</b>							
Pensions	31,123	68,822	74,922	85,139	90,995	99,961	111,682
Samurdhi	9,910	9,200	9,995	9,267	9,241	9,043	10,553
Payments to Disabled Soldiers	-	7,428	8,694	9,796	8,498	13,316	14,779
Welfare Assistance for Needy People	740	1,666	1,225	4,923	6,638	5,696	2,600
Refugee Assistance	-	1,670	1,466	2,860	1,016	199	54
<b>Subsidies and Contributions to Institutions</b>	<b>24,670</b>	<b>48,020</b>	<b>61,663</b>	<b>64,057</b>	<b>63,908</b>	<b>75,387</b>	<b>83,206</b>
Transfers to institutions	12,093	25,746	26,407	27,049	28,817	32,164	34,979
Fertilizer subsidy	2,446	11,000	26,450	26,935	26,028	29,802	36,456
School text books	900	2,250	3,387	2,196	1,941	2,294	2,055
School uniforms	799	1,308	582	1,260	949	1,364	2,218
School nutrition programme	5	1,067	1,649	2,251	2,275	2,631	2,790
Thripasha programme	617	488	649	1,155	865	1,336	1,189
Street Lighting	300	1,000	1,300	204	360	123	0
Fuel Subsidy for Ceylon Petroleum Cop	0	632	0	900	0	0	0
Other	7,510	4,529	1,239	2,107	2,673	5,673	3,519
<b>Transfers to SOEs</b>	<b>7,998</b>	<b>10,639</b>	<b>12,942</b>	<b>14,126</b>	<b>15,929</b>	<b>12,999</b>	<b>11,817</b>
Department of Railways	2,386	4,298	4,553	4,768	3,173	4,060	3,795
Department of Posts	695	2,294	1,966	2,562	2,783	3,336	3,305
Sri Lanka Transport Board	2,221	3,654	5,638	4,203	3,828	3,939	3,983
Other	2,696	393	785	2,593	6,145	1,664	734
<b>Interest Payments</b>	<b>116,515</b>	<b>182,681</b>	<b>212,475</b>	<b>309,676</b>	<b>352,592</b>	<b>356,699</b>	<b>408,498</b>
<b>2. Public Investment</b>	<b>72,177</b>	<b>229,273</b>	<b>263,844</b>	<b>330,448</b>	<b>356,519</b>	<b>422,300</b>	<b>443,973</b>
Education	6,048	19,948	22,942	18,092	19,053	22,326	28,930
Health	4,713	16,961	18,674	12,664	13,329	14,794	17,155
Police and Public Security	638	3,705	4,728	1,409	1,298	3,816	945
Civil Administration	4,075	28,438	29,675	18,686	20,212	28,668	26,565
Housing and Common Amenities	3,505	4,481	4,826	5,291	5,489	7,105	7,823
Community Services	1,212	13,596	13,794	17,891	18,334	19,141	17,267
Agriculture and Irrigation	6,936	14,736	17,681	22,105	24,865	28,617	30,351
Energy and Water Supply	17,732	47,850	48,783	59,983	66,569	83,186	85,598
Transport and Communication	18,916	50,995	82,916	139,104	165,505	190,026	204,539
<b>Other</b>	<b>8,402</b>	<b>28,563</b>	<b>19,825</b>	<b>35,223</b>	<b>21,865</b>	<b>24,621</b>	<b>24,800</b>
<b>Of which</b>							
<b>Capital Transfers</b>	<b>32,094</b>	<b>94,652</b>	<b>104,002</b>	<b>133,826</b>	<b>143,599</b>	<b>168,849</b>	<b>223,520</b>
Road Development Authority	9,877	39,236	47,344	77,077	84,830	92,245	138,984
National Water Supply and Drainage Board	8,990	16,121	20,140	20,188	19,036	29,179	31,448
Sri Lanka Transport Board	422	2,612	1,884	1,059	849	1,243	579
Sub National Governments	5,421	20,346	21,237	23,780	24,101	27,619	25,266
Other	7,384	16,337	13,397	11,722	14,782	18,562	27,243
<b>Lending to Public Enterprises</b>	<b>13,582</b>	<b>23,112</b>	<b>31,253</b>	<b>53,032</b>	<b>54,432</b>	<b>44,488</b>	<b>43,891</b>
Ceylon Electricity Board	6,930	19,552	16,808	14,180	22,397	22,372	32,003
Sri Lanka Ports Authority	1,790	591	7,856	25,373	27,128	13,144	11,502
Other	4,862	2,969	6,589	13,479	4,907	8,972	386
<b>3. Loan Repayments by Public Enterprises</b>	<b>(6,060)</b>	<b>(11,677)</b>	<b>(13,526)</b>	<b>(11,978)</b>	<b>(15,535)</b>	<b>(14,878)</b>	<b>(16,409)</b>
<b>4. Restructuring Expenditure +Lending Through Advance Account</b>	<b>6,025</b>	<b>1,249</b>	<b>2,114</b>	<b>3,882</b>	<b>2,128</b>	<b>854</b>	<b>(2,088)</b>
<b>5. Total Expenditure</b>	<b>402,992</b>	<b>841,603</b>	<b>996,142</b>	<b>1,201,927</b>	<b>1,280,215</b>	<b>1,433,182</b>	<b>1,556,499</b>

Sources: Department of National Budget and Department of State Accounts

\* Provincial Councils are provided with a block grant to cover their current expenditures.

Out of that, over 80% is used for health and education expenditures of the Provincial Councils

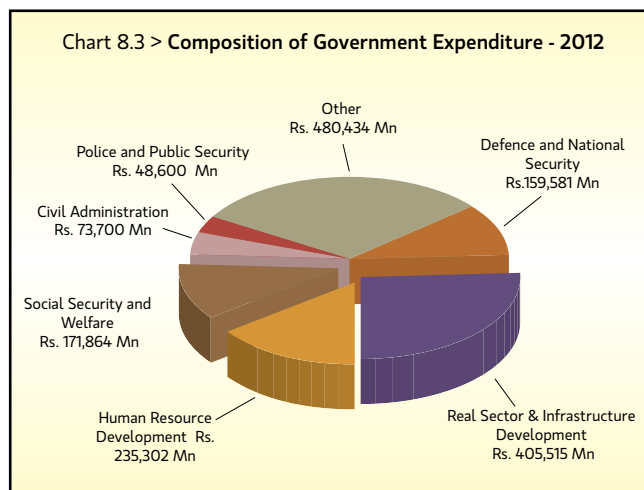
## 8.2 Public Expenditure

### Distribution - 2012

In 2012, non interest public expenditure amounted to Rs. 1,167 billion representing 74 percent of the total government expenditure. In relation to GDP, it was 15.4 percent. This amount excluding defence expenditure amounted to Rs. 1,007 billion comprising Rs. 563 billion of recurrent expenditure and Rs. 444 billion of capital expenditure to provide public services and the capital formation in the public sector.

The total investment on Human Resource Development (HRD) increased from Rs. 161 billion in 2007 to Rs.235 billion in 2012, accounted for 3.1 percent of GDP in 2012. In addition, Social security spending increased from Rs. 120 billion in 2007 to Rs. 172 billion in 2012, representing 65 percent on pension payments for public sector employees. The investment on infrastructure has been increased from Rs 159 billion to Rs 406 billion respectively from 2007 to 2012, indicating over two fold increase.

Although GDP share of agriculture sector in the economy has dropped to 11.1 percent in



Source: Department of National Budget and Department of Fiscal Policy

2012 from 17.2 in 2005, due to faster growth in manufacturing and service oriented sectors, it continued to remain the bedrock in the economy. Moreover, water resources in the country have been intensively used for securing the livelihood of the rural community and the food security of the country. Therefore, the public investment towards agriculture and irrigation has been increased by two fold in 2012 over 2007.

*Sustained public expenditure in support of human resources development, infrastructure rehabilitation & construction and rural development in support of inclusive growth and development.*

Table 8.8 > **Functional Classification of Government Expenditure**

	Rs. Mn						
Item	2002	2007	2008	2009	2010	2011	2012(Prov)
<b>1. Human Resources</b>	<b>68,657</b>	<b>161,242</b>	<b>174,631</b>	<b>171,959</b>	<b>182,833</b>	<b>210,606</b>	<b>235,302</b>
<b>1.1. Education</b>	<b>37,210</b>	<b>92,540</b>	<b>100,083</b>	<b>100,506</b>	<b>104,248</b>	<b>121,369</b>	<b>136,201</b>
Recurrent	31,162	72,592	77,141	82,414	85,195	99,043	107,271
Capital	6,048	19,948	22,942	18,092	19,053	22,326	28,930
<b>1.2. Health</b>	<b>31,447</b>	<b>68,702</b>	<b>74,548</b>	<b>71,453</b>	<b>78,585</b>	<b>89,237</b>	<b>99,101</b>
Recurrent	26,734	51,741	55,874	58,789	65,256	74,443	81,946
Capital	4,713	16,961	18,674	12,664	13,329	14,794	17,155
<b>2. Social security welfare</b>	<b>59,630</b>	<b>120,015</b>	<b>126,372</b>	<b>142,051</b>	<b>145,758</b>	<b>166,897</b>	<b>171,864</b>
<b>2.1 Welfare</b>	<b>47,715</b>	<b>91,747</b>	<b>94,789</b>	<b>105,017</b>	<b>107,690</b>	<b>123,122</b>	<b>128,451</b>
<b>2.2. Community Services</b>	<b>8,410</b>	<b>23,787</b>	<b>26,757</b>	<b>31,743</b>	<b>32,579</b>	<b>36,670</b>	<b>35,590</b>
Recurrent	7,198	10,191	12,963	13,852	14,245	17,529	18,323
Capital	1,212	13,596	13,794	17,891	18,334	19,141	17,267
<b>2.3. Housing and Common Amenities</b>	<b>3,505</b>	<b>4,481</b>	<b>4,826</b>	<b>5,291</b>	<b>5,489</b>	<b>7,105</b>	<b>7,823</b>
<b>3. Civil Administration</b>	<b>21,548</b>	<b>59,919</b>	<b>65,825</b>	<b>55,809</b>	<b>58,107</b>	<b>71,744</b>	<b>73,700</b>
Recurrent	17,473	31,481	36,150	37,123	37,895	43,076	47,135
Capital	4,075	28,438	29,675	18,686	20,212	28,668	26,565
<b>4. Police and Public Security</b>	<b>14,972</b>	<b>36,175</b>	<b>41,215</b>	<b>43,683</b>	<b>46,344</b>	<b>49,903</b>	<b>48,600</b>
Recurrent	14,334	32,470	36,487	42,274	45,046	46,087	47,655
Capital	638	3,705	4,728	1,409	1,298	3,816	945
<b>5. Defense</b>	<b>49,165</b>	<b>101,856</b>	<b>134,710</b>	<b>144,884</b>	<b>143,806</b>	<b>156,103</b>	<b>159,581</b>
<b>6. Agriculture and Irrigation</b>	<b>14,571</b>	<b>37,585</b>	<b>59,260</b>	<b>66,072</b>	<b>68,946</b>	<b>74,907</b>	<b>76,780</b>
Recurrent	7,635	22,849	41,579	43,967	44,081	46,290	46,429
Capital	6,936	14,736	17,681	22,105	24,865	28,617	30,351
<b>7. Energy and Water Supply</b>	<b>18,117</b>	<b>51,497</b>	<b>52,106</b>	<b>63,412</b>	<b>70,061</b>	<b>86,719</b>	<b>89,201</b>
Recurrent	385	3,647	3,323	3,429	3,492	3,533	3,612
Capital	17,732	47,850	48,783	59,983	66,569	83,186	85,589
<b>8. Transport and Communication</b>	<b>25,665</b>	<b>69,978</b>	<b>112,503</b>	<b>170,172</b>	<b>196,751</b>	<b>221,849</b>	<b>239,534</b>
Recurrent	6,749	18,983	29,587	31,068	31,246	31,823	34,995
Capital	18,916	50,995	82,916	139,104	165,505	190,026	204,539
<b>9. Other</b>	<b>130,702</b>	<b>213,764</b>	<b>240,932</b>	<b>351,981</b>	<b>381,007</b>	<b>408,478</b>	<b>480,434</b>
Of which Interest	116,515	182,681	212,475	309,675	352,592	356,699	408,498
<b>10. Total Expenditure</b>	<b>403,027</b>	<b>852,031</b>	<b>1,007,554</b>	<b>1,210,023</b>	<b>1,293,613</b>	<b>1,447,206</b>	<b>1,574,996</b>

Sources: Department of Fiscal Policy, Department of National Budget and Department of State Accounts

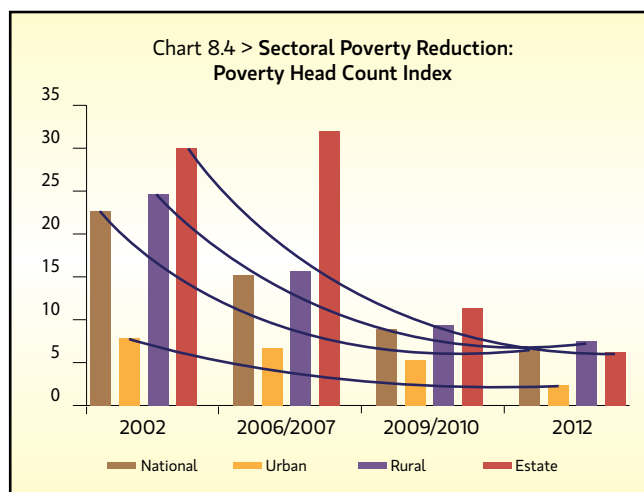
N. B. Note: The corresponding figures in Table 8.7 and Table 8.8 differ as former has been prepared in economic classification by clustering all expenditure directly provided by the relevant agencies and lending to public corporations after netting out their repayments. Whereas the latter shows all expenditure directly provided by the relevant agencies and lending to public corporations for various functions.

## 8.2.1 Creating a Poverty Free Sri Lanka

### Overview of Poverty

Sri Lanka has made a steady progress in reducing poverty during recent years and is well poised to meet the Millennium Development Goal of halving the incidence of Income poverty before the target year, 2015. Number of poor living below the poverty line has reduced from 15.2 percent in 2006/07 to 8.9 percent in 2009/10. Poverty level of the country has further declined to 6.5 percent in 2012 (preliminary results of HIES 2012/13). The levels of poverty have been declined among all geographical areas and across all sectors. Poverty in the estate areas, which have been strongly higher than the rest of the country has reduced from 32 percent to 11.4 percent between 2006 and 2010 further dropped to 6.2 percent in 2012. During the same period inequality was also seen to have reduced from 0.4 to 0.36 as reflected in Gini Coefficient.

Sri Lanka has performed equally well even in Multi-dimensional Poverty Index (MPI) which determines poverty beyond the income base and shows the number of people who are poor in several aspects. The Multi-dimensionally poor in Sri Lanka is 1.9 percent (preliminary results of HIES 2012/13), as Sri Lanka has performed better in line with child mortality, nutrition, schooling, access to safe drinking



Source : Department of Census & Statistics

water, sanitation, cooking fuel, housing and assets, compared to many countries.

The concept of US\$ 1.25 a day has been used internationally to measure the extreme poverty and measured at 2005 international prices, adjusted for Purchasing Power Parity (PPP). The moderate poverty line defines as the population living at US\$ 2 a day. These popularly used international poverty indicators; US\$ 1.25 a day and US\$ 2.0 a day have also significantly reduced during the period of 2007 to 2012. Consolidating this gain, the government has declared in the 2013 budget to create a poverty free Sri Lanka by 2015.



## Factors Contributing to Poverty Reduction :

Sustainable high inclusive economic growth, priority given in public expenditure allocations towards multi-dimensional aspects of poverty reductions, improving basic infrastructure at rural level, rural provincial connectivity initiatives, infrastructure development in the conflict affected areas and enhanced livelihood activities have had a positive impact on low

income households to move above the poverty line. Sri Lanka's accelerated growth performance in three major sub sectors of GDP has pointed to a higher inclusive growth strategies in "Mahinda Chinthna" 10 year Development Policy Framework which have been implemented island wide in terms of second five year plan strategies in 2010-15.

Table 8.9 > **Sectoral GDP Growth Rate (%) & Poverty Index (HCR - %)**

	1991/1995	1996/2000	2001/2005	2006/2010	2012(a)
GDP Growth (%)	5.4	5.0	4.0	6.4	6.4
Agriculture	2.3	1.4	0.5	5.5	5.8
Industry	7.3	6.3	3.6	6.8	10.3
Services	5.6	5.8	5.5	6.3	4.6
Poverty Index (HCR)	1995/1996	2002	2006/2007	2009/2010	2012(b)
National	28.8	22.7	15.2	8.9	6.5
Official Poverty Line Level (Rs)	833	1,423	2,233	3,028	3,555
Urban	14.0	7.9	6.7	5.3	2.4
Rural	30.9	24.7	15.7	9.4	7.5
Estate	38.4	30.0	32.0	11.4	6.2
Multi Dimensional Poverty Index			3.6	2.7	1.9
PPP exchange rate (Rs) @ 2005	16.09	27.48	41.35	58.47	70.36
Poverty Index (US\$ 2 - PPP)	40.5	32.3	20.8	15.5	12.1
US\$ 2 (PPP)Poverty Line (Rs)	965	1,649	2,481	3,508	4,221
Poverty Index (US\$ 1.25 - PPP)	10.1	7.9	3.6	2.4	1.4
Poverty line (US\$ 1.25)	603	1,030	1,551	2,193	2,638

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

Note : (a) Provisional (b) preliminary results 3 months data of all the districts in 2012/13 HIES. Poverty survey in 2006/07, excluded the entire Northern province & Trincomallee, 2009/10, excluded Mannar, Mulative & Killinochchi districts

Table 8.10 > **Expenditure towards the Multi Dimensional Poverty Reduction Effort in Sri Lanka**

Rs.Mn

Dimension	Indicators	Expenditure Programme	2002	2005	2006	2007	2008	2009	2010	2011	2012
		Infrastructure Facility & Service delivery	18,937	33,991	42,754	48,785	52,955	55,057	66,509	66,113	75,834
Health	HH* disabled or chronically ill	Pharmaceuticals	4,721	7,100	11,379	10,804	12,082	12,149	13,544	16,617	16,796
		Thriposha	617	504	537	488	649	1,155	865	1,336	1,189
		Poshana Malla			82	418	386	505	388	360	249
	Nutrition	Nutrition Programme		166	722	1,308	1,649	2,251	2,475	2,631	2,790
	beyond 1 hour reach health facility	Fresh Milk for pre school				13	35	167	178	249	205
		Poshana manpetha		4	25	22	24	30	30	18	13
		Food programme		166	722	1,308	1,649	2,251	2,474	2,631	2,790
Education		Infrastructure Facility & Service delivery	15,373	57,757	78,914	93,365	99,767	104,959	108,071	127,181	135,642
	Years of school	School Uniform	799	1,060	963	1,067	582	1,260	950	1,364	2,218
		Season Ticket	225	250	250	500	600	1,384	1,369	1,359	1,339
	Children enrolled	Text Books(School & Dharma School)	900	1,080	1,123	2,250	3,387	2,196	2,056	2,337	2,127
	beyond 1 hour reach school	Allowance for Handicapped Students		40	50	71	70	74	71	80	80
		Scholarship (Grade v, Mahapola, Bursary)	100	421	235	201	565	578	645	777	790
Living standards	Cooking fuel	Low income housing/ Janasevana	2,860	3,657	4,021	4,481	4,826	5,291	5,489	6,712	4,795
	Toilet	Water Supply & Sanitation	10,139	12,588	16,758	19,757	27,631	28,582	26,442	27,221	31,279
	Water	Major, medium & minor Irrigation	5,322	5,440	7,330	7,500	10,750	14,340	10,520	16,020	28,155
	Electricity	Rural electrification programme	1,604	2,367	1,872	1,865	3,278	3,855	8,691	9,295	10,719
	Floor	Fertilizer Subsidy		6,846	10,700	11,000	26,450	26,935	23,028	29,802	37,332
	Assets	Gama Neguma		950	592	3,780	9,894	9,661	12,017	9,752	12,955
		Divineguma								1,948	2,903
		Samurdhi	9,920	9,105	10,789	9,200	9,995	9,267	9,241	9,044	10,553
		Allowance for Disable People				43	75	74	75	394	403
		Elderly/Public Assistance			648	326	922	960	650	950	1,032

Source : Department of National Budget

\* Head of Houshold

Table 8.11 > **Impacts of the Current Social Protection Programmes on Poverty Reduction - 2012/13**

Availability of Social Protection Programm	Expected Headcount Ratio(%)
With all social protection schemes	6.5
Without all social protection schemes	9.2
Without all social insurance schemes	8.2
Pension	8.2
Disability & Relief	6.5
Medical aid	6.5
Without all social assistance schemes	7.5
Samurdhi	6.9
Elderly payment	6.5
Scholarships	6.5
School text books	6.5
Thripasha	6.5
Compensation	6.5
Other Food subsidy	6.6
Disaster Relief	6.5
Fertilizer & Other Subsidies	6.8

Source : Department of Census and Statistics

During the period 2005 - 2012, not only GDP marked a high average growth but it also accompanied with relatively better distribution among all sectors. The continuing expansion in economic activities and the decline in unemployment rate to 4 percent in 2012 have invariably contributed to ease the income aspects of poverty, particularly in the period 2009-2012 period, with the governments continuous effort on allocating public expenditure towards rural centric development strategies such as Divineguma, Gama Neguma, and Rural Provincial connectivity.

The percentage of Multi-dimensionally poor people in Sri Lanka, has declined from 3.9 percent in 2006/07 to 2.7 percent in 2009/10 and further reduced to 1.9 percent in (HIES preliminary results) 2012/13. This indicates that there had been a significant improvement in the living conditions of those who were in acute poverty.

However, the following challenges need to be addressed to prevent people slipping back under the poverty line, particularly in the context to climate change challenges.

- Climate related emergencies, such as those linked to drought, floods, and storms, expose the poor and most vulnerable to hazards that have lasting consequences for the health, livelihoods and well - being of people who have the least capacity to cope with and mitigate the effects of natural disasters.
- Increase in air temperature tends to reduce yield levels and floods affect crop failures. The investments in flood protections and drought resistance agricultural varieties must receive significant attention as poverty reduction depends heavily on agricultural growth.
- Sri Lanka's existing monthly pension system only covers an estimated 15 percent of the elderly that were employed in the formal sector. Therefore any broad-based social protection policy should be complimented by extending pensions, social insurance and credit to the large proportion of workers employed in the informal sector as Sri Lanka is approaching a demographic transition, with a steadily growing ageing population.

## **Towards Healthy and Economically Empowered Family: DIVI NEGUMA**

Poverty is not the low income alone, but it encompasses low level of health, educations, water, sanitation, and housing condition among the poor. Analysis based on both surveys clearly shows that inadequate energy consumption, ill being/ chronically ill of the head of the household, education standards, access to basic needs are main factors faced by many people in acute poverty. The recent HIES records that the mostly reported chronic illness and disability conditions of the country are high blood pressure, asthma and diabetes. 20 percent of children under 5 years of age are underweight in Sri Lanka and this figure is nearly 30 percent in the estate sector.

Table 8.12 > **Contribution to (%) Multidimensional Poverty from the Twelve Indicators - 2006 - 2012**

Contribution to MP (%) by dimension and indicator	2012/13 (%)*	2009/10(%)**	2006/07*** (%)
<b>Living Standard</b>	<b>58.00</b>	<b>55.10</b>	<b>57.60</b>
No electricity	10.60	9.40	10.30
No access to clean drinking water	6.80	5.10	6.80
No household exclusive water sealed toilet	9.60	10.10	9.90
No permanent house floor	8.40	7.90	8.10
No access to clean cooking fuel	12.60	12.80	12.60
No assets (car, van, jeep, Radio, TV, etc., at least one)	10.00	9.80	9.80
<b>Education</b>	<b>16.40</b>	<b>11.90</b>	<b>14.00</b>
No member in the family has achieved 5th standard education	10.70	8.50	9.50
At least one member child in the family refrains from schooling	1.90	2.40	3.60
Government school is beyond the distance within 1 hours reach	3.70	1.00	0.80
<b>Health</b>	<b>25.70</b>	<b>33.10</b>	<b>28.40</b>
Not receiving 80% of the recommended nutrition level	8.10	13.60	8.70
Head of the household is disabled or suffering from chronicle illness	10.80	14.50	13.90
Government health facilities are beyond the distance within 1 hours reach	6.80	4.90	5.80

Source : Department Census & Statistics \* First 3 months ( July, August & September - 2012) data of all districts HIES preliminary 2012/13

\*\* Excluding Mannar, Mulativu & Killinochchi districts, \*\*\* Excluding entire Northern Province & Trincomallee District

Further, many of the poor are either operators/cultivators of small scale agricultural lands or work as daily wage earners in farm lands and plantations. Though, the daily wages of informal sector has significantly increased between 2010 to 2012, about 72 percent of the

employed poor head of household engaged in elementary occupations, agricultural works and informal sector activities as recorded in recent HIES data. Therefore, these families need to be supported with supplementary income sources.

Table 8.13 > **Average Daily Wage Rates in Rural and Plantation Sectors - ( Rs.)**

Activity	2002		2006		2007		2009		2010		2011		2012	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
<b>Plantation &amp; Agriculture</b>														
Tea	276	204	333	234	378	261	496	356	545	396	617	438	691	512
Rubber	286	241	335	249	384	279	532	416	588	474	658	490	741	585
Coconut	329	240	421		490		652		700		783		887	
Paddy	304	230	391	293	453	331	615	423	658	454	704	530	787	599
<b>Building Construction</b>														
Carpenter			633		732		932		1000		1115		1248	
Skilled/Unskilled Helper			415		479		617		656		729		824	
Master Mason			628		727		935		994		1093		1216	
Skilled/Unskilled Helper			413		474		627		667		729		823	

Source: Central Bank of Sri Lanka (These wage rates represent payment in cash without meals)

Therefore, the government has focused on improving the income sources of low income families by strengthening the rural economy and livelihood opportunities of the low income people. In this endeavour, for creating self-reliant household economy, Government has implemented the “Divineguma” programme to promote a backyard economy for households, and thereby enhancing their income sources.

Divineguma has been initiated with four specific objectives; improving the nutrition level, ensuring food security, reducing the daily cost of living and creating an additional source of income for the family. The multipronged activities such as home gardening, animal husbandry, fisheries and cottage industries etc., have been promoted depending on the needs beyond backyard economy, achieving food security, raising incomes of small farmers. Increasing competitiveness by applying modern technology and improving practices for commercial agriculture have also been targeted.

Implementation of Divineguma has helped to increase the vegetable production. The total vegetable production of the country has increased by 11.8 percent to 956,722 Mt in 2011 compared to 855,994 Mt in 2010. Vegetable production increased by 4.4 percent to 999,268 Mt in 2012 compared to 2011. It is observed that the per capita consumption of chicken has increased significantly to 5.7 Kilograms from 5 Kilograms in 2011 and per capita egg consumption increased to 54 from 52 in the previous year. Production of liquid milk was given a high priority under the programme. 2,000 high quality cows were imported to improve this sector in 2012.

**Table 8.14 > Progress of the Divineguma National Programme 2011-2012**

	No of Families Benefited /No of plants/No of units	Expenditure Rs Mn	
		2011	2012
Seed Packages	5,000,000	389	634
Coconut sapling	4,471,144	136	112
Fruit & Vegetable Plants	6,993,689	272	402
Minor Export Crops	3,906,401	76	64
Other Plants (Herbs, Commercial Crops)	2,263,985	43	41
Green Houses , nurseries	2,779	59	282
Bee hives	5,021	11	20
No of Chicks	28,447,726	270	163
Cows and Goats	3,424	41	24
Cattle sheds/poultry cages animal feeds	11,855		178
Fisheries Projects	8,851	17	106
Cottage Industries	10,299	72	281
Other line Ministries		562	596
<b>Total</b>		<b>1,948</b>	<b>2,903</b>

Source: Ministry of Economic Development and Department of National Budget

**Table 8.15 > Daily Per Capita Calorie Consumption 2009/10**

Sector	Sri Lanka	Poverty Status & Calorie Consumption	
		Non- Poor (Kilo, Cal)	Poor (Kilo. Cal)
Sri Lanka	2,094	2,155	1,472
Urban	1,881	1,922	1,139
Rural	2,116	2,180	1,497
Estates	2,377	2,477	1,596

Source : Department of Census & Statistics

Average daily per-capita calorie consumption for poor (1472 Kilo-Cal) is much lower compared to average daily per-capita calorie requirement for a normal person (2030 Kilo Cal). However, non-poor daily calorie consumption (2155 Kilo Cal) is higher than the required level.

Table 8.16 > **Production and Imports of Selected Food Crops (MT)**

Crops	2005		2010		2011		2012	
	Production	Imports	Production	Imports	Production	Imports	Production	Imports
Rice	2,210,000	52,000	2,930,800	126,000	2,930,800	28,000	2,611,200	36,000
Maize	41,804	146,930	161,700	9,571	137,800	7,012	202,315	1,005
Greengram	9,000	9,320	11,703	11,562	17,035	10,447	18,950	7,912
Big Onion	55,552	110,713	58,930	158,058	45,700	170,731	83,561	145,912
Soya Bean	4,990	1,310	7,521	1,611	3,890	-	1,671	101
Dried chillies	11,749	27,260	12,300	37,683	11,100	42,535	15,400	45,655
Potatoes	61,700	40,750	51,900	129,878	59,365	130,511	72,186	110,823

Source : Ministry of Agriculture and Department of Customs

Supporting a backyard economy among the low income families will promote the self generated supply of selected vegetables, fruits, milk, eggs and livelihood avenues. Rising enthusiasm for home-gardening will also create a healthy living.

The programme has popularized the growing of medicinal plants, minor export crops and other field crops such as green gram, onions, and maize. This will also contribute to the target of achieving self-sufficiency in certain food crops.

“Credit plus” services in terms of technical skills, marketing and technology assistance for establishing small/micro scale enterprises in household level have been provided to low income people through Samurdhi Banking societies.

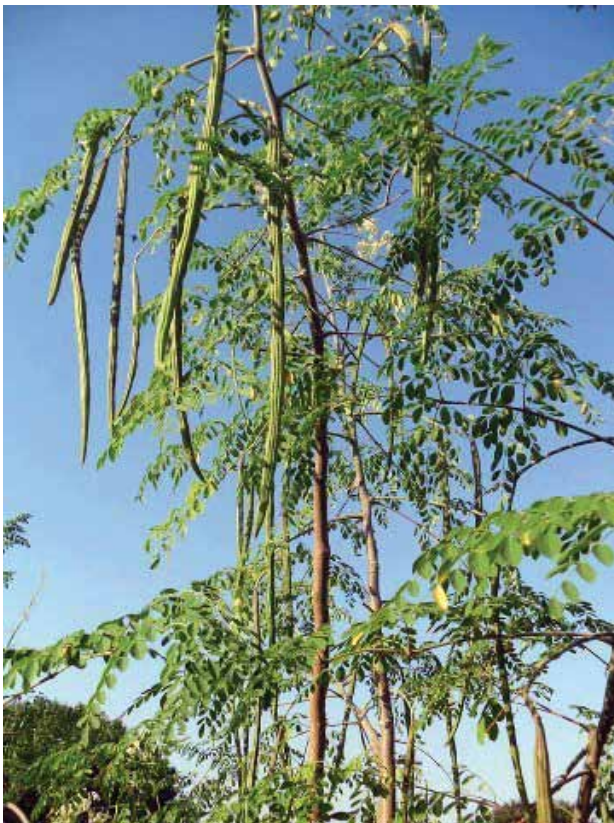
The Divineguma community based banks will be set up covering the area of authority of one or more Divineguma community based organizations and promote micro-financial services for beneficiaries. This would help to encourage the savings habit among low income people and develop the investment potential which in turn would provide credit facilities to the low income earners. Specially, microfinance would help to improve the income of poor households and thereby enhance their



productive capacity and provide them with gainful employment opportunities.

The institutional setting of Divineguma programme spans from grass root/village level to national level. Community based organizations / village level committees are responsible for the programme at the grass root level. Field level government officers (FLGOs); Samurdhi Development officers, Agriculture Research and Production Assistants, Family Health Service Officers and Grama Niladharies oversee the implementation activities of the programme at village level. Particularly, trained rural development officers are engaged at each GN division to select the beneficiary families, provide necessary inputs to beneficiaries, monitoring the progress and identify the resources at each village (each GN division) while coordinating with other field officers and the National level.





Some plants are selected to add nutrition value to family food basket. *Moringaoleifera*, known as “mitimurunga” can be harvested within six months and the plant yield throughout the year. The leaves and pods of the murunga plant contain many nutrients, such as vitamin A,B,C, potassium, carbohydrates, calcium, phosphorous, sodium, iron and magnesium. Around 700,000 plants were distributed under ‘Divineguma’ programme.

With the establishment of the Divineguma Department, the programme will focus to undertake economic activities, pertaining to low-income groups, small farmers, small entrepreneurs, informal sector producers, and small - scale traders. Commercial units in the areas of fruits, vegetables, flowers, ornamental plants and export crops are planned to be established targeting export markets. The small scale food processing centers, small rice mills, organic fertilizer centers and storage facilities will be promoted at village level to enhance the enterprise village activities and marketing opportunities.

Surplus generated from the village and value addition of local products through providing modern technology and forming value chain clusters, Divineguma Community based organizations will reach the domestic and export market through divisional Divineguma organizations. Their labour intensive nature of production will help employment generation in rural areas.

### Creating Supporting Infrastructure – Empowering Villages : GAMA NEGUMA

Investment in rural and farm land access roads, electrification at village level, irrigation and community water supply projects strongly support the development of rural sector activities and reducing poverty. The Gamaneguma rural sector development programme has promoted the efficient linkages between mainstream development and providing the supportive infrastructure facilities such as access to electricity, water, sanitation and other essential services including health and education facilities to rural areas to improve their basic needs such as access to water, electricity and housing. Improving living conditions is key to reducing the multidimensional poverty in rural areas

Table 8.17 > **Supportive Infrastructure Facility and Poverty**

<b>Drinking Water</b>	18.5% of poor people get water from non - safe sources
<b>Lighting</b>	33% of the poor population uses kerosene oil for lighting
<b>Sanitary Facilities</b>	7.9% of poor (472,972 people) are not using toilet facilities
<b>Housing</b>	18.5% of the poor population live in semi permanent houses, which are made with clay, metal, sheet, cajan, or palmyrah

Source : Department of Census & Statistics

In 2012, the Gamaneguma undertook a new approach of “one project for one village” to implement one development project in each



Table 8.18 > **Progress of the Gamaneguma Rural Infrastructure Programme 2006-12**

Description	Physical and Financial Progress (2006-11)			Investment in 2012		
	No of Projects	Expenditure Rs.Mn	No of Beneficiaries	No of Projects	Expenditure Rs.Mn	No of Beneficiaries
Rural Roads	69,299	29,144	13,943,104	10,044	10,888	3,619,517
Rural Electrification	5,172	2,493	404,077	226	194	7,791
Water Supply & Sanitation	3,847	1,443	713,854	583	367	252,799
Minor Irrigation	10,707	3,639	1,367,078	737	542	243,110
Common Buildings	2,474	1,373	521,991	725	425	632,063
Maternity Homes	1,869	868	1,096,166	138	90	93,439
School Toilets	8,969	1,442	1,228,467	10	3	1,282,525
Livelihood & Social Development	26,222	2,964	1,656,495	635	446	377,402

Source : Ministry of Economic Development and Department of National Budget

village with each project costing Rs. 1 million. The new dimensions in this programme has catered to the emerging needs of the village. 13,098 projects have been implemented at a cost of Rs 12,955 million in 2012 benefiting 6,508,646 communities. 90 percent of the projects have contributed to the development of rural roads and agricultural roads. This will strongly support the development of rural sector activities both on and off farm through well connected market network and provide opportunities to villagers to earn more.

### **Support to Create Asset Base, Land Ownership Among Poor**

The government has identified underutilised plantation land to be distributed among the farmers for cultivation. This will enable to improve their livelihood and access to social capital and improve the productivity of such lands. The country also has around 0.3 Mn acres of abandoned paddy land. The Department of Agrarian Development has taken steps to utilize these lands for vegetable, fruits, foliage cash crop diversification and inland fishery activities. At the community level, the general condition of the estate housing is seen as one of the factors contributing to poverty. In this backdrop, several programmes have been implemented to upgrade the estate housing such as estate housing development programme and housing under Indian grant assistance.

### **Puraneguma Initiatives**

The limited resources and lack of facilities for the Local Authorities has kept many of them lagged behind the development drive taking place in other parts of the country. The government has already selected 184 small townships including the North and East area to develop the infrastructure facilities such as weekly fairs, public toilet facilities, child and maternity clinics, vehicle parking areas specially for three wheel parks, market complexes, libraries, children's parks, access roads, drinking water and resting places. This will enhance the accessibility to the market and other basic needs of rural communities and improving the living standards.

### **Enhancing Education and Health Facilities:**

Poverty is not only the income, it encompasses the depriving social needs. The recent HIES has shown that 29.7 percent of the poor children do not go to school due to financial difficulties, although they are eligible for schooling. Therefore, more facilities in schools in rural areas will be a great assistance for them. In order to achieve a balanced educational development, the government has launched 1,000 secondary schools and 5,000 primary schools development programme supported by improving isolated schools in distance provincial locations and provided vocational training facilities for dropouts from G.C.E. (O/L).

The quality of the health services largely depend on the availability of sufficiently qualified health staff at all levels. Improved infrastructure facilities such as reliable supply of electricity and internal road network, enable service recipients to reach the service centers at low cost. The government has planned to upgrade all provincial and rural hospitals by providing modern equipment to reduce the regional disparity in health services. The head of the household being disabled or suffering from chronic illness makes a 10.8 percent contribution to the multidimensional poverty in Sri Lanka (HIES preliminary in 2012/13).

### **Integrating to Formal Economy :**

Sri Lankan tourism industry is one of the fast emerging industries of the economy with annual revenue reaching US\$ 1 billion in 2012. The government has targeted 2.5 million tourists by 2016. It is also expected to generate employment to about one million person and income amounting to US\$ 2.75 billion. Community based tourism and tourist villages are also to be promoted to increase the value chain in tourism based activities. These will link with the rural economy, through wild life, culture, art and religion. The direct and indirect employment opportunities in tourism sector will enable low income households to integrate to the formal economy.

### **Balanced Regional Development:**

Country wide infrastructure development, which enables the country to achieve a regionally balanced economic growth is a significant factor in reducing poverty. Identifying the diverse resources, uniqueness in each region, regional development initiatives have been implemented to provide interfacing mechanism to accelerate the development in emerging regions connecting to the rural areas. The specific regional development programmes such as Uthuruwasanthaya, Rajarata Navodaya, Kandurata Navodaya, Pubudamu Wellassa,

Ran-Aruna, Sabaragamuwa Arunalokaya, Negenahira Navodaya, Wayamba Pubuduwa, Ruhunu Udanaya, have been implemented to address the socio- economic disparities in the regions.

With the successful implementation of these programmes during the last five years, regional disparities have declined. The Northern province recorded the highest growth rate of 27.1 per cent, in nominal terms. Accordingly, the share of production in Western Province declined to 44.4 percent of GDP in 2011 compared to 50.8 percent in 2005. All provinces recorded double digit nominal growth rates in their PGDP in 2011.

Physically connecting emerging areas providing better infrastructure such as transport, roads, electricity, water, irrigation and telecommunication services will reduce the cost of transport, create market for agricultural and other products enhancing economic activities and thereby generating more employment opportunities.

### **Public Private Partnership:**

The Sri Lanka corporate sector now involved in the delivery of public goods such as telecommunication, financial services, public transport, construction, education and health services for a considerable period of time. Many believe that the participation of the private sector in the telecommunication, financial services and construction sector demonstrate clear benefits to the society. As such, the government has encouraged the corporate sector to be involved in this national venture of “Poverty free Sri Lanka” as resource providers. Private sector can participate in projects such as water, housing, sanitary facilities, promoting vocational skills for tourism, market places, weekly health clinics in deserving areas.

## 8.2.2 Human Resource Development (HRD)

The Government has continuously placed priority on human resource development by providing enhanced investment in health, education, skills development, sports and labour relations. The public investment on HRD was increased by 50 percent in 2012 over 2007 with the aim of building a skilled human resource base in the country. During this period, the total investment in recurrent and capital expenditure on HRD has increased by 52 percent and 25 percent respectively over 2007 bringing total of such expenditure to Rs. 235 billion 2012.

Sri Lanka has performed well in terms of health and education coverage relatively with low expenditures compared to other developing countries. A wide access to primary health care and primary education in most areas has led

to impressive achievements in both health and education. Sri Lanka provides free education from primary to university level whereas most countries recover the cost of education. It should also be noted that expenditure on HRD and outcomes vary among countries as results depends on the nature (free or paid) of expenditure as well as distribution (urban-rural) of expenditure.

The social indicators of Sri Lanka have been among the best in developing countries, and are even comparable to some developed countries. According to the Human Development Report, 2013 Sri Lanka's HDI ranked 0.715 against global average of 0.694 enabling the country to secure 92nd place among 186 countries in Human Development Index (HDI).

Table 8.19 > **Country Comparison of Human Development - 2012**

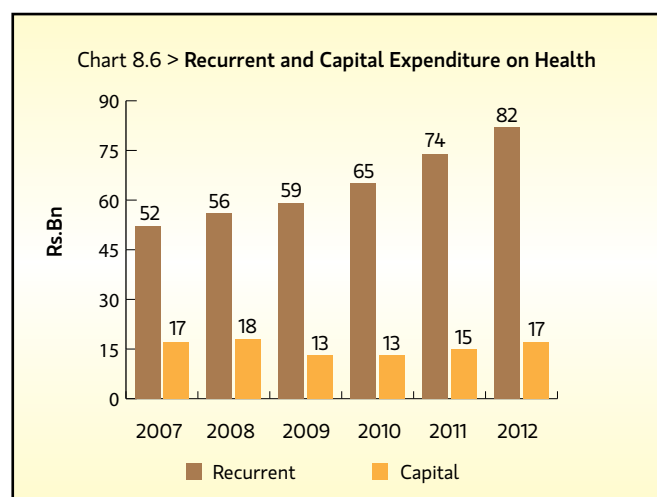
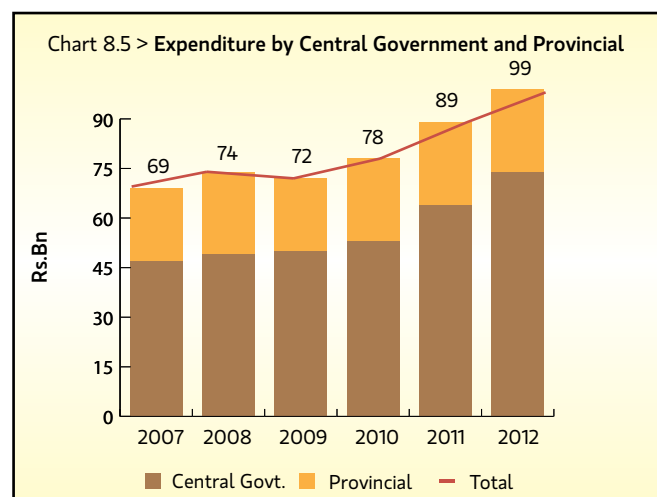
	HDI	HDI Rank	Public Expenditure as a % of GDP		Life Expectancy at Birth (years)	Maternal Mortality (deaths per 100,000 LB) 2010	Population with at least secondary education (% ages 25 and older) 2010	GDP per capita (2005 ppp \$) 2011
			Health 2010	Education 2005-2010				
<b>Very High HD</b>								
Norway	0.955	1	8.0	7.3	81.3	7	95.2	46,982
Japan	0.912	10	7.8	3.8	83.6	5	81.1	30,660
<b>High HD</b>								
Malaysia	0.769	64	2.4	5.8	74.5	29	69.4	13,672
Brazil	0.730	85	4.2	5.7	73.8	56	49.5	10,278
Sri Lanka	0.715	92	1.3	2.1*	75.1	35	73.9	4,929
<b>Medium HD</b>								
Philippines	0.654	114	1.3	2.7	69.0	99	64.8	3,631
India	0.554	136	1.2	3.1	65.8	200	38.7	3,203
<b>Low HD</b>								
Nepal	0.463	157	1.8	4.7	69.1	170	28.3	1,102
Niger	0.304	186	2.6	3.8	50.7	540	5.1	990

\*Expenditure by line ministries directly involving education

Source: Human Development Report, 2013

### 8.2.2.1 Investment in Health

The total public investment in health, covering health and indigenous medicine both at national and provincial level in 2012 was Rs. 99 billion, indicating a significant increase of 43 percent over 2007. The enhanced investment has also resulted in increasing the per capita expenditure on health from Rs. 3,054 in 2007 to Rs. 4,691 in 2012.



Source : Department of National Budget

### Curative Healthcare

During 2007-2012, a major share of recurrent expenditure and a substantial increase in capital expenditure has been accounted for curative services. The capital investment in health has increased from Rs. 12 billion in 2007 to Rs. 15 billion in 2012, largely financed from domestic funds.

Within the period 2007-2012, the capital funds on health were mainly committed on hospital development, hospital rehabilitation and procurement of equipment. In 2012, satisfactory progress in the implementation of many of the hospital development projects were witnessed in utilizing local funds. This also included the Thousand Hospital Development Project initiated through the Budget Speech 2012. Actions were also taken in 2012 to procure 375 ambulances to fulfil the requirement of island wide hospital network. However, utilization of funds channelled for some of the development projects have not been satisfactorily due to procedural delays and quality standards. Moreover, although a substantial amount of funds have been allocated annually for procurement of equipment, many hospitals are not equipped with high tech equipment such as CT/MRI scanners due to inadequate planning in the need assessment and due to inability to use them productively as common facilities.

High outlays are observed on service delivery and operations covering essential requirements of diets, electricity and water, laundry, personal emoluments for hospital staff etc. under recurrent expenditure. In addition, expenditure on medical supplies had increased from Rs. 10.8 billion in 2007 to Rs 16.8 billion in 2012 in order to maintain an uninterrupted supply of drugs to all the hospitals. In 2012, a financial facility amounting Rs. 5.0 billion has been provided

Table 8.20 > **Major Capital Investment in Curative Healthcare Services**

Rs.Mn

Investment Area	2007	2008	2009	2010	2011	2012
Hospital Development Projects	2,448	4,269	1,757	3,920	3,194	7,775
Hospital Rehabilitation & Construction	1,883	1,831	1,627	1,633	2,051	1,828
Medical Equipment & Machinery	1,825	902	1,683	1,338	2,306	1,969
Beds & Furniture	101	65	80	88	119	114
Ambulances & Utility Vehicles for Hospitals	-	168	195	2	20	69
<b>Total</b>	<b>6,377</b>	<b>7,235</b>	<b>5,342</b>	<b>6,981</b>	<b>7,690</b>	<b>11,755</b>

Source : Department of National Budget

Note: Includes only Central Government Expenditure

through state banks to State Pharmaceutical Corporation (SPC) in view of providing uninterrupted supply of drugs to all hospitals making the total expenditure in 2012 to Rs. 21.8 billion on medical supplies.

In 2012, around Rs. 11.7 billion was incurred on modernization and development of all levels of hospitals and fulfillment of medical equipment needs.

Table 8.21 > **Key Development Projects in the Health Sector****(a) Ongoing Projects**

Project Name	Out put	Duration	Total project cost (Rs.Mn)	Cumulative Expenditure up to 2011 (Rs.Mn)	Expenditure 2012 (Rs.Mn)
Development of District General Hospitals at Hambantota and Nuwara- Eliya	New District Hospital at Gonnoruwa and Improved DGH at Nuwara -Eliya	2011-2013	12,614	2,721	900
Epilepsy unit at National Hospital Colombo	06 storied ward complex for epilepsy treatment	2008-2013	2,918	537	151
Development of Polonnaruwa General Hospital	03 wards, Theater and ICU, 03 quarters, New Blood bank and lab facilities	2011-2013	650	169	70
Accident Service at District General Hospital Ratnapura	Improved Accident Ward	2009-2013	798	190	45
Maternity Ward Complex and Cardiology Unit at Teaching Hospital Kurunegala	Maternity Ward Complex and Cardiology Unit	2007-2013	362	140	84
Theatre Complex at General Hospital Kegalle	Theatre complex	2008-2013	325	136	7
Development of Dental Institute Colombo	10 storied building	2009-2004	800	259	80

Source : Department of National Planning

**(b) Initiated in 2012**

<b>Project Name</b>	<b>Out put</b>	<b>Total Estimated Cost (Rs. Mn)</b>
Construction of Mahamodara Maternity Hospital	Maternity Hospital with improved facilities	5,327
Improvement of Basic Social Services Targeting the Emerging Regions	Improved 4 Base hospitals ( Warakapola, Galigamuwa, Theldeniya & Kalawanchikudy)	2,453
Establishment of 150- bedded District General Hospital at Dikoya – Hatton	150- bedded District General Hospital	1,402
Rehabilitation and Expansion of Production Capacity at State Pharmaceutical Manufacturing Corporation (SPMC)	Production capacity increased up to 4,000 million units	1,777
Construction of State of the Art Cancer Ward Complex at National Institute of Cancer, Maharagama	07 storied ward complex for cancer treatment	1,250
Thousand Hospital Development Programme	Improved facilities in 1,000 provincial hospitals	1,000
Reconstruction of Hospital in Kilinochchi and Mulaitivu Districts	Improved ward facilities	190

Source : Department of National Planning

**(c) Completed in 2012**

<b>Project Name</b>	<b>Out put</b>	<b>Total Estimated Cost (Rs. Mn)</b>
Improvement of Central Functions at Teaching Hospital Jaffna	Operation Theatre Complex, Central Supply and Sterilizing Department, ICUs, Central Laboratory Complex	3,551
Construction of Sirimavo Bandaranayake Children's Hospital – Stage 1 & II	09 storied building with all modern facilities to treat children. Capacity increased ( OPD patient- 450, Clinical patients- 500)	629
Development of Health Facilities in Colombo National Hospital- Establishment of Neuro Trauma Unit Project	09 storied building with all modern equipment for neuro trauma	468
Korea – Sri Lanka Friendship Hospital at Godagama construction of a Pediatric Ward	Pediatric ward, Drug Store, water Supply tank, Sewerage treatment plant, Maternity treatment complex with 04 wadts	345
Theater Complex at Kandy Teaching Hospital	08 Theaters, Endoscopy examination unit, etc.	255

Source : Department of National Planning

## Preventive Health Care

The assistance given to preventive healthcare programmes continued satisfactorily with the intention of minimizing the challenges posed with demographic and epidemiological transition. The investment in preventive healthcare recorded a significant increase of Rs 3 billion in 2012, an increase by five folds over 2007. Budget proposal to strengthen primary healthcare services initiated in 2011 and the assistance given for execution of national nutrition programmes continued with both local and foreign assistance at a cost of Rs. 1.2 billion in 2012.

## Promotion of Indigenous System of Medicine

The support given for the Indigenous Medicine sector also continued further by investing Rs. 2.1 billion in 2012, indicating a satisfactory increase by two folds over 2007. In addition to funds channelled for curative health services, a greater emphasis has also been given to improve the preventive health services through Ayurvedic system of medicine during 2007-2012.

Table 8.22 > **Key on -going Projects in the Indigenous Medicine Sector**

Project Name	Out put	Total Estimated Cost (Rs.Mn)
Construction of a ward Complex at Borella Ayurveda Teaching Hospital	Eight storied building complex	905
Research Hospital Nawinna, Maharagama	Five storied building complex	401
Traditional Research Hospital, Mihintale	New traditional research hospital including an OPD, ward complex, herbal garden etc.	586
Stores Complex at Ayurveda Drugs Corporation	A new drugs stores	100
Community Health Development through Indigenous System of Medicine (Annual Program)	Conduct awareness programmes on preventive healthcare in DS divisions of Kurunegala, Polonnaruwa and Gampaha Districts	95

Source : Department of National Planning

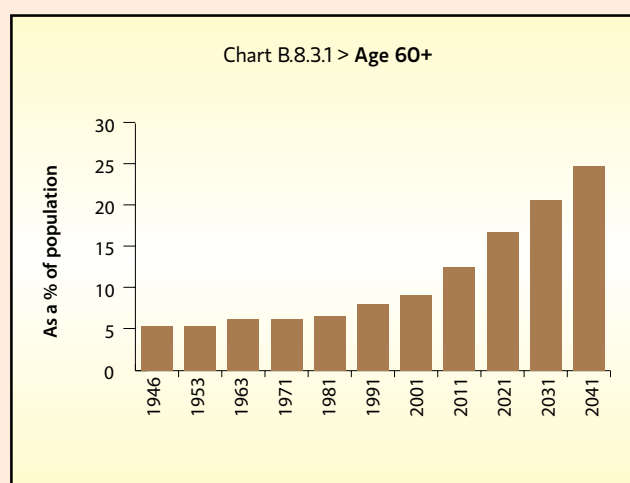


### Box 8.3 > Ageing and Social Security Challenges in Sri Lanka

The sustained improvement of basic health, education and living conditions of the people in Sri Lanka has continuously increased life expectancy over last few decades. Average life expectancy of Sri Lankan people, which was 58 years in 1950s and reached 66 years in 1970s, has reached 75 years today. It is expected to rise to 80 years within the next 3 decades. As a result, the population of over 60 years has increased. It is projected that old age population (i.e. over 60 years) will increase from 12.5 percent in 2012 to 20 percent of the population by 2030. A significant feature in demographics is that female life expectancy has exceeded male life expectancy since 1960s and is projecting to reach 80 years by 2030.

Table B.8.3.1 > **Life Expectancy of Sri Lankans**

Year	Male	Female	Average
1946	43.9	41.6	42.8
1953	58.8	57.5	58.2
1963	61.9	61.4	61.7
1971	64.2	67.1	65.7
1981	67.7	72.1	69.9
1991	69.5	74.2	71.9
2001	70.7	75.4	73.1
2011	72.7	77.4	75.1
2021	74.3	79.2	76.8
2031	75.6	80.8	78.2
2041	77.4	82.7	80.1



Source : Department of Census and Statistics

The age distribution across age categories beyond 60 years shows an increasing trend. People over 70 and 80 years keep on increasing at higher rate as shown in Table B.8.3.2.

The old age dependency ratio in 1946 was 9.4 percent. It was raised to 21 percent in 2011 and it is projected to increase to 29 percent in 2031, implying that every three working people will have to look after an elderly person. As old age people particularly over 65 years are vulnerable to chronic conditions of arthritis, heart disease, stroke, diabetes and dementia, a well-defined social security scheme in a country must be at the heart of the national strategy. Ensuring the availability of basic needs of food, clothing, shelter and their other needs of health, transport and recreation requirements is vital for the well-being of all workers, their families and the entire community.

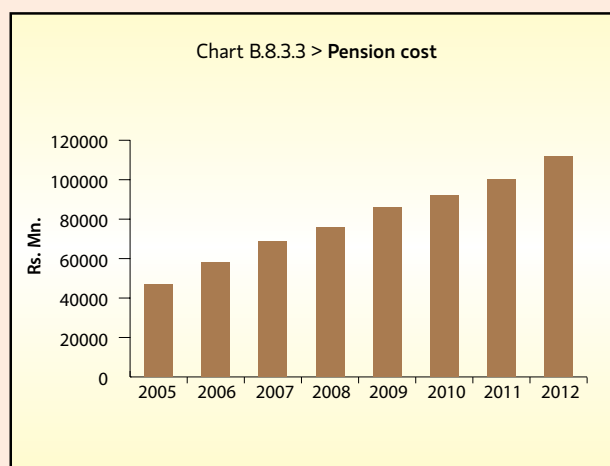
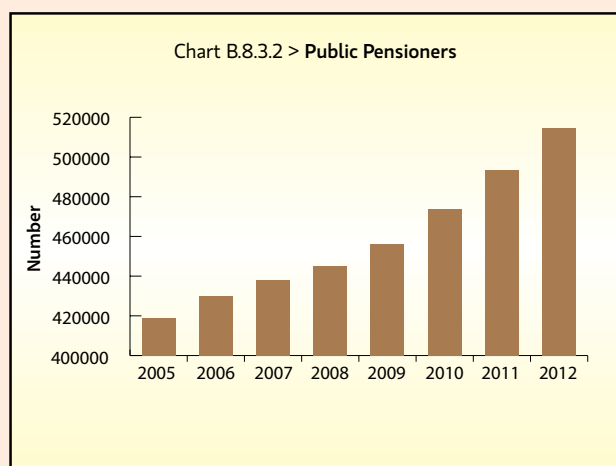
Table B.8.3.2 > **Old Age Population Distribution**

Year	Male (%)			Female (%)			Total (%)		
	60-69	70-79	80+	60-69	70-79	80+	60-69	70-79	80+
1971	2.8	0.7	0.3	1.7	0.5	0.3	4.5	1.2	0.6
1981	2.6	0.7	0.4	2.0	0.6	0.3	4.6	1.3	0.7
1991	2.7	0.7	0.5	2.8	0.9	0.5	5.5	1.6	1.0
2001	2.8	0.9	0.5	3.2	1.1	0.7	6.0	2.0	1.2
2011	3.5	1.2	0.6	4.5	1.8	0.9	8.0	3.0	1.5
2021	3.7	2.1	0.9	4.8	3.8	1.5	8.5	5.9	2.4
2031	3.9	2.8	1.1	5.5	5.4	2.0	9.4	8.2	3.1
2041	4.5	3.2	1.5	6.4	6.1	3.1	10.9	9.3	4.6

Source : Department of Census and Statistics

Sri Lanka has various social protection schemes for formal sector employees. Public sector employees are enjoying a non-contributory monthly pension scheme. The private sector and employees of the public sector corporations are covered by a contributory social security scheme under the Employees' Provident Fund (EPF) and non-contributory schemes of the Employees' Trust Fund (ETF) and gratuity. The benefits are paid to such employees as a lump-sum amount in their accounts at the retirement. Approximately 60 percent of pensioners receive EPF, ETF, and gratuity or some other benefit whereas 20 percent of retirees do not have a regular income in their retirement age and tend to rely on their children, relatives and friends. The absence of any proper social security scheme for covering the informal sector employees and the family workers is a major concern.

The number of public pensioners is about 0.5 million which is about 15 percent of the ageing population. The government sets-aside budgetary provisions of over 10 percent of government revenue for the payment of monthly pension for the public sector employees'.



Source : Department of Pensions and Department of National Budget

Public sector retirement age for civil servants is 55 years. However, employees are allowed to work until 60 years if they wish to do so. Members of Armed Forces have to retire after the completion of 20 years of service. Therefore, majority of Armed Forces servicemen retire before they reach the age of 45 years. With the Sri Lankan life expectancy of 75 years, the government has to pay pension for civil servants for 15 years and Armed Forces for 30 years on average from government revenue. Further, considering the pension payable to widow/widower and orphans after the demise of the pensioner, the period of pension payable for public servants is longer than the average, period.

Table B.8.3.3 > **Age Distribution of Pensioners**

Age Range	Number of Pensioners
Less than 50 years	16,037
50 - 59 years	42,125
60- 69 years	231,072
70 - 79 years	171,200
80 +	54,150
<b>Total</b>	<b>514,584</b>

Source: Department of Pensions and Department of National Budget

Table B.8.3.4 > **Distribution of Allowances to Pensioners, 2012**

Monthly pension Rs.	No. of Pensioners	Cost (Rs. Mn)
Less than 10,000/-	238,333	25,640
10,000 - 20,000/-	201,485	45,885
20,001 - 30,000/-	69,298	23,335
30,001 - 40,000/-	3,960	1,810
40,001 - 50,000/-	1,268	730
More than 50,000/-	240	232
<b>Total</b>	<b>514,584</b>	<b>97,632</b>
<b>Gratuity Payment</b>		<b>14,050</b>
<b>Grand total</b>		<b>111,682</b>

Source: Department of Pensions and Department of National Budget

Public sector pensions are paid for the non-staff grade officers as 90 percent of the last drawn basic salary if they have 30 years of service while staff grade officers are paid 85 percent of the last drawn basic salary. If the service period is less than 30 years pension payable percentage is reduced marginally.

Armed Forces are paid 70 percent of the last drawn salary, including the allowance for dry rations after 20 years of service.

Almost half of the pensioners draw monthly pension of less than Rs.10,000 while about 35 percent of the pensioners draw monthly pension between Rs. 10,000 to Rs.20,000.

Table B.8.3.5 > **Retirement Age**

Country	Life Expectancy	Official Retirement Age
Norway	81	67
United States	78	66
Australia	82	65
New Zealand	81	65
Canada	81	65
Sweden	81	65
United Kingdom	80	65
Germany	80	65
Denmark	79	65
Japan	84	64
Singapore	84	62
France	81	62
<b>Sri Lanka</b>	<b>75</b>	<b>60</b>
China	74	60
Philippines	69	60
Russia	66	60
Pakistan	66	60
Italy	82	59
Greece	80	57
Thailand	74	55
India	66	55

Source :International Monetary Fund :The Challenge of Public Pension Reforms in Advanced and Emerging Market Economies

As annual retirement from both Public and Private sector is on the rise in the context of the current retirement age between 55-60 years, annual resources used for such post-retirement benefits too has progressively increased. The retirees in the government sector has increased from 4,000 annually in 1980's to 20,000 in 2012 and projected to increase to 30,000 in the next decade, which require the government to allocate further 5 percent of annual revenue to meet the pension cost.

Sri Lanka's pension coverage is limited to public sector employees consisting of about 15 percent of the working population as against over 90 percent of the working population in advanced economies. However, these pension schemes are based on contributory pension systems generally known as "Pay as you go". As a result of increased life expectancy, pension funds of those countries have faced severe crisis. To meet these challenges increasing the retirement age of employees and increasing the member contribution fee to the pension fund from time to time have been used.

There is a need to revisit the retirement age of 55-60 years that was designed at a time when the country's life expectancy was just above 60 years for several reasons. First the unemployment has declined in all categories

in the country over the last decade. Second, the country needs more skilled categories to maintain productivity growth. Third, the existing opportunities should be protected for longer period of productive life after 60 years. With the current life expectancy of over 75 years and an expected increase in life expectancy of over 80 years, the retirement age of 60 years can hardly be justified. The extension of the retirement age may be the means by which an improvement in retirement benefits and employee welfare could be enhanced and also the burden of the pension scheme could be minimized.

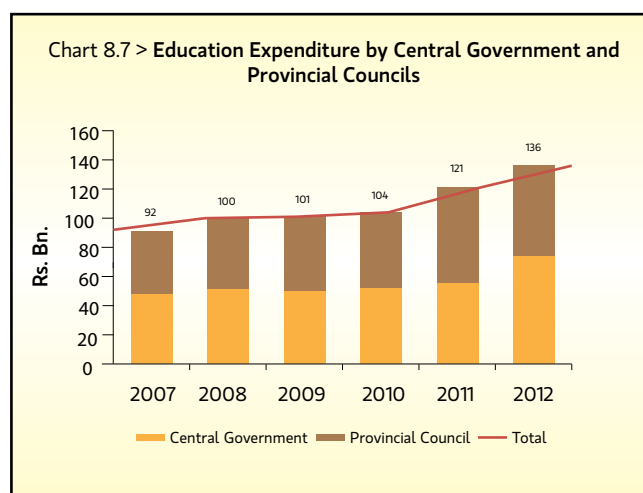
### 8.2.2.2 Education

Public expenditure on education covers General Education, Higher Education and Vocational Education both at Central and Provincial levels. The total expenditure on education sector has increased from Rs. 92 billion in 2007 to Rs. 136 billion in 2012.

#### General Education

The rolling plan of Education Sector Development Framework and Programme (ESDFP) was continued in 2012 both at central and provincial levels while the expenditure on General Education grew from Rs. 72 billion in 2007 to Rs. 95 billion in 2012 indicating an increase by 32 percent over 2007.

This investment was mainly aligned under four major themes, i.e. promoting equitable access to education, improving quality of education, enhancing efficiency and equity of resource allocation and maintaining an effective system of service delivery. Annually, approximately 95 percent of total recurrent expenditure has been incurred for salaries & student welfare



Source: Department of National Budget and Department of State Accounts

programmes, ensuring the free education policy of the country.

During the medium term 2010 – 2012, increased amount of funds have been provided for infrastructure facility development of national and provincial schools, pirivenas, schools for the disabled and Teacher Colleges and National Colleges of Education.

Table 8.23 > **Expenditure on Education Support Programmes**

Investment Area	2007		2008		2009		2010		2011		2012	
	Total Cost <sup>b</sup>	No. of B	Total Cost <sup>b</sup>	No. of B	Total Cost <sup>b</sup>	No. of B	Total Cost <sup>b</sup>	No. of B	Total Cost <sup>b</sup>	No. of B	Total Cost <sup>b</sup>	No. of B
School Nutrition Programme	1,308	798,495	1,649	575,896	2,251	654,206	2,474	778,435	2,631	834,306	2,790	839,643
Text Books	2,250	3,688,056	3,387	3,688,056	2,196	3,695,432	2,056	3,724,303	2,337	3,750,000	2,127	3,762,000
Uniforms	1,067	3,931,588	582	3,942,327	1,260	4,038,000	949	4,119,000	1,364	4,153,000	2,218	4,186,808
Bursaries & Scholarships	185	75,000	193	82,971	184	85,000	225	85,000	283	85,000	240	85,000
Season Tickets <sup>a</sup>	500	362,519	600	362,519	1,384	300,000	1,369	300,000	1,359	300,000	1,339	300,000

Note: No. of B. - No. of Beneficiaries  
<sup>a</sup> Provided to the Ministry of Transport  
<sup>b</sup> Rs.Mn

Source: Ministry of Education and Department of National Budget

Table 8.24 > **Key On-going Projects in General Education Sector**

Name of the Project	Major activities	Total Cost Rs. Mn	2012 Expenditure Rs. Mn
1,000 Secondary Schools Development Programme	- Construction of Mahidoodaya Technical laboratory with computer laboratory, science lab, distance learning centre and language/mathematics lab	25,000	507
5,000 Feeder Primary Schools Development	- Providing quality basic facilities to feeder primary schools such as electricity, drinking water, sanitation, activity room for grade 1 students, play area to create child friendly environment	2,500	858
Education for Knowledge Society	- Upgrading and development of 100 secondary schools - Renovation of 08 provincial ICT Education Centres - Development and strengthening of Centre of Excellence in English Education in Peradeniya and Centre for Education Leadership Development in Meepe - Professional development of Teachers and Education Managers	11,267	2,137
Education Sector Development Framework and Programme	- Increasing equitable access to primary and secondary education - Improving the quality of primary and secondary education - Strengthening governance and service delivery of education - Overarching education sector development rolling plan	12,500	1,261
Programme for Health promotion and Nutrition	- Promoting good health habits in school children - Raising the Nutrition status of students - Providing quality drinking water and sanitation facilities to schools - Creating a healthy environment in schools	250	230

Source: Ministry of Education and Department of National Budget

Development of 1,000 secondary and 5,000 feeder primary schools commenced in 2012 giving greater priority on “Mahinda Chintana”. Rs. 400 million has been channelled in 2012 to initiate the construction of 409 Mahindodaya Technical Laboratories in secondary schools. Meanwhile, Rs. 858 Million has been invested in 2012 in order to refurbish 1,716 primary schools out of the 5,000 primary schools into child friendly schools.

A significant increase in number of teachers in government schools was witnessed from 2007 to 2012. This has resulted in an improvement in the student teacher ratio from 20 in 2007 to 18 in 2012. During the period of 2007 - 2012, Rs. 2,422 million has been invested for teacher development.

## Higher Education

The expenditure on higher education sector has been increased from Rs. 15 billion in 2007 to Rs. 20.8 billion in 2012, the intake of students also increased from 20,069 in 2007 to 27,710 in 2012, with the enhanced facilities of the universities.

In 2012, Rs. 69 million was spent on 2 week orientation programmes for new enrolments to universities to facilitate adjustments to high educational group interaction and developments. In addition, one billion rupees was spent on Mahapola and Bursary to the University undergraduates to support their lives. Due to increased Academic Allowance and introducing a Research Allowance for the

university academic staff, the salary cost of universities was increased by nearly two fold from 7 billion in 2007 to Rs.11 billion in 2012.

During the period 2007-2012, infrastructure development in universities was further

expanded to enhance the facilities for the students. Universities of Sri Jayawardenepura, Moratuwa, Jaffna and Ruhuna have prepared their initial plans on University Township Development in 2012.

Table 8.25 > **Major Construction Projects of Universities Completed in 2012**

University	Construction Projects	Total Estimated Cost (Rs. Mn.)
University of Peradeniya	New Arts Building Building for Management Studies New Geology Building	268
University of Colombo	Clinical Medicine & Auditorium Building Computer Lab-Dept of Stat & Maths	182
University of Kelaniya	Hostel Complex at Hettiyawatta Building for Faculty of Commerce & Management Studies Modern Cafeteria	410
University of Moratuwa	Mechanical Engineering Centre Civil Engineering Research Centre Extension to Dept. of Textile Clothing Technology	345
University of Ruhuna	Boys Hostel (234 Nos.) Girls Hostel (310 Nos.)	225
University of Jaffna / Vavuniya Campus	Medical Faculty Building Arts Building Ramanathan Academy FA Natural Science Block	412
Rajarata University	Clinical Building of FAMS - Anuradhapura Para Clinical Building - Saliyapura Hostels for 800 Students Canteen & Students Centre Building for Faculty of Applied Sciences	1,499
University of Sabaragamuwa	Lecture Theatre Complex Applied Science Building	969
South Eastern University	Student Hostel Complex Building Complex for Faculty of Islamic Studies Building Complex for Faculty of Technology Athletic Ground & Pavilion Staff Accommodation Facilities Student Centre	837

Source: University Grants Commission



## Skills Development and Vocational Education

The Government pays special attention on skills development and vocational training sector with the intention of providing a high quality vocational training that can meet increase in demand for skilled labor. Many initiatives have been taken place to expand the technical education opportunities. Accordingly, total intake of students to main public training institutions has been increased from 75,200 in 2007 to 144,902 in 2012.

The total investment for this sector has been increased from Rs. 4.7 billion in 2007 to Rs 7 billion in 2012. Out of the total Capital investment, 61 percent i.e. Rs. 2 billion has been channelled for the implementation of development projects in vocational training and technical education institutions. Such facilities are promoted through the establishment of technical schools, dedicating workshops and training centres for overseas employment, and establishment & promotion of vocational educational institutions.

### 8.2.3 Infrastructure

The infrastructure development initiatives taken by the government in the areas of roads, ports, airports, railroads, irrigation, energy and water supply underscores the government's commitment to improve economic infrastructure in support of higher economic growth and employment creation.

The improved connectivity through island-wide road development program has begun to transform the lives of the people around the country. The completion of the highway network will also bring about significant cost-savings that will improve the competitiveness of the economy.

The annual government investment in energy sector, during the period 2007 – 2012 increased from Rs. 23 billion to Rs. 32 billion in support of power generation, transmission and distribution to fulfill the commitment of “Electricity for All” highlighted in Mahinda Chintana Policy Framework. The rural electrification program has now raised the access to electricity to 94 percent of the country's households in 2012

The rehabilitation of the Railway Network and rolling stock and the development of Port and airport facilities have improved the potential for Sri Lanka to become a key transport and tourist hub in the region.

In addition to major infrastructure development projects, the government has planned an equally important focus on the development of small scale infrastructure projects such as rural access roads, electrification projects, small scale water supply and irrigation schemes to improve rural development.

#### 8.2.3.1 Road Development

The investment on road development has increased from Rs. 49 billion in 2007 to Rs.179 billion in 2012. It is about 2.4 percent of the GDP of 2012. In 2012, Rs. 132 billion has been invested on national road development, Rs. 32 billion on provincial road development and Rs 15 billion on rural road development. This investment recorded as 41 percent of the total capital expenditure of 2012.

During 2012, national roads of length more than 1,600 km have been rehabilitated under different funding sources of which 559 km roads rehabilitated under the programme funded by domestic banks. Under this, 17 road

Table 8.26 > **Investment on Roads by Major Categories**

	Rs. Bn.					
Category	2007	2008	2009	2010	2011	2012
Expressways	7.7	14.9	22.1	23.3	25.6	34.7
National Roads	29.9	44.9	57.9	58.7	72.4	97.5
Provincial Roads	6.1	6.2	16.9	24.6	18.4	32.2
Rural Roads	5.5	8.1	15.7	15.4	9.0	14.8
Total	49.2	74.1	112.6	122.0	125.4	179.2

Source: Department of National Budget

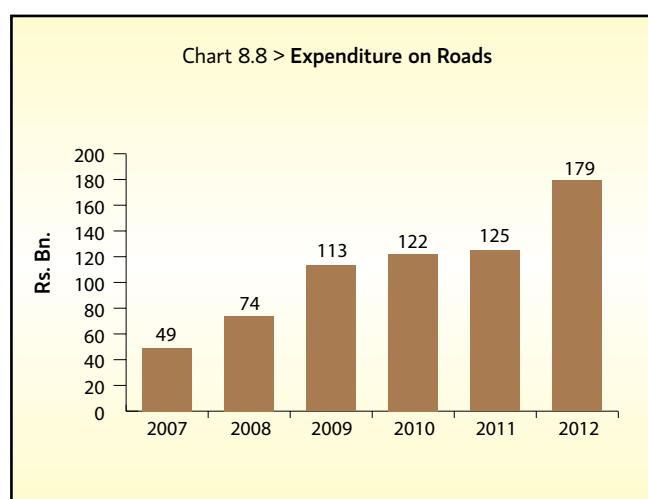
projects were implemented at a total cost of Rs 47 billion. Construction of Colombo-Katunayaka Expressway (26 km), Outer Circular Expressway (29 km) and the balance section of the Southern Expressway from Pinnaduwa to Matara (30 km) were being continued during 2012.

In addition, around 1,600 km of provincial roads were resurfaced at a cost of around Rs. 23 billion under the Provincial Road Asphalt Programme implemented by the Ministry of Economic Development. 586 km of rural roads were upgraded by concrete block paving under 'Maga Neguma' project. Manmunai and five other bridges on Peradeniya-Badulla-Chenkaladi (A005) road and on Batticaloa - Trincomalee (A015) road were also being constructed during this period.

The foreign financing component of the total road investment in 2007 was Rs. 19.2 billion and it has increased to Rs. 90.4 billion in 2012. The major share of foreign financing has been spent on rehabilitation (62 percent) and on the construction of expressways (36 percent)

projects in 2012. Rural road development was done mostly through domestic funds.

The investments on road development was distributed among construction of highways, improvement and maintenance of existing road network and land acquisitions for road development to improve accessibility, connectivity and sustainability.



Source Department of National Budget

Table 8.27 > **Composition of Roads Expenditure**

Rs. Mn.

Category	2007	2008	2009	2010	2011	2012
Construction of Expressways	7,706	14,925	22,164	23,389	25,614	34,688
Maintenance	3,410	3,103	3,049	6,393	7,800	5,961
Rehabilitation of Roads	15,039	20,128	26,388	32,416	40,139	65,661
Improvement of Roads	4,582	6,053	5,449	8,877	14,894	16,675
Reconstruction of Bridges	1,759	9,916	16,262	3,688	1,833	2,010
Land Acquisition	3,051	2,718	3,053	3,165	3,860	2,977
Other	2,115	2,894	3,577	4,047	3,879	4,219
Rural Roads (Maga Neguma)	2,442	3,796	2,987	2,982	3,345	3,184
<b>Total</b>	<b>40,104</b>	<b>63,533</b>	<b>82,929</b>	<b>84,957</b>	<b>101,364</b>	<b>135,375</b>

Source: Department of National Budget

As a result of the continued investment on expressway development since 2007, country had the opportunity to open its first 95 km access controlled expressway in 2011. From 2007, with an investment of over Rs 199 billion, 3,058 km of national roads have been completely rehabilitated. In addition, investments were made on maintenance and improvement of roads. As a result, around 61 percent of the national road network has been developed to fine condition. Since 2007, a sum

of Rs. 29 billion has been utilized for national roads maintenance.

By now, around 4,900 km of provincial roads have been resurfaced by Double Bitumen Surface Treatment Asphalt Concrete (DBST of AC), keeping them in motorable level. About 23,000 km of rural roads were upgraded during 2007-2012. Moreover, 344 rural bridges have completely been rehabilitated under the 'Maga Neguma' project.

Table 8.28 > **National Roads Being Rehabilitated - 2012**

	<b>Name of the Road Section</b>	<b>Districts Covered</b>	<b>Length (km)</b>
A004	Nugegoda to Godagama section of Colombo-Ratnapura-Wellawaya-Batticaloa road	Colombo	15
B084	Vilasitha niwasa to 13th km section of Colombo-Horana road	Colombo	13
B247	Kurunegala-Narammala	Kurunegala	23
B297	Mullaitivu-Kokilai-Pulmudai	Mullaitivu, Trincomalee	42
B157	Horana-Anguruwathota-Aluthgama	Kalutara	15
AB016	Jaffna-Kankesanthurai	Jaffna	18
A028	Padeniya-Anuradhapura	Kurunegala, Anuradhapura	80
A020	Anuradhapura-Rambewa	Anuradhapura	14
A006	Kantale - Trincomalee section of Ambepussa-Trincomalee	Polonnaruwa, Trincomalee	44
AB018	Jaffna-Palali	Jaffna	17
A005	Nuwaraeliya to Badulla section of Peradeniya-Badulla-Chenkaladi	Nuwaraeliya, Badulla	55
A009	Galkulama to Jaffna section of Kandy-Jaffna Road	Anuradhapura, Vavuniya, Kilinochchi, Jaffna	200
AB020	Jaffna-Point Pedro	Jaffna	35
B349	Palavi-Kalpitiya	Puttalam	27
B154	Hikkaduwa - Baddegama	Galle	14
A007	Hatton-Nuwaraeliya	Nuwaraeliya	45
B379	Puttalam-Marichchikade-Mannar	Puttalam, Mannar	113
B363	Pelawaththa-Kankotiyawaththa-Thiniyawala-Morawaka	Matara	47
A032	Navatkuli-Karativu-Mannar	Jaffna, Kilinochchi, Mannar	67
A034	Mankulam-Mullaitivu	Mullaitivu	49
A035	Paranthan-Mullaitivu	Kilinochchi, Mullaitivu	52
B357	Paranthan-Poonerin	Kilinochchi, Mullaitivu	26
B269	Mankulam-Wellankulam	Mullaitivu, Trincomalee	38
A002	Maliban Junction to Nalluruwa Junction section of the road including Galle Road New Deviation	Colombo, Kalutara	16
A003	Peliyagoda to Seeduwa	Gampaha	20
B036	Badulla-Karametiya-Andaulpotha	Badulla	38
B057	Bibila-Uraniya-Mahiyanganaya	Badulla, Monaragala	18
B166	Kadahapola-Rambewewa	Kurunegala	19
B122	Galagedara-Rambukkana	Kurunegala	19
B413	Tennakumbura-Rikillagaskada-Ragala	Kandy, Nuwara Eliya	53
	Mahiyangana-Dimbulagala-Dalukana	Polonnaruwa	49
B502	Manampitiya-Aralaganwila	Polonnaruwa	3
B488	Polonnaruwa-Somawathi	Polonnaruwa	33
B127	Galigamuwa-Ruwanwella-Karawanella	Kegalle	29
B159	Ibbagamuwa-Kumbukgete	Kurunegala	34
A012	Anuradhapura-Trincomalee	Anuradhapura, Trincomalee	97
B308	Narammala-Giriulla	Kurunegala	16
B413 B492	Tennakumbura-Kandehandiya-Randenigala	Kandy	34
B216	Kesbewa-Kindelpitiya-Bandaragama	Kalutara	24
	Mahaoya-Aralaganwila	Polonnaruwa, Ampara	24
B019	Anamaduwa-Uswewa-Galgamuwa	Puttalam, Kurunegala	39
B243	Kuliyapitiya-Hettipola	Kurunegala	16
B356	Pannala-Kuliyapitiya	Kurunegala	11

Source : Road Development Authority

### 8.2.3.2 Power and Energy

During the period 2007-2012, the Government investment on energy sector has increased noticeably. The funds channeled for energy sector in 2012 was Rs 32 billion indicating an increase of 33 percent over 2007. These funds have been invested in three main areas namely Electricity Generation, Transmission, and Distribution under the theme of “Electricity for All” stipulated in Mahinda Chinthana policy framework. Out of the total amount invested by the Government in 2012, Rs. 12.4 billion was invested to enhance the power generation capacity. In addition, Rs. 8.1 billion and Rs. 11.4

billion have been invested in transmission and distribution system development respectively.

The country has a total installed capacity of 3,350 MW compared to 3,141 MW in 2011 and increased gross electricity generation from 11,528 Gwh in 2011 to 11,800 Gwh in 2012. The annual increased demand for electricity was around 7 – 8 percent and the average electricity coverage in 2007 was 80 percent and it was increased to 94 percent in 2012. To meet the power sector demand, several mega power projects have been launched during the period 2007-2012.

Table 8.29 > **Expenditure on Power and Energy Sector**

Rs. Mn.

Category	2007	2008	2009	2010	2011	2012
Generation	20,920	10,575	23,786	11,284	11,752	12,482
Transmission	289	2,212	3,635	4,281	2,447	8,114
Distribution	2,737	4,020	5,430	8,277	8,174	11,408
<b>Total</b>	<b>23,946</b>	<b>16,807</b>	<b>32,851</b>	<b>23,842</b>	<b>22,373</b>	<b>32,004</b>

Source: Department of National Budget

### Electricity Generation

Following new power plants are being constructed in order to enhance the electricity generation.

Table 8.30 > **Mega Power Plants**

Name of the Power Plant	Capacity (MW)	Total Estimated Cost (Rs. Bn)
Sampur coal power plant	500	62
Uma-Oya hydro power plant	120	60
Norochholei coal power plant phase II	600	55
Kerawalapitiya power plant	300	37
Upper-Kothmale power plant	150	37
Broadlands hydro power project	35	09
Moragolla hydro power project	35	01
<b>Total</b>	<b>1,740</b>	<b>261</b>

Source: Department of National Budget

## Distribution Network Development and Rural Electrification

Table 8.31 > **Expenditure for Electrification Projects**

	Rs. Mn.					
Name of the Project	2007	2008	2009	2010	2011	2012
Rural Electrification Project -RE4	86	4	175	2,303	361	
Colombo City Electricity Distribution Project				782	436	185
Ruhunu Udanaya	245	590	978	1,448	1,042	160
Sabaragamu Arunalokaya	15	450	550	550	210	
Kandurata Udanaya		16	40	47	50	03
Wayamba Pubuduwa				95	142	
Batahira Ran Aruna			150	368	150	40
Negenahira Navodaya		30		149	103	1,029
Rajarata Navodaya-RE		200	200	170	2,295	3,603
Uva Udanaya		30	100	300	487	909
Rural Electrification Project- RE- 08	1,504	1,934	715	1,979	2,697	3,174
Uthuru Wasanthaya			940	79	76	1,789
Accelerated Rural Electrification Project				1,200	1,729	15
Other	902	1,201	1,682		285	517
<b>Total</b>	<b>2,752</b>	<b>4,455</b>	<b>5,530</b>	<b>9,470</b>	<b>10,063</b>	<b>11,424</b>
<b>Electricity Coverage</b>	<b>80%</b>	<b>83%</b>	<b>85%</b>	<b>88%</b>	<b>91%</b>	<b>93%</b>

Source: Department of National Budget

The rapid development taken place at regional level has been facilitated by the rural electrification Programmes implemented island-wide, with an estimated cost of Rs. 40 billion in 2012. Through the implementation of these programmes, 7,410 schemes and extensions were completed while around 155,333 families have been benefitted. In addition, in remote areas, off- grid power systems by small hydro power plants and solar systems are being established to cater to electricity demand in geographically isolated villages. Around 239,157 new electricity connections have been provided during 2012

### Transmission Network Development

Total system loss of the national grid has now

reached 11.7 percent compared to 13.5 percent in 2011, a fairly praiseworthy achievement when compared with international average of 14 percent.

**Completed Projects:** Construction of Beliatta Grid Substation of 63MVA, 132kV/33kV capacity with 8 nos. 33kV feeder bays with associated protection, communication, control systems, related buildings and the 132kV double circuit transmission line from Hakmana were completed and commercial operation commenced on March 2012. Also, new 63MVA Grid substation at Kilinochchi and 73km double circuit “ZEBRA” Transmission line from Vavuniya to Kilinochchi were completed in 2012.

**On going Projects:** The following major

projects were implemented to enhance the transmission system of the country.

- Kilinochchi-Chunnakam transmission line
- North - East transmission network (setting up of new grid sub stations in Moneragala, Polonnaruwa and Vavunathivu, augmenting Ampara GSS and, 130km long transmission line from Mahiyanganaya – via Ampara – Vavunathivu)
- Galle –Matara, Puttalam – Maho, Ukuwela- Pallekele transmission lines, and grid substation development in Kurunegala, Galle Matara, Puttalam, Baticoloa
- Development of Veyangoda – Habarana transmission line and Colombo city transmission

### 8.2.3.3 Public Passenger Transport

In order to encourage people to use public transportation instead of using private vehicles, strategies are set out to improve the existing public transport into an integrated transport system. The government has invested Rs.113 billion during the period of 2007-2012 on infrastructure development and fleet expansion of public transport. Regular allocations were being provided for periodic maintenance and rehabilitation of assets.

Several steps have been taken to improve the quality of bus service by introducing Global Positioning System (GPS) to monitor movements, automated seat reservation, GIS based trip planning, pre-paid cards for fare collection and a common time table for public and private operators to run buses at peak and off peak hours cordially. In addition, luxury bus services have been extended to important routes including Southern expressway.

Table 8.32 > **Investment in Transport**

	Rs. Mn.					
Major Thrust Areas	2007	2008	2009	2010	2011	2012
Service Delivery	11,902	14,826	15,060	12,222	14,498	15,918
Bus Fleet Augmentation	2,612	1,884	1,059	849	1,900	820
Reconstruction of Rail Tracks	1,201	2,093	6,180	3,606	3,528	2,679
Construction of Rail lines	83	543	391	2,599	18,381	19,438
Rail Fleet improvement	4,408	7,255	3,565	5,828	4,016	9,879
Installation of Signaling and Telecommunication systems	1	51	108	115	206	2,463
Improvement of workshops	245	838	307	207	342	1,508
Improvement of bus services	90	159	285	79	175	227
Other capital expenditure	217	321	401	1,203	1,838	1,828
<b>Total</b>	<b>20,759</b>	<b>27,970</b>	<b>27,356</b>	<b>26,708</b>	<b>44,884</b>	<b>54,760</b>

Source: Department of National Budget



Table 8.33 > **Railway Development - 2007-2012**

<b>Project Name</b>	<b>Length (km)</b>	<b>TEC Rs. Mn.</b>	<b>Expenditure Rs. Mn</b>
Reconstruction of Northern Rail Line	253	80,851	27,010
Upgrading Colombo - Matara Rail Line	72	23,938	5,742
Construction of Rail Line from Matara to Beliatta	27.5	39,783	313
Restoration of Signaling and Telecommunication System from Anuradhapura to Kankasanthurai and Medawachchiya to Talaimannar Pier	313	12,367	3,447
Procurement of 13 DMUs		11,110	9,681

Source: Department of National Planning and Department of National Budget

During the period 2007-2012, the government invested largely on purchase of power sets (DMUs), locomotives and rolling stocks. In addition, reconstruction and upgrading of railway lines to increase average speed to 100 km/hour have been carried out to improve the railway infrastructure. To enhance the safety and speed of the rail system, reconstructing bridges with higher axel load (22 tons), reinstalling the signal and communication system and protection systems at 1,000 level crossings throughout the island were continued, in 2012.

#### **8.2.3.4 Water Supply and Sanitation**

Ensuring access to safe drinking water and quality sanitation services is one of the key objectives of poverty eradication. The Development Policy Framework of the

government clearly specifies the targets for safe drinking water and sanitation facilities. Accordingly, the country aims to achieve 60 percent piped drinking water supply and 7 percent piped sewerage coverage by 2020. This will also ensure the access to safe drinking water for all households by 2020. In order to accomplish the said target, the government has gradually increased the annual investment over years in the water supply and sanitation sector accounting for accumulated investment of Rs. 142.6 billion during 2007 - 2012.

In 2012, Rs. 28.2 billion has been invested in this sector and it was two fold increase compared to Rs. 15.4 billion invested in 2007. This has led to increase the percentage of households with access to safe drinking water from 77 percent in 2007 to 90 percent in 2012. Pipe-borne water coverage in Sri Lanka has reached up to 43 percent of total housing units in 2012.

Table 8.34 > **Investment in Water Supply and Sanitation Sector**

Rs. Mn

Category of Investment	2007	2008	2009	2010	2011	2012
Large Scale Water Supply schemes	10,916	17,227	15,981	18,310	21,484	25,105
Emerging small townships water supply schemes	1,294	1,541	900	1,300	1,804	2,256
Water sector community facilitation	791	3,459	5,531	1,187	273	199
Tsunami water supply projects	1,705	3,162	3,466	2,290	1,038	1,561
Sewerage schemes	4,146	2,081	2,439	3,191	2,457	1,977

Source : Department of National Budget

During the period from 2007 to 2012, several large-scale water supply and sanitation projects have been constructed and commissioned. Under these projects, National Water Supply

and Drainage Board (NWSDB) was able to provide 436,750 new piped water connections and it is a 28 percent of the total number of piped water connections recorded in 2012.

Table 8.35 > **Major Water Supply Projects Completed - 2007-2012**

Name of the Project	Total Cost Estimate Rs. Mn	No. of Connections as at 31 / 12 / 2012
Towns North of Colombo Water Supply Project Stage I	6,754	12,000
Greater Kandy WS Phase I Stage I	4,820	20,000
Kaluganga Water Supply Project Stage I	12,000	100,000
Augmentation of Nawalapitiya, Ampara and Koggala WS	2,700	17,500
Greater Galle Water Supply Project - Stage II	4,250	40,000
Kirindi Oya Water Supply Project	2,104	8,750
Nuwara Eliya District Group Water Supply Project	4,259	15,000
Integrated Water Supply Project for Eastern Coastal Towns of Ampara WSP	11,078	61,000
Rehabilitation of Baddegama, Ambalangoda WS	4,200	48,500
Towns South of Kandy Water Supply Project	9,626	28,000 (new) + 22,000 level of service improvement
Augmantation of Hambantota, Weligama, Kataragama WSP	2,126	28,000
Kelani Right Bank Water Treatment Plant	10,150	
Negombo Water Supply Improvements	7,288	23,000
Towns North of Colombo Stage II	6,490	35,000

Source : National Water Supply &amp; Drainage Board

Table 8.36 > **Major On Going Water Supply Projects**

Name of the Project	Area Covered	Total Cost Rs. mn
Greater Dambulla Water Supply Project	Dambulla town and surrounding areas	9,600
Water Supply Schemes in Ampara Districts	Gonagolla, Bakkiella, Mangalagama, Pulkunawa, Mandur, Wellali, Dadayamthalawa, Namal Oya, Mangalagama, Pulkunawa, Maha Oya, Samanthurei, Hingurana, Damana	25,000
Jaffna Kilinochchi Water Supply and Sanitation Project	Chawakachcheri, Jaffna, Kopay, Nallur, Kareinagar, Palali, Poonaryn, Kytes	18,500
Greater Trincomalee Integrated Water Supply Project	Kantale, Kinniya, Trincomalee town	4,218
Kolonna, Balangoda Water Supply Project	Kolonna, Maduwanwela, Samanawewa, Balangoda, Nandanagama	4,658
Dry Zone Urban Water Supply and Sanitation Project	Vavuniya, Manner, Chilaw and Puttalam towns and surrounding areas	13,000
Ruhunupura Water Supply Improvement Project	Ruhunupura area	13,131
Kaluganga Water Supply Scheme Phase II	Kesbewa, Horana, Kahathuduwa, Kumbuka, Panadura, Gonapola	10,846
Greater Colombo Water Rehabilitation Project	Kotikawatta, Mulleriyawa, Gothatuwa	4,785

Source: Department of National Planning

**Piped Sewerage:** The piped sewerage systems are concentrated in densely populated municipals and industrialized areas such as Colombo, Kandy, Rathmalana, Moratuwa and Ekala. Annually on average, 800 new piped sewerage connections are provided in the country. In 2012, 1,945 connections have been provided by NWSDB. Since, the government's objective is to provide piped sewerage facilities to highly populated and industrialized areas, necessary

steps have been taken to initiate new piped sewerage projects in Jaffna MC, Kurunegala MC, Sri Jayawardenapura area, Kataragama Sacred city area, Maharagama, Dehiwala and Mt. Lavinia during 2012.

The government through NWSDB, was able to invest Rs. 14,313 million to improve piped sewerage facilities since 2007 and annual investment in this sector has gradually increased over the period from 2007 to 2012.

Table 8.37 > **On-Going Piped Sewerage Projects**

Project	Covering Areas	Cost Rs. Mn
Wastewater Disposal facility for Greater Kandy	Kandy town and surrounding areas	22,585
Rathmalana/ Moratuwa, Ekala/Jaela Wastewater Disposal System	Rathmalana, Moratuwa, Ekala, Jaela	16,155
Greater Colombo Wastewater Management Project	Colombo Municipality, Kolonnawa, Dehiwala, Wellampitiya	15,000

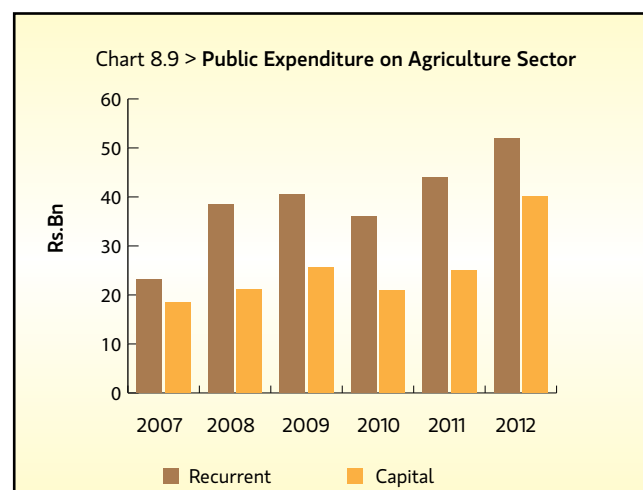
Source : Department of National Budget

## 8.2.4 Real Economy

Real economy is composed of food crops, plantations, livestock, fisheries and aquatic resources, irrigation, land and land development and industries. Recognizing the importance of investing in this sector, the total public expenditure has been gradually increased during the past decade, aiming at ensuring the food & nutrition security, increasing the living standards of farmers, producing exportable surplus, and reducing import bill of food items. In addition to that, the development of this sector has been identified as a main intervention for reducing poverty mainly in rural sector which is the main concern of the government's development agenda.

### 8.2.4.1 Agriculture Sector

In 2012, the total expenditure in agriculture sector was Rs. 104 billion. It was an increase of 23 percent compared to such expenditure in 2011 and over two fold increase compared to 2007. Out of the total expenditure of agriculture sector in 2012, Rs. 48 billion was spent for fertilizer subsidy programme realizing the government's policy on providing a wide range of incentives for small scale farmers for improving productivity and competitiveness.



Source Department of National Budget

In addition, Rs. 1.3 billion was spent in 2012 for providing cultivation subsidies for plantation sector, to maintain the effective water management of irrigated agriculture which provides 80 percent of paddy production and 20 percent of other food crop production, Rs.31 billion was spent for the irrigation and water management sector in 2012.

Table 8.38 > **Expenditure of Agriculture Sector by Sub Sector**

	Rs. Mn					
<b>Sub Sectors</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Paddy and other Food Crops	25,671	37,852	38,545	33,345	55,317	60,747
Plantation and Minor Export Crops	2,736	4,428	4,315	4,441	4,382	4,009
Irrigation and Water Management	8,471	11,582	14,650	11,573	17,779	31,454
Land and Land Development	1,337	1,755	1,266	1,495	2,258	2,235
Livestock Development	697	1,528	1,375	1,467	1,841	2,544
Fisheries and Aquatic Resources	4,143	4,314	7,426	5,868	2,653	2,986
<b>Total</b>	<b>43,055</b>	<b>61,460</b>	<b>67,577</b>	<b>58,189</b>	<b>84,230</b>	<b>103,975</b>

Source : Department of National Budget

Under the broad policy framework of the development programme of the government, priority has been given to increase the domestic food production, replace the country's food imports and produce exportable surplus in identified commodities. As a result of a series of measures implemented by the government in the last decade, the agriculture sector accumulated a total value of Rs. 339 billion in real terms in 2012 over Rs. 320 billion in 2011 recording a growth rate of 5.9 percent. All sub sectors except, tea, rubber and minor export crops contributed positively towards this growth. The contribution of the agriculture sector to the total GDP in 2012 was 11.1 percent compared to 11.2 percent in 2011.

## Food Crops Sector

The public expenditure for development of domestic food production increased continuously during the period of 2007-2012. Total expenditure for the food crop sector in 2007 was Rs. 25.6 billion and it has increased up to Rs. 60.7 billion in 2012. Out of the total expenditure for the improvement of food crops sector, significant amount has been spent for the fertilizer subsidy. During the period of 2007-2012, expenditure for fertilizer subsidy increased significantly from Rs.11 billion in 2007 to Rs.48 billion in 2012. In addition to that, high priority has been given for production of seed and planting materials, research and extension and provision of agricultural inputs at concessionary prices.

Table 8.39 > **Expenditure for the Development of Paddy and Other Food Crops**

Rs. Mn

Major Interventions	2007	2008	2009	2010	2011	2012
Agricultural Service delivery	7,628	6,409	7,495	6,950	7,452	8,186
Fertilizer Subsidies	11,049	26,500	26,985	22,328	42,056*	48,237*
Crop Production and Improvement	855	1,815	1,518	1,891	2,426	2,701
Land and Land Development	1,337	1,755	1,266	1,495	2,258	2,235
Seeds and Planting Material Production	161	93	97	227	640	727
Research and Development	310	342	367	138	211	321
Extension and Training	64	76	63	87	112	115
Water Management	4,267	862	754	229	162	6
<b>Total</b>	<b>25,671</b>	<b>37,852</b>	<b>38,545</b>	<b>33,345</b>	<b>55,317</b>	<b>62,528</b>

\* This includes public expenditure on fertilizer subsidy programme in reference year and deferred payment of the same programme  
Source : Department of National Budget

### 8.2.4.2 Irrigation for Water Management

The total irrigated land area is about 744,983 ha. of which, 311,195 ha is fed by the minor irrigation schemes while the remainder is fed by major and medium scale reservoirs. Total expenditure of this sector in 2012 amounted to Rs. 33 billion of which Rs.30 billion was on capital expenditure. During 2007 – 2012, total investment in irrigation sector amounted to Rs. 117 billion of which Rs. 96 billion has been on capital expenditure and this enabled to add additional 24,674 ha of irrigable extent to the cultivated extent during 2007-2012 period. This investment has helped to reduce the rural poverty from 15.2 percent in 2006/07 to

9.4 percent in 2009/10. Further it has declined to 7.5 percent in 2012/13 (HIES) preliminary results 2012/13) During 2007-2012, significant amount of public expenditure was utilized to complete the construction work on 9 major and 19 medium multipurpose irrigation schemes such as Menik ganga (Weheragala reservoir), Kekiri Obada, Weli Oya, Wemedilla and Ellapothana Anicut. Capacity of the reservoirs has also been increased during this period by 2,125 MCM while improving most of the existing reservoirs which had a water shortage.

Table 8.40 > **Irrigation Sector Investment**

Rs. Bn

Description	2007	2008	2009	2010	2011	2012
Service Delivery	2.62	2.84	2.94	3.04	3.20	3.30
Construction of Major& medium schemes	3.53	4.41	8.46	3.59	7.11	20.66
Improvement of Irrigation Infrastructure	2.42	3.79	3.71	4.70	5.74	6.54
Operation & Maintenance /watershed management	1.24	1.60	1.45	1.59	2.30	2.35
Research & Development -Feasibility Studies	0.31	0.94	0.72	0.64	0.87	0.29
<b>Total</b>	<b>10.12</b>	<b>13.58</b>	<b>17.28</b>	<b>13.56</b>	<b>19.22</b>	<b>33.14</b>

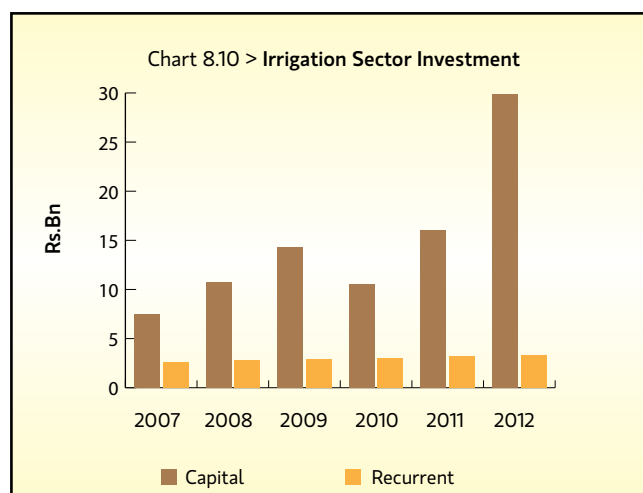
Source : Department of National Budget

Table 8.41 > **Irrigation Schemes in Sri Lanka**

Scheme	No. of schemes	Irrigable Extent (Ha)	Capacity (MCM)
<b>Department of Irrigation</b>			
Major Irrigation Schemes	336	264,538	3,624
Lift Irrigation	7	2,040	
Flood protection & Salt water exclusion	62	29,841	
<b>Mahaweli system</b>			
Multipurpose Irrigation	7	99,300	742
Irrigation & Hydro Power	7		2,101
<b>Provincial Irrigation schemes</b>			
Major and Medium schemes	98	38,069	820
Minor Irrigation ( Tanks & Anicuts)	29,369	311,195	1,400
<b>Total</b>	<b>29,886</b>	<b>744,983</b>	<b>8,687</b>

Source : Ministry of Irrigation and Water Resources Management

The construction of 19 ongoing multipurpose irrigation schemes are in progress to harness the optimum use of water increasing total irrigable extent up to 759,505 ha by 2015 ensuring water availability to cultivate throughout the year. Of which, the construction works of the projects such as Deduru Oya and Rambukkan Oya reservoirs are in progress to complete by 2013, increasing the water



Source : Department of National Budget

retention capacity by 150 MCM facilitating to cultivate 12,400 ha and generating 1.5 MW hydro power. Major projects such as Uma Oya Diversion and Moragahakanda and Kaluganga projects are also in progress aiming to complete by 2016, with the capacity of 810 MCM, irrigating 103,500 ha, of which 20,500 ha of new lands and generating 140 MW hydro power.



Table 8.42 > **Projects Completed in 2012**

No	Name of the Project	Project Output /Benefits		Total Cost (Rs. Mn)
		Beneficiary extent (ha)	Beneficiary families	
01	8 major, 12 medium and 80 minor irrigation schemes were rehabilitated in Anuradhapura, Kurunegala, Matale and Puttalam districts during 2006 -2012 under the Pro - Poor Economic Advancement & Community Enhancement Project	16,733	25,000	6,273
02	Wemedilla Reservoir	720	1,354	335
03	Ellapothana Anicut	625	1,038	300
<b>Total</b>		<b>18,078</b>	<b>27,392</b>	<b>6,908</b>

Source: Ministry of Irrigation and Water Resources Management

Table 8.43 > **Projects Commenced in 2012**

No	Name of the Project	Project Output /Benefits			Total Cost (Rs. Mn)
		Beneficiary extent (ha)	Beneficiary families	Hydro Power (Capacity) (MW)	
01	Digili Oya Reservoir	2,000	3,200	0.12	1,460
02	Ellewewa Reservoir	450	1,000	0.7	470
03	Extention of Kaudulla Stage II Ella up to Damsopura Wewa	748	939		369
04	Gonagala Thenna Tank	146	53		55
05	Kalugal Oya Reservoir	1,500	1,400		1,517
06	Kumbukkan Oya Reservoir (Nakkala)	5,200	500		10,500
07	Lower Malwathu Oya Multisector Development Project	13,215	10,000		10,000
08	Morana Reservoir (Across Ulhitiya)	2,722	2,800		1,700
09	Nape Udawathura reservoir (Kadukanna)	81	150		40
10	Rideemaliyadda Integrated Development	3,000	15,000		1,100
11	Thalpitigala Reservoir (Lower Uma Oya)	605	16,633	12	5,500
12	Weli Oya Development Project (Kivul Oya)	2,400	2,400		6,000
13	Wilakandiya Reservoir Restoration	275	250		81
<b>Total</b>		<b>32,342</b>	<b>51,125</b>	<b>13</b>	<b>38,792</b>

Source: Ministry of Irrigation and Water Resources Management

Table 8.44 &gt;Ongoing Projects

No	Name of the Project	Project Output /Benefits			Total Cost (Rs. Mn)
		Beneficiary extent (ha)	Beneficiary families	Hydro Power (Capacity MW)	
01	Moragahakanda and Kaluganga Reservoir	81,422	200,000	20	64,358
02	Uma Oya Diversion Project	6,000	5,000	120	76,316
03	Dam Safety and Water Resources Planning Project	of the selected 80 dams, rehabilitate 32 high risk dams and equipped with modern meteorological equipment			7,739
04	Deduru Oya Reservoir	11,000	11,000	2	6,200
05	Rambukkan Oya Reservoir	1,423	1,500		2,500
06	Menik Ganga (Weheragala)	5,000	5,000		2,900
07	Mahaweli Consolidation Project (System B Rehabilitation)		4,000		2,800
08	Mahagona Wewa Project	250	500		70
09	Lower Uva Project	790	2,500		550
10	Gurugal Oya Project	810	2,400		400
11	Gal Oya Navodaya Project	42,000			1,260
12	Yan Oya Project	5,600	6,000		22,200
13	Essential Rehabilitation in selected Major Irrigation Scheme	11,500	17,800		1,000
<b>Total</b>		<b>165,795</b>	<b>255,700</b>	<b>142</b>	<b>188,293</b>

Source: Ministry of Irrigation and Water Resources Management

## De-Siltation Programme 2012

The country has experienced a severe drought condition in 2012. The government has geared a massive irrigation rehabilitation programme in drought - hit - rural areas. The steps were taken to dredging and de-silting of major irrigation reservoirs in order to increase capacity of water held by them.

### De-siltation of reservoirs and tanks;

Around 1,253 existing reservoirs and tanks have been de-silted, increasing 7,348 ac.ft of additional capacity that supported the

cultivation of more than 10,000 acres. The Government has allocated around Rs 3 billion for de-silting programme for 2012.

### Enhance water recharging and capacity enriching ground water:

The rehabilitation of selected nine siltation forest tanks in Polonnaruwa district was completed along with the tank de-siltation programme. Out of the total water retention capacity of the siltation tanks, 40 percent will be used for irrigated agriculture leaving 60 percent for other purposes and to sustain the environment.

Table 8.45 > **Number of Tanks De-silted in 2012**

<b>Selected Reservoirs and Tanks</b>	<b>Nos.</b>	<b>Additional Water Storage Capacity after De-siltation (Acre Feet)</b>
<b>Anuradhapura District</b>		
Major irrigation Reservoirs		
<i>Kala Wewa</i>	01	750
Medium/Minor irrigation Schemes	749	1,352
<b>Polonnaruwa District</b>		
Major irrigation Reservoirs		
<i>Giritale Wewa</i>	01	500
Medium/Minor irrigation Schemes	34	50
Cascade tanks	08	3,324
<b>Kurunegala District</b>		
Major irrigation Reservoirs		
<i>Magalla Wewa</i>	01	200
<i>Batalagoda Wewa</i>	01	200
<i>Hakwatuna Wewa</i>	01	200
Medium/Minor irrigation Schemes	307	540
<b>Puttlam District</b>		
Minor irrigation Schemes	130	242
<b>Vavuniya District</b>		
Minor irrigation Schemes	20	20
<b>Total</b>	<b>1,253</b>	<b>7,378</b>

Source: Ministry of Irrigation and Water Resources Management

Table 8.46 > **Number of De-silted Forest Cascade Tanks in 2012**

<b>Name of the Siltation Tanks</b>	<b>Capacity (acre feet)</b>	<b>Name of the Siltation Tank</b>	<b>Capacity (acre feet)</b>
Koongatewewa	2,838	Bogahawewa	16
Ihalaheeratioya	760	Puwakgaha Ulpahawewa	1,378
Ridee Ella	2,024	Pay kulama	810
Pahalaheeratioya	1,093	Aron bass wewa	915
Galserugollawewa	202		

Source: Ministry of Irrigation and Water Resources Management

## Feasibility Studies in Progress

Continuation of 25 ongoing feasibility studies such as Gin-Nilwala diversion and North-Central Province Canal (NCP) are also in progress to be completed by 2020 to find out ways and means of allocating unused water in the wet zone to water shortaged dry areas.

Table 8.47 > **Major Feasibility Studies in Progress**

<b>Scheme</b>	<b>Location</b>	<b>Cost (Rs.Mn.)</b>	<b>Scheme</b>	<b>Location</b>	<b>Cost (Rs.Mn.)</b>
North Central Province (NCP) Canal/ Moragahakanda/ Kaluganga	North Central Province	120,000	Weli Oya (System L) Development	Anuradhapura, Mullativu, Vavunia	9,415
Kaluganga reservoir	Kanthalai, Trincomalee	1,517	Basnagoda reservoir	Gampaha	2,500
Kaluganga reservoir project	Rathnapura	10,000	System A development (Allai -Kantale Development)	Allai	400
Lower Malwathu Oya reservoir project	Mannar, Anuradhapura	10,000	Nakkala reservoir	Monaragala	10,500
Gin Nilwala Diversion project	Galle, Matara	55,125	Extension of Kaudulla left bank main canal upto Damsopurawewa project	Kaudulla	370
MaduruOya Right Bank Feasibility updates(System B)	Batticaloa	38,500	Development of MaduruOya Left Bank balance area (System B)	Batticaloa	13,836

Source: Ministry of Irrigation and Water Resources Management

### Box 8.4 > **Stakeholder Consultation Process for the Annual Budget Preparation**

In preparation of the national budget and related development policies, the promotion of consultative dialogue with stakeholders has been recognized by the government under the Mahinda Chinthana Policy Framework. Keeping with this policy thrust, His Excellency the President, with the participation of the Cabinet of Ministers, carried out a number of consultative sessions, with private sector representatives from national and regional levels in following sectors:

- Emerging Private Sector Entrepreneurs in Sri Lanka
- All Island Farmer Community
- All Island Traders
- Trade Unions
- State Universities
- Provincial Councils and Local Government Authorities
- All Island Women Entrepreneurs
- Construction & Heavy Industry Sector
- Organization of Professional Associations (OPA)
- Chambers and Trade Associations in Sri Lanka
- Chamber of Young Lankan Entrepreneurs (COYLE)

Follow up consultation sessions in relation to meetings chaired by His Excellency the President and participated by Cabinet of Ministers were carried out on the following areas with the line Ministries and private sector organizations by senior officials of the Ministry of Finance and Planning led by the Secretary to the Treasury.

- Emerging Private Sector Entrepreneurs
- Exporters
- SME Forum
- Tourism Cluster
- Apparel Cluster
- Coconut Growers
- Investment Facilitation
- Fruit & Vegetable Growers/Exporters
- Colombo MBA Alumni Association
- Colombo Stock Exchange
- Three Wheeler and Lorry/Truck Driver's Associations
- Banking and Financial Sector
- Construction & Heavy Industry Sectors
- Gem and Jewellery Cluster
- Cosmetic Manufacturers
- Agriculture, Livestock and Related Services
- Vehicle Importers Association
- Ceramic Sector
- Traders
- Regulatory Agencies

## Box 8.5 &gt; Project Management and Monitoring

## Overview

In the context of a large number of projects being implemented in terms of annual Public Investment Programme while improving the performance of public finance, the role of Project Management and Monitoring has become important in Public Financial Management as a tool to ensure resources earmarked for public investments are utilized in an efficient and effective manner.

Accordingly, continued efforts are being taken to improve project management cycle to ensure timely completion within the budget. In this backdrop, improvement of project readiness, early preparation of procurement documentation process, minimizing the duplication of systems and procedures between lending and implementing agencies, standardization of contract documents, timely intervention to address bottlenecks during project implementation with the assistance of integrated web based monitoring system, improvement in disbursement of funds, frequent reviews and at site monitoring are instrumental to get project implementation on track.

As a result of such initiatives the number of projects which are either temporary suspended (halted) or project implementation are prolonged beyond time targeted (behind schedule) has been decreased while the projects which have been completed within the budgeted time or the time extended (on schedule) have moved in the upward direction during 2009 – 2012 period.

Table B.8.5.1 &gt; Projects Completed “On Schedule” during 2009-2012

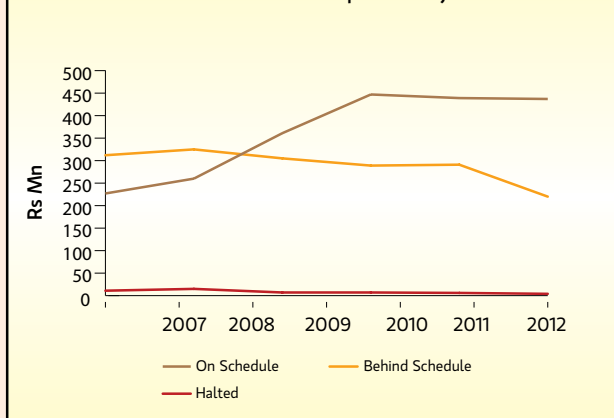
Sector	Project	TCE Rs. mn.
Transport	Hambantota International Airport Development Project (GOSL & China)	22,990
	National Highways Sector Project (GOSL & ADB)	27,000
Water supply	Nuwara Eliya District Group Town (GOSL & DANIDA)	4,259
	Towns South of Kandy WS (GOSL & DANIDA)	9,626
	Eastern Coastal Towns of Ampara District WS Phase II (GOSL & AUSTRALIA)	11,078
Power and Energy	Power Sector Development Project – Part B (GOSL & ADB)	433
	Norochcholai Coal Power Plant Project – Phase 1 (GOSL & China)	54,240
	Rehabilitation of Ukuwela Power Station (GOSL & JBIC)	1,415
	Energy Diversification Enhancement Project – Phase 1 (GOSL & JICA)	1,155
	Weheragala Reservoir Project	2,900
Agriculture and Irrigation	Kekiri Obada Reservoir	445
	Wemedilla Reservoir	335
	Ellapothana Anicut	300
	Sustainable Water Assistance Management Project (GOSL & Australia)	1,749
Education	Technical Education Development Project (GOSL & ADB)	2,667
	Construction of Para Clinical Building complex/ Rajarata University	330

Contd...

Sector	Project	TCE Rs. Mn.
Health	Supply of Medical Equipment to the Teaching Hospital Kurunegala and other hospitals in Sri Lanka (GOSL & Austria)	2,052
	Improvement of Curative Healthcare Services at Teaching Hospital Anuradhapura (GOSL & JICA)	3,670
	Improving the Efficiency of Operation Theaters and provision of Oxygen Concentrators (GOSL & France)	3,105
Governance	Equal Access to Justice Project (GOSL & UNDP)	420
	Administrative Complex - Hambantota (GOSL & KOREA)	2,980
Regional Development	North East Housing Reconstruction Program (GOSL & World Bank)	18,925
	Improvement of Rural Access Roads and Livelihood Development for the Poor (GOSL & ADB)	235
	Provincial Road Improvement Project (GOSL & JBIC)	8,504
Social Infrastructure	Construction of Sports School	64
	Construction of Museum cum Visitor Center at Kataragama	63
	Dahampaya Building	489
	Conservation of Ancient Ramparts in Galle Fort	137

Source: Department of Project Management and Monitoring

Chart B.8.5.1 &gt; Classification of Development Projects Over Rs. 50 Mn



Source: Department of Project Management and Monitoring

**Performance:**

Out of 1, 570 on-going projects implemented in 2012 under various sectors, 199 projects were financed through foreign resources to the value of US \$ 1,986 million, while the balance projects were financed from domestic funds.

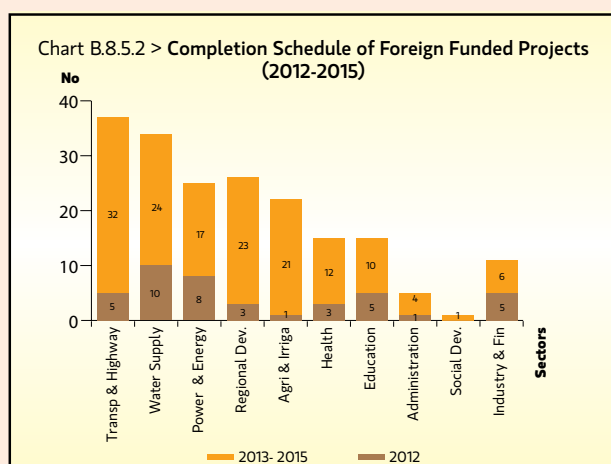
Table B.8.5.2 &gt; Ongoing Projects – 2012

Sector	Total	Foreign	Local
Transport & Highways	590	37	553
Water Supply	88	34	54
Power and Energy	40	25	15
Regional Development	89	27	62
Agriculture & Irrigation	179	27	152
Health	94	15	79
Education	132	17	115
Administration	231	05	226
Social Development	62	01	61
Industry and Finance	65	11	54
Total	1570	199	1371

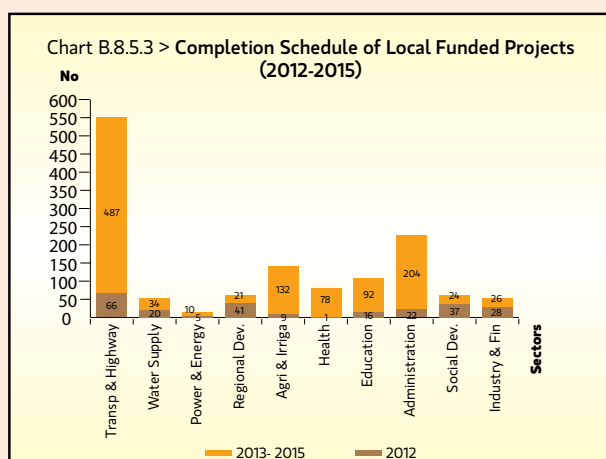
Source: Department of Project Management and Monitoring



These projects which generally take 3-5 years construction phase are at various stages of completion. Around 956 projects have been earmarked to complete during the next three years.



Source: Department of Project Management and Monitoring



Source: Department of Project Management and Monitoring

The Table B.8.5.3 depicts the category of investment based on the size.

Table B.8.5.3 > **Projects Based on Size of Investment**

Financing (Rs. Mn)	>500	500- 50	< 50	Total
Foreign	142	28	29	199
Local	139	473	759	1,371
Total	281	501	788	1,570

Source: Department of Project Management and Monitoring

Despite adverse effects of severe frequent floods in recent years in many parts of the island, continued progress has been recorded in 2012 in terms of both physical and financial performance of infrastructure development projects such as expressways, roads, airports, ports, irrigation, water supply schemes, electricity, housing and townships development.

Table B.8.5.4 > **Performance during 2006 - 2012**

<b>Sector</b>	<b>Progress / Outcome</b>
<b>Road</b>	Among the completed road projects, Southern express way with 96 km, a further 33,500 km of roads to the road network through several road projects with approximately 6,500 km of national roads, 4,000 km of provincial roads and 23,000 km of rural roads have been upgraded to motarable level. Completed 05 flyovers, 49 major bridges and 158 minor bridges.
<b>Water supply</b>	Completed several water supply projects such as, Greater Kandy, Towns South of Kandy, Nuwaraeliya group water supply, Hambantota, Polonnaruwa Batticaloa, Negombo and Kelani right bank water treatment plants increasing pipe born water connections to 1.6 million in 2012 from 1 million in 2006 benefitting 680,000 households to access quality drinking water.
<b>Power and Energy</b>	Completion of 300 MW coal power and Kerawalapitiya hydro transmission contributed to increase the total installed capacity to 3,350 MW in 2012 from 2,434 MW in 2006. Rural electrification projects accordingly has increased its electrification level to 93 percent in 2012.
<b>Housing</b>	Built around 15,000 housing units under Janasevana programme in 2012. In addition, around 66,000 housing units were completed under various programmes such as fishery community housing programme, resettlement of IDPs, relocation of underserved settlements and plantation area housing programme.
<b>Irrigation</b>	Rehabilitated 4,000 minor tanks, facilitating to cultivate 80,000 ha of irrigable extent. Constructed 28 multi-purpose major and medium irrigation schemes such as Weheragala (Menik ganga ), Kekiri Obada and Wemedilla reservoirs, increasing the water storage capacity by 2,125 Million Cubic Meters facilitating to cultivate additional 24,674 ha of irrigable extent.
<b>Health</b>	Initiated 1,000 hospital development programme in 2012. Completed major hospital development projects including, Jaffna and Matara- Godagama hospitals, improvements carried out in 2008 maternity homes island wide increasing community health of rural population and distribution of medical supplies and ambulances.
<b>Education and Higher Education</b>	Completed construction of 1,678 schools under the first phase of 5000 Feeder School Programme and 35 school projects were completed and started functioning. Under the first phase of 1000 Secondary School Development Programme 78 schools reported 90 percent completion. With regard to Higher Education Sector, 11 projects were completed improving the infrastructure facilities of laboratories, libraries and computer units in universities. Introduced modern curriculum to improve the quality of technological education under the Higher Education for the Twenty First Century Project.
<b>Port Development</b>	Out of four port development projects, completed three mega projects ie. Colombo Port Expansion Project by increasing container handling capacity to 7.2 million from 4.2 million, Magampura Mahinda Rajapaksa Port Development Project and Olivil Port Development Project were completed and functioning.
<b>Aviation</b>	Mattala International Airport Development Project completed and vested to the Public. Completed the 1st phase of the expansion of Bandaranaike International Airport (BIA) Development. The 2nd phase of BIA has also been commenced parallelly.

Source: Department of Project Management and Monitoring

### Availability of Human Resources in project implementation.

In accordance with the Circular instructions of the government, most of the foreign funded projects with the cost over US \$ 5 million and projects which are locally funded over Rs. 500 million are implemented with the assistance of the Project Management Units. Though, about 281 number of projects come under these categories, Cadre rationalization of the PMUs shows less progress.

In the absence of PMUs, some projects use Force – Account procurement method whereas they use their own employees for technical expertise and equipment in-house. These in turn have more ownership, responsibility and sustainability of development projects. Moreover, this would accrue project experience among government officials that could be used for some other projects as well.

Table B.8.5.5 > **Distribution of Foreign Human Resources in Foreign Funded Projects (>US\$ 5 Mn.)**

No. of Projects	Category	Approved	Existing	Gap
63 Foreign Funded projects	Managerial	380	314	66
	Technical	988	642	346
	Primary (Non-Technical)	1,728	1,330	398
Total		3,096	2,286	810

Source: Department of Management Services and Relevant Line Ministries

At present, the total number of deployed cadre engaged in 63 development projects in which were surveyed is 2,286. However, the gap between approved and existing positions is 810. About 43 percent of this gap is mainly due to the difficulties in filling of the positions for skilled technical personnel.

Even though, the approvals have been granted to fill vacancies in most of the projects implemented in various sectors, technical and professional categories such as engineers, agronomists, environmentalists, procurement specialists and technicians are still found unfilled due to remuneration concerns and administrative bottlenecks. Difficulties in recruitment of skilled technical personnel categories have become one of the impediments hampering the implementation of many projects.

### Measures taken:

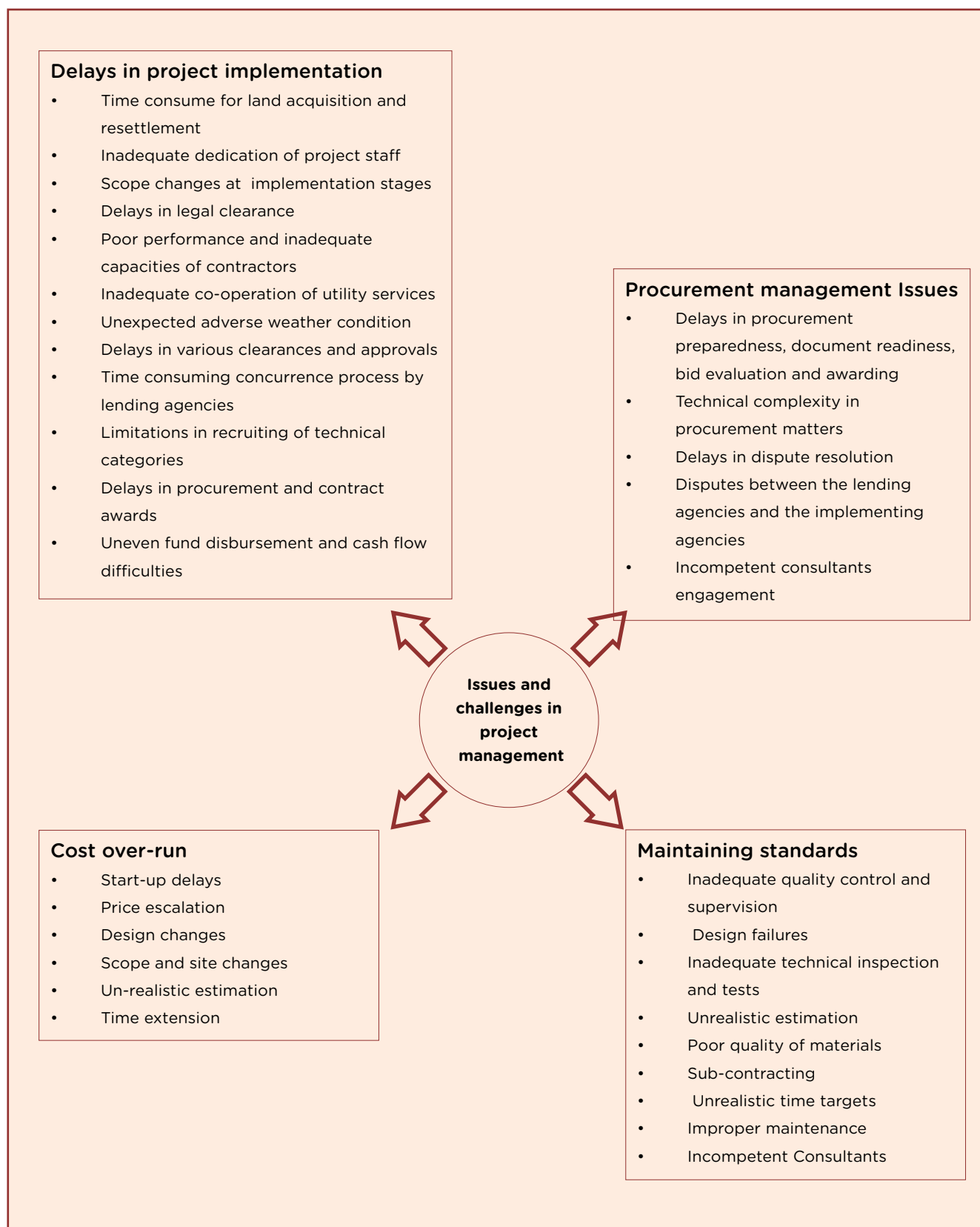
- Steps are being taken to revise relevant Circulars (MSD/10 & 33) and Financial Regulations and the Establishment Code to enhance the flexibility of managing development activities as well as the human resources capacity in project management and an integral part of relevant agencies.
- Allowances are being revised to attract various technical personnel to engage them in project activities.

Table B.8.5.6 > **Progress, Issues and Challenges in Projects**

<b>Sector</b>	<b>Progress, Issues and Challenges</b>
<b>Transport</b>	Out of 37 foreign financing projects, 28 projects ie. road (18), port (3), aviation (1) and transport (6) were on schedule and 9 projects which consist of 07 roads, 01 port, and 01 transport were behind the schedule.
<b>Water Supply</b>	Among the 31 foreign financing water supply projects, 20 were reported “behind schedule” due to delays in procurement (6), land acquisition (3), procedural approval (5) and poor performance of contractors (2).
<b>Power and Energy</b>	All 25 foreign financing projects come under (08) power generation (09) transmission and (08) distribution, twenty projects were reported as on schedule. Five projects which were behind the schedule were due to delays in legal clearance (Broadland Hydro Power Plant), signing loan agreements (Trincomalee Coal Power Project), supply of materials (Lighting Sri Lanka Projects in Uva, and northern provinces), procurement and land acquisition (Clean Energy and Access Improvement Project)
<b>Health</b>	Out of 15 projects implemented in the areas of hospital development 12 projects were on non-communicable diseases and 3 were communicable diseases. Of which, 12 projects were on schedule and balance three projects were reported issues such as defects and delays in procurements
<b>Education</b>	Except one project, all education, higher education and technical and vocational education projects implemented under foreign financing were on schedule. However, “Education for Knowledge Society” Project was granted extension to overcome the difficulties in shortage of construction materials, and inadequate contractors to carry out project activities in the Northern Province.
<b>Irrigation</b>	Out of 9 major foreign financing “on schedule” projects, 03 projects were reported implementation delays due to re-tendering of consultancy contracts (Moragahakanda and Kaluganga reservoirs project), difficulties encountered in foreign currency transactions (Uma Oya Diversion project) and delays in recruiting consultants (Dam Safety and Water Resources Planning project). Out of 28 domestic financing projects many projects reported delays due to lack of effective coordination among the implementing agencies, absence of skilled human resources and land acquisition problems. In addition, most of the projects were reported cash flow difficulties. Heda Oya Project halted because of disagreement between various parties.

Source: Department of Project Management and Monitoring

Following are the issues and challenges in various stages of project implementation which have to be addressed to ensure the achievement of medium term development expectations.



## 8.3 Public Expenditure Management

Among the tools that have been employed for prudent public expenditure management by the Treasury, the Budgetary Support Services and Contingent Liabilities (Treasury Miscellaneous Vote - TMV) was one of the instrument to prevent submission of supplementary budget estimates to manage various unforeseen urgent requirements during the year.

This instrument capturing an aggregate sum at the time of budget formulation based on past trends enable the Treasury to recognize such a provision as part of expenditure and accordingly plan the budget deficit and other targets. Overlooking such provision tends to influence fiscal targets adversely and compel the Government to take ad-hoc measures.

### 8.3.1 Commitment Control

The realization of fiscal and development outcome requires a sound public financial management. It has been observed that commitments are being entered into by various spending agencies without consultation and the verification of the budgetary provisions from the Treasury. In this context, the medium term budget formulation process has been developed to plan and prioritize such expenditure accordingly. It also requires greater coordination among the spending agencies and the Treasury to ensure that expenditure plans are carried out within budgetary ceilings. Accordingly, commitment controls based on the provisions in the budget, procurement cycle, contract management, financial disbursements etc. are being adopted and streamlined to ensure improved public financial management in addition to using imprest control systems.

The management of fuel / electricity expenditure, has been made through Budget Circular No. 156 dated 16.02.2012 to ensure the recurrent expenditure in particular, of the approved budget is not exceeded. This circular has been issued in realizing the national responsibility of all Government Institutions to give priority and extend fullest co-operation to consume fuel and electricity economically in view of the revision of oil prices and electricity tariff in the context of high international prices and cost of imports. The expected main objectives in increasing these prices are to reduce the amount of foreign exchange that is being spent annually to import oil for generating energy. Hence, economization of such expenditure in the process of public service delivery is unavoidable.

Accordingly, all the secretaries of line ministries are responsible to ensure that the expenditure on fuel and electricity of institutions operating within their purview, are managed within the provisions made in the estimate and also based on the expenditure incurred for these items in January 2012 as a benchmark, without exceeding such limits. For this purpose, all government institutions had to ensure the curtailment or minimizing the usage of the number of pool vehicles that are being used for daily office management, fieldwork, seminars, workshops etc. Further, it was essential to ensure that the expenditure on fuel, electricity and air-conditioners are being made cost effective and desired outcomes are achieved, recognizing the national priority of energy conservation.

### 8.3.2 Procurement of Vehicles to the Public Sector

Recognizing the need for management control and efficiency in providing vehicles

to the government agencies, the Cabinet of Ministers on 30/08/2010 granted approval for purchasing of vehicles to government agencies under the financial leasing method. This was implemented through by the Department of National Budget Circular No. 150 of 07/12/2010. This method was applied as a part of cash flow management as the cost of vehicles could be spread over a period of 5 years and at the end, the vehicle becomes an asset of the concerned agency.

Accordingly the Department of National Budget has been purchasing vehicles for government agencies by calling for competitive bidding from the state leasing companies of Bank of Ceylon (BoC) and the People's Leasing Company; a subsidiary leasing company of People's Bank (PLC).

Table 8.48 > **Vehicle Procurement under Financial Leasing Method - 2011 - 2012**

Category of Vehicle	Number of Vehicles
Vans	250
Motor Cars	625
Double Cabs	1,148
Utility Vehicles (SUV)	27

Source: Department of National Budget

Accordingly 2,050 vehicles have been purchased at a cost of Rs. 8,500 million during the period of 2010- 2012 on leasing installments to be paid over a 5 year period in equal monthly installments. The purchased vehicles

have been distributed among government agencies on the basis of a need assessment conducted by the Department of National Budget in consultation with relevant agencies.

## 8.4 Public Investment Plan 2013 – 2015

The protection of Public Investment around 6 percent of GDP and sustaining spending on education, health, rural development and welfare, while targeting Poverty Free Sri Lanka in 2015, are the main strategic objectives of the medium term investment strategy. The government investment within the period of 2013 – 2015 has been clustered under four main thrust areas i. e. Agrarian Economy, Infrastructure, Human Capital and Private Sector Development. Targeted total public investment during this period is around Rs. 2 trillion. A major share of this investment accounting for nearly 60 percent will be directed towards the infrastructure development in roads, power and energy, irrigation, water, ports and transport. The second largest share of total planned investment is for the development of human capital through public expenditure on education and health as well as for social protection, housing, sports and science and technology. The third area of investment is for developing and maintaining an agrarian economy which is based on agriculture, fisheries, livestock and environment. A share of investment will also be earmarked in support of private sector development in plantation, promotion of industries and attracting investment for tourism industry and a range of related services.



Table 8.49 > **Public Investment Plan (Tentative) 2013-2015**

Major Thrust Areas		Investment (Rs. Mn)				2013-15 Total
		2010-12 Annual Average	2013	2014	2015	
Agrarian Economy						
Agriculture	Increase production of paddy, field crops (OFCs), vegetables and fruits and importation of OFCs such as Green gram, Ground nut, Gingerly, Black gram and Maize to be replaced with local production.	2,524	1,445	2,050	2,250	5,745
	Provision of fertilizer and the promotion of organic fertilizer to substitute chemical fertilizer.	37,128	48,155	50,000	50,000	148,155
	Agriculture extension, Training, Research and Development	1,195	2,537	2,800	3,000	8,337
		40,847	52,137	54,850	55,250	162,237
Fisheries	Completion of the construction of 4 new fishery harbours and upgrading 7 existing fishery harbours	1,507	3,280	4,400	4,750	12,430
	Increase in inland fish production, and aquaculture and provide support for institutional and livelihood development	1,116	1,907	2,170	2,322	6,399
		2,623	5,187	6,570	7,072	18,829
Livestock	Increasing the number of cattle population to 2 million and promoting dairy industry	674	2,100	4,400	5,100	11,600
	Animal health improvement and research programme	128	300	400	500	1,200
		802	2,400	4,800	5,600	12,800

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		Investment (Rs. Mn)				
	Major Thrust Areas	2010-12 Annual Average	2013	2014	2015	2013-15 Total
Environment	Increase the forest coverage to 35 percent of the total land area with the conservation of biodiversity by 2020	933	1,108	433	582	2,123
	Increase the solid waste management through strengthening facilities of Local Authorities, private entrepreneurs and other institutions	1,250	1,304	1,430	1,500	4,234
	Improve human elephant cohabitation by increasing the protected areas from 14 percent to 25 percent of total land area	639	741	775	800	2,316
	<b>Total</b>	<b>2,822</b>	<b>3,153</b>	<b>2,638</b>	<b>2,882</b>	<b>8,673</b>
<b>Infrastructure</b>		<b>47,094</b>	<b>62,877</b>	<b>68,858</b>	<b>70,804</b>	<b>202,539</b>
Irrigation	Completion of the construction of 34 major and medium irrigation schemes	11,671	26,390	35,234	42,142	103,766
	Rehabilitation of irrigation schemes including Minor Tanks Rehabilitation	4,680	6,900	8,274	9,511	24,685
	Operations and maintenance, water management, research and feasibility studies	1,803	3,900	4,312	4,636	12,848
		<b>18,154</b>	<b>37,190</b>	<b>47,820</b>	<b>56,289</b>	<b>141,299</b>
Water	Increase the pipe borne water coverage by 10 percent	29,100	30,037	33,800	34,100	97,937
	Reduction of Non Revenue Water share to 20 percent of total water production	1,800	2,038	3,780	6,000	11,818
	Increase the access of piped wastewater discharging facilities from 2.3 percent to 3 percent	4,500	4,620	8,500	12,500	25,620
		<b>35,400</b>	<b>36,695</b>	<b>46,080</b>	<b>52,600</b>	<b>135,375</b>

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		Investment (Rs. Mn)				
	Major Thrust Areas	2010-12 Annual Average	2013	2014	2015	2013-15 Total
Power & Energy	Achieve 100 percent electrification island wide and reduction in transmission losses	10,268	57,512	35,561	17,610	110,683
	Increase installed capacity to 4,000 MW by 2016	11,839	12,369	9,862	8,943	31,174
		<b>22,107</b>	<b>69,881</b>	<b>45,423</b>	<b>26,553</b>	<b>141,857</b>
Roads	Construction of 600 km of expressways	27,897	30,210	35,000	35,850	101,060
	Improvement and rehabilitation of national roads, provincial roads and reconstruction major bridges	72,108	101,894	120,478	107,742	330,114
	Increase road durability by routine and periodic maintenance	6,718	7,500	8,450	9,100	25,050
	Upgrading rural roads	13,170	17,054	18,592	19,140	54,786
	Institutional strengthening, research and development	3,800	5,815	7,332	8,235	21,382
		<b>123,693</b>	<b>162,473</b>	<b>189,852</b>	<b>180,067</b>	<b>532,392</b>
Transport	Enhance the efficiency of the public transportation by reconstruction of 250km/ construction of 100 Km of rail lines and maintain the bus fleet at 6,000 to provide 40 percent of bus transportation by CTB.	26,756	64,692	46,150	29,650	140,492
	Increase safety and reliability	2,840	3,822	3,740	4,050	11,612
		<b>29,596</b>	<b>68,514</b>	<b>49,890</b>	<b>33,700</b>	<b>152,104</b>
Seaports and Airports	Enhance the passenger and cargo handling capacity by improving and expanding infrastructure facilities in ports and air ports	23,525	15,900	22,200	16,500	54,600
		<b>23,525</b>	<b>15,900</b>	<b>22,200</b>	<b>16,500</b>	<b>54,600</b>
Urban and Township Development	Enhancing greener and cleaner urban environment to the people in Sri Lanka by developing network of urban townships	4,320	7,285	14,602	17,658	39,545
		<b>4,320</b>	<b>7,285</b>	<b>14,602</b>	<b>17,658</b>	<b>39,545</b>

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Major Thrust Areas		Investment (Rs. Mn)				2013-15 Total
		2010-12 Annual Average	2013	2014	2015	
Regional Development	Empowering households to engage in gainful economic activities- (Creating self-reliance household backyard economy)- DiviNeguma	3,010	2,075	2,850	2,900	7,825
	Empowering villages providing, supporting infrastructure facilities- GamaNeguma	28,095	29,086	31,921	32,043	93,050
	Development of emerging regions - PuraNeguma	25,583	30,122	40,550	44,084	114,756
	Provincial Specific Development grants to address provincial disparities.	8,972	7,063	10,817	9,784	27,664
		<b>65,660</b>	<b>68,346</b>	<b>86,138</b>	<b>88,811</b>	<b>243,295</b>
<b>Total</b>		<b>322,455</b>	<b>466,284</b>	<b>502,005</b>	<b>472,178</b>	<b>1,440,467</b>
<b>Human Capital</b>						
Health	Development of infrastructure and equipment to provide quality curative healthcare services.	13,579	18,700	19,800	21,000	59,500
	Improvement of preventive healthcare services	1,533	4,500	5,100	6,500	16,100
	Nutrition intervention programmes	1,146	1,800	1,900	2,100	5,800
		<b>16,258</b>	<b>25,000</b>	<b>26,800</b>	<b>29,600</b>	<b>81,400</b>
Sports	Construction of sports complexes at national and district level and develop sports facilities Island wide.	1,538	2,643	2,850	3,100	8,593
		<b>1,538</b>	<b>2,643</b>	<b>2,850</b>	<b>3,100</b>	<b>8,593</b>

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		Investment (Rs. Mn)				
	Major Thrust Areas	2010-12 Annual Average	2013	2014	2015	2013-15 Total
Education	Development of 1,000 secondary, 5,000 feeder primary and 1,590 small and isolated schools network and rehabilitation, reconstruction of schools, teacher training and deployment and quality improvements in education	8,217	14,175	13,589	16,000	43,764
	Development of universities with necessary facilities and establishment of university townships	4,296	9,900	11,627	11,525	33,052
	Providing soft skills and entrepreneurial skills training for youth	5,759	2,513	3,446	4,523	10,482
	Improve the institutional capacity to provide vocational skills training to all youth who require employable skills by 2017	2,698	1,762	1,866	1,940	5,568
		<b>20,970</b>	<b>28,350</b>	<b>30,528</b>	<b>33,988</b>	<b>92,866</b>
Science and Technology	Promote economic development through high tech infrastructure	1,107	2,600	2,680	2,740	8,020
	Research and development through effective technology transfers and stakeholder participation	965	1,300	1,420	1,510	4,230
		<b>2,072</b>	<b>3,900</b>	<b>4,100</b>	<b>4,250</b>	<b>12,250</b>
Social Protection	Pension payments to public servants	101,213	129,000	140,000	153,000	422,000
	Reducing malnutrition level among pregnant and lactating mothers and children by providing additional nutrient meals	9,017	7,204	8,500	8,725	24,429
	Improve livelihood standard among poor by providing income supplementary and support services	11,380	15,738	15,808	15,958	47,504
	Protect elderly and disabled persons by providing financial assistance, assistive devices and community based rehabilitation	14,565	17,275	17,943	18,705	53,923
		<b>136,175</b>	<b>169,217</b>	<b>182,251</b>	<b>196,388</b>	<b>547,856</b>

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		Investment (Rs. Mn)				
	Major Thrust Areas	2010-12 Annual Average	2013	2014	2015	2013-15 Total
Housing	Upgrading housing facilities for Vulnerable groups	4,820	5,000	5,000	8,000	18,000
	Strengthen the construction of regulatory institutions to improve quality standards	235	274	313	331	918
		<b>5,055</b>	<b>5,274</b>	<b>5,313</b>	<b>8,331</b>	<b>18,918</b>
	<b>Total</b>	<b>182,068</b>	<b>234,384</b>	<b>251,842</b>	<b>275,657</b>	<b>761,883</b>
<b>Private Sector Development</b>						
Plantation	Promotion of replanting, new planting and intercropping of plantation crops	1,590	2,395	3,412	2,416	8,223
	Research and development, marketing promotion, capacity building and pest and disease control	398	639	698	581	1,918
		<b>1,988</b>	<b>3,034</b>	<b>4,110</b>	<b>2,997</b>	<b>10,141</b>
Industries	Promotion of exports through food and agriculture, footwear, apparel, handloom, electronic, fisheries and mineral products and industries in sugar, dairy, pharmaceuticals, furniture, renewable energy, ceramics and service industries,	374	920	864	950	2,734
	Development of Industrial Estates and Promotion of Industrial Production Villages	267	479	480	440	1,399
	Development of Traditional Industries	126	275	342	223	840
		<b>767</b>	<b>1,674</b>	<b>1,686</b>	<b>1,613</b>	<b>4,973</b>
Tourism	Increasing foreign earnings by tourism as FDIs and private sector created tourism related employment.	1,010	2,211	4,272	2,447	8,930
		<b>1,010</b>	<b>2,211</b>	<b>4,272</b>	<b>2,447</b>	<b>8,930</b>
	<b>Total Capital Expenditure for Promotion of Private Sector Development</b>	<b>3,765</b>	<b>6,919</b>	<b>10,068</b>	<b>7,057</b>	<b>24,044</b>
<b>Grand Total</b>		<b>555,382</b>	<b>770,464</b>	<b>832,773</b>	<b>825,696</b>	<b>2,428,933</b>

These provisions include only capital expenditure. The service delivery expenditure connected with each sector is provided in the

recurrent provisions in accordance with the scale of operation and in line with the need assessment.





09

# PROCUREMENT REVIEW 2012

## 9.1 Overview

The total provision for government spending, including debt repayment for the year 2012, amounts to Rs.2265 billion. This comprises Rs. 1,131 billion for current payments and Rs. 1,134 billion for capital payments, including debt repayments. The current payment other than the purchase of new goods and services largely contributes to obligations such as salaries, pensions and interest payments and does not involve new procurements. Household transfers and

welfare payments are made in accordance with a set of relevant conditions. The provision for capital payments on account of debt repayment and ongoing capital works too do not require procurements as commitments have already made and payments are made in terms of contract management. Hence, in 2012 engagement of procurement process was limited to Rs. 480 billion which accounted for 21.2 percent of the total spending provisions in the budget.

Table 9.1 > **Government Expenditure in 2012**

Expenditure Category	Provisions (Rs. Bn.)	Actual (Rs.Bn.)	Share (%)
Salaries and Wages	353	348	16.0
Pensions	112	112	5.0
Other Goods and Services	142	140	6.4
Interest Payments	411	408	18.6
Social Transfers and Subsidies	113	110	5.0
Public Investment	529	471	21.5
Debt Repayments	605	603	27.5
<b>Total</b>	<b>2,265</b>	<b>2,192</b>	<b>100.0</b>

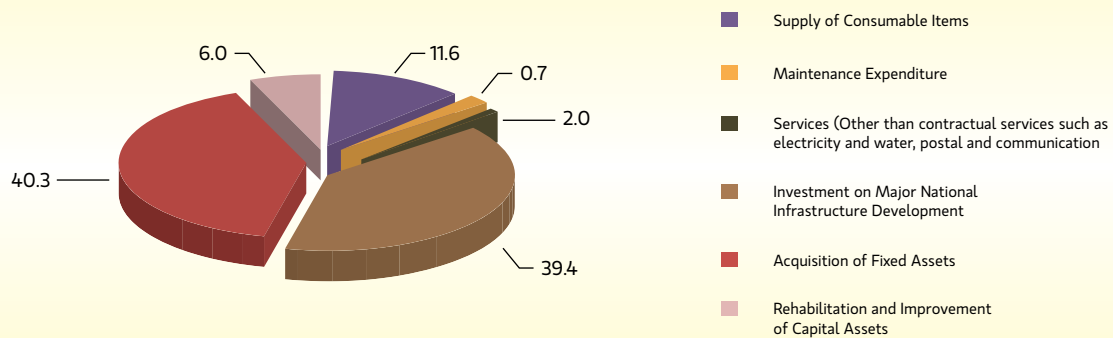
Source: Department of National Budget

Table 9.2 > **Budgetary Provisions for Public Procurement in 2012**

Expenditure Category	Provided in the Budget (Rs.Bn.)	Actual (Rs. Bn.)	Share (%)
<b>Current</b>	<b>69</b>	<b>62</b>	<b>14.3</b>
Supply of Consumable Items	53	50	11.6
Maintenance Expenditure	4	3	0.7
Services (Other than contractual services such as electricity and water, postal and communication)	12	9	2.0
<b>Capital</b>	<b>411</b>	<b>370</b>	<b>85.7</b>
Investment on Major National Infrastructure Development	186	170	39.4
Acquisition of Fixed Assets	192	174	40.3
Rehabilitation and Improvement of Capital Assets	33	26	6.0
<b>Total</b>	<b>480</b>	<b>432</b>	<b>100.00</b>

Source: Department of National Budget

Chart 9.1 &gt; Procurement by Expenditure Category as a percentage



## 9.2 Administration of Public Procurement

In order to ensure a transparent and cost effective procurement system when government agencies acquire goods, works and services, the government follows 2006 Guidelines on Public Procurement, as amended. This procurement system permits the delegation of authority to administer procurement activities within the value thresholds setup for each authority level

of procurement committees as explained in the Table 9.3. Accordingly more than 1000 procurement committees had been established in respect of 202 government institutions, including ministries, departments, special spending units, district secretariats and Provincial Councils involved in procurements related responsibilities at the end of 2012. These committees were comprised with representatives from government institutions, private sector and academia who have expertise in a wide range of disciplines.

Table 9.3 > **Value Thresholds of Procurement Committees**

Committee Level	Value Threshold (Rs.Mn.)	
	Domestic Funds	Foreign Funds
Cabinet Appointed Procurement Committee (CAPC)	150Mn and above	500Mn and above
Cabinet Appointed Consultancy Procurement Committee (CACPC)	100Mn and above	200Mn and above
Cabinet Appointed Negotiation Committee (CANC)	150Mn and above	500Mn and above
Standing Cabinet Appointed Procurement Committee (SCAPC)	150Mn and above	500Mn and above
Ministry Procurement Committee (MPC)	Up to 150Mn	up to 500Mn
Department Procurement Committee (DPC)	Up to 50Mn	up to 150Mn
Regional Procurement Committee (RPC)	Up to 5Mn	up to 5Mn

The number of these committees involved in procurement process in 2012 under respective line ministries and departments is shown in Table 9.8 at the end of this chapter.

### 9.3 Establishment of Standing Cabinet Appointed Procurement (Special) Committees

With the purpose of improving procurement process relevant to normal limits in each ministries to make time efficient procurement, Standing Cabinet Appointed (Special) Procurement Committees (SCAPCs - Special) have been appointed for major ministries for the procurement of goods, works, services and

consultancy services. These committees are also permitted to function as Cabinet Appointed Negotiating Committees (CANCs) if negotiations are involved. Members of those SCAPCs and CANCs are nominated considering their relevant areas of expertise. Accordingly, 24 SCAPCs (Special) have been formed with five members per committee depending on their areas of expertise with the approval of the Cabinet of Ministers.

Table 9.4 > **Standing Cabinet Appointed Procurement Committees (Special) functioned during the Year 2012**

Name of the Ministry	Purpose
Health	Procurement of pharmaceuticals
Health	Procurement of non pharmaceuticals
Water Supply & Drainage	Domestic and multilateral fund related procurements
Water Supply & Drainage	Bilateral fund related procurement
Economic Development	All procurements at CAPC threshold
Power & Energy	All procurements at CAPC threshold
Petroleum Industries	Procurement of petroleum & petroleum related products

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Name of the Ministry	Purpose
Defence & Urban Development	All procurements at CAPC threshold including departments and statutory bodies coming under its purview
Finance & Planning	All procurements at CAPC threshold
Ports & Highways	Highway projects involving of domestic funds
Ports & Highways	Highway projects involving d funds from bilateral sources
Ports & Highways	Highways projects involving funds from multilateral sources
Ports & Highways	Ports development activities
Agrarian Services & Wildlife	Purchase of fertilizer
Transport	All procurements at CAPC threshold
Construction, Engineering Services, Housing and Common Amenities	All procurements at CAPC threshold
Civil Aviation	All procurements at CAPC threshold
Higher Education	All procurements at CAPC threshold
Public Administration and Home Affairs	All procurements at CAPC threshold
Education	All procurements at CAPC threshold
Irrigation and Water Resources Management	All procurements at CAPC threshold
Local Government and Provincial Councils	All procurements at CAPC threshold
Disaster Management	All procurements at CAPC threshold
Plantation Industries	All procurements at CAPC threshold

## 9.4 Procurement Planning Committees

Recognizing the scale of expenditure, physical operations, market volatilities and importance of timely availability, the following procurement planning committees have been appointed to assist the SCAPCs to ensure timely and cost effective procurements are undertaken based on proper need assessment and time schedules to ensure smooth spending on those sources.

- Procurement Planning Committee for pharmaceuticals under the Ministry of Health.
- Procurement Planning Committee for Fertilizer under the Ministry of Agrarian Services and Wildlife
- Procurement Planning Committee for Petroleum and Petroleum related Products under the Ministry of Petroleum Industries.

These Committees are expected to provide procurement planning and strategies to concerned ministries and agencies to ensure that procurement committees are engaged in such a planned framework.

## 9.5 Technical Evaluation Committees

Technical Evaluation Committees (TEC) which include experts of relevant fields to make recommendations to the procurement committees are appointed on a case by case basis.

During the year under review, 71 CAPCs , 06 CACPCs and 01 CANC have been appointed to deal with major procurements commenced in 2012.

Table 9.5 > **Procurement Committees Commenced During the year 2012**

Procuring Entity	Number of Committees and Estimated Procurement Value (Rs. Mn)									
	CAPC		CACPC		CANC		SCAPC		Total	
	Number of Committees	Value	Number of Committees	Value	Number of Committees	Value	Number of Committees	Value	Number of Committees	Value
Ministry of Agrarian Services and Wildlife	1	208.0	-	-	-	-	-	-	1	208.0
Ministry of Agriculture	1	300.0	-	-	-	-	-	-	1	300.0
Ministry of Civil Aviation	2	4,227.5	-	-	-	-	1	200.0	3	4,427.5
Ministry of Defence & Urban Development	7	3,695.8	-	-	-	-	6	92,209.3	13	95,905.1
Ministry of Economic Development	-	-	-	-	-	-	1	310.0	1	310.0
Ministry of Education	3	10,974.0	-	-	-	-	4	4,663.0	7	15,637.0
Ministry of Environment	1	500.0	-	-	-	-	-	-	1	500.0
Ministry of Foreign Employment Promotion and Welfare	1	275.0	-	-	-	-	-	-	1	275.0
Ministry of Health	2	1,431.8	1	211.0	-	-	3	847.6	6	2,490.4
Ministry of Higher Education	4	1,222.0	-	-	-	-	5	3,696.8	9	4,918.8
Ministry of Industry and Commerce	1	2,000.0	-	-	-	-	-	-	1	2,000.0
Ministry of Irrigation and Water Resources Management	-	-	1	765.7	-	-	-	-	1	765.7
Ministry of Justice	1	200.0	-	-	-	-	-	-	1	200.0
Ministry of Local Government and Provincial Councils	2	15,727.0	1	247.5	-	-	2	1,250.0	5	17,224.5
Ministry of Petroleum Industries	3	2,305.4	-	-	-	-	-	-	3	2,305.4
Ministry of Plantation Industries	-	-	-	-	1	100	-	-	1	100.0
Ministry of Ports and Highways	17	310,027.6	2	8,047.9	-	-	10	25,072.0	29	343,147.5
Ministry of Power and Energy	7	33,493.5	1	379.0	-	-	8	5,474.8	16	39,347.3
Ministry of Public Administration and Home Affairs	1	200.0	-	-	-	-	-	-	1	200.0
Ministry of State Resources and Enterprise Development	1	482.3	-	-	-	-	-	-	1	482.3
Ministry of Technology and Research	1	245.0	-	-	-	-	-	-	1	245.0
Ministry of Transport	4	1,460.0	-	-	-	-	1	966.0	5	2,426.0
Ministry of Water Supply and Drainage	10	62,256.5	-	-	-	-	5	5,436.1	15	67,692.6
Presidential Secretariat	1	267.0	-	-	-	-	-	-	1	267.0
<b>Total</b>	<b>71</b>	<b>451,498.4</b>	<b>6</b>	<b>9,651.1</b>	<b>1</b>	<b>100</b>	<b>46</b>	<b>140,125.6</b>	<b>124</b>	<b>601,375.1</b>

Table 9.6 > **Major Procurements Handled by Procurement Committees in 2012**

Procurement Entity	Procurement Name	Authority Level	Estimated Value (Rs. Mn)
Ministry of Defence & Urban Development	Greater Colombo Urban Transport Development Project-Township Development Component (outer circular highway project)	CAPC	1,319.0
	Defence Head Quarters Construction Project-(DHQCP) Akuregoda	SCAPC	60,000.0
Ministry of Education	Design & Build Contract (Designing and Constructing 836 Technological Laboratory Buildings (IT/Language/Mathematics/Distance Learning Centre) under 1000 Secondary Schools Development Programme/Mahindodaya Technological Laboratory Programme	CAPC	7,524.0
	Printing of School Textbooks and Additional Reading Books for year 2013	CAPC	2,400.0
Ministry of Health	Construction of OPD Clinic Building Phase I (Balance works) Castle Street Hospital for Women	SCAPC	264.0
	Procurement of Examination Gloves (in three sizes) from local manufacturers on long term basis	SCAPC	207.8
	Purchasing of 124 Nos. of Ambulances under JICA Funds	CAPC	659.0
Ministry of Higher Education	Construction of 9 storied building (Phase 4) for Faculty of Medical Science, University of Sri Jayawardenepura	SCAPC	874.0
Ministry of Ports & Highways	Pro-poor Eastern Infrastructure Development Project Construction of Kallady Bridge	CAPC	700.0
	Rehabilitation of National Highways with Concrete Surfacing through Domestic Contractors Widening and reconstruction of B-275, Matara -Hakmana Road (0+000-24+140km)	CAPC	1991.0
	Rehabilitation and Upgrading of Naula-Ehale Laggala-Pallegama-Hettipola Road (B312) and Hasalaka-Handungamuwa Road	SCAPC	3,365.0
Ministry of Power & Energy	Purchase of Spare Parts for 108,000 Rhr Major Overhauls of Engine No.5-8 and 96,000 Rhr Major Overhauls of Engine No.9-12 at Sapugaskanda Power Station	SCAPC	758.0
Ministry of Transport	Procurement of 200 Nos. Small Buses to SLTB for rural areas	CAPC	650.0
Ministry of Water Supply & Drainage	Construction of New Water-Treatment Plant and Storage Structures with Supply & Installation of Pumps, Automatic System and M&E Equipment in Vavunia-Dry Zone Urban Water & Sanitation Project	CAPC	1430.2
	Tender for Supply & Laying of DI,HDPE Transmission Main and Distribution System in Puttalam Water Supply Scheme, Dry Zone Urban Water and Sanitation Project	CAPC	1072.5



## 9.6 Procurement in the Medium Term – 2012-2014

Three key ministries have been committed for Rs.507 billion of procurement of projects which have to be completed within the 2012-2014 medium term. Ministry of Ports and Highways, being the leading infrastructure development agency, has administered Rs.343 billion of highest procurement transactions in relation to major road construction works. Ministry of Defence and Urban Development committed to Rs.96 billion of procurement on construction of buildings and development of township infrastructure while Ministry of Water Supply and Drainage has committed Rs.68 billion on major water supply projects implemented in dry zones covering Anuradhapura, Vavuniya and Manthiv areas. In addition most procurement committees which are in progress are required to complete their procurement process before end of 2013.

## 9.7 Policy Changes in Public Procurements in 2012

In the context of rapid public and private investments taking place in present stage

of development, the need for a systematic approach in identification, management and monitoring outcome has been recognized in order to improve overall public financial management in the country. In this regard, steps have been taken to strengthen the role of National Planning Department in project identification, evaluation and approval and National Budget Department to formulate the budget in a 3 year medium term framework and Project Management and Monitoring Department to monitor the entire project cycle, including a close watch on Contract Management. The Government Procurement Guidelines are also being updated taking into consideration of new demands in the field of public procurement. This in turn is expected to strengthen the procurement framework to a more accountable, cost effective and time efficient. In this context, public procurement procedure was further streamlined in 2012 by introducing a number of changes to the Government Procurement Guidelines. Among these, the following changes are noteworthy;

Table 9.7 > **Highlights of the Changes Introduced to the Government Procurement Guidelines in 2012**

Theme	Policy Direction	Action
Administration of cost overrun	Review the scope, time, quantity, price and other reasons attributable to cost variation and make recommendations	Public Finance Circular No 02/2012 of 07.08.2012 - Establishment of Contract Cost Examination Committee (CEEC)
Strengthening of appeal process	Ensure transparency and consistency in selection process	Supplement 24 dated 21.03.2012 to the Procurement Guideline – 2006 – Section 8.2.1
Simplifying shopping procedure for foreign missions	Recognize the different procurement methods used in the foreign countries and different price structures prevail in those markets	Supplement 27 dated 08.08.2012 to the Procurement Guideline – 2006 – Section 3.4.5
Promote participation of local community based organizations (CBOs) in government development works	Encouraging CBOs to achieve specific socio and economic objectives such as creating employment opportunities in identified geographical areas and employment of under utilized local resources in those geographical areas	Public Finance Circular No. 01/2012 of 05.01.2012

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Assessment of standalone or unsolicited development proposals	Bridging the gap between increasing fund requirement for development projects of national interest and funds raise through concessionary bilateral lending sources as funds from the latter is no longer easy	Public Finance Circular No.444(i) dated 16.05.2011-Establishment of Standing Cabinet Appointed Review Committee (SCARC)
Appointment of members to the Technical Evaluation Committees (TECs)	Limit the appointments per member for 3 committees at a given time to pay desired attention to every aspect of the procurement	Supplement 26 dated 08.08.2012 to the Procurement Guideline - 2006 - Section 2.8

Tabel 9.8 > **Procurement Committees Functioned in 2012**

Procuring Entity	Number of Committees						
	CAPC	CACPC	CANC	SCAPC	MPC	DPC	RPC
Ministry of Agrarian Services and Wildlife	1	-	-	1	1	2	-
Ministry of Agriculture	1	-	-	-	1	1	-
Ministry of Buddha Sasana and Religious Affairs	-	-	-	-	1	6	-
Ministry of Child Development and Women's Affairs	-	-	-	-	1	1	-
Ministry of Civil Aviation	2	-	-	1	1	-	-
Ministry of Coconut Development & Janatha Estate Development	-	-	-	-	1	2	-
Ministry of Construction, Engineering Services, Housing and Common Amenities	-	-	-	1	2	14	7
Ministry of Co-operatives and Internal Trade	1	-	-	-	3	5	-
Ministry of Culture & the Arts	-	-	-	-	1	2	-
Ministry of Defence & Urban Development	7	-	1	1	5	20	21
Ministry of Disaster Management	-	-	-	1	1	1	-
Ministry of Economic Development	-	-	-	1	1	4	-
Ministry of Education	3	-	-	1	2	17	4
Ministry of Environment	1	-	-	-	1	1	-
Ministry of External Affairs	-	-	-	-	1	-	-
Ministry of Finance and Planning	-	-	-	1	1	21	-
Ministry of Fisheries and Aquatic Resources Development	-	-	-	-	1	1	-
Ministry of Foreign Employment Promotion and Welfare	1	-	-	-	1	1	-
Ministry of Health	2	1	-	2	4	1	51

*contd...*

Procuring Entity	Number of Committees						
	CAPC	CACPC	CANC	SCAPC	MPC	DPC	RPC
Ministry of Higher Education	4	-	-	1	2	17	-
Ministry of Indigenous Medicine	-	-	-	-	2	1	-
Ministry of Industry and Commerce	1	-	-	-	2	-	-
Ministry of Irrigation and Water Resources Management	-	1	-	1	1	1	-
Ministry of Justice	1	-	-	-	2	-	-
Ministry of Labour and Labour Relations	-	-	-	-	1	2	-
Ministry of Lands and Land Development	-	-	-	-	1	1	-
Ministry of Livestock and Rural Community Development	-	-	-	-	2	8	4
Ministry of Local Government and Provincial Councils	3	1	1	1	7	4	-
Ministry of Mass Media and Information	-	-	-	-	1	-	-
Ministry of Minor Export Crop Promotion	-	-	-	-	1	1	-
Ministry of National Heritage	-	-	-	-	1	4	-
Ministry of National Languages and Social Integration	-	-	-	-	1	1	-
Ministry of Parliamentary Affairs	-	-	-	-	1	-	-
Ministry of Petroleum Industries	3	-	-	1	1	-	-
Ministry of Plantation Industries	-	-	-	1	1	1	-
Ministry of Ports and Highways	17	4	1	4	4	2	109
Ministry of Postal Services	1	-	-	-	1	1	11
Ministry of Power and Energy	8	3	2	1	5	6	9
Ministry of Private Transport Services	-	-	-	-	1	1	-
Ministry of Productivity Promotion	-	-	-	-	1	2	-
Ministry of Public Administration and Home Affairs	1	-	-	1	1	2	-
Ministry of Public Management Reforms	-	-	-	-	1	-	-
Ministry of Public Relations & Public Affairs	-	-	-	-	1	-	-
Ministry of Rehabilitation and Prison Reforms	-	-	-	-	1	2	-
Ministry of Resettlement	-	-	-	-	1	-	-
Ministry of Social Services	-	-	-	-	1	1	-
Ministry of Sports	-	-	-	-	1	1	-
Ministry of State Resources and Enterprise Development	1	-	-	-	1	-	-
Ministry of Technology and Research	1	-	-	-	1	7	-
Ministry of Telecommunication & Information Technology	-	-	-	-	1	1	-

*contd...*

Procuring Entity	Number of Committees						
	CAPC	CACPC	CANC	SCAPC	MPC	DPC	RPC
Ministry of Traditional Industries and Small Enterprise Development	-	-	-	-	1	-	-
Ministry of Transport	4	-	-	1	1	2	-
Ministry of Water Supply and Drainage	8	-	-	2	1	2	29
Ministry of Youth Affairs & Skills Development	-	-	-	-	1	14	7
Presidential Secretariat	1	-	-	-	1	-	-
Prime Minister's Office	-	-	-	-	1	1	-
Secretariat for Senior Ministers	-	-	-	-	1	1	-
Other Special Spending Units					19	19	-
District Secretariats	-	-	-	-	-	25	332
Provincial Councils	-	-	-	-	-	-	-
<b>Total</b>	<b>73</b>	<b>8</b>	<b>4</b>	<b>24</b>	<b>105</b>	<b>237</b>	<b>584</b>



10

# CADRE MANAGEMENT IN THE PUBLIC SECTOR

## 10.1 Overview

Public Sector Human Resource Management requires the support of a well structured cadre to deploy employees in a cost effective manner. *Mahinda Chinthana Development Policy Framework* emphasizes a pivotal role by the public sector in country's social and economic development with the special recognition in uplifting rural economy, developing human resources and improving public service delivery to the people. In keeping with this overall policy emphasis and thrust, the actual public service cadre at national level as well as provincial and local level devolved administration and district, divisional and village level decentralized administration has been increased from 1,146,000 in 2006 to 1,279,849 in 2012. The cadre composition comes under public sector which consists of ministries, departments, institutions, state enterprises including banks and financial institutions, provincial and local authority level establishments and security forces is given below.

Table 10.1 > **Public Sector Cadre Composition - 2012**

Administrative Level	Approved Cadre	Actual Cadre
National	956,009	900,916
Provincial	334,877	329,652
Local Authorities	50, 685	49,281
Total	1, 341, 571	1,279,849

Source : Department of Management Services

The actual utilization of the approved cadre was 95.4 percent due to retirement about 40,000 during 2011 and 2012 and delay in recruitment, promotion and appointment due to procedural reasons. This suggests better planning in the overall cadre management.

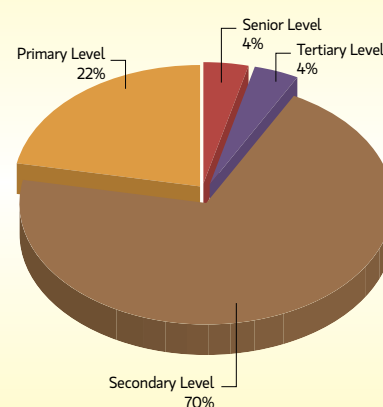
## 10.2 Service Level Distribution

Public service is provided under four main levels of staff comprising senior level, tertiary

level, secondary and primary levels. This classification is based on the government sector salary structure revised by the Presidential Commission on Salaries and Cadres implemented in 2006 with the Public Administration Circular No.06/2006 following the recognition of the proposal to introduce a new salary structure in government services.

Employees performing basic functions in janitorial, electrical, transportation, communication systems, etc. to facilitate the carrying out of activities of the government agencies are brought under the category of primary level. The employees who facilitate and assist the administrative and managerial and a wide range of service deliveries come under the secondary level. They include development officers, management assistants, teachers,

Chart 10.1 > **Classification of Cadre of Public Sector by Service Level**



Source : Department of Management Services

nurses, police officers, etc. Administrative officers, and other supervisory grades, etc. are in tertiary level. The senior level comprised Secretaries, Head of the Departments, other executives, judicial and law officers as well as medical officers.



Table 10.2 > **Public Sector Cadre Composition by Service Level - 2012**

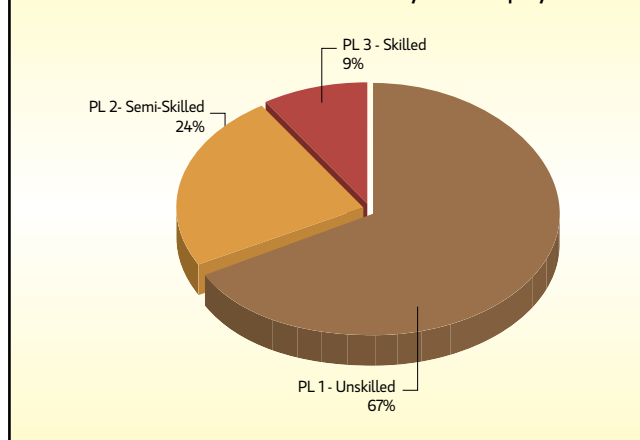
Administrative Level	Service Level				Actual Cadre
	Senior	Tertiary	Secondary	Primary	
National	35,771	35,771	641,574	187,800	900,916
Provincial	13,675	15,632	239,553	60,792	329,652
Local Authorities	996	734	15,606	31,945	49,281
<b>Total</b>	<b>50,442</b>	<b>52,137</b>	<b>896,733</b>	<b>280,537</b>	<b>1,279,849</b>

Source : Department of Management Services

The secondary level represents 70 percent of the total public sector workforce considering the nature of public services and public policy which recognize equal access to education and health services for the population throughout the country and significant level of grassroots level operations targeting poverty reduction, agriculture extension, environmental conservation, wildlife and forestry, etc. Prolonged terrorist threat in selected parts in the country has also contributed to strengthen national security cadres majority of whom fall within this level to provide security and stability in the country. Twenty two percent are engaged in primary level to assist next layers of public service. Reflecting a geographically well distributed administrative network throughout the country, the balance is engaged in administrative, supervisory and managerial positions captured in tertiary and senior level of administration each of which represent four percent of public service.

As per the above classification, the highest share of national and provincial council level is denoted by the secondary level staff representing devolved and decentralized administration of education, health, agriculture, irrigation, postal and social services.

Primary level category represents a higher percentage of 65 percent of the total cadre of local authorities which provides essential and community based services to the public such as street cleaning, waste management and provision of other common amenities. Primary level comprises three groups as unskilled, semi-skilled and skilled based on the competence level. Unskilled employees represent the major share of the entire primary level employees.

Chart 10.2 > **Classification of Primary Level Employees**

Source : Department of Management Services

Unskilled employees are not required to possess any vocational training or tradesmanship of any nature in performing their duties as an entry qualification. Functions such as Carpentry, Masonery, Painting etc. which require industrial skills, fall into the category of functions performed by semi-skilled personnel. Personnel who perform functions which required to obtain a certificate having followed an industrial training course are considered as skilled personnel. As observed in chart 10.2, the percentage of unskilled labourers is 67 as against the 9 percent skilled personnel. Primary level unskilled category consists of sanitary labourers, watchers and office aides who perform supportive services to the entire public service.

Employees in senior level are recruited through a Scheme of Recruitment, while their transfers, promotions and disciplinary inquiries are governed under the Public Service Commission. Appointments to the senior level Heads of Department positions are made by the Cabinet of Ministers while Secretaries are appointed by the President in terms of obligations of the constitution, respectively.

### 10.3 Sectoral Distribution

The sectoral distribution of employment of the public service depends on the government policy, priorities and role of the service facilitation.

As shown in Table 10.3, the largest share of 33 percent of public sector employment is engaged in the security, law and order services to fulfill the primary responsibility of the government to ensure national security as well as a stable and orderly society for economic and social progress. The education

*Mahinda Chinthana Development Policy Framework emphasizes a pivotal role by the public sector in country's social and economic development with the special recognition in uplifting rural economy, developing human resources and improving public service delivery to the people.*

sector represents 23 percent and health sector represents 10 percent reflecting the government commitment to promote free education and health services throughout the country to ensure access to education and healthcare services. The employment rate of the health sector in central government is 47 percent as against 53 percent in the Provincial Councils and Local Authorities. As there is a development in teaching hospitals with specialized facilities to provincial needs, the central government has a considerably high share in health sector.

Table 10.3 > **Classification of Cadre by Sectors - 2012**

Sector	Central Government <sup>1</sup>			Provincial Councils	Local Authorities	Total	Percentage
	Public Service	Semi Government	Commercial Entities				
Security, Law & Order	41,9918	2,028	2,118	-	-	424,064	33
Civil Administration	46,754	4,345	1,917	28,712	16,977	98,705	8
Education	37,477	30,183	-	222,628	-	290,288	23
Health	60,085	179	2,618	60,190	9,871	132,943	10
Social Development	12,302	3,356	-	2,607	7,000	25,265	2
Agriculture	34,468	7,993	6,367	9,972	44	58,844	4
Industry & Commerce	7,540	7,846	8,627	1,765	-	25,778	2
Infrastructure	49,974	49,832	82,947	3,778	15,389	201,920	16
Banking	-	-	22,042	-	-	22,042	2
<b>Total</b>	<b>668,518</b>	<b>105,762</b>	<b>126,636</b>	<b>329,652</b>	<b>49,281</b>	<b>1,279,849</b>	<b>100</b>

Source : Department of Management Services

In the education sector, the share of employment in the Provincial Councils and Local Authorities is 77 percent as against 23 percent in the central government. The central government employment in the education sector consists of principals and teachers in national schools, university staff, staff of colleges of education, staff of vocational training institutes, and staff of Teacher Training Schools. Since the government development policy framework considers the integrated infrastructure development as the key to promote regionally balanced development and

reduce poverty, 91 percent of the cadre in infrastructure sector is employed under the central government.

#### 10.4 Professions

Human resources profile of public sector includes several professional service categories such as Medical, Legal, Accountancy, Engineering and Technical. During the last decade, a gradual increase in these categories has been made in support of development activities and broadening multi disciplinary skills in public services.

<sup>1</sup>Central government consists of pensionable public service, semi government i.e. universities, budgetary funded corporations and statutory boards; and government owned business enterprises including state banks.

Table 10.4 > **Classification of Cadre of Public Sector by Professions - 2012**

Profession	National	Provincial	Local Authorities	Total
Engineer	3,653	331	117	4,101
Technical Officer	3,176	216	1,333	4,725
Doctor	9,628	6,404	77	16,109
Nurse	19,891	10,270	53	30,214
Public Health Inspector	134	1,272	248	1,654
Family Health Officer (Midwife)	1,094	7,282	327	8,703
Veterinary Surgeon	75	385	19	479
Lecturer	6,454	-	-	6,454
Teacher	31,201	188,587	-	219,788
Administrator	3,782	588	175	4,545
Accountant	1,416	312	98	1,826
Management Assistant	16,677	9,658	5,857	32,192
Karyala Karya Sahayaka	103,626	2,377	1,862	107,865

Source : Department of Management Services

Since all the schools, except national schools, are coming under the purview of Provincial Councils, 86 percent of the total number of teachers is administered by Provincial Councils. Teacher recruitments have increased to provide wider range of subjects in Mathematics, Science, English and Information Technology. Teacher student ratio has also improved from 1:19 in 2006 to 1:18 in 2012.

In the backdrop of post conflict development and restoration of services in the conflict affected areas targeting the expansion of health services at district level, there has been an upward trend in the recruitment of doctors and other service personnel. Accordingly, population served by a doctor has decreased to 1,187 persons to a doctor in 2012 from 2,104 in 2006. Similarly, the number of nursing personnel has also increased while the facilities in hospital services have improved. Hence, the number of persons to a nurse has progressively reduced to 680 in 2012 from 813 in 2006. With a view to strengthen the preventive healthcare and maternal and child healthcare, action has been taken to

double the number of Family Health Officers (Midwives) to 8,703 in 2012 from 4,819 in 2006. Further the number of Public Health Inspectors has increased to 1,654 by the year 2012, indicating that the health sector has been able to improve the quality of its service delivery, especially at community level.

Most of the agricultural and veterinary officers who scattered throughout the country deliver services under provincial level as well as under central government and implement extension programmes at grassroots level. In addition to the services performed by the Provincial Councils and Local Authorities, there are officers engaged by the government in decentralized services at divisional and village level to provide basic administrative services in livelihood and poverty reduction programmes. The operational cadre engaged in such services at the end of 2012 is given in Table 10.5. Accordingly, there are four officers who are assigned to provide key services at village level and at the same time eight officers are mainly engaged in extension and awareness at divisional level.

Table 10.5 > **Field Officers at Village and Divisional Levels**

	<b>Officer Group</b>	<b>Operational Cadre-2012</b>
<b>Officers at Village Level</b>	Grama Niladari	10,671
	Samurdhi Development Officer	12,192
	Agriculture Research and Production Assistant	8,849
	Family Health Officer (Midwife)	5,378
	<b>Sub Total</b>	<b>37,090</b>
<b>Officers at Divisional Level</b>	Coconut Development Officer	196
	Rubber Development Officer	114
	Tea Inspector	182
	Agriculture Instructor	984
	Veterinary Surgeon	465
	Livestock Development Instructor	625
	Social Service Officer	514
	Child Rights Promotion Assistant	279
	<b>Sub Total</b>	<b>3,359</b>
	<b>Total</b>	<b>40,449</b>

### 10.5 Creation of New Posts and Filling of Vacancies during 2012

The creation of new posts and permission to fill vacancies in the approved cadre is done having given due regards to exigencies of services, emerging demands in new areas of work and budgetary implications as it connects with the permanent cost unlike contract jobs which work in accordance with “sunset principle”. Uneven distribution of public servants between urban and rural areas and difficulties in implementing a systematic deployment and transfer system also a matter of concern when requests for the creation

of new posts and filling of vacancies are made. Considering the service requirements in government agencies to fill skills gaps, almost 50,000 new posts were created in 2012 based on need assessments carried out by the Department of Management Services on each of such requests in consultation with ministries, departments and Provincial Councils. These requests were primarily for teachers on specific subjects and specific geographical areas, nursing, labour relations, agrarian development, technical categories and languages and prevailing cadre limitations in terms of service demand.

Table 10.6 > **Creation of New Posts in 2012**

Institution	No. of Posts	Percentage
Ministries	30,106	61
Departments	8,004	16
Provincial Councils	11,047	23
<b>Total</b>	<b>49,157</b>	<b>100</b>

Source : Department of Management Services

Out of the total number of posts created, 61 percent of posts was created for ministries while 23 percent was created for Provincial Councils. The approval has been granted for the creation of new posts to recruit qualified staff in selected categories particularly to teaching and rural centric development programmes. Moreover, actions have been taken to recruit development officers following the compiling of Development Officers' Service Minute to be deployed in areas where their services are in highly demand and to engage such recruitment from unemployed graduates in development activities. The creation of 2,700 posts of teachers and 25,201 posts of Development Officers is significant among 30,106 new posts created for ministries in 2012. The implementation of "Divi Neguma" programme covering almost 14,022 Grama

Niladhari divisions and link that National to Divisional and District secretariats, 16,478 posts of Development Officers were created for the Ministry of Economic Development. Further, 1,610 posts for the Department of Land Commissioner General and 2,500 posts for the Department of Agrarian Development were created to facilitate the decentralized operations of the agencies at field level. During 2012, approval has been granted to fill 8,952 vacancies.

In consideration of the exigencies of service, approval was granted to fill the vacancies of 526 posts of Public Management Assistant and 200 posts of Assistant Engineer for the Ministry of Public Administration and Home Affairs and Ministry of Irrigation and Water Resources Management, respectively.

Table 10.7 > **Filling of Vacancies in 2012**

Institution	No. of Posts	Percentage
Ministries	2,838	32
Departments	2,765	31
Provincial Councils	3,349	37
<b>Total</b>	<b>8,952</b>	<b>100</b>

Source : Department of Management Services

*With the expansion of infrastructure development initiatives in recent years in irrigation, road development, power generation and transmission, ports and airport development, housing and urban development, the number of engineers and technical officers in the public sector have increased considerably.*

### Box 10.1

#### Review of Provincial Councils Cadre

A cadre review of Provincial Councils was carried out by the Department of Management Services in 2012 to address their cadre needs and to ensure efficient and effective service delivery to the public by Provincial Councils with the co-operation of officials of the Ministry of Local Government and Provincial Councils, National Salaries and Cadres Commission and the Finance Commission. The review was carried out by evaluating the work load, and their relevance, recruitment systems and qualifications, relevant salary scales and designations and budgetary implications.

Table B.10.1.1 > **Revised Cadre of the Provincial Councils**

Provincial Council	Population	No. of Districts	No. of Div. Sec.	Revised Cadre	Wage Bill Rs '000
Wayamba	2,370,075	2	46	47,059	14,164.7
Western	5,821,710	3	40	81,844	20,486.6
Southern	2,464,732	3	47	46,445	13,393.8
Eastern	1,551,381	3	45	33,871	5,755.2
Northern	1,058,762	5	34	32,051	10,483.0
Central	2,558,716	3	36	50,326	14,752.2
Uva	1,259,900	2	26	31,195	9,073.6
Sabaragamuwa	1,918,880	2	28	33,691	10,299.6
North Central	1,259,567	2	29	29,080	7,214.4
<b>Total</b>	<b>20,263,723</b>	<b>25</b>	<b>331</b>	<b>385,562</b>	<b>105,623.1</b>

Source : Department of Management Services

During this review, number of deficiencies were revealed such as irregular deployment of officers, use of inappropriate designations, application of incorrect salary payments, absence of proper schemes of recruitments and promotions and engagement of employees without proper compliance to the cadre needs. Having recognized these deficiencies and need for a rational cadre, actions were taken to regularize salaries, designations, schemes of recruitments and service minutes followed by the revision of cadres based on population, extent and the resource profile of the province and specific service needs of the province.



Since health and education services are key mandates of Provincial Councils, cadre was determined based on the social indicators such as maternal mortality and child mortality rates, school enrolment, locational issues as well as international standards and norms. For instance, students/teacher ratio, classification of schools, number of patients, classification of hospitals, number of families in each localities, use of amicable facilities, availability of teachers and service personnel in health etc. were critically analyzed in the process of cadre revision.

Further, cadre requirement for revenue management and infrastructure development was emphasized with the intension of regional level upliftment. As per cadre review, some of the posts were re-categorized and rationalized based on the nature of duties and responsibilities and thereby optimum cadre was determined and excess cadre was suppressed or redesigned. Separate units for Legal Affairs, Auditing and Information Technology were recognized for each Provincial Council in order to streamline the functions of respective field and strengthen provincial administration. With a view to reinforce the fields of planning, administration and finance of Provincial Councils, cadres for key managerial positions were also created in the provinces with appropriate adjustment to existing cadre and through the creation of new positions.

The new cadre was operationalized effective from 01.01.2013 as per the instructions given by the Department of Management Services. The transition issues are being addressed jointly by respective Provincial Councils, Ministry of Local Government and Provincial Councils, Finance Commission and the Department of Management Services.

## 10.6 Challenges in Restructuring of Salaries and Cadres

A new salary structure which was formulated through a wide consultations with trade unions, experts and the government agencies was adopted in 2006 as per the 2006 budget proposal based on the recommendations of National Salaries and Cadres Commission to the government service. The new structure is based on the re-categorization of public servants within 36 salary scales as compared to 127 salary scales that prevailed prior to 2006 salary structure. In line with the 2006 salary structure, 1: 4.05 salary ratio between the lowest grade and the highest grade in public service, i.e. labourer and Secretary of a Ministry, was recognized.

As proposed in 2013 budget, this structure which has been in operation for the 8th consecutive year, is expected to review again by a new Pay

Commission to reformulate to suit emerging demand. A comprehensive cadre review of public institutions is now being carried out to take the cadre rationalization process commenced with Provincial Councils. Accordingly, cadre assessment of Postal Department has been commenced in order to rationalize their cadres and make use of optimum utilization of public resources. Further, cadres of Department of Police and all Divisional Secretariats are planned to be reviewed in 2013. This ongoing review has made it possible to work out on updated cadre with redeployment of employees to get their maximum contribution through sorting out most of the administrative problems inhibiting best performance of public servants and an optimum use of the approved cadre.

It is a challenging task to make adjustments in the cadre as well as salaries and allowances of each service category to ensure efficient delivery of public services. Cadres of the public service are determined taking into consideration the evolving policy strategies, development needs and financing cost of public service. Hence, undertaking a comprehensive cadre review will enable to improve the performance of public servants and their financing effectively.

However, it is necessary to recognize that effective use of the approved cadres requires a proper engagement of employees in their respective positions with assigned duties. Although Heads of Institutions are responsible to place staff in a manner that will make cost effective service delivery and motivate them to improve their performance, it is noted that, such a practice has not been commonly followed making uneven distribution of work among employees in the cadre that has been satisfied on service ground.

Non implementation of transfer policy, not making placements according to skills and work involvement, lack of re-organization and re-orientation in agencies and absence of on the job knowledge and skills development effectively are common weaknesses reflecting in budget discussions and cadre review process.

Public servants have a challengeable task in the management of post conflict development and administration, particularly in the context of government commitment to promote food security, self-sufficiency in food production and going beyond millennium development goals and making the country free of poverty by 2015. Hence, the government remains committed to ensure remuneration, pension rights, a decent work environment, skills development and employment security. In view of this, the 2013 budget proposed a new Pay Commission to re-examine the overall salary structure of the public sector and formulate a National Wage Policy to address concerns of public sector work force.

The country's public service, though appear large in terms of the cadre size, occupies a special place in country's development considering the country dynamics. The total of 239,000 employees serve in state enterprises like banks, utility enterprises engaged in promoting strategic commercial and infrastructure development activities and do not depend on national budget. They also are not eligible to non-contributory pension rights enjoyed by government servants. Further, about 300,000 employees are engaged in national security, while about 700,000 of wide range of public servants comprising civil administration, education, health, agriculture and irrigation, economic and social services.

The public service as a whole has shown its institutional and managerial capacity in disaster management, resettlements, poverty reduction and provision of basic needs of the population as evident in relevant social and economic indicators. However, further improvements are necessary to make it a cost effective and client friendly service particularly in respect of addressing remaining facets of poverty, challenges in wide spreading non-communicable diseases and aging population, needs of backyard economy and SME sector development, challenges in achieving high productivity in food crop production in small holder agriculture, exploitation of business development opportunities in the private sector, transferring the education towards catering a skills and knowledge based economic activities. Taking this challenge requires changes in attitudes, institutional settings, systems and procedures, deployment of cadre, delegation of work, effective supervision and control of managerial accountability for performance. A shift from a simplistic micro compliance audit system to a performance and risk based macro approach to audit would be complementing in such a transformation.



# PERFORMANCE OF STATE OWNED BUSINESS ENTERPRISES

## 11.1 Overview

Ten large States Owned Business Enterprises (SOBEs) which are engaged in activities in the fields of ports, aviation, water, electricity, petroleum, banking and insurance, play a strategic role in the national economy. These enterprises account for 95 percent of the asset base of the currently operational 55 SOBEs. While Sri Lanka Ports Authority (SLPA), Airport and Aviation Services Limited (AASL), SriLankan Airlines (SLA), Ceylon Petroleum Corporation (CPC), Ceylon Electricity Board (CEB) and National Water Supply and Drainage Board (NWS&DB) dominate non-financial sector state business enterprises, the Bank of Ceylon (BoC), People's Bank (PB), National Savings Bank (NSB), Sri Lanka Insurance Corporation (SLIC) dominate the banking and insurance sector of SOBEs. Several enterprises such as Lak Sathosa, Laksala, Ceylon Fisheries Corporation, Ceylon Fertilizer Company Limited, MILCO, National Livestock Development Board (NLDB) and Sri Lanka Transport Board (SLTB) have gained relatively greater importance in recent years, in view of the non-privatization policy stance of the Government since 2005. In terms of serving low income households and SME scale producer needs in a competitive market environment, the provision of fertilizer to underserved areas through enterprises commanding natural resources such as Lanka Phosphate, Lanka Mineral Sands have a considerable potential to improve their strategic role, the asset base and market competition in the national economy. These enterprises remain important despite their turnover scale being not sufficiently large as yet. Most of the SOBEs have demonstrated improvements in terms of governance and business modeling, following the recommendations of the Committee on Public

Enterprises (COPE) and increased monitoring and supervision by the Treasury. However, further improvements are necessary primarily with regard to adhering with applicable laws and regulations, adopting systems and procedures and ensuring the accountability cast upon on the Boards of Directors and the senior management. It is encouraging to note that several enterprises have adopted business re-engineering processes to strengthen their market positions and balance sheets through long term investments in income generation activities. Some of the enterprises require capital infusions and stronger professional and managerial skills to exploit their full potentials. In this backdrop, improved professional standards and competence levels are desirable from the Chairmen, the Board Directors and key officials.

The CEB and CPC are large in terms of their scale of operations. They need to be strengthened to evolve as strategically strong entities in the national economy. In this backdrop, the Government has continued with its long term investment support to the CEB from the National Budget, for investments in infrastructure facilities in coal and hydro power generation projects as well as in the transmission and distribution network totaling Rs. 56 billion in 2012 in comparison to Rs. 50 billion in 2011. The commencement of commercial operations of the 300 MW coal power plant at Norochcholai and the 125 MW Upper Kotmale Hydro Power Plant, measures taken to promote the private sector towards investments in hydro and solar power generation, the expected commencement of a further 600 MW coal power generation towards the end of 2013 and the reduction of transmission losses to 11 percent in 2012 from 17.3 percent in 2005, are the key measures

*However, further improvements are necessary primarily with regard to adhering with applicable laws and regulations, adopting systems and procedures and ensuring the accountability cast upon on the Boards of Directors and the senior management.*

taken to bring down the generation and distribution cost in the medium term. In the backdrop of the planned investments in refineries and pipelines to expand the refinery and storage capacities considering the growing needs with regard to transportation, power generation, industrial and household requirements and in the aviation service, stronger financial performance has become ever more important.

However, large accumulated losses in the CPC and CEB in the wake of higher international oil prices and prolonged droughts during the 2nd and 3rd quarters of 2012 coupled with inadequate price adjustments and cost reduction measures have compelled increased borrowings from the two state banks amounting to Rs. 200 billion as at the end of 2012. In view of the scale of operations of these two large enterprises, their borrowings have in fact pre-empted lending to other sectors. Inadequate adjustments in pricing to compensate global changes in situations where supplies are import sourced also tend

to pre-empt foreign earnings and exert pressure on external resource management. In this context, short term cost reflective tariff adjustments are vital to reduce bank exposure and promote energy security, industry competitiveness and the long term expansion of energy supply and distribution capacity of both the CEB and CPC.

SLPA and AASL have continued with infrastructure developments and capacity expansion, to promote the export of goods and services through the development of navigation and aviation hub facilities. Investments made by SLPA in the development of Hambantota Port and Colombo South Port amounted to Rs. 74.6 billion during 2006-2012. These investments were supported by long term borrowings, and funds generated by the SLPA. Despite the impact of the appreciation of the Yen on the Balance Sheet, consequent to the exposure on Yen denominated debt and the global economic slowdown, the SLPA has made a profit of Rs. 5.3 billion, in addition to expanding its business turnover from Rs.27.8 billion to Rs. 32.7.billion. This is an encouraging development and has proved that business re-structuring and human resource management initiatives recently implemented have worked favourably. Nevertheless, SLPA needs to be mindful of its rising level of debt and debt financing obligations over the medium term.

AASL which generates its revenue from the provisions of airport services implemented its investment program through the development of the second international airport at Mattala which was commissioned in March 2013. It also continued with the modernization of

the Colombo International Airport in 2012 at a cost of Rs. 62 billion to the company. The AASL generated a net profit of Rs. 4.8 billion in 2012 in comparison to Rs. 3.1 billion in 2011, blessed by higher passenger turnover of 93,254 million, improved cargo operations turnover of Rs. 12,804 million, and the terminal handling income through SriLankan of Rs. 4,872 million. The airport expressway to be commissioned in September 2013 would be a value addition to the airport services, tourism and related businesses and is bound to promote foreign earnings and the national income. Sustained improvements in project management are vital in the context of the ongoing expansion programmes involving both the international airports during 2013-2016, to prevent cost and time overruns.

SriLankan Airlines, the national carrier continued to implement its fleet expansion drive, by adding seven aircrafts to its fleet on lease arrangements on the company's strength, through a medium term loan arrangement guaranteed by the Government in the backdrop of the first phase of US\$ 500 million capitalization by the Government. The network expansion enabled SriLankan to enter in to new destination markets. The proposed re-fleeting arrangements would enable to replace the older aircrafts which are less fuel efficient and costly in terms of maintenance, and thereby reduce operational and maintenance costs. However, SriLankan operations have turned out to be in overall losses of Rs. 22,777 million due to high oil prices. These losses which were overdue by 3 months were financed by bank borrowings and supplier credit facilities. It is necessary that SriLankan which is exposed to high oil prices and intense aviation competition restructures its airline operations in a bid to keep its non-oil costs at the lowest. The

destination network should also be revisited to ensure that route operations will generate a higher yield to make its medium term business model viable. It is also desirable that SriLankan synergizes its aviation based services, with other industries and the tourism economy.

The National Water Supply and Drainage Board having made its annual tariff revision and improved its performance, has made an operational profit of Rs. 268 million in 2012. It continued with public investments to improve the water supply capacity and distribution network all island by expanding its project portfolio to Rs. 350 billion. These projects are expected to be completed during 2013-2015 to increase access to water to 88 percent of the population. It secured US\$ 200 million multi-tranche loan facility from the Asian Development Bank to reduce the level of Greater Colombo non-revenue water to 20 percent from the current high level of around 50 percent in order to improve the long term profitability through the reduction of the related revenue loss by about Rs. 3 billion per annum. The challenge continues to be to ensure the timely implementation of large projects such as Jaffna, Attanagalla and Kurunegala water supply projects and several projects that are being continued in urban areas, within the approved Budget. Its operational cost has risen due to high energy and wage costs as well as poor stock management reflecting tighter liquidity conditions in 2012, resulting in the deferment of a loan repayment of Rs. 1,577 million to the Treasury. Adopting energy efficient and labour productive systems are also areas that can be explored.

Three state owned construction enterprises which are engaged primarily in Government



contracts have confronted capacity constraints in terms of finance, skills and the work load. The total turnover of these enterprises amounted to Rs. 21.5 billion in 2012 as against Rs. 18 billion in 2011. However, when the total turnover of the construction industry which is serviced by a larger number of foreign and domestic firms as well as SMEs engaged in the construction industry is considered, the turnover of these three enterprises accounted for less than 1 percent. The tight liquidity conditions of these enterprises have brought about long delays with regard to completion of work undertaken, cost and time overruns and have also caused inadequate investments being made to acquire modern machinery to remain competitive. The bottom heavy work force prevents being able to offer competitive salaries to professionals and skilled personnel. What is notable is that these three enterprises command expertise in specialized areas of work and has business potentials. Hence they should re-structure their business strategies, increase their involvement in private sector construction projects and consider engaging the private sector with sub-contracting arrangements, to expand operations.

A number of state enterprises engaged in the marketing and distribution fields, play an important role particularly to promote competition at the lower end of the market and to ensure a regular supply at affordable prices. Lak Sathosa having expanded to almost 270 outlets and having gained 25 percent of the market share has not only served consumers with a regular supply of essential goods but has also emerged as a profitable venture. Laksala which provides a strong market network for local handicrafts and indigenous products has helped local craftsmen to secure remunerative producer margins. The recent business re-

structuring has enabled Laksala to become a profitable venture, with attractive local shopping centers that sell indigenous products to the tourist cliental base. The Ceylon Fisheries Corporation which has phased out its losses has been active in stabilizing the market supply of fish, while protecting fishermen though such markets which are otherwise controlled by large traders. Ceylon Fertilizer Company Limited takes a lead role in the distribution of fertilizer at subsidized prices to small holder farmers and has ensured fair competition in the distribution channels with the private sector. A similar development role is played by MILCO and NLDB in supporting the local livestock and dairy industry which has a tremendous import substitution scope to be able to meet the rising per capita consumption demand especially by anchoring small producers and private sector establishments to ensure fair competition. In the context of Government's emphasis to provide a fair distribution of goods and services, promote the backyard economy and SME activities and encourage the use of organic fertilizer along with chemical fertilizer in order to get an acceptable blend in the fertilizer application, these enterprises serve useful purposes. Some of these enterprises justify their presence by proving that well-designed business models that enables state enterprises to serve their designated purposes while making a reasonable return on investment, without having to solely rely on the National Budget.

The SLTB provides around one fourth of the bus transportation needs with a larger presence in rural areas, and by serving uneconomical routes in the public interest. With the increased number of service providers from the private sector in the

transportation of school children and working staff, as well as in the provision of passenger transportation, the SLTB faces stiff competition. Workforce related management challenges, lapses in the maintenance of the bus fleet and operational expenditure control issues and revenue leakages make such challenges even more difficult. Despite all odds, this is an enterprise that provides a steady competition and an alternative source of transportation, to private bus operations, coupled with its contribution in serving numerous underserved areas in the country. However, its operational losses and management deficiencies remain as primary concerns.

The SOBEs in the mineral resource sector operates on a much smaller scale, but they command invaluable non-renewable natural resources in phosphate, minerals and graphite. The scope has increased with the rising global demand for such resources to manufacture high value products. The Government decision to prevent the export of such raw material in primary form provides a unique opportunity to promote investments in value added businesses in these three enterprises. The ending of the conflict has given space to develop the mineral sand industry with substantial export earning potentials. The rising level of chemical fertilizer imports and usage demand increase of utilization of phosphate resources. In this background, it is time that these strategic enterprises need to adopt a unique approach to develop their potentials.

The Government's presence in plantations is predominantly in coconut, and rubber through the Kurunegala Plantations Company Limited and the Chilaw Plantation Company Limited. However, the Government also owns several residual activities left out consequent to the privatization of plantation companies. Since

such activities are managed under different corporate entities, they are confronted with diverse difficulties. If these residual activities are to be managed in a commercially viable manner as productive assets, it is necessary that the Government adopts a suitable revival strategy.

Three enterprises that operate in the media industry in a highly competitive environment have shown mixed performance. While ITN has gained a slight improvement in its market share to 16 percent, the Rupavahini has lost its market share substantially to 15 percent in 2012 from 22 percent in 2007. The SLBC which has adopted a modernization and re-structuring strategy has shown improved performance and its restructuring strategies are being continued. However, all these enterprises will have to undertake substantial investments and adopt new business strategies, if they are to operate as sustainable business entities, with customer and employee confidence.

State banks, the SLIC and the two lottery boards are revenue positive enterprises. What is notable is that the operational scale of the two lottery enterprises have not aggressively penetrated to the upper income segment of the population, while the Sri Lanka Savings Bank and Lankaputra Development Bank, have a long way to go in a highly competitive environment that is prevailing in the banking and financial sector, consequent to the presence of a large number of institutions competing virtually on the same businesses. Both the HDFC Bank and SMIB Bank focus on the housing mortgage market, while competing with other banking and financial institutions. A common observation is that both these banks face problems in mobilizing low cost long term funds which are required to develop a strong mortgage market.

The two state commercial banks, NSB and SLIC are too “big to fail” and remain strategic, with regard to country’s overall development in the banking and insurance industries. While recent improvements shown with regard to ratings obtained by them and the improvements shown in the several performance indicators including the non-performing loan (NPL) ratio are encouraging signs. The banks need to make concerted efforts to raise their capital base for stability and further consolidation of their relative strength in the industry. In this endeavour, effective controls with regard to staff costs, enforcement of well-designed employment policies including an effective succession plan, strengthening the governance mechanism with a clear demarcation of duties and responsibilities of the Boards of Directors and the senior management staff, ensuring that important committees that support management are effectively functional and the engagement of quality staff especially for senior positions, are vital.

Further, as banks have increased their exposure to large SOBEs and consequently to high risks subsidiary businesses as well as foreign transactions, the banks need to ensure their risks are adequately covered and promote exports and foreign currency earning business development strategies in relation to their lending. It is also necessary to keep a close tab on their subsidiary companies to minimize downside risks from such investments. The SLIC being in the forefront commanding long terms funds could work together with the Employees Trust Fund (ETF) in promoting social security arrangements and capital market developments by diversifying their investments into emerging economic activities while also safeguarding their risk profiles. In this background, the two enterprises must strengthen their investment committees and define explicit responsibilities

to their senior management, to engage them better and to make them more accountable.

In the context of the rural centric development strategy of the Government, with emphasis on the backyard economy and the SME sector to create an all-inclusive growth process, the role of the RDB Bank needs to be further energized by promoting micro finance and barefoot banking. A close working alliance with Divi Neguma / Samurdhi thrift and credit societies could provide downstream support while the IDB, EDB and several agricultural extension and research institutions could provide upstream support to truly transform RDB to go beyond traditional lending, through development banking for the emerging SME sector in the Economy.

A common feature in the operation of many SOBEs is having liquidity mismatches, despite recording profits. This underscores the existence of considerable management weaknesses in stock and inventory management, long overdue recoverables and inadequate portfolio diversification. Some enterprises have also failed to comply with the regular payment of EPF and ETF contributions, loan and interest payments to the Government and payment of relevant direct and indirect taxes. This underpins that these mandatory statutory payments are also used for financing operational activities. In this background, improvement in financial performance and restoring best corporate practices is also essential.

Considering the vast asset base, the market share and the scale of operations, in comparison to earnings by competitors, SOBEs have a vast potential to contribute to national development. The elimination of prevailing losses made by some of the the 55

SOBES amounting to about Rs. 200 billion, could alone bring about a turnaround. Even if half of it is earmarked to ensure social responsibility related activities, the possible turnaround benefits will still be substantial. At the same time the improvements in the profit levels of enterprises currently operating at a sub optimum level is estimated to be well in excess of Rs. 15 billion. If it could target a transformation at least over the medium term, the state enterprises could not only enhance their investments but also reduce borrowings from the banking system, which will enable the banks to be able to extend greater lending to other growing sectors of the economy. This will also reduce the drain on the National Budget. Such a transformation could augment the Government revenue base through fairly strong dividend pay-backs and better income tax revenue. It has been estimated that the total dividend income from state enterprises could be increased to around 2 percent of GDP and thereby enhance non tax revenue to around 4 percent of GDP. Therefore, concerted efforts toward transforming the 55 SOBES will not only strengthen the ownership of the Government in strategic businesses but also support the overall economic transformation toward a middle income country over the medium term with a more visible dynamism both on the part of the private sector and SOBES.

The operation of about 55 SOBES takes place in a competitive market environment. Almost all of them have to compete with relatively stronger domestic private enterprises and in some sectors with foreign entities. While sectors such as banking and insurance are regulated to ensure quality

performance, institutional stability and fair competition, state banks and the SLIC remain stronger amidst market competition. In many sectors of the economy such as agriculture, retail trade, media, transport, better operations are desired from state enterprises to ensure a justifiable service delivery mechanism since market operations alone are not capable of serving the lower income groups and the more difficult areas of the country. While many enterprises have shown improvements in their performance in a competitive environment, some others have lost their market share, thus demanding substantial reforms. Their management need to put in greater commitment, to be able to gain a stronger market share and to play the justifiable role expected from them, which will invariably transform SOBES to become viable entities without having to rely on ownership changes to bring about the desired changes.

A number of small entities that operate well below their capacity or are unlikely to serve a productive socio economic role, require to adopt re-structuring options including investments and revival plans, mergers and in certain cases even liquidation, as suggested by the COPE. They are listed in Annex 1.

## Dividends

Revenue received from State Owned Business Enterprises by way of Dividends and Levies increased by 12.1 percent to Rs. 27.5 billion in 2012 from Rs. 24.6 billion in 2011. Dividends and Levies accounted for almost 20 percent of non-tax revenue. Almost all State Businesses have considerable earning potentials, and

Table 11.1 > **Levy/ Dividend Income from SOBEs**

	2002	2006	2007	2008	2009	2010	2011	2012
<b>Levy</b>	<b>-</b>	<b>1,316</b>	<b>1,434</b>	<b>1,279</b>	<b>4,471</b>	<b>4,524</b>	<b>10,379</b>	<b>13,562</b>
National Savings Bank	-	810	1,060	1,060	1,750	2,312	4,560	8,260
State Mortgage & Investments Bank	-	116	25	-	50	-	-	25
Regional Development Bank	-	46	50	40	144	55	-	500
State Timber Corporation	-	75	150	75	50	10	75	50
State Pharmaceuticals Manufacturing Corporation	-	25	30	40	30	85	59	20
Sri Lanka Ports Authority	-	115	65	-	-	-	-	-
National Insurance Trust Fund	-				2,250	2,000	3,495	4,200
Ceylon Electricity Board	-	-	-	-	-	-	2,000	-
Others*	-	129	54	64	197	62	190	507
<b>Dividends</b>	<b>435</b>	<b>3,585</b>	<b>4,014</b>	<b>2,966</b>	<b>4,219</b>	<b>6,867</b>	<b>14,183</b>	<b>13,987</b>
Bank of Ceylon	-	1,173	846	1,046	1,346	2,923	4,020	5,346
People's Bank	-	668	1,416	816	1,139	3,253	4,500	4,658
Sri Lanka Telecom Plc	300	670	893	893	893	223	536	759
De La Rue Lanka (Pvt) Ltd	20	-	100	100	38	-	68	42
Lanka Mineral Sands Ltd	-	98	50	34	60	35	500	1,700
Lanka Industrial Estates Ltd	11	20	62	31	31	31	31	47
Ceylon Petroleum Storage Terminal Ltd	-	-	438	-	-	-	-	-
Airport and Aviation Services Ltd	-	-	100	-	200	-	2,406	-
West Coast Power (Pvt) Ltd	-	-	-	-	392	-	-	-
Lanka Electricity Company Ltd	100	100	75	-		300	-	75
Plantation Companies**	-	-	-	-	30	-	212	179
Sri Lanka Insurance Corporation Ltd	-	-	-	-	-	-	1,750	1,001
Sri Lankan Airlines Ltd	-	788	-	-	-	-	-	-
Others *	4	68	34	46	90	102	160	180
<b>Total</b>	<b>435</b>	<b>4,901</b>	<b>5,448</b>	<b>4,245</b>	<b>8,690</b>	<b>11,391</b>	<b>24,562</b>	<b>27,549</b>

Sources: Department of Treasury Operations and Department of Public Enterprises

\*Independent Television Network Ltd, National Lotteries Board, SL Rupavahini Corporation, State Pharmaceuticals Corp, SL Export Credit Insurance Corp, Lanka Phosphate Ltd, Lanka Leyland Ltd, Ceylon Agro Industries Ltd, Colombo Commercial Fertilizer Ltd, Paranthan Chemical Company Ltd, Rakna Arakshana Lanka Ltd, Lankaputhra Development Bank, National Development Bank.

\*\*Chilaw, Kalubowitiyana, Elkaduwa, Kurunegala, Namunuluka, Kegalle, Agalawatte, Kotagala, Balangoda, Watawala, Horana, Elpitiya and Pussellawa Plantations

commands a strong asset base of almost 43 percent of the GDP and are bigger than the market capitalization of all the listed companies in the Colombo Stock Exchange.

However, the dividends earned by the government since 2000 from State Owned Business Enterprises remain sub-optimal and require much improvement.

However, this was largely due to high dividend transfers from State Banks and Insurance Companies which accounted for almost 80 percent of the total dividend income from SOBEs. Sri Lanka Telecom and Lanka Mineral Sands paid increased dividend in 2012 compared to 2011. However, the Government did not receive dividend income from large enterprises such as NWS & DB, SLPA and AASL due to their investments in capital expansions while CEB, CPC and the Sri Lankan Airlines incurred heavy losses.

The relatively smaller and medium sized SOBEs such as National Lotteries Board, State Pharmaceuticals Corporation, State Pharmaceuticals Manufacturing Corporation, Independent Television Network Ltd, Lanka Mineral Sands Ltd, Chilaw, and Kurunegala Plantations paid Rs. 2,435 million a satisfactory return in comparison to Rs. 734 million in 2011 underpinning their business expansion. Though there was no dividend payments by enterprises engaged in marketing and distribution, a steady improvement is seen in profitability in enterprises like Lak Sathosa and Laksala.

## Employment

The total employment strength in SOBEs in 2012 was 251,278 which is a marginal increase of around 1 percent over 2011. However, the average annual cost per employee increased in 2012 to Rs. 469,185 from Rs. 398,400 in 2011 due to the impact of wage increases in enterprises. SOBEs have recorded an increase of 17.7 percent in their average cost in 2012 over 2011, which is higher than the annual average increase in wages of 6.8 percent for a central government employee. This increase was largely due to the revision in salaries in terms of Collective Agreements at BoC, PB, CEB, NWS & DB and SLPA. The mandatory retirement

age of all SOE employees was extended to 60 years, other than for banks which adopted restructuring plans in 1992.

## Budget Support to SOBEs

SOBEs were supported through budgetary provisions inclusive of grants and loans amounting to Rs. 32.2 billion, an increase of 16 percent over 2011 and government guarantees to selected enterprises such as CEB, CPC, Sri Lankan Airlines totaled to Rs. 321.2 billion enabling SOBEs to have access to funding from Bank sources. It is encouraging to note that the recurrent transfers has decreased by 12.4 percent to Rs. 4.3 billion in 2012 from Rs. 4.9 billion in 2011 as many of the SOBEs recorded an improvement in their revenue. Capital transfers increased by 18 percent to Rs. 27.9 billion in 2012 from Rs. 23.6 billion in 2011 and on lending increased to Rs. 37.5 billion in support of the ongoing public investments. Total capital transfers and on lending accounts for almost 3.5 percent of the capital budget and 1.2 percent of the GDP in 2012.

## 11.2 Energy

The thrust of the government's energy policy is to ensure energy security, through the development of clean and affordable energy sources over the medium and long term. In this context, the investments during 2005-2012 period amounting to Rs. 224.1 billion has expanded and upgraded the country's infrastructure on power generation, transmission and distribution. The total generation capacity of electricity, increased by almost 48 percent to 3,312 MW in 2012 from 2,231 MW in 2002. Key milestones in this respect were the commissioning of the low cost coal fired power generation plant with 300MW in Puttlam and the hydro power plant at Upper Kotmale



with 125 MW to reduce the fuel based power generation. Work is in progress to add a further 600 MW to the coal fired power generation capacity in Puttlam by early 2014.

The reduction in the system losses to around 11.7 percent in 2012 from 17.3 percent in 2002 and the expansion of electricity coverage to almost 93 percent of the households in 2012 from 65 percent in 2002 and to other industrial and general purpose users are steps in the right direction in improving the financial viability in the medium term and providing access to electricity for all. However, in the wake of a prolonged drought during the second and the third quarters of 2012 that weakened the hydro power generation capacity, demanded increased reliance on fuel based power plants when international oil prices were high, the operational losses of CEB increased to Rs.61 billion despite the tariff adjustments in February 2012 and the availability of fuel at subsidized prices which cost CPC Rs.54 billion in 2012.

The demand for petroleum products grew by 5 percent in 2012. Transport sector accounted for 56 percent of the total consumption of petroleum products while the electricity sector which accounted for 25 percent, recorded the highest growth in demand for petroleum products at 20 percent over 2011 due to the depletion of hydro power generation capacity to 20 percent. This resulted in the increase in the fuel imports at a time international oil prices remained high in the range of US\$ 110/bbl costing US\$ 4,919 million in 2012 in comparison to US\$ 4,795 million in 2011.

The global oil prices which fluctuated in the range of US\$ 95/bbl - US\$ 125/bbl, Brent crude was imported at an average of US\$ 114.73/bbl. The increase in demand for petroleum products coupled with the constraints faced

at the refinery due to the restrictions on the importation of Iranian oil, resulted in the CPC increasing its imports of refined products to 3.95 million MT in 2012 from 3.50 million MT in 2011. Capacity utilization in the CPC refinery declined in 2012 by 33 percent in comparison to 2011. These factors contributed to the increase in the CPC's financial losses to Rs.89 billion (inclusive of Rs 54 billion for the supply of subsidized fuel to CEB) in 2012 despite the price increases in petroleum products in February 2012 and also in December 2012.

The demand for petroleum is projected to grow by at least 9 percent per annum in view of the continued demand for electricity which is expected to increase by 7 percent per annum and demand from the transport sector by 10 percent per annum during 2013-2015. The CPC's Refinery capacity of 25,000 bpd which was installed almost 40 years ago, met almost 50 percent of the demand for Petrol, 40 percent of the demand for Diesel, the entire demand for heavy fuel, Bitumen and Kerosene in 2005, managed to supply only 28 percent of Petrol, 18 percent of Diesel while part of the Bitumen, Heavy fuel and Kerosene demand was met from imports. The refinery output along with aging supportive infrastructure recorded a decline in its output to 1.5 million MT in 2012 from 2.0 million MT. The lack of adequate investments into refinery over time have also contributed to the weakening efficiency in CPC operations.

### **Ceylon Electricity Board**

The demand for electricity which grew at 2.4 percent in 2012 at 11,811 Gwh, was met largely by the operations of the thermal power plants at 8,348 Gwh in comparison to 6,786 Gwh in 2011, due to significant decline in hydro power generation to 3,461 Gwh from 4,741 Gwh in 2011. The contribution of hydro power



generation dropped to around 20 percent due to severe drought condition during July 2011 to November 2012 which is the lowest recorded in 8 years. Accordingly, the generation composition changed from the expected Thermal: Hydro of 60:40 to 80:20 resulting in a loss of Rs. 61 billion in 2012 in comparison to Rs 19 billion in 2011 negating the expected improvement in the financial performance from the imposition of the Fuel Adjustment Charge (FAC) to the tariff structure in February 2012. With the imposition of the FAC the average tariff per unit increased by 18.5 percent to Rs. 15.66 in 2012 from Rs. 13.22 in 2011, against the average cost of Rs. 22.13/unit in 2012 in comparison to Rs. 15.14/unit in 2011 due to heavy reliance on thermal power generators with the revised tariff revenue was increased to Rs. 164 billion in 2012 in comparison to Rs. 132 billion in 2011. If not for

the heavy rain falls experienced towards the last quarter of 2012, losses of Ceylon Electricity Board (CEB) would have risen to about Rs.75 billion. The total borrowings from the banking system hence increased to Rs. 43.8 billion from Rs. 14.6 billion in 2011.

Despite the revision in the tariff structure, CEB continued to subsidize domestic consumers at an average subsidy of Rs. 8.98/unit, industrial consumers at Rs. 7.83/unit, government hospitals and schools at Rs. 4.87/unit, and religious places at Rs. 14.80/Unit. It should be noted that the subsidized unit prices to users did not reflect the loss of Rs. 54 billion incurred by CPC on account of the supply of Heavy fuel and Low Sulphur fuel for electricity generation at a subsidized rate of Rs. 65/lt and Rs. 75/lt.

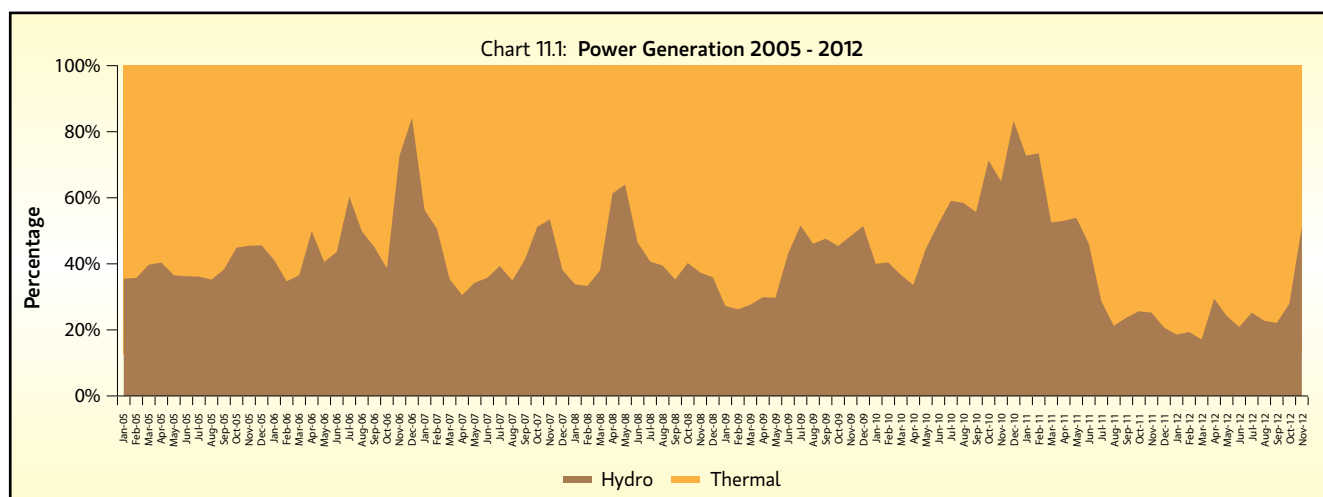


Table 11.2> **Electricity Tariff Structure**

The tariff structure approved by the Public Utilities Commission of Sri Lanka with effect from April 2013

Consumption (units)		Tariff up to 19th April 2013			Proposed Rate from 20th April 2013		
Old	New	Unit Charge Rs/ Unit	Fixed Charge Rs/ Month	FAC %	Unit Charge Rs /Unit	Fixed Charge Rs/ Month	FAC %
0-30	0-30	3.00	30.00	25	3.00	30.00	25
31-60	31-60	4.70	60.00	35	4.70	60.00	35
	0-60				10.00	N/A	N/A
61-90	61-91	7.50	90.00	40	12.00	90.00	10
91-120	91-121	21.00	315.00	40	26.50	315.00	40
121-180	121-181	24.00	315.00	40	30.50	315.00	40
>180	>181	36.00	315.00	40	42.00	420.00	40

Sources: Ceylon Electricity Board and Department of Public Enterprises

*The financial outcomes of 2012 reflected the underlying structural deficiencies in the CEB's operations such as the non-cost reflective tariff structure, dependency upon fuel fired power generators, operational inefficiencies in project management and finance and expanding operational scale in power generation, transmission and distribution.*

During 2005-2012 CEB has expanded its customer base island wide. The number of households with access to electricity increased to 4.9 million in 2012 from 3.4 million in 2005. The national grid which only covered around 17.3 percent of the country in 2005 (9 provinces) increased its coverage to 24.5 percent in 2012 including the conflict affected areas, with the expansion of transmission lines from 100,188 Km in 2005 to 145,185 Km in 2012.

Investment funds provided by the government amounted to Rs. 29.4 billion in 2012 to improve the generation mix as well as the operational efficiency through improved transmission and distribution systems. Consequent to these investments system losses have declined to 11 percent in 2012 from 13.5 percent in 2010. The debt moratorium extended to CEB since 2007 which continued to 2012 at a cost of Rs. 21.9 billion to the government together with the issuance of a Treasury bond to CPC in lieu of the dues of CEB to CPC amounting

Table 11.3> **Financial Outturn of Ceylon Electricity Board**

	Actual		Forecast		
	2011	2012	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>137,003</b>	<b>170,652</b>	<b>216,263</b>	<b>236,110</b>	<b>252,873</b>
Sale of Electricity	132,460	163,998	213,263	233,110	249,873
Other Income	4,543	6,654	3,000	3,000	3,000
<b>Expenditure (Rs.Mn)</b>	<b>156,269</b>	<b>231,815</b>	<b>254,669</b>	<b>237,084</b>	<b>253,797</b>
Generation	115,912	173,658	192,500	173,700	189,646
IPP	84,144	120,264	119,200	82,328	89,688
CEB	31,768	53,394	73,300	94,300	99,958
Generation O&M ,Transmission & Distribution	18,218	27,658	32,000	33,000	35,000
Corporate expenses	2,014	3,238	3,191	3,191	3,510
Interest on borrowings	1,828	6,334	8,100	7,938	6,000
Depreciation	18,297	20,927	18,878	19,256	19,641
<b>Profit/ (loss)</b>	<b>(19,266)</b>	<b>(61,163)</b>	<b>(38,406)</b>	<b>(974)</b>	<b>(923)</b>
Borrowings from Banks(net) (Rs.Mn)	1,839	29,210	24,301	(12,654)	(10,174)
Outstanding Debt to Banks (Rs.Mn)	14,629	43,839	68,140	55,486	45,312
Outstanding Debt to Government (Rs.Mn)	189,090	278,456	301,456	326,456	349,456
<b>Key Performance Indicators</b>					
Electricity Coverage (%)	90	93	96	100	100
System losses (%)	11.7	11.0	10.7	10.2	10.0

Sources: Ceylon Electricity Board and Department of Public Enterprises

\*Draft

to Rs. 50 billion supported CEB's balance sheet despite incurring large losses in 2012 although it imposed a heavy burden on the budget by reducing non tax revenue and high Government debt.

The financial outcomes of 2012 reflected the underlying structural deficiencies in the CEB's operations such as the non-cost reflective tariff structure, dependency upon fuel fired power generators, operational inefficiencies in project management and finance and expanding operational scale in power generation, transmission and distribution.

Having made a firm commitment by the government to support the Generation Plan of CEB with the expansion of Coal fired power generation as well as renewable energy; and recognizing the need to move towards cost reflective pricing, tariff rates have revised in April 2013. Although it is expected to reduce loses, the new tariff still subsidizes electricity for almost 3.7 million consumers consuming up to 90 units per month at a cost of Rs. 16 billion in 2013. In spite of the tariff revision and delay in the implementation till April 2013, the annual loss is expected to around Rs. 38 billion in 2013 and less Rs. 61 billion in 2012. In this background, the expeditious

Table 11.4 > **Government Support to CEB 2007-2012**

	2007	2008	2009	2010	2011	2012*
On lending (CEB & Lanka Coal)(External loans) (Rs.Mn)	23,945	16,807	32,857	23,586	31,357	29,401
Rural Electrification-Grant (Rs.Mn)	-	-	-	1,200	1,595	710
Cost of the debt moratorium (interest + capital repayment)-loss to government revenue (Rs.Mn)	11,315	12,893	14,273	14,896	17,047	21,920
Cost of the Rs. 50 Bn Bond issue (annual interest cost to the Budget) (Rs.Mn)						5,750
<b>Total support (Rs.Mn)</b>	<b>35,260</b>	<b>29,700</b>	<b>47,130</b>	<b>39,682</b>	<b>49,999</b>	<b>57,781</b>

\*Provisional

Sources: Department of External Resources, Department of National Budget and Department of Public Enterprises

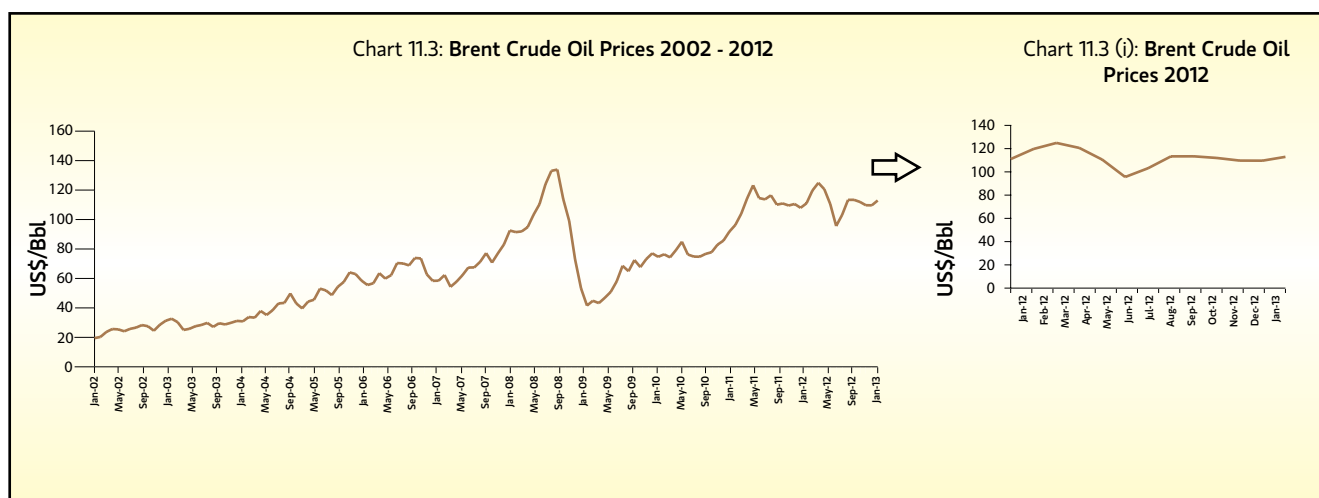
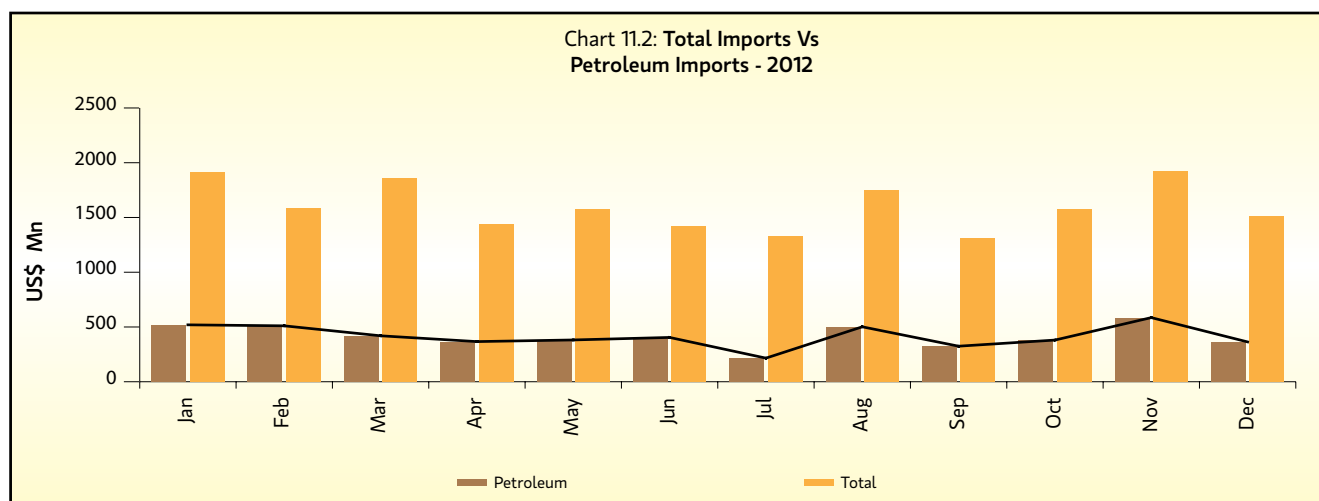
commissioning of the phase II of the Puttlam Coal fired power plant at least by the 3rd quarter of 2013 could moderate expenditure by Rs. 9 billion for 2013. The availability of 900 MW of Coal in 2014-2015 is expected to have a positive effect in reducing the cost of generation from Rs. 23/unit to about Rs. 20/unit provided hydro generation capacity does not drop below 25 percent throughout the year.

The CEB may also benefit from renegotiations of its power purchase agreements with the Private Power Producers (IPP) to reduce the cost of generation. Further improvements in system control for the dispatch of power plants together with improvement in procurement, asset management and treasury operations and continuous improvements in low cost power generation will reduce CEB's losses to around Rs 38 billion in 2013 and to achieve breakeven performance thereafter.

### Ceylon Petroleum Corporation

With stubbornly high international oil prices and continued high demand, the cost of petroleum imports amounted to US\$ 4,919 million in 2012, in comparison to US\$ 4,795 million in 2011. This represented almost 26 percent of the total imports to the country at US\$ 19,183 million. In consequence with the US sanctions on Iran, CPC had to cut down its import of Iranian Crude oil to 5 shipments from 14 shipments. The Crude oil requirement was supplemented by imports from Saudi Arabia (4 shipments), Oman (2 shipments), Indonesia (1 shipment) and UAE (1 shipment).

Global Brent prices remained volatile throughout 2012 in the range of US\$ 95.59/bbl - US\$ 124.93/bbl in 2012, with CPC purchasing Brent crude at an average of US\$ 114.73/bbl, an increase of 3.4 percent over US\$ 110.95/bbl in 2011. In a bid to mitigate the volatility of global prices CPC has adopted a multi-pronged strategy of entering into long term contracts with State Oil Companies of countries such as Vietnam, and Oman along with plans to increase efficiency in the refinery and the storage facilities.



The increase in the prices of Petrol by Rs. 12/ltr, Diesel by Rs 31 /ltr Heavy fuel by Rs. 25/ltr and Kerosene by Rs. 35/ltr in February and again in December 2012 by a further Rs. 10/ltr on the price of petrol. CPC's revenue increased to Rs. 515 billion in 2012 from Rs. 356 billion in 2011. However, the total cost increased to Rs. 605 billion in 2012 from Rs. 451 billion in 2011 due to higher international prices and increased demand. As such CPC incurred a loss of

Rs. 89 billion in 2012, in comparison to Rs. 94 billion in 2011. Although the prices of petroleum products have increased regularly in recent years, the prices of products such as Diesel, Kerosene continue to remain lagging behind the cost.

The increase in losses at CPC is mainly due to increased supply of fuel to the power sector at subsidized prices in 2012. The power sector

Table 11.5 > **Prices/ Cost of Key Petroleum Products (Rs/lt)**

	Prices end of				February	December	February
	2007	2008	2009	2010	2011	2012	2012
<b>Price</b>							
Octane 90	117	120	115	115	137	149	159
Diesel	75	70	73	73	84	115	115
Kerosene	68	50	51	51	71	106	106
Heavy Fuel	47	25	25	40	40	65	65
<b>Cost</b>							
Octane 90	110	119	96	96	118	135	147
Diesel	74	103	69	75	99	110	125
Kerosene	98	104	59	71	95	106	121
Heavy Fuel	52	64	48	55	77	110	103

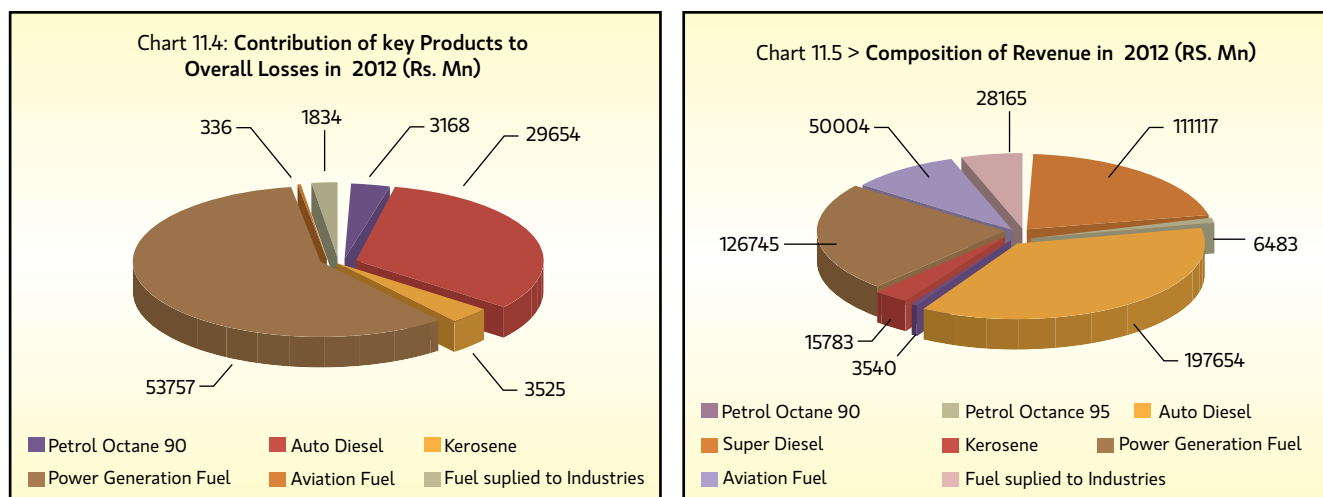
Source: Ceylon Petroleum Corporation

accounted for almost 25 percent of the total sales of CPC in 2012, while the subsidy cost of heavy fuel amounted to almost 60 percent of the total losses at Rs. 54 billion, compared to Rs. 39 billion in 2011 which accounted for 50 percent of the losses. The issuance of a Treasury bond in 2012 by the government to the value of Rs. 60 billion in lieu of the outstanding payments of Rs. 50 billion from CEB and Rs.10 billion from the state agencies allowed CPC to recover part of its receivables. However, the outstanding dues from various enterprises stood at Rs. 102 billion at the end of 2012 affecting the liquidity of CPC. The operational losses and the lagging revenue recovery system resulted in high borrowings from banks which increased to Rs. 210 billion at the end of 2012. The increased borrowings has increased the finance cost to Rs. 18 billion in 2012 as against Rs. 9 billion in 2011.

During the year the refinery had to close for 22 days apart from the interruptions due to regular maintenance repairs, underscoring the need for a significant revamping of its

systems and operations. The modification and upgrading of the refinery will facilitate the CPC to cut back its operational expenditures significantly while reducing its imports. The adoption of a flexible cost reflective pricing policy in line with international oil prices, exchange rate movements with improvements in revenue collection system is expected to reduce the losses of CPC to Rs. 20 billion in 2013 unless international oil price exceed US\$ 110/bbl. or power generation mix change in favour of fuel based electricity generation.

*With stubbornly high international oil prices and continued high demand, the cost of petroleum imports amounted to US\$ 4,919 million in 2012, in comparison to US\$ 4,795 million in 2011.*

**Table 11.6 > Financial Outturn of Ceylon Petroleum Corporation**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Total Revenue (Rs.Mn)</b>	<b>356,903</b>	<b>515,704</b>	<b>734,095</b>	<b>809,065</b>	<b>876,584</b>
Octane90	85,601	111,116	134,827	147,391	158,664
Octane 95	4,897	6,483	7,359	8,358	9,246
Diesel	165,800	246,441	340,644	381,419	422,966
Super Diesel	1,587	3,540	4,067	4,499	4,949
HF 800cc	2,873	5,750	6,366	8,501	9,537
HF 1500cc	25,457	43,673	73,658	75,349	80,935
HF 3500cc	10,823	14,071	27,440	26,973	30,808
LSHF	10,836	21,295	25,575	38,493	39,256
Napththa	4,332	7,491	11,610	13,416	13,911
Kerosene	12,804	18,099	20,257	20,257	20,257
Other Products	31,565	35,293	80,793	82,409	84,057
Other Income	328	2,452	1,500	2,000	2,000
<b>Total Expenditure (Rs.Mn)</b>	<b>451,411</b>	<b>605,362</b>	<b>754,358</b>	<b>825,756</b>	<b>886,763</b>
Cost of Sales	426,583	568,238	713,669	790,277	848,313
Imports	243,530	392,277	532,251	576,923	619,269
Refinery	183,053	175,961	181,418	213,354	229,044
Sales and Distribution	10,861	12,633	12,245	12,367	12,491
Administration	4,520	5,796	5,623	5,623	6,748
Finance Cost	9,001	18,360	22,319	16,962	18,658
Depreciation	446	335	502	527	553
<b>Profit/(Loss) (Rs. Mn)</b>	<b>(94,508)</b>	<b>(89,658)</b>	<b>(20,263)</b>	<b>(16,692)</b>	<b>(10,179)</b>
Borrowings from Banks(net) (Rs.Mn)	103,996	62,541	(43,094)	(46,838)	(37,780)
Outstanding dues to Banks	147,975	210,516	167,422	120,584	82,804

Sources: Ceylon Petroleum Corporation and Department of Public Enterprises

\*Draft



## 11.3 Water

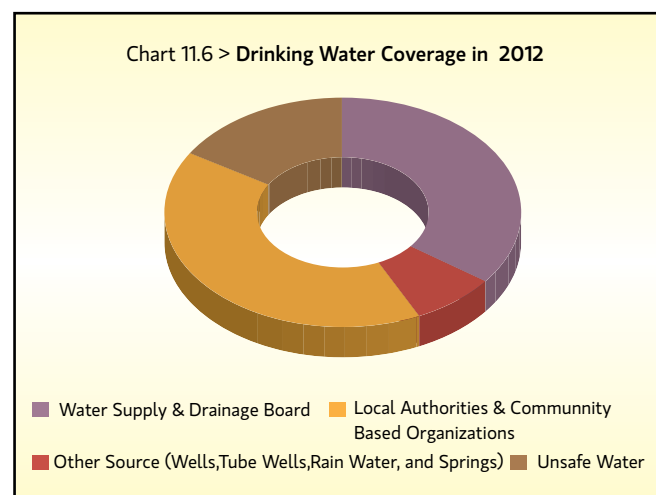
### National Water Supply & Drainage Board

The provision of safe drinking water and sanitation is a key development objective of the government. The National Water Supply & Drainage Board (NWS & DB) alone accounts for 35 percent of the safe drinking water coverage of the country and is expected to increase to 46 percent by 2016. By the end of 2012, the safe drinking water coverage island wide increased to 84 percent with an increase of 2 percent over 2011. It is expected to increase to 94 percent by 2016. The Community Based Organizations (CBO) and local authorities provide 8 percent coverage while the balance 41 percent of the population consumes drinking water through other sources such as wells, hand pumps and tube wells, rain water and springs.

NWS & DB produced 526 million cubic meters (m<sup>3</sup>) of drinking water in 2012, a 7 percent increase at 490 million m<sup>3</sup> over 2011, at a cost of Rs.8, 826 million, through 337 water supply schemes. Cost per m<sup>3</sup> of water increased by 13 percent to Rs. 16.80 in 2012 from Rs. 14.86 in 2011. By the end of 2012, due to the large investments made into NWS & DB, water production capacity has increased by 185,791 m<sup>3</sup>.

During 2012, NWS & DB distributed 368 million m<sup>3</sup> of water an increase of 8 percent at 342 million m<sup>3</sup> in comparison to 2011, through 1,587,663 water connections and bowzers. NWS & DB recorded a revenue of Rs. 16.3 billion in 2012, an increase of 11 percent over 2011. Sale of water which constitutes of almost 85 percent of total revenue amounted to Rs.13.1 billion. In line with the government policy to ensure accessibility to safe drinking water, NWS & DB has been successful in increasing total water connections by 138,362 in 2012.

However, in 2012, 157 million m<sup>3</sup> of drinking water, is reported as Non-Revenue Water (NRW), water wasted continuously through leakages in the distribution system, which is 29.9 percent of the total production. The Board was able to marginally reduce the NRW to 29.9 percent in 2012 from 34 percent in 2008 in percentage terms. In terms of volume, the annual quantity of NRW has increased to 157 million m<sup>3</sup> in 2012 from 141 million m<sup>3</sup> in 2008. If the Board had been able to mitigate the NRW to at least 12 percent in line with the international benchmark, the Board would have been able to increase its water sales by 94 million m<sup>3</sup> which contributes to nearly 10 percent of safe drinking water coverage of the country earning a net income of Rs. 3.4 billion per annum.



In 2012, driven by the 25 percent salary hike which resulted in the total expenditure to increase by 37 percent over 2011, the Board incurred an accounting loss of Rs. 579 million against the previous year's accounting profit of Rs. 421 million. Maintenance of stocks at a cost of Rs.3, 898 million has had a negative impact on the liquidity position resulting in the Board not being able to meet the loan repayments to the Treasury whereby the unsettled dues to the Treasury increased to Rs. 5,281 million at the end of 2012 in comparison to Rs. 3,704 million

at the end of 2011. NWS & DB revised the tariffs in the latter part of 2012, by 33 percent so as to bridge the gap between the cost of water at the door step and the tariff per unit. Despite this increase in tariffs the domestic consumers consuming up to 25 units who account for almost 85 percent of the total domestic consumer base at 1.2 million are still being availed a subsidy between Rs. 9 - 30 per unit, costing Rs. 3,290 million per annum.

During the 2012, 368 million of water units ( $m^3$ ) were consumed of which the Domestic sector accounted for 72 percent and the balance 28 percent by the industrial sector. However the domestic sector contributed to 55 percent of the revenue at Rs. 7,455 million while the industrial sector accounted for 45 percent of the revenue generated a profit of Rs. 1,688 million.

The aggressive investment strategy adopted by the government not only to expand the water connections but also to arrest the NRW to 20 percent by 2016 will strengthen the balance sheet in the medium term when the Board will be able to generate surpluses from 2013. Leveraging on the strength of the balance sheet, the Board will be in a position to raise financing for its expansions in the future. It is also noted that

the sustainability of the NWS & DB will depend largely on how successful it will be in managing its large project portfolio of about Rs. 106.4 billion and adjusting to high energy cost which accounts for one fourth of operating expenses.

At the end of 2012, NWS & DB's project portfolio consisted of 26 projects at various stages of the project cycle. During the period 2005-2012 the Board has been able to complete 36 major water projects increasing the annual water production capacity to 552,609  $m^3$ . However, it is noted that a number of projects has been behind schedule in completing works within the stipulated time period resulting in cost and time overruns, in some cases exceeding 100 percent of the original cost estimate and beyond the original time span. Delays in the procurement process is a main reason for cost escalations while weak feasibility studies undertaken at the project designing stage and poor project management have been identified as other reasons for cost overruns of water projects.

In many cases, the government had to allocate significant amount of additional funds for projects due to cost overruns increasing the burden on the national budget.

Chart 11.7 > Performance of NWS & DB 2007-2012

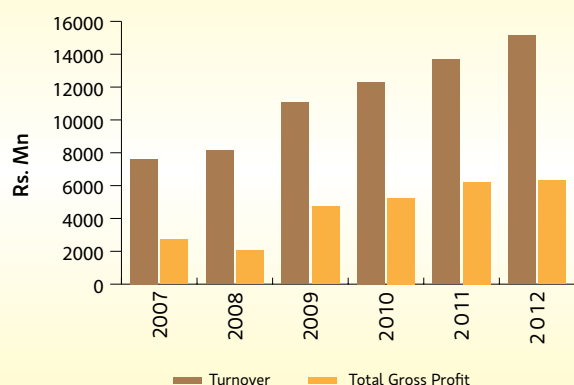
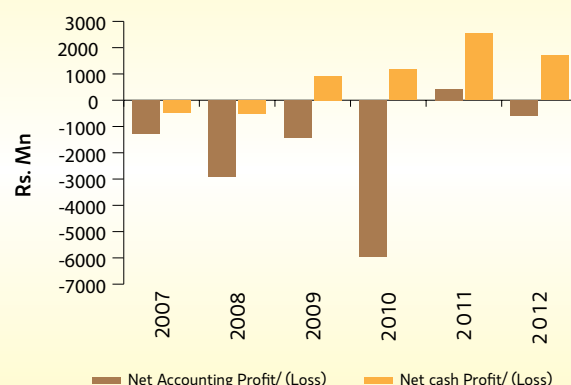


Chart 11.8 > Profit of NWS & DB 2007-2012



The aggressive investment strategy adopted by the government not only to expand the water connections but also to arrest the NRW to 20 percent by 2016 will strengthen the balance sheet in the medium term when the Board will be able to generate surpluses from 2013.

It is noted that the Board has been holding on to stock items such as pipes, pipelines etc., that are both old and dilapidated tying up money in non-moving items giving rise to a tight liquidity position. Lack of a proper stock control system and cost accounting system resulted in the Board not being able to manage its resources optimally. Establishment

Table 11.7 > **Consumption and Revenue of water**

Category	Consumption of Water (Mn m3 )	Revenue (Rs.Mn)	Profit/(Loss) per annum (2012) Rs.Mn
Samurdhi	7,451	109	(265)
Tenement Garden	10,081	250	(180)
Non-Samurdhi	248,921	7,096	(3,516)
Industrial	101,546	6,017	1,688
<b>Total</b>	<b>368,000</b>	<b>13,472</b>	<b>(2,273)</b>

Source: National Water Supply and Drainage Board

of Enterprise Resource Planning (ERP) system covering cost accounting aspects, investments aimed at reducing the NRW and better project management and an integrated procurement system will have a significant impact in the Board being able to function as a financially viable organization while being an efficient service provider.

Table 11.8 > **Financial Outturn of National Water Supply & Drainage Board**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>14,404</b>	<b>16,294</b>	<b>20,410</b>	<b>22,137</b>	<b>28,193</b>
Water	11,616	13,106	17,012	18,373	23,812
Water Related Income	2,519	2,919	3,129	3,494	4,112
Other Income	269	269	269	269	269
<b>Operating Cost (Rs.Mn)</b>	<b>13,983</b>	<b>16,874</b>	<b>19,500</b>	<b>21,910</b>	<b>26,587</b>
Personnel	5,626	6,850	7,649	8,567	11,514
Electricity	2,494	3,414	5,121	6,145	7,374
Chemicals	420	564	708	852	996
Other Cost	5,443	6,046	6,022	6,346	6,703
<b>Profit/(loss) (Rs.Mn)</b>	<b>421</b>	<b>-579</b>	<b>910</b>	<b>226</b>	<b>1,606</b>
Outstanding dues to Government (Rs.Bn)	32.8	36.3	35.6	39.7	41.7
<b>Key Performance Indicators</b>					
Connections (Nos Mn)	1.44	1.58	1.72	1.82	1.94
Water Production (m <sup>3</sup> Mn)	490	526	562	602	644
Water Sales (m <sup>3</sup> Mn)	342	368	398	430	464
Non-Revenue Water (%)	30.4	29.9	29.2	28.6	27.9
Safe Drinking Water Coverage (%)	32.3	34	35.7	37	38

Sources: National Water Supply and Drainage Board and Department of Public Enterprises

\*Draft

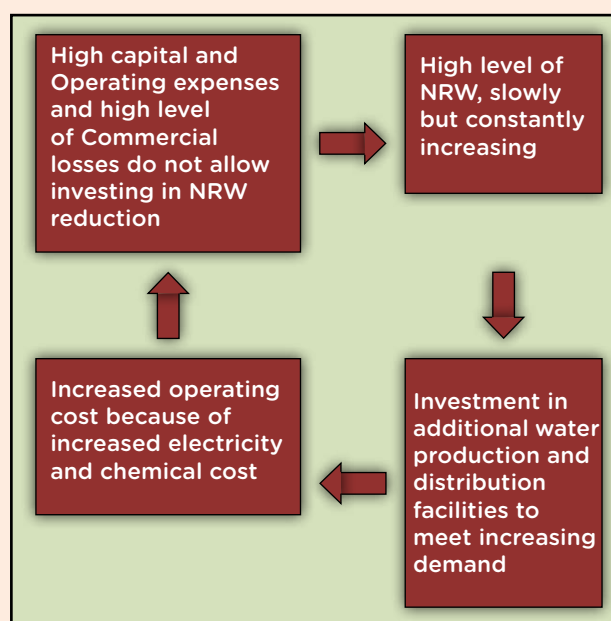
### Box 11.1 > Increasing the Availability and Efficiency of Pipe Borne Water Supply through Reduction of Non-revenue Water

In the context of increased water scarcity and rapid transformation towards urbanized townships centered settlement development improving the efficiency of water supply and reducing water losses have become a priority. In a less developed water supply system often involves loss of water through the distribution system due to leakages, overflows, inaccurate meter readings and illegal water taking and generates Non Revenue Water (NRW). This is generally expressed as a percentage of water supplied to the system. A high NRW is a threat to the financial sustainability of Water supply agencies and once it is commonly used as a key performance indicator to evaluate management efficiency of Water suppliers.

NRW is a good indicator to evaluate the performance of water service provision as high levels of NRW typically indicates a poorly managed water supply systems. Also, a high rate of NRW is closely related to poor energy efficiency, since energy is heavily used in water treatment and distribution processes. Reduction of NRW can boost revenue by increasing the amount of water that can be productive consumed while reducing wastage and energy cost.

This increases profitability and improves the return on investment. With larger profits and retained earnings can be reinvested to improve its productivity of water service providers as well as maximized benefits to the users.

**Figure: The Vicious NRW Cycle**



Source: R. Liemberger

#### Sri Lankan Perspectives

The total volume of water produced in 2012 in Sri Lanka was 526 million cubic meters ( $m^3$ ) while the recorded volume of water consumed was 368 million  $m^3$ . Accordingly, about 157 million  $m^3$  has been lost from the system or 30 percent of the production accounted for NRW. This percentage is high when compared with non-revenue water levels of major cities in the Asian region and the accepted international standard ratio of 15 percent. The approximate revenue loss in terms of lost water in 2012 is estimated at Rs. 3,300 million.

Out of the total NRW in 2012, 49 percent was recorded from the Colombo City. This is mainly due to the fact that about 50 per cent of total water production in the country is distributed in Colombo and suburbs. A large number of water leaks are reported on a daily basis in this region owing to the rundown conditions of distribution network. The other contributory factors include (a) direct transmission tapping from the distribution system, (b) lack of reliable details of pipe lines and accessories, (c) a large number of distribution valves which are not in operational condition, (d) wastage through stand posts, (e) illegal tapping through by passes and unbilled connections and (f) defective meters and meter tampering.

The total length of pipeline in the Island is approximately 38,000 km. The average NRW volume in the country differs according to regions. The NRW figures in main water supplied regions are summarized in the table B.11.1 below.

Table B.11.1

**NRW figures in major regions - 2012**

Region	Production m <sup>3</sup>	NRW Percentage
Colombo City	106,649,250	49.19
Kegalle	11,926,170	34.96
Hambantota	21,067,905	30.63
Galle	24,921,151	29.69
Kandy	55,083,136	26.95
Kurunegala	12,524,000	14.28
Gampaha	17,683,000	21.33
Jaffna	2,087,887	27.40

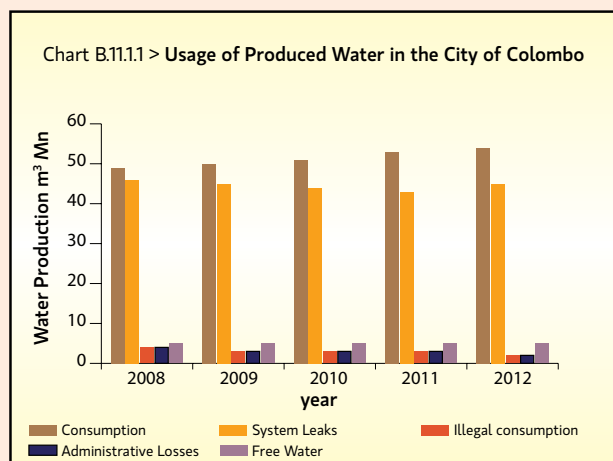
Source : : National Water Supply & Drainage Board

**Status in the Colombo City Water Network**

The existing water supply network in Colombo City is more than 100 years old. Due to the deterioration and run down condition of the system, frequent pipe burst and underground leaks have become a common feature in the system. Over time, the system has turned into a complex one with ad-hoc connection of new service lines to the existing system. Hence, the water supply network in Colombo suffers from low and fluctuating system pressure and intermittent supply. This situation with added illegal connections and free water supply to 1,571 underserved settlements having over 66,000 houses has led to uneconomical production and distribution process incurring heavy financial loss. This loss eventually records in the financial accounts of the National Water Supply and Drainage Board (NWS & DB), further weakening its financial position. As a result, Government is compelled to allocate a substantial portion of public investments in additional water production and distribution facilities to meet increasing demand.

The present water supply system in the Colombo city is an integrated system supplying 106,649,250 m<sup>3</sup>/year of pipe borne water to 132,167 customers. The monetary value of this water volume, based on the operational cost of providing such services is estimated at Rs.2,349 million. However, out of this estimated value, only 72 percent or Rs.1, 686 million has been collected as revenue in 2012.

The recorded total revenue generated water volume in 2012 was 54,189,243 m<sup>3</sup>. The balance amount (52,460,007 m<sup>3</sup> or 49 percent of the total production) was assessed as NRW.



Source: National Water Supply & Drainage Board

### Strategic Approach to Reduce NRW in Colombo City

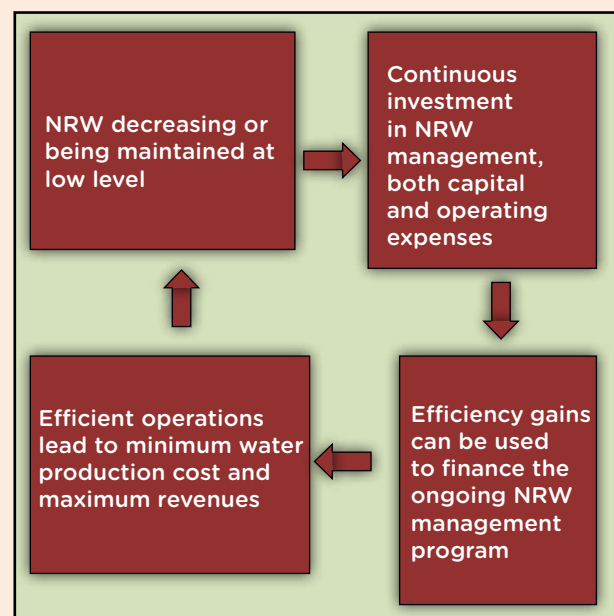
Having recognized the strategic importance of maintaining efficient and economical water supply service in the country while reducing operating expenses and high level of commercial losses at the NWS & DB, Government took a major policy decision in 2012 to address the issue of NRW. Considering the future development planes of government to transform Colombo City as a commercial hub of the region, priority has been assigned to modernize the outdated water supply system in Greater Colombo and address the NRW issues in other regions subsequently. The need for providing assured supply of safe drinking water to new settlements such as port city Colombo and other parallel development projects in support of greater Colombo development have also considered during planning of this initiative. Accordingly, the programme will include (i) reduction of non-revenue water to a technically feasible minimum, (ii) expansion of water supply to areas which are not covered by the existing systems and

(iii) improvement of Ambatale Water Treatment Plant and the Pumping Stations.

The main objective of the overall program is to reduce the non-revenue water in the Colombo City area from its current level of around 49 percent to 20 percent by 2016 by replacement of 450 km of deteriorated pipes. The total length of the water supply network is 838 km of which about 14 km have been replaced and 56 km replacement contract is in progress.

By reduction of NRW level in Colombo city to 20 percent by the year 2016, the quantum of water saved is equivalent to providing new water supply facility to about 30,000 family requirements.

Figure: The Virtuous NRW Cycle

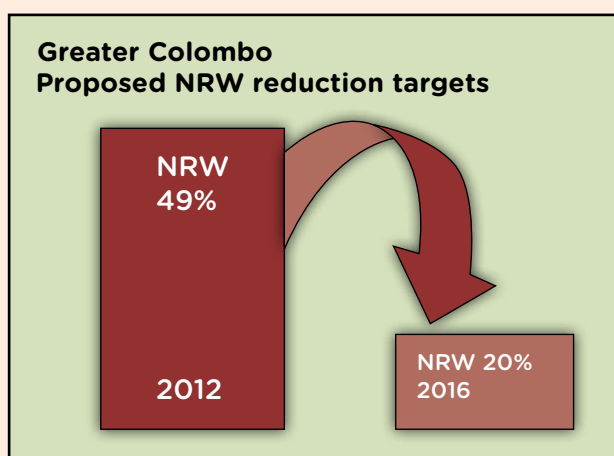


Source: R. Liemberger



As the proposed programme involves huge investment, the Asian Development Bank has agreed to finance this programme jointly with Government of Sri Lanka. Accordingly, US\$ 300 million will be provided by the ADB under Multi - tranche Financing Facility (MFF) while the Government is committed to provide US\$ 100 million to implement this NRW reduction programme.

The MFF consists of four tranches which are scheduled to be implemented consecutively subject to achievement of agreed targets and implementation progress of each tranche. The estimated revenue gain from NRW reduction programme is about Rs. 2.2 billion per annum. The repayment period of loans borrowed from ADB ranges from 26 years to 32 years with 5-8 years of grace period.



As per the Government plan, the non-revenue water level in the country will be brought to an internationally accepted level while fulfilling the household and commercial demand for safe drinking water. The total programme will-

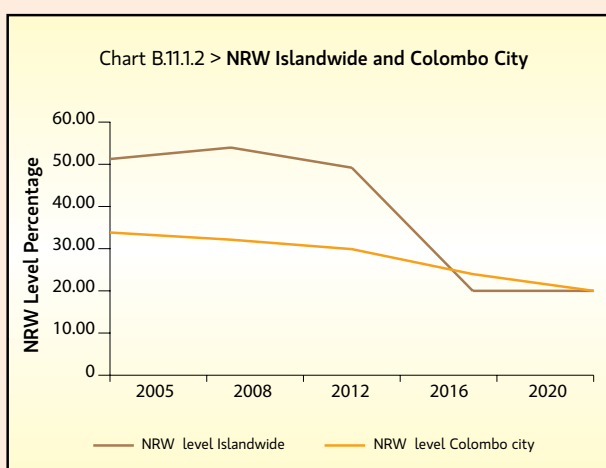
- Improve water supply and distribution network and customer service level,.
- Efficient operations lead to minimum water production cost and maximum revenues

- Increase revenue of the NWS&DB and efficiency gains can be used to finance the ongoing NRW management program.
- Eliminate low pressure areas
- Eliminate illegal connections, by passes and support greater fairness for water consumers.
- Expand business opportunities creating more jobs
- Improve hygienic condition of the people
- Reduce road damages due to less water leaks and public inconvenient

### Change in NRW

The pattern of island wide and Colombo NRW level together with targeted transformation is shown below;

The reduction of unbilled water quantity that lost during the distribution is a dynamic process which involves soft skills



development as well. Therefore, water sector needs to employ high tech and modern instruments, skilled staff and other necessary resources to provide efficient water network in the island, compatible with benchmark countries.



## 11.4 Ports

The government policy framework places significant emphasis on development of port facilities to take the full locational advantage in positioning the country as a global maritime and international trading hub to facilitate the country's exports. Towards this end, Sri Lanka Ports Authority (SLPA) has implemented several infrastructure projects including the expansion of Colombo port as a regional transshipment hub, the construction of Magam Ruhunupura Mahinda Rajapaksha (MRMR) port in Hambanthota initially as a service and industrial port and then to elevate to a multi-purpose trading hub, development of Galle port as a cruise shipping center and Trincomalee port as an eco-friendly, leisure and light commercial port. Oluvil and Kankasanthurei ports are being developed as regional commercial ports linking the coastal chain of Sri Lankan harbours.

In keeping with the Government's public investment strategy, Rs. 74.6 billion has been invested during the period 2005-2012. Through these projects, new MRMR port at Hambanthota and the expansion of the capacity of Colombo port through Colombo Port Expansion Project (CPEP) adding three new terminals have completed phase 1 stage of the infrastructure development enabling marketing of these facilities for commercial operations. Investments for CPEP were raised through Public-Private Partnerships under which the government developed the breakwater facility at a cost of US\$ 400 million with a loan of US\$ 300 million from the Asian Development Bank. Foreign direct investment on development of the first terminal which is in progress at a cost of US\$ 500 million is expected to be commissioned in September 2013. A further US\$ 2.8 billion during the period of 2017 - 2020 is expected

when the balance two terminals are completed. The investments in port facilities and the creation of required legislations to develop these as free ports will create a new platform to attract large investments in manufacturing, services and logistics management activities in the country.

### Sri Lanka Ports Authority

Sri Lanka Ports Authority (SLPA) commissioned the first phase of the Hambanthota MRMR Port in 2011 and continued the implementation of the second phase in 2012. The SLPA commenced route Roll on-Roll off (Ro-Ro) operations at MRMR port as a measure to minimize long berthing delays in Colombo port since June 2012. The construction of selected industries on petrochemical manufacturing, food processing, packaging and warehousing facilities in the new industrial zone within the port is scheduled to start in 2013 along with the commissioning of Bunkering Facilities and the Tank Farm facility. SLPA hopes to convert MRMR port into a free port as a logistics services and manufacturing centre providing food, water, crew change facilities and all other ship handling services capitalizing fully the port's geographical location closer to the main East-West shipping line.

The new Colombo South Container Terminal with a capacity of handling 2.4 million Twenty Foot Equivalent container Units (TEUs) is one of the largest Public-Private Partnership (PPP) of the country, under a Built Own Transfer (BOT) scheme. Of which SLPA and China Merchant Holdings (International) Company Limited hold 22 percent and 78 percent of the shares respectively. The estimated cost of construction is US\$ 500 million and will be operated by the newly incorporated Colombo International Container Terminal Limited (CICT).

The first 400 metre berth will commence operation by July 2013 with Colombo port becoming the only port in the Indian sub-continent with 18 metre water depth alongside the berth and 70 metre outreach ship to shore cranes that can cater to 18,000 TEU capacity Ultra-Large Container-Carriers (ULCC) which are the largest ships afloat today.

The Olivil Port Development Project which commenced with the objective of expediting economic development in the Eastern region by constructing the South Eastern link of the chain of coastal harbours around the island for the provision of cost effective and more expedient route for transporting goods between Western and South Eastern regions was completed in 2012, and both commercial and fishery harbours were handed over to SLPA. Continuing with these developments in port facilities, the government in 2012 provided budget support through on lent facilities of Rs. 26 billion to SLPA for the development of sea ports.

In 2012, SLPA recorded a decline in its total operations alongside the reduced trade activities in consequence with sluggish global recovery and slowdown in domestic economy with a decrease of container traffic volume by 1.8 percent and vessel arrivals by 5.0 percent over 2011. In spite of the deceleration in the operations, SLPA's revenue increased by 22.5 percent to Rs. 38.3 billion in 2012 from Rs. 31.3 billion in 2011. The overall expenditure increased by 6.7 percent in spite of both salary revision of almost 8 percent being effective through the collective agreement in 2012 and the continuation of the exchange losses amounting to Rs. 4,567 million in 2012 due to yen appreciation. In this background, SLPA was able to continue its profitable streak into

2012 recording a profit before tax of Rs. 5,303 million, a significant increase of 4,974 million over Rs. 329 million in 2011, while the net profit increased to Rs. 4,168 million from Rs. 122 million in 2011.

SLPA continued with a Voluntary Retirement Scheme (VRS) initiated in 2011 as part of the restructuring process of their operations in 2012 as well. In 2012 alone, through the VRS, 380 employees retired at a cost of Rs. 600 million. As such at the end of 2012 total employees of SLPA stood at 10,102, a decline of 880 from 10,982 in 2011.

During the year 2012, container throughput (TEUs) handled by SLPA at 2.32 million was a marginal increase of 0.8 percent over the throughput of 2.3 million handled during the year 2011. The two container terminals of SLPA; Jaya Container Terminal (JCT) and Unity Container Terminal (UCT) handled 55.3 percent of the country's total container volume at 2.32 million TEUs in 2012, while South Asia Gateway Terminal Limited (SAGT) the competitor to the SLPA handled the balance 44.7 percent at 1.87 million TEUs. It is noted that during the year 2012 the container volume handled by the JCT and the UCT increased by 0.8 percent while SAGT experienced a slight decline of 4.7 percent in the operations reflecting the competitive strengths of SLPA.

Even though the total TEUs decreased by 1.8 percent in 2012, TEUs per employee increased to 229 in 2012 from 209 in 2011. This was mainly due to the reduction of excess employees and introduction of new management systems to enhance the productivity of the SLPA. At the same time, the improvement in the average turnaround time of a container ship to 20.73 hours/ship in 2012 from 22.78 hours/ship in

Table 11.9 > **Financial Outturn of Sri Lanka Ports Authority**

Description	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>31,294</b>	<b>38,342</b>	<b>45,054</b>	<b>49,300</b>	<b>55,869</b>
Navigation	4,095	4,860	6,385	6,618	7,578
Stevedoring	16,625	19,433	22,027	23,971	27,279
Wharf Handling	3,273	3,634	4,106	4,640	5,243
Port Facilities	3,024	3,682	4,742	5,204	5,746
Other **	4,277	6,734	7,793	8,867	10,023
<b>Expenditure (Rs.Mn)</b>	<b>30,965</b>	<b>33,039</b>	<b>39,287</b>	<b>40,872</b>	<b>42,089</b>
Operational Expenses	11,839	13,750	14,713	15,596	16,375
Repair and Maintenance Expenses	4,433	4,459	4,771	5,057	5,310
Administrative Expenses	13,244	13,096	14,012	14,853	15,596
Finance Cost	1,449	1,734	5,791	5,366	4,808
<b>Profit/(Loss) Before Tax (Rs.Mn)</b>	<b>329</b>	<b>5,303</b>	<b>5,767</b>	<b>8,428</b>	<b>13,780</b>
Borrowings from Banks(net) (Rs.Mn)	1,353	(1,023)	(956)	(717)	(538)
Outstanding dues to Banks (Rs.Mn)	4,849	3,826	2,869	2,152	1,614
Foreign Loans (Rs.Mn)	123,120	146,801	11,997	12,000	11,971
Interest on Foreign Loans (Rs.Mn)	1,372	1,710	5,751	5,321	4,763
<b>Key Performance Indicators</b>					
<b>TEU's Handling (Nos Mn)</b>	<b>2.30</b>	<b>2.32</b>	<b>2.51</b>	<b>2.83</b>	<b>3.25</b>
<b>Vessels Arrival (Nos)</b>	<b>5,189</b>	<b>4,931</b>	<b>5,413</b>	<b>6,193</b>	<b>7,093</b>
Colombo	4,772	4,495	4,945	5,686	6,539
Galle	220	131	139	147	156
Trincomalee	161	223	236	251	266
KKS Port	26	44	45	47	48
MRMRP	10	38	48	63	85

\*\*includes interest income,Dividends received,lease income and etc Yen (Japan)

Sources: Sri Lanka Ports Authority and Department of Public Enterprises

\*Draft

2011 is encouraging. Colombo Port ranked 32<sup>nd</sup> out of top 50 world container ports in 2012 by World Shipping Council whereas in 2005 it was ranked at the 35<sup>th</sup> position. However, further improvements are necessary to maintain the competitiveness of the port, facilitating an increase in container traffic volume and while continuing to improve its world rankings.

At the end of 2012, SLPA carried a total debt of Rs 146.8 billion in 2012, an increase over Rs. 123.1 billion in 2011. This consists of the concessionary loans obtained from JICA, ADB and Ex-Im Bank of China. Total debt service management requires improved Treasury operations considering the vulnerability of external debt to medium term foreign currency

Table 11.10 > **Efficiency Indicators for SLPA (JCT)**

Indicator		2006	2007	2008	2009	2010	2011	2012
Average turnaround time of Container Ship (hours)	Main Vessel	17.43	18.77	20.58	18.9	23.9	22.78	20.73
	Feeder Vessel	23.76	26.84	35.39	31.5	45.1	38.12	33.39
Average Service time of Container Ship (hours)	Main Vessel	14.14	14.55	14.18	13.3	16.6	17.78	16.76
	Feeder Vessel	20.37	21.11	24.82	22.4	32.1	32.1	27.47
Average waiting time of Container Ship (hours)	Main Vessel	1.87	2.52	4.6	3.87	6.7	3.51	2.23
	Feeder Vessel	1.84	2.8	8.35	6.53	11	4.16	3.74
Container productivity per crane (moves per hour)	Main Vessel	20.99	19.32	19.63	20.33	19.23	18.73	20.89
	Feeder Vessel	17.57	16.28	17.41	18.85	17.23	16.88	18.31
Container productivity per berth (moves per hour)	Main Vessel	43.28	42.51	45.27	47.45	47.54	48.66	56.34
	Feeder Vessel	30.13	28.95	31.95	35.33	33.14	33.43	36.89
Container productivity per ship (moves per hour)	Main Vessel	36.42	35.88	38.64	40.81	42.33	43.98	51.36
	Feeder Vessel	24.79	24.72	27.64	28.93	29.56	30.37	33.3

Source: Sri Lanka Ports Authority

risks. The rising financial expenses which has increased by 16 percent by 2012 is also an area requiring a close attention to improve profitability and return on investment of SLPA, while accommodating medium term interest cost of present borrowings.

*The new Colombo South Container Terminal with a capacity of handling 2.4 million Twenty Foot Equivalent container Units (TEUs) is one of the largest Public-Private Partnership (PPP) of the country, under a Built Own Transfer (BOT) scheme.*

## 11.5 Commuter Transportation

Commuter transport accounts for nearly 60 percent of the total motorized passenger transport and serves as the only mean of transport for majority of the population. Bus transport accounts for nearly 55 percent provided by both state owned and privately operated busses, while Sri Lanka Railway accounts for the balance 5 percent.

### Sri Lanka Transport Board

Sri Lanka Transport Board (SLTB) with a fleet of 4,779 buses catered to almost 23 percent of the market while the balance is catered to the private sector with a fleet of 19,699 buses. SLTB operates in 3,200 routes, venturing into new routes such as the Galle-Colombo; Southern Expressway, Polonnaruwa-Ampara highway and

Embilipitiya-Katharagama highway in 2012. SLTB also provides its services to the rural areas and in uneconomical routes which are not attractive to the private sector operators.

Waybill income which constitutes almost 90 percent of the total revenue increased by 20 percent from Rs. 15,175 million in 2011 to Rs. 18,209 million in 2012 in spite of the number of passengers using SLTB services declining by 1 percent in comparison to 2011. Thus the increase in the waybill income is attributed mainly to the increase in bus fares by 20 percent in February 2012. SLTB continued to operate in uneconomical routes, provide services to School and University/Technical College students' at concessionary rates of 90 percent and 70 percent respectively, for which the government has transferred Rs. 3,750 million through budgetary allocations in 2012.

Table 11.11 > **Financial Outturn of Sri Lanka Transport Board**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>16,698</b>	<b>20,165</b>	<b>23,762</b>	<b>26,474</b>	<b>29,237</b>
Waybill Income	15,175	18,209	21,512	23,887	26,262
Season ticket income	552	654	752	865	995
Other income	971	1,302	1,498	1,722	1,980
<b>Expenditure (Rs.Mn)</b>	<b>24,126</b>	<b>30,137</b>	<b>34,724</b>	<b>38,137</b>	<b>41,847</b>
Fuel	7,797	11,406	13,117	15,084	17,347
Tires & Tubes	1,515	1,422	1,769	1,888	2,008
Batteries & Spare Parts	1,010	969	2,042	2,178	2,317
Staff Cost	10,167	13,224	14,168	14,746	15,197
Financial Cost	81	129	181	253	354
Depreciation	1,283	1,322	1,532	1,786	2,092
Other Expenditure	2,273	1,665	1,915	2,202	2,532
<b>Profit/ (loss) (Rs.Mn)</b>	<b>(7,428)</b>	<b>(9,972)</b>	<b>(10,962)</b>	<b>(11,663)</b>	<b>(12,610)</b>
<b>Treasury Subsidy (Rs.Mn)</b>	<b>5,181</b>	<b>5,894</b>	<b>7,895</b>	<b>8,770</b>	<b>9,040</b>
Recurrent	3,938	5,319	5,975	6,350	6,620
Capital	1,243	575	1,920	2,420	2,420
Loss after Recurrent Subsidy (Rs.Mn)	(3,490)	(4,653)	(4,987)	(5,313)	(5,990)
Outstanding Dues to Banks	396	627	690	759	835
Outstanding Statutory Dues	1,570	2,971	2,824	4,500	4,800
<b>Key Performance Indicators</b>					
Operated Passenger Km	933,810	923,034	935,000	942,000	948,000
Buses in Operation (Avg per annum)	4,365	4,779	4,830	4,900	5,000

Sources: Sri Lanka Transport Board and Department of Public Enterprises

\*Draft

Total expenditure increased to Rs. 30,137 million in 2012 from Rs. 24,126 million in 2011. The cost of fuel, the largest expenditure component of the SLTB increased by 46 percent to Rs. 11,406 million in 2012, in comparison to Rs. 7,797 million in 2011. The cost of emoluments increased to Rs. 13,224 million in 2012, from Rs. 10,167 million in 2011 due to increase in minimum salaries by 39 percent since March 2012 from Rs. 8,430 per employee in 2011 to Rs. 11,730 per employee in 2012. During the year number of employees of the SLTB decreased by 1 percent to 33,806 from 34,263 in 2011. Of the budgetary allocations of Rs. 820 million provided for the augmentation of the SLTB's bus fleet, Rs. 561 million was utilized while the balance could not be utilized due to lack of a proper plan. The Board has introduced 12 buses to the Southern Expressway from January 2012, while 267 new buses and 306 fully repaired busses were also added into its running fleet which at the end of 2012 stood at 4,779.

The Board was not in a position to pay statutory payments due to liquidity issues which resulted in incurring Rs. 1,700 million as surcharges. In line with a Cabinet Decision taken in 2012, SLTB is in the process of preparing a restructuring plan to achieve self-sustainability. SLTB has planned to replace its running fleet by 1,400 buses phased out over 2013-2015 period, at an investment of Rs. 4,840 million. However, since the SLTB does not have adequate reserves of its own, investments for expansion and augmentation will have to be worked out on a viable basis. Greater improvement in revenue and expenditure control will be essential to sustain an effective service from the SLTB, since its operations do not indicate signs of generating its own funds for maintaining a viable scale of bus fleet that would be required to meet its social and commercial operations. Nevertheless its present operation in rural and uneconomical routes as well as school services provided for low income children deserves full compensation.

## 11.6 Aviation

Development of infrastructure and the business restructuring of the two airlines to facilitate the aviation sector have been a key priority of the government. Sri Lankan Airlines (SLA) and Mihin Lanka Ltd. (MLL) operate as two airlines and Airport and Aviation Services Limited (AASL) provide infrastructure and related services to the all airlines. During the period 2005-2012, domestic funds of Rs. 32,170 million has been channeled into this sector and a further Rs. 40,996 million has been planned during the period 2013-2015 for the infrastructure development. Two Airlines are expected to operate complementing in each other through their business restructuring and fleet expansion program.

As per the International Air Transport Association (IATA), Asia-Pacific passenger traffic is tipped to grow at a Compound Annual Growth Rate (CAGR) of 6.7 percent, while Asia-Pacific region will represent 33 percent of global passengers in 2016, up from 29 percent in 2011. IATA also has identified Sri Lanka's freight market growing at 8.7 percent CAGR ranking first in the five fastest growing international freight markets over the 2011-2016 period. As such it would appear that the investments that have been made into the aviation sector will yield positive impact in the medium term.

In the background of the global financial crisis in 2012 along with sharp increases in fuel prices airline industry faces significant challenges. While SLA and Mihin Lanka are not exceptions to these challenges particularly with a significant erosion in profit margin. However, given the estimated growth in demand for Sri Lanka as a preferred tourist destination, growth in passenger and Air cargo operations, along with

restructuring plan of both airlines concentrate on consolidating a strong presence in growing Asian markets while networking to Europe and Far East in conjunction with AASL the infrastructure development in two international Airports an opportunity for SLA and Mihin Lanka to improve its performance in the medium term. The aviation industry is expected to be the catalyst in promoting the economy through Tourism, Exports, Trade and Aviation industry based services and improve commercial profitability of these entities.

### Sri Lankan Airlines Limited

Sri Lankan Airlines (SLA) as the national carrier plays a lead role in the tourism industry and in the creation of a regional aviation hub in Sri

Lanka. SLA supports the tourism industry by providing direct services to major tourist destinations and 32 direct on-line destinations in 20 countries. With the inclusion of code sharing with several major airlines SLA operates in 34 countries. SLA has recently joined as a member elect of the “One world” Alliance enabling the airline to access into other major destinations. The company’s medium term business model is based on the replacement of 13 old aircrafts and expand the aircraft fleet to 30 during the period from 2013-2021 together with the concentration of its operations in emerging Asian markets with greater connectivity to Europe and the Far East to promote the country as an aviation hub for passengers as well as cargo transportation.

Table 11.12 > **Financial Outturn of Sri Lankan Airlines**

	Actual		Forecast		
	2011/12	2012/13*	2013/14	2014/15	2015/16
<b>Revenue (Rs.Mn)</b>	<b>91,164</b>	<b>117,186</b>	<b>127,505</b>	<b>140,577</b>	<b>154,391</b>
Passenger	71,474	93,254	101,740	112,611	124,097
cargo	10,599	12,804	13,969	15,462	17,039
Other	9,091	11,123	11,797	12,505	13,255
<b>Expenditure (Rs.Mn)</b>	<b>110,839</b>	<b>143,159</b>	<b>156,864</b>	<b>157,507</b>	<b>165,254</b>
Fuel Cost	50,005	63,787	65,701	68,329	74,446
Lease Rentals	9,897	14,350	13,897	13,897	16,122
Aircraft Maintenance	8,516	11,762	17,436	20,923	25,317
Staff Cost	10,253	12,724	14,633	16,827	19,352
Finance Cost	1,431	3,228	2,592	2,158	1,587
Others	30,737	37,308	42,605	35,372	28,430
<b>Operating profit (loss) (Rs.Mn)</b>	<b>(19,675)</b>	<b>(25,973)</b>	<b>(29,359)</b>	<b>(16,930)</b>	<b>(10,863)</b>
Outstanding Debt to Banks (Rs.Mn)	6,943	27,684	21,134	14,584	8,034
Capital Contribution (Rs Mn)	14,286	12,600	13,000	13,000	9,750
<b>Key performance Indicators</b>					
Passengers carried (No's Mn)	3,459	3,964	4,297	4,787	5,725
Aircrafts (Nos)	22	23	23	23	24
Routes (Nos)	46	38	38	38	38

Sources: Sri Lankan Airlines and Department of Public Enterprises

\*Draft



The Government, as the main shareholder, provided financial support for the national carrier with a capital infusion of Rs. 14.3 billion in the form of a Treasury bond in February 2012 in accordance with the Government's policy decision to infuse capital to the tune of US\$ 500 million over a five-year period commencing from 2012. As at end of March 2013 the government has provided Rs. 26.88 billion by way of capital in addition to the provision of a government guarantee for US\$ 175 million to facilitate its financing operations. SLA was able to expand its aircraft fleet to 22 by adding 6 aircrafts during 2011/12.

During 2011/12 the company's losses increased to Rs. 19,675 million from Rs. 378 million in

2010/11, resulting in an accumulated loss of Rs. 44.8 billion at the end of March 2013.

Company's current liabilities exceeded its current assets by Rs. 36, 525 million (Rs. 9,741 million in 2010/11) which resulted in the erosion of capital to Rs. 1, 439 million (negative) at the end of 2011/12 from Rs 3,217 million at the end of 2010/11 due to 36 percent increase in fuel cost, less yields due to recession in Europe, competition from other airlines and cost of capacity enhancement.

### Mihin Lanka (Pvt) Limited

Mihin Lanka (Private) Limited (MLL) was incorporated in 2007 to cater to the middle to lower income, price conscious travelers to provide flights at a low cost between Colombo

Table 11.13 > **Financial Outturn of Mihin Lanka Limited**

	Actual			Forecast	
	2011/12	2012/13*	2013/14	2014/15	2015/16
<b>Revenue (Rs.Mn)</b>	<b>5,098</b>	<b>7,452</b>	<b>8,053</b>	<b>8,717</b>	<b>9,451</b>
Passenger	4,814	6,942	7,477	8,134	8,825
Cargo	93	144	158	172	190
Other	191	366	388	411	436
<b>Expenditure (Rs.Mn)</b>	<b>7,065</b>	<b>10,318</b>	<b>10,645</b>	<b>10,674</b>	<b>10,875</b>
Fuel	3,062	4,480	4,912	5,460	5,920
Lease Rentals	676	1,553	1,847	1,324	1,074
Aircraft Maintenance	851	1,589	1,621	1,653	1,686
Staff Cost	269	321	353	389	429
Finance Cost	211	91	32	28	24
Others	1,996	2,284	1,880	1,820	1,742
<b>Operating profit /(loss) (Rs.Mn)</b>	<b>(1,967)</b>	<b>(2,866)</b>	<b>(2,592)</b>	<b>(1,957)</b>	<b>(1,424)</b>
Outstanding Debt to Banks (Rs.Mn)	132	351	264	249	228
Capital Contribution (Rs.Mn)	507	1,894	-	-	-
<b>Key Performance Indicators</b>					
Aircrafts (Nos)	2	3	4	4	4
Routes (Nos)	9	10	11	11	11
Passengers carried (Nos)	351,062	365,479	391,062	431,928	468,642

Sources: Mihin Lanka Ltd and Department of Public Enterprises

\*Draft

and several other destinations in South Asia, South East Asia and the Middle East within a 5 hour operating radius from Colombo.

With the introduction of its 03<sup>rd</sup> Airbus aircraft MLL currently operates scheduled flights to 09 destinations with 35 frequencies per week and also code shares with SLA flights in the Far East, Middle East and the Indian Subcontinent. During 2012, MLL suspended its flights to Kuwait due to the introduction of direct flights to Kuwait by SLA and has made arrangements to code share with SLA flights. At present MLL operates to Dhaka, Jakarta, Dubai, Sharjah, Bahrain, Trichy, Madurai, Gaya and Varanasi. With the escalating fuel prices during 2012 and increased competition from other low cost carriers in the market, Mihin Lanka losses increased by almost two folds to Rs. 1,967 million in 2011/2012 in

comparison to 2010/11, despite the increase in revenue and passengers carried by 62 percent and 56 percent respectively with higher accumulated losses, the Company operates with a negative equity. However, it is expected that with a rationalizing of its operations, company will be able to improve its performance. The continuation of profitable route expansion and greater use of the SLA synergy would be necessary to improve its operational viability in the medium term.

### Airport and Aviation Services Limited

Airport and Aviation Services (Sri Lanka) Ltd (AASL) is involved in the infrastructure development drive in aviation. The construction of the second International Airport at Mattala is one of such major projects, which was declared opened on

Table 11.14 > **Financial Outturn of Airport and Aviation Services Limited**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>9,481</b>	<b>11,431</b>	<b>12,562</b>	<b>14,120</b>	<b>15,929</b>
Aeronautical	2,141	2,574	2,754	3,057	3,424
Non Aeronautical	6,789	8,113	8,893	9,604	10,517
Other	551	744	915	1,456	1,988
<b>Expenditure (Rs.Mn)</b>	<b>6,060</b>	<b>6,604</b>	<b>8,417</b>	<b>9,369</b>	<b>10,587</b>
Staff	3,106	3,898	4,872	5,652	6,725
Administration & Establishment	1,198	1,064	1,170	1,287	1,416
Finance cost	281	295	828	852	836
Others	1,627	1,347	1,547	1,578	1,609
<b>Operating profit/(loss) (Rs.Mn)</b>	<b>3,421</b>	<b>4,827</b>	<b>4,145</b>	<b>4,751</b>	<b>5,342</b>
Borrowings	-	-	9,361	(2,670)	(3,065)
Outstanding Debts to Banks	-	-	9,361	6,691	3,626
<b>Key Performance Indicators</b>					
Passengers Movements (Nos)	6,145,532	7,047,365	7,673,244	8,360,861	9,109,208
Aircraft Movements (Nos)	43,454	49,831	54,257	59,117	64,410

Sources: Airport and Aviation Services (Sri Lanka) Limited and Department of Public Enterprises

\*Draft

18th March 2013. The Mattala Rajapakse International Airport (MRIA) will strengthen Sri Lanka's infrastructure and logistics chain by eliminating the competitive disadvantage of having only a single international airport. In 2012, Bandaranaike International Airport (BIA) facilitated more than 7 million passengers, which is a 15 percent increase over 2011. The company has identified the need for doubling the handling capacity at BIA within the next five years. The construction works necessary for such capacity enhancement are planned to commence in 2014.

AASL indicated clear signs of upsurge in operational levels with the increment in aircraft movements, passenger movements and cargo movements by 12 percent, 15 percent and 11 percent respectively during the year 2012. This expansion has been largely influenced by 17.5 percent increase in tourist arrivals to Sri Lanka in 2012.

## 11.7 Construction

State Engineering Corporation (SEC), Central Engineering Consultancy Bureau (CECB), and State Development & Construction Corporation (SD & CC) are the three state owned enterprises engaged in the construction industry. The construction industry constituted almost 8 percent of GDP in 2012 and grew by 22 percent over 2011. Globally the construction industry is tipped to grow by almost 10 percent per annum indicating that there is ample opportunities for construction enterprises to expand their operations locally as well as globally particularly in emerging markets. These three entities have undertaken government contracts worth of almost Rs. 21.5 billion. However, considering the turnover of the construction industry, these three enterprises account for about 0.7 percent of GDP.

Despite the infusion of US\$ 108 million worth of modern machinery and equipment into these three enterprises, the performance of the SEC, CECB and SD & CC suffer from many deficiencies. Government entities in their attempt to overcome procurement delays are compelled to engage these entities in government contracts, which in turn make these enterprises to undertaking works beyond their capacity, resulting in cost and time over runs.

The liquidity crunch faced by SEC, CECB and SD & CC has resulted in inadequate investments being made into modern machinery and equipment thereby weakening the capacities and the productivity of these entities. At the same time all three entities have been faced with difficulties in attracting and retaining skilled professionals. This is mainly due to the expansion in both the domestic and international construction markets which has in turn resulted in an increase in the demand for professionals at significantly high salaries relative to those offered by state enterprises. The exploitation of full potential of these three state construction enterprises require restructuring of their business models, increased engagement in private sector construction activities, sub-contracting arrangements with private sector in public investment projects, greater incentives to attract professionals and commercial orientation in corporate management.

### State Engineering Corporation of Sri Lanka

State Engineering Corporation (SEC) has increased its revenue by 31 percent to Rs. 8,407 million in 2012, from Rs 6,417 million in 2011, while expenditure increased by 31 percent to Rs. 8,160 million from Rs. 6,206 million. SEC continued to be a profitable entity in 2012, recording a profit of Rs. 247 million, an increase

of 17 percent in comparison to Rs. 211 million in 2011. However, during 2012, SEC faced severe liquidity crunch with the increase in operating expenditure by 33 percent or Rs. 1,828 million and with outstanding receivables increasing to Rs. 5,153 million in 2012 which is an increase of Rs. 1,354 million over 2011. As such liquidity needs were financed partially by bank borrowings which increased to Rs. 484 million in 2012 from Rs. 138 million in 2011 and delayed implementation of works.

In 2012, SEC operated with an actual cadre of 3,108 employees, an increase of 572 employees in comparison to 2011, which was reflected in the increase in the salaries and wages cost by 18 percent to Rs.728 million. Of the total cadre, 530 are professionals while the balance consists of non-executive and minor grade employees.

SEC is at present engaged in construction and consultancy works worth of almost Rs. 8

billion most of which are government. With the construction industry projected to grow, SEC will have to invest in new machinery and equipment at around Rs. 2 billion over 2013-2015 this will have a positive impact in improving the capacity and productivity of SEC thereby facilitating the undertaking of more non-governmental works. SEC needs to moderate its operational expenditure through better management practices, budgetary control, project management skills and improvement in receivables.

SEC has undertaken several major projects such as construction of five storied building complex at Angoda, construction of Lunawa Housing Scheme, construction of Safari Park at Hambantota, construction of Buddhashrawaka Bikshu University during the year 2012. SEC was awarded the “International Star for Leadership Quality”, under the gold category at the 16<sup>th</sup> Global Bid Quality Convention in June 2012.

Table 11.15 > **Financial Outturn of State Engineering Corporation**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs. Mn)</b>	<b>6,417</b>	<b>8,407</b>	<b>9,508</b>	<b>11,210</b>	<b>13,100</b>
Construction	2,916	7,308	8,148	9,390	11,110
Consultancy	316	330	450	550	650
Other Income	3,185	769	910	1,270	1,340
<b>Expenditure (Rs. Mn)</b>	<b>6,206</b>	<b>8,160</b>	<b>9,148</b>	<b>10,755</b>	<b>12,526</b>
Operating Expenditure	5,520	7,348	8,195	9,655	11,266
Staff Cost	614	728	842	974	1,112
Financial Cost	9	7	9	11	14
Other Expenditure	63	77	102	115	134
<b>Profit/ (loss) ( Rs. Mn)</b>	<b>211</b>	<b>247</b>	<b>360</b>	<b>455</b>	<b>574</b>
<b>Outstanding Debts to Banks (Rs. Mn)</b>	<b>138</b>	<b>484</b>	<b>494</b>	<b>504</b>	<b>514</b>
<b>Recievables (Rs. Mn)</b>	<b>3,799</b>	<b>5,153</b>	<b>5,565</b>	<b>6,010</b>	<b>6,491</b>

Sources: State Engineering Corporation and Department of Public Enterprises

\*Draft

## Central Engineering Consultancy Bureau

Central Engineering Consultancy Bureau (CECB) was established under the Industrial Corporation Act No 49 of 1957 to provide multi-disciplinary consultancy services for water resource development projects, infrastructure development, building construction, road construction and dam construction. It has expanded its operations beyond the domestic market to the Middle East and is expected to move gradually to East Africa. CECB has a decentralized hybrid structure, based on its functions (Construction, Consultancy and International Operations) and geographical locations.

In 2012, CECB's turnover increased to Rs. 9,604 million from Rs. 9,002 million in 2011 while expenditure increased by 7 percent to Rs. 9,133 million from Rs. 8,574 million in

2011. CECB continued to be a profitable entity generating a net profit of Rs. 471 million in 2012, supported by significant improvements in revenue. While noting its better management in operating expenditure at satisfactory level, the entity continued to face severe liquidity issues with receivables increasing to Rs. 5,386 million in 2012 from Rs. 3,708 million in 2011, underscoring the systemic deficiencies in contract management and treasury operations considering the scale of capital expenditure required in sustaining business and further expansion in its operations. The present scale of profit provides only 4 percent on total assets. However, its on going contract portfolio, asset base and absence of bank borrowings along with improved business management provide positive outlook for this enterprise.

Table 11.16 > **Financial Outturn of Central Engineering Consultancy Bureau**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs. Mn)</b>	<b>9,002</b>	<b>9,604</b>	<b>10,517</b>	<b>11,519</b>	<b>12,646</b>
Construction	7,695	8,209	9,030	9,933	10,926
Consultancy	910	1,127	1,212	1,309	1,414
Other Income	397	268	275	277	306
<b>Expenditure (Rs. Mn)</b>	<b>8,574</b>	<b>9,133</b>	<b>9,975</b>	<b>10,922</b>	<b>11,965</b>
Operating Expenditure	7,608	8,136	8,955	9,851	10,836
Staff Cost	829	849	874	900	927
Financial Cost	14	16	-	-	-
Other Expenditure	123	132	146	171	202
<b>Profit/ (loss) (Rs. Mn)</b>	<b>428</b>	<b>471</b>	<b>542</b>	<b>597</b>	<b>681</b>
<b>Outstanding Debts to Banks (Rs. Mn)</b>	49	-	-	-	-
<b>Receivables (Rs. Mn)</b>	3,708	5,386	5,575	5,770	5,972

Sources: Central Engineering Consultancy Bureau and Department of Public Enterprises

\*Draft

## State Development & Construction Corporation

State Development & Construction Corporation (SD & CC) was established in 1971 under the Industrial Corporation Act No 49 of 1957 to undertake heavy civil engineering works. The Corporation is engaged in the construction of bridges, roads and highways, dams, irrigation development schemes, hydro power tunnels and power houses, water supply and treatment works, building, jungle clearing and land preparation. Amongst the main projects such as Kegalle and Polonnaruwa Provincial Road Development Projects, two bridges on Galle-Deniyaya road, two bridges on Ambanganga-Thorapitiya road in Moragahakanda project undertaken during the year 2012, SD & CC was able to complete 90 percent of construction work of Kallady bridge in Batticaloa which is the longest concrete bridge in Sri Lanka with the longest concrete post tension beams.

SD & CC has increased its revenue by 42 percent to Rs. 3,570 million over 2011 and

recorded a profit of Rs. 73 million in 2012, an increase of 70 percent over 2011. The increase in debtors by 7 percent to Rs. 2,254 million in 2012 from Rs. 2,108 million in 2011 has resulted in the entity being faced with significant liquidity issues whereby the borrowings from banks increased to Rs. 231 million in 2012 in comparison to Rs. 222 million in 2011. This has also had the impact of the Corporation not being able to meet all its statutory payments such as EPF and VAT amounting to Rs. 56 million.

During 2013-2015, SD&CC will have to provide an investment outlay of at least Rs. 2 billion to upgrade its machinery and equipment to sustain its productivity and efficiency. In this context, the corporation would require considerable improvement in its financial outturn with a close concentration on the control of operating expenditure, receivables from contract management and reduction in statutory liabilities.

Table 11.17 > **Financial Outturn of State Development & Construction Corporation**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Revenue (Rs. Mn)</b>	<b>2,506</b>	<b>3,570</b>	<b>4,340</b>	<b>5,450</b>	<b>6,850</b>
Construction	2,186	2,306	3,050	3,900	4,950
Others	320	1,264	1,290	1,550	1,900
<b>Total Expenditure (Rs. Mn)</b>	<b>2,463</b>	<b>3,497</b>	<b>4,238</b>	<b>5,319</b>	<b>6,682</b>
Operating Expenditure	2,080	2,911	3,565	4,584	5,888
Staff Cost	306	305	325	358	375
Financial Cost	68	61	68	75	88
Others	9	220	280	302	331
<b>Profit/ (loss)(Rs. Mn)</b>	<b>43</b>	<b>73</b>	<b>102</b>	<b>131</b>	<b>168</b>
<b>Outstanding Debts to Banks(Rs. Mn)</b>	<b>222</b>	<b>231</b>	<b>245</b>	<b>256</b>	<b>267</b>
<b>Recievables (Rs. Mn)</b>	<b>2,108</b>	<b>2,254</b>	<b>2,367</b>	<b>2,485</b>	<b>2,609</b>

Sources: State Development & Construction Corporation and Department of Public Enterprises

\*Draft

## 11.8 State Banks

The 8 state owned banks continued to expand their operations with a widening of their branch network to 1,580 branches by opening of 56 banking outlets and service delivery points throughout the country. 20 outlets were opened in the conflict affected districts. Reflecting better accessibility to financial services in the country, the state banks recorded a significant improvement in demographic penetration to about 11 branches and about 12 ATMs per 100,000 people in 2012 from 3 branches and 1 ATM per 100,000 people in 2005 while geographic penetration too increased, reaching 34 Branches and 36 ATMs per 1,000 square kilometers in 2012 from 9 branches and 0.5 ATMs per 1,000 square kilometers in 2005. Having recognized SMEs as one of the key drivers of growth in the economy, 37 special SME bank branches were setup in all districts in line with the budget proposal of 2012.

During 2012, revenues of the State Banks recorded a growth of 31 percent exceeding the industry growth of 22 percent. However, with the increase in the average interest rates

during the year, the margins decreased to 8.8 percent in comparison to 10 percent in 2011. Banks experienced an increase in the interest expenditure by 54 percent to Rs. 158 billion in 2012 in comparison to Rs. 102.8 billion in 2011 due to higher interest offered to depositors and its lenders in mobilizing funds. The 8 State Banks accounted for 50 percent of the total asset base of the industry and 52 percent of the total deposits of the industry in 2012. Total asset base of the State banks recorded a growth of 23 percent in 2012 in comparison to 18 percent in 2011, ahead of the industry average growth of 20 percent in 2012 primarily due to the increased lending to state enterprises. The Bank of Ceylon, People's Bank and National Savings Bank accounted for almost 46 percent of the total assets in the sector amounting to Rs. 2,431 billion. Total capital funds employed by state banks amounted to Rs. 123 billion in 2012, a significant growth of a 17.6 percent over the year 2011. Capital funds of the banking sector recorded an increase of 18 percent in 2012. Deposit base of the state banks continued to increase with the total deposit base at Rs. 1,888 billion by the end 2012, registering a year on year growth of 16 percent.

Chart 11.9 > Profitability of State Owned Banks - 2007-2012

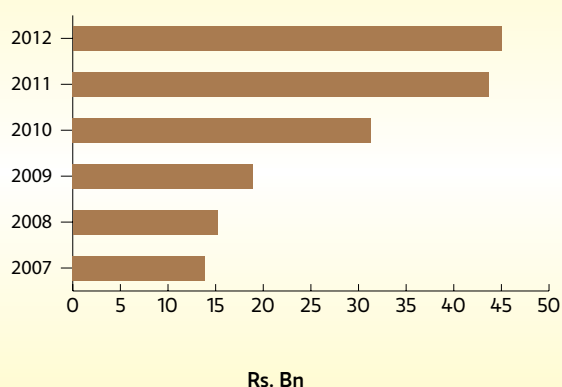
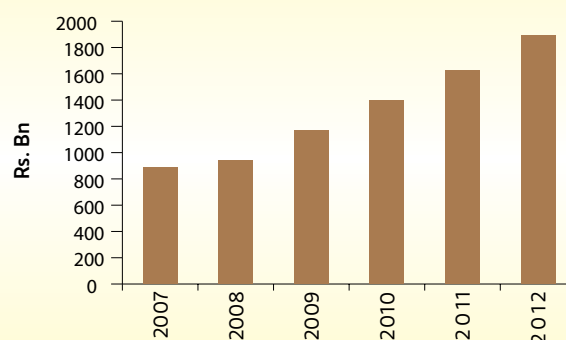


Chart 11.10 > Deposits of State Owned Banks - 2007-2012

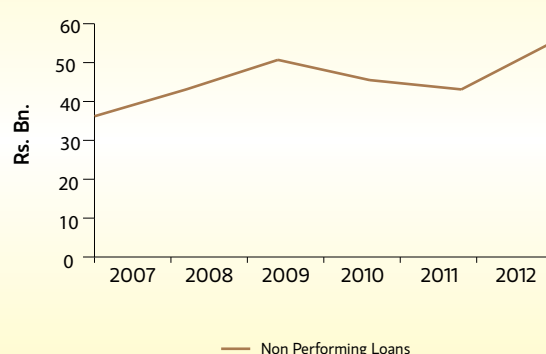




However, the growth in deposits of state banks was below the industry average of 17 percent in 2012. Despite the imposition of a ceiling on credit growth, loans and advances have recorded a growth of 25.8 percent in 2012, as against the industry growth rate of 21 percent. The high interest rate regime that prevailed in 2012 proved to be challenging to the banking operations. Total non-performing loans of state banks amounting to Rs. 55.3 billion reflected an increase of 28 percent or Rs. 12.2 billion. The non-performing loan ratio increased to 4.1 percent in 2012 from 4.0 percent in 2011, and was above the 3.6 percent of the industry average of non-performing loan ratio in 2012.

The three year collective agreements in State Banks for 2012-14 contributed to an increase in its personnel costs by 23 percent or Rs. 6.5 billion to Rs. 34.4 billion in 2012 in comparison to 2011. Similar risks are seen from the reliance on the lending to state enterprises for earnings. With pawning accounting for almost Rs. 460

Chart 11.11 > Movement of Gross Non Performing Loans of State Owned Banks - 2007-2012



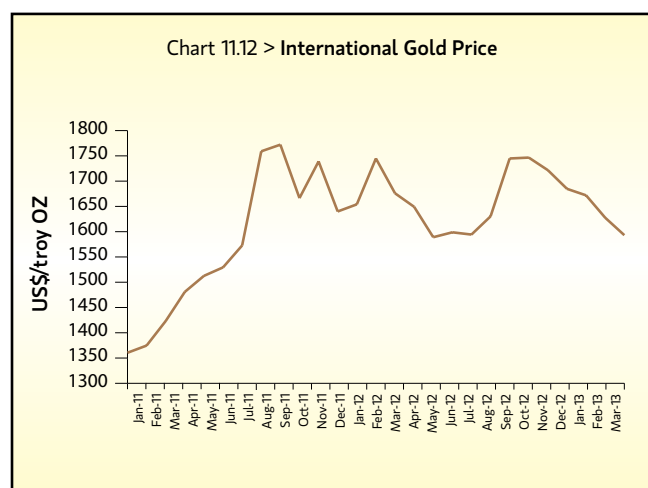
billion or 29 percent of the total loan portfolio of the state banks, the decrease in the average international gold prices in 2012 by 3.6 percent is also a concern if not strategically managed the Banks will incur significant impairment in carrying value. The relatively high exposure on housing and trading are also areas need close monitoring and business planning.

Table 11.18 > Key Performance Indicators of State Banks

	Rs. Bn					
	2007	2008	2009	2010	2011	2012
Assets	1,149.7	1,247.2	1,447.4	1,757.9	2,076.8	2,558.2
Loans & Advances	624.0	630.0	673.4	878.8	1,061.9	1,336.5
Non Performing Advances	36.2	43.1	50.7	45.5	43.1	55.3
Deposits	883.8	942.9	1,168.0	1,400.1	1,624.3	1,888.4
Capital Funds	53.4	63.2	70.2	84.4	104.4	122.9
Total Borrowing	151.0	176.0	132.7	204.2	278.7	461.5
Interest Income	124.0	155.0	177.3	167.7	181.9	246.9
Interest Expenses	82.6	108.0	119.8	98.8	102.8	158.0
Net Interest Income	41.3	47.0	57.5	68.9	78.9	89.0
Profit Before Tax	13.9	15.2	18.9	31.3	43.7	45.0
Profit After Tax	7.4	7.9	10.9	18.6	30.0	31.5
Return on Assets (ROA) (%)	0.7	0.7	0.8	1.2	1.4	1.2
Return on Equity (ROE) (%)	14.4	13.5	16.3	24.0	29.0	26.0

Source: Department of Public Enterprises

Chart 11.12 &gt; International Gold Price



Reflecting better accessibility to financial services in the country, the state banks recorded a significant improvement in demographic penetration to about 11 branches and about 12 ATMs per 100,000 people in 2012 from 3 branches and 1 ATM per 100,000 people in 2005 while geographic penetration too increased, reaching 34 Branches and 36 ATMs per 1,000 square kilometers in 2012 from 9 branches and 0.5 ATMs per 1,000 square kilometers in 2005.

Table 11.19 &gt; Sector wise Credit Concentration of State Banks

	2012	
	Rs.Bn	Percentage
Agriculture & Fishing	68.2	4.4
Manufacturing	68.5	4.4
Tourism	15.9	1
Transport	19.8	1.3
Housing	166.1	10.7
Trading	237.1	15.3
Financial & Business Services	31.6	2
Infrastructure	118.5	7.7
Consumption	182	11.8
Construction	112.6	7.3
Credit card	3.4	0.2
Pawning	460	29.7
Others	116.1	7.5
<b>Total</b>	<b>1,599.8</b>	<b>100</b>

Source: Department of Public Enterprises

As part of the convergence of local accounting standards with international standards, banks adopted Sri Lanka Financial Reporting Standards (SLFRS) and Sri Lanka Accounting Standards (LKAS) for periods beginning 2012. Major changes were reported pertaining to financial instrument presentation, financial instrument recognition, measurement and disclosures and share based payments. Sri Lankan Banking sector is faced with significant challenges in managing asset quality, accessing capital in the face of rapid expansion, enhancing risk management capabilities and implementing changes in accounting standards in line with international norms (conversion to IFRS). The State Banks need improvements in business planning, expansion programs, staffing and their costs in managing a more diversified asset portfolio for long term stability.

## Bank of Ceylon

Bank of Ceylon (BoC) continued its dominance in the Sri Lankan banking industry with a 10.9 million customer base, a Rs. 1, 048 billion asset base, Rs. 693.4 billion deposits and Rs. 283 billion foreign currency remittances in 2012. BoC's asset base accounts for 20.5 percent of the industry asset base in 2012, while the lending portfolio which grew by 27.4 percent to Rs. 691.8 billion in 2012 continued to be the country's largest, accounting for 22 percent of the total lending portfolio of the banking industry.

The increase in average interest rates in 2012 resulted in the Bank's margins to decrease to almost 37 percent in 2012 in comparison to 40 percent in 2011. However, net interest income

increased to Rs. 35.3 billion, an increase of 41.2 percent in 2012 in comparison to 2011 as the growth in interest expenses was below the growth in interest income. Non-interest income increased by 9 percent to Rs. 6.6 billion. Operating income recorded a 32.3 percent increase higher than the growth experienced by the banking sector of 22.1 percent.

Despite an exceptional increase in operating income by 32.3 percent, Bank's profit (before tax) increased only by 20 percent to Rs. 19,794 million from Rs. 16,485 million in 2011 mainly due to the increase in salaries through the collective agreement, which accounts for almost 62 percent of the operating expenditure of Rs. 20.8 billion. However as after tax profit

Table 11.20 > **Financial Outturn of Bank of Ceylon**

	Actual			Forecast	
	2011	2012	2013	2014	2015
<b>Total Income (Rs. Mn)</b>	<b>70,857</b>	<b>110,138</b>	<b>132,138</b>	<b>151,959</b>	<b>174,753</b>
Interest Income	61,622	95,022	117,447	135,064	155,324
Interest Expense	36,216	59,701	63,582	67,396	70,766
<b>Net Interest Income (Rs. Mn)</b>	<b>25,006</b>	<b>35,321</b>	<b>53,866</b>	<b>67,668</b>	<b>84,558</b>
Other Income	9,235	15,116	18,683	21,486	24,709
<b>Total Operating Expenses (Rs. Mn)</b>	<b>16,955</b>	<b>20,870</b>	<b>22,227</b>	<b>23,560</b>	<b>24,738</b>
Personnel Expenses	10,460	12,927	13,315	13,714	14,126
Other Expenses	6,495	7,943	8,459	8,967	9,415
Profit Before Tax (Rs. Mn)	16,485	19,794	25,747	31,244	35,930
<b>Key Performance Indicators</b>					
Investments (Rs.Mn)	152,749	276,655	331,986	398,383	478,060
Deposits (Rs.Mn)	595,773	693,440	844,521	971,199	1,116,879
Loans and advances (Rs.Mn)	543,149	691,899	787,072	905,133	1,040,903
Non Performing Advances (Rs.Mn)	11,416	19,221	14,940	19,008	21,859
ROA (%)	2.12	2.1	2.1	2.2	2.3
ROE (%)	33.45	31.24	41.5	54.6	70.9
NPL Ratio (%)	2.1	2.8	1.9	2.1	2.1

Sources: Bank of Ceylon and Department of Public Enterprises

was higher due to lower income taxes, the dividends paid to the government amounted to Rs. 5.3 billion in 2012. BoC recorded a Return on Assets of 2.1 percent in 2012, which is marginally less than the industry average of 2.3 percent.

Trading sector accounted for almost 27 percent of the BoC's lending portfolio in 2012 followed by consumption loans at 23 percent. Although in 2012 BoC's non-performing loan ratio (NPL) deteriorated marginally to 2.8 percent in comparison to 2.1 percent in 2011, it remained below the industry average of 3.6 percent. NPL is expected to improve in 2013-2015 to almost 1.9 percent with the initiation to diversify its lending portfolio.

BoC opened 18 branches in conflict affected areas during 2012 and added 47 new ATM machines to its ATM network. The bank has 13 subsidiaries and 5 associate companies in its group structure which has yielded a dividend income of Rs. 646 million in 2012. BoC has sustained Fitch Ratings Lanka national long-term rating of AA+ in 2012 as well.

## People's Bank

People's Bank (PB) operates with the largest branch network comprising of 347 branches and 381 service centres with 420 ATM locations covering almost all parts of the island. During 2012, PB's asset base which accounted for 17 percent of total asset base of the entire banking industry stood at Rs. 873 billion, an increase of 32 percent over Rs. 662 billion in 2011, which is significantly higher than the industry asset growth of 17.1 percent. The growth in the assets base of 32 percent in 2012 is also higher than the 21 percent growth recorded in 2011. The expansion of the SME centers to 24 in 2012 enabled PB to penetrate the thrust areas in SME sector, which is tipped to constitute on average at least 25 percent

of the total loan portfolio of the Bank during 2013-2015.

Despite the net interest income increasing by Rs. 3.6 billion, which is an increase of 11.9 percent over 2011, pre-tax profit of the bank dropped to Rs. 15.2 billion mainly due to higher loan loss provisioning and salary adjustments made to the staff in terms of the new collective agreement for 2012-14 which increased bank's personnel expenses by 31 percent to Rs. 13,819 million in 2012. The bank was also confronted with high interest expenses, giving use to the careful consideration for low cost deposit mobilization. Operating income which includes net interest income and non-interest income increased only by 18.9 percent over 2011, as opposed to 22.1 percent growth experienced by the banking industry. The bank's profit after tax recorded a modest growth of 4.3 percent over 2011, which amounted to Rs. 10.9 billion due to lower tax rates.

PB's loan book grew by 32 percent in 2012, to Rs. 611.4 billion. Main contributors to this increase were the agriculture and fishing, construction, trading and manufacturing sectors. Loans to state-owned enterprises have accounted for 29 percent of the loan growth due to a high exposure to CEB, CPC and PMB. The pawning (gold) loan portfolio of Rs.251 billion which is almost 38 percent of the total loan portfolio will make the Bank vulnerable to the declining international gold prices as it will have the twin impact of drop in the net realizable value of gold and deterioration in the NPL ratio. The diversification of the asset base in the medium term will enable the bank to maintain a NPL ratio in the range of 2.8 percent. In 2012 Fitch Rating Lanka upgraded PB's national rating to 'AA+ (lka) with a stable outlook. Asset quality of the bank improved as witnessed by the reduction of NPL ratio to

Table 11.21 > **Financial Outturn of People's Bank**

	Actual			Forecast	
	2011	2012	2013	2014	2015
<b>Total Income (Rs. Mn)</b>	<b>67,901</b>	<b>94,633</b>	<b>116,967</b>	<b>134,512</b>	<b>154,688</b>
Interest Income	61,788	85,241	105,358	121,162	139,336
Interest Expense	31,470	51,323	68,904	79,240	91,126
<b>Net Interest Income (Rs. Mn)</b>	<b>30,318</b>	<b>33,918</b>	<b>36,454</b>	<b>41,922</b>	<b>48,210</b>
Other Income	6,113	9,392	11,609	13,350	15,352
<b>Total Operating Expenses (Rs. Mn)</b>	<b>20,831</b>	<b>28,061</b>	<b>29,402</b>	<b>30,739</b>	<b>31,982</b>
Personnel Expenses	10,547	13,819	14,234	14,661	15,100
Other Expenses	10,284	14,242	15,168	16,078	16,882
<b>Profit Before Tax (Rs. Mn)</b>	<b>15,600</b>	<b>15,249</b>	<b>18,661</b>	<b>24,533</b>	<b>31,580</b>
<b>Key Performance Indicators</b>					
Investments (Rs.Mn)	129,977	175,491	210,589	252,707	303,248
Deposits (Rs.Mn)	550,226	683,950	820,740	943,851	1,085,429
Loans and advances (Rs.Mn)	461,656	611,414	690,898	794,532	913,712
Non Performing Advances (Rs.Mn)	16,062	17,407	19,844	22,622	25,789
ROA (%)	2.6	2	1.9	2.2	2.4
ROE (%)	49.2	41.7	50.9	54.5	57.7
NPL Ratio (%)	3.4	2.8	2.8	2.8	2.8

Sources: People's Bank and Department of Public Enterprises

2.8 percent in 2012 from 3.4 percent in 2011. Supported by the extensive branch network, bank's deposits recorded a growth of 24.3 percent during the year 2012. PB maintained a Capital Adequacy Ratio (CAR) of 14 percent by the end of 2012, which is well above the minimum CAR of 10 percent.

### National Savings Bank

National Savings Bank (NSB), the largest licensed specialized bank in the country, limited its branch expansions in 2012 to 9 branches in comparison to 24 branches in 2011. NSB has granted 9,535 housing loans amounting to Rs. 10,386 million during the year 2012. As per the requirement to invest not less than 60 percent of its investments in government securities in terms of the National Savings Bank Act, the bank had

invested 66 percent in government securities further consolidating assets base. NSB accounted for 9.8 percent of the total asset base and 12 percent of total deposit base of the entire banking industry. The bank's assets have grown by 9.3 percent, to Rs. 510 billion from Rs. 466 billion in 2011 with the increase in loans granted during the year.

The bank's profit before tax decreased to Rs. 6.2 billion in 2012 from Rs.9.2 billion in 2011 mainly due to the policy changes which resulted in the imposition of a credit ceiling and rising interest rates on deposits that reduced margins from 37.8 percent in 2011 to 25.7 percent in 2012. NSB undertook a low cost deposit mobilization programme by increasing the number of school bank units from 349 in 2011 to 1,185 in 2012 with the objective of

retaining the savings within the system in the long term. NSB also has introduced value added services to enhance the concept of banking to the doorstep.

NSB mobilized Rs.31 billion deposits in 2012 compared to Rs. 55.6 billion deposits in 2011. However the Bank recorded a growth of only 8.5 percent over its deposit base at the end of December 2011 against the 18 percent deposit growth of banking industry in 2012. The foreign currency deposits of the bank amounted to Rs. 5.6 billion by the end of 2012, an increase of 12.6 percent over the previous year. The bank's non-performing loan ratio improved marginally from 2 percent in 2011 to 1.8 percent by the end of 2012 mainly due to decline in non-performing housing and auto loans. Backed by an asset base that has been consistently recording

growths of around 12 percent since 2005, the bank is due to diversify its lending portfolio from the traditional housing construction market into thrust areas of the economy such as tourism, agriculture and key infrastructure development projects. Enhanced due diligence coupled with better internal controls are expected to facilitate a better quality investment portfolio.

The Committee on Public Enterprises (COPE) noted that the Bank needs to strengthen its governance mechanism with clear demarcation of the duties and responsibilities of the Board of Directors and the Management. It is in the best interest of the bank that the Board does not get involved on the day to day operations of the Bank and confine itself as the policy making and oversight body of the Bank operations

Table 11.22 > **Financial Outturn of National Savings Bank**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Total Income (Rs. Mn)</b>	<b>47,863</b>	<b>53,483</b>	<b>64,036</b>	<b>71,513</b>	<b>79,872</b>
Interest Income	47,096	52,673	63,208	70,666	79,005
Interest Expense	29,296	39,142	44,301	50,140	56,748
<b>Net Interest Income (Rs. Mn)</b>	<b>17,800</b>	<b>13,531</b>	<b>18,907</b>	<b>20,526</b>	<b>22,257</b>
Other Income	767	810	828	847	867
<b>Total Operating Expenses (Rs. Mn)</b>	<b>9,312</b>	<b>8,152</b>	<b>8,540</b>	<b>8,927</b>	<b>9,288</b>
Personnel Expenses	4,140	4,053	4,175	4,300	4,429
Other Expenses	5,172	4,099	4,365	4,627	4,859
<b>Profit Before Tax (Rs. Mn)</b>	<b>9,255</b>	<b>6,189</b>	<b>11,195</b>	<b>12,446</b>	<b>13,836</b>
<b>Key Performance Indicators</b>					
Investments (Rs.Mn)	327,797	339,598	373,558	410,914	452,005
Deposits (Rs.Mn)	421,849	457,650	494,626	553,339	619,020
Loans and advances (Rs.Mn)	137,439	168,619	175,465	197,486	222,271
Non Performing Advances (Rs.Mn)	2,890	3,469	3,158	3,555	4,001
ROA (%)	2.1	1.4	2.1	2.1	2.2
ROE (%)	38.2	23.9	38.8	38.7	38.6
NPL Ratio (%)	2	1.8	1.8	1.8	1.8

Sources: National Savings Bank and Department of Public Enterprises

\*Draft

and management. The sharp increase in interest expenditure of the bank contributes to the decline in profits, despite the increase in interest income as better management of operating expenses, demanding the bank to be mindful of its cost of deposit mobilization. The bank sustained its “AAA (Ika)” rating by Fitch Rating (Lanka) Ltd for the 10th consecutive year.

### State Mortgage & Investment Bank

The State Mortgage & Investment Bank (SMIB) a licensed specialized Bank continued to engage predominantly in the housing finance market, with housing loans accounting for almost 88 percent of the Bank's total loan portfolio in 2012. Although the SMIB Act no 13 of 1975 empowers the SMIB to provide financial assistance for agriculture and other

development sectors, the bank has not been active in this area as part of bank's exposure management at its current business strategy.

The bank witnessed an increase in its loans and advances by 13 percent in 2012 to Rs. 18.3 billion. The bank's deposit base grew by 14 percent mainly due to increase in institutional deposits from Rs. 3 billion in 2011 to Rs. 4.7 billion in 2012. During the year the average deposit rate of the Bank increased to 5-14 percent from 5-10 percent in 2011, while the lending rates increased to 12-18 percent in 2012 from 12-14 percent in 2011. The bank's non-performing loans ratio recorded an increase in 2012 to 37.4 percent which is above the industry average of 3.6 percent. However it is noted that almost 62.2 percent of the Banks non-performing loan portfolio is in lieu of the

Table 11.23> **Financial Outturn of State Mortgage and Investment Bank**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Total Income (Rs. Mn)</b>	<b>2,671</b>	<b>3,012</b>	<b>3,716</b>	<b>4,273</b>	<b>4,914</b>
Interest Income	2,611	2,933	3,625	4,169	4,794
Interest Expense	1,214	1,725	2,371	2,727	3,135
<b>Net Interest Income (Rs. Mn)</b>	<b>1,397</b>	<b>1,208</b>	<b>1,254</b>	<b>1,442</b>	<b>1,659</b>
Other Income	60	79	91	104	120
<b>Total Operating Expenses (Rs. Mn)</b>	<b>769</b>	<b>851</b>	<b>888</b>	<b>926</b>	<b>961</b>
Personnel Expenses	388	516	531	547	564
Other Expenses	381	335	357	378	397
<b>Profit Before Tax (Rs. Mn)</b>	<b>688</b>	<b>436</b>	<b>457</b>	<b>621</b>	<b>818</b>
<b>Key Performance Indicators</b>					
Investments (Rs.Mn)	113	317	349	384	422
Deposits (Rs.Mn)	15,088	17,203	20,644	23,740	27,301
Loans and advances (Rs.Mn)	16,170	18,315	20,696	23,800	27,370
Non Performing Advances (Rs.Mn)	6,001	6,905	7,244	8,330	9,580
ROA (%)	3.4	2	2.1	2.3	2.7
ROE (%)	18.9	11.4	12.1	13.5	16.1
NPL Ratio (%)	36.79	37.42	35	35	35

Sources: State Mortgage & Investment Bank and Department of Public Enterprises

\*Draft



loans granted backed by EPF deposits. These loans get serviced within 6 months. Net interest income, during the year 2012, decreased to Rs. 1,208 million, a 13.6 percent decline over 2011. This is mainly due to the increase in the interest expenditure by 42 percent to Rs. 1,725 million which is reflected in the decrease in margins by 12.3 percent in 2012 from 2011. The total expenditure recorded a 35 percent increase in 2012 over 2011 to Rs. 2,576 million with an increase in personnel costs by 33 percent or by Rs. 128 million to Rs 516 million in comparison to 2011 along with other state banks entering into collective agreements. As such although SMIB continued its profitable streak, profit before tax decreased to Rs. 436 million in 2012 from Rs. 688 million in 2011. Low cost deposit mobilization coupled with improvement in

the operational systems is vital for SMIB to increase its Return on Assets to at least 3 percent in the medium term.

## HDFC Bank

The HDFC bank, which is primarily engaged in granting loans or credit facilities for housing purposes, is the only state bank listed in the Colombo Stock Exchange. The bank's asset base recorded a marginal increase of 4.5 percent in 2012 to Rs. 20.8 billion from Rs. 19.9 billion in 2011. Of the bank's total loan portfolio, Rs. 16.2 billion, 99.7 percent has been granted to construct small and medium housing units. The deposit base of the bank increased by 5 percent to Rs. 12.9 billion in 2012, from Rs. 12.3 billion in 2011. Profit before Tax of Rs. 73 million in 2012 is a significant decrease of 77 percent over the previous

Table 11.24 > **Financial Outturn of HDFC Bank**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Total Income (Rs. Mn)</b>	<b>2,465</b>	<b>2,689</b>	<b>3,024</b>	<b>3,564</b>	<b>4,137</b>
Interest Income	2,245	2,634	2,950	3,482	4,039
Interest Expense	1,354	1,805	1,835	2,074	2,385
<b>Net Interest Income (Rs. Mn)</b>	<b>891</b>	<b>829</b>	<b>1,115</b>	<b>1,408</b>	<b>1,655</b>
Other Income	220	55	74	82	98
<b>Total Operating Expenses (Rs. Mn)</b>	<b>790</b>	<b>811</b>	<b>995</b>	<b>1,136</b>	<b>1,309</b>
Personnel Expenses	345	458	412	453	498
Other Expenses	445	353	583	683	811
<b>Profit Before Tax (Rs. Mn)</b>	<b>321</b>	<b>73</b>	<b>194</b>	<b>354</b>	<b>444</b>
<b>Key Performance Indicators</b>					
Investments (Rs.Mn)	4,124	3,899	4,289	4,718	5,190
Deposits (Rs.Mn)	12,336	12,923	15,508	17,834	20,509
Loans and advances (Rs.Mn)	15,200	16,300	17,930	19,723	21,695
Non Performing Advances (Rs.Mn)	3,281	3,291	3,227	3,550	3,905
ROA (%)	1.6	0.4	0.8	1.4	1.6
ROE (%)	13.7	3.1	7.4	12.2	14
NPL Ratio (%)	21.6	20.2	18	18	18

Sources: HDFC Bank and Department of Public Enterprises

\*Draft

year mainly due to increase in interest expenses and decline in fee and commission income. It is acknowledged that while the bank was successful in trimming down the NPL ratio to 20.2 percent, it is still above the market average of 3.6 percent.

Net interest income decreased by 7 percent to Rs. 829 million in 2012 over 2011 with interest expenses increasing to Rs. 1,805 million in comparison to Rs. 1,354 million in 2011. Interest margins declined to 31.5 percent in 2012 reflecting the impact of high interest rates that prevailed in the country in 2012. The bank operates with a substantial assets and liability maturity mismatch, mainly due to the long term nature of housing loans and short term deposit base which needs to be addressed in the medium term.

### Lankaputhra Development Bank

Lankaputhra Development Bank (LDB) which has been in operation since 2006 operates with 7 Branches. The Bank's main objective is to implement the Government's policy of facilitating small and medium enterprises. LDB's deposit base stands at Rs. 240 million at the end of 2012, which is an increase of 16 percent or Rs. 34 million over 2011. The Bank increased its lending portfolio by 2.5 percent or Rs. 62 million to Rs. 2,525 million in 2012 in comparison to 2011. In 2012 the non performing loan ratio has decreased to 45.8 percent from 55.5 percent in 2011 marking an improvement in its operations due to the effort taken by the bank to recover some poor quality loans in the past.

Table 11.25 > **Financial Outturn of Lankaputra Development Bank**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Total Income (Rs. Mn)</b>	<b>463</b>	<b>588</b>	<b>672</b>	<b>741</b>	<b>818</b>
Interest Income	460	599	662	731	808
Interest Expense	51	53	60	68	76
<b>Net Interest Income (Rs. Mn)</b>	<b>409</b>	<b>546</b>	<b>602</b>	<b>664</b>	<b>732</b>
Other Income	3	-11	10	10	10
<b>Total Operating Expenses (Rs. Mn)</b>	<b>288</b>	<b>303</b>	<b>324</b>	<b>322</b>	<b>327</b>
Personnel Expenses	99	92	102	112	123
Other Expenses	189	211	222	210	204
<b>Profit Before Tax (Rs. Mn)</b>	<b>124</b>	<b>232</b>	<b>288</b>	<b>352</b>	<b>415</b>
<b>Key Performance Indicators</b>					
Investments (Rs.Mn)	4,555	4,668	3,868	3,068	2,268
Deposits (Rs.Mn)	206	240	269	301	337
Loans and advances (Rs.Mn)	2,463	2,525	3,325	4,125	4,925
Non Performing Advances (Rs.Mn)	1,243	1,158	998	825	837
ROA (%)	1.9	3.3	3.9	4.6	5.3
ROE (%)	3.2	5.7	6	6.4	6.7
NPL Ratio (%)	55.5	45.8	30	20	17

Sources: Lankaputhra Development Bank and Department of Public Enterprises

\*Draft

During 2012, LDB's interest income increased to Rs. 599 million in 2012 in comparison to Rs. 460 million in 2011. LDB has recorded a significant increase in profit after tax by 82 percent to Rs. 140.7 million in 2012 from Rs. 77.3 million in 2011.

It is noted that LDB will have to acquire the necessary skills to mobilize funds to promote its investments to increase lending to the SME sector in a more effective manner. It is also necessary for the bank to strengthen its governance framework with emphasis on internal controls. The implementation of a human resource management system is vital for the sustainability of the Bank. The Bank was able to secure its rating of A- in 2012.

### Pradheshiya Sanwardana Bank

The Pradheshiya Sanwardana Bank (PSB), which was formed in May 2010, by merging 6 Regional

Development Banks is designed to operate on the "barefoot banking concept," providing innovative yet simple financial services to those at the lower end of the income pyramid.

The PSB operates with 252 branches and 08 extension offices, of which 13 branches were opened in the Northern and the Eastern Provinces. In 2012 the PSB's customer base increased to 4.3 million in comparison to 4 million in 2011. During 2012, the bank channeled credit amounting to Rs 53.7 billion to the SME sector an increase of 13.8 percent or Rs 6.5 billion in comparison to 2011. Bank's deposit base has increased by 18.4 percent to Rs. 54.7 billion in 2012 from Rs. 46 billion in 2011. During 2012, NPL ratio increased to 4.3 percent or Rs.2.3 billion from 2.3 percent or Rs.1.1 billion in 2011 due to many agricultural areas suffering from severe drought conditions. Despite the

Table 11.26 > **Financial Outturn of Pradheshiya Sanwardana Bank**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Total Income (Rs. Mn)</b>	<b>7,611</b>	<b>9,645</b>	<b>10,972</b>	<b>12,518</b>	<b>14,298</b>
Interest Income	7,123	9,049	10,406	11,967	13,762
Interest Expense	3,050	4,612	5,350	6,206	7,199
<b>Net Interest Income (Rs. Mn)</b>	<b>4,073</b>	<b>4,437</b>	<b>5,056</b>	<b>5,761</b>	<b>6,564</b>
Other Income	488	596	566	551	536
<b>Total Operating Expenses (Rs. Mn)</b>	<b>2,686</b>	<b>3,540</b>	<b>3,884</b>	<b>4,203</b>	<b>4,567</b>
Personnel Expenses	1,916	2,489	2,765	3,011	3,297
Other Expenses	770	1,051	1,119	1,192	1,270
<b>Profit Before Tax (Rs. Mn)</b>	<b>1,875</b>	<b>1,493</b>	<b>1,738</b>	<b>2,109</b>	<b>2,533</b>
<b>Key Performance Indicators</b>					
Investments (Rs.Mn)	9,344	11,381	13,763	17,463	21,163
Deposits (Rs.Mn)	46,154	54,670	68,815	87,314	105,813
Loans and advances (Rs.Mn)	47,200	53,667	68,900	85,010	101,120
Non Performing Advances (Rs.Mn)	1,075	2,330	1,235	1,700	2,165
ROA (%)	2.8	1.7	1.9	2.3	2.3
ROE (%)	4.2	3.3	4	4.4	4.7
NPL Ratio (%)	2.3	4.3	1.8	2	2.1

Sources: Pradheshiya Sanwardana Bank and Department of Public Enterprises

\*Draft

increase in net interest income by Rs.364 million which is an increase of 9 percent, pre-tax profit of the bank dropped to Rs. 1,493 million mainly due to increase in operating expenses by 32 percent to Rs. 3,540 million. Fitch Ratings Lanka has given PSB a rating of BBB+.

### Sri Lanka Savings Bank

Sri Lanka Savings Bank (SLSB), which was incorporated in 2008 to provide relief to the depositors of the Pramuka Savings and Development Bank (PSDB), expanded its business operations in 2012 to leasing and hire purchase and is due to open 3 branches in Mannar, Matara and Anuradhapura. Asset base of SLSB stood at Rs. 7.3 billion by the end of 2012 with 71 percent of assets of the

bank being held in the form of liquid assets. During the year SLSB penetrated into microfinance which resulted in the total net loan portfolio of the bank to increase to Rs. 1,192 million in 2012 of which Rs. 848 million had been granted to micro enterprises through community based organizations. SLSB made a profit before tax amounting to Rs. 594 million in 2012 which is a 20 percent increase over 2011. This increase was mainly due to the increase in interest income from the micro finance sector.

The deposit base indicated a decline due to the settlement of deposit liabilities to PSDB account holders. In terms of the settlement scheme for PSDB customers published by the Central Bank of Sri Lanka, loans granted

Table 11.27 > **Financial Outturn of Sri Lanka Savings Bank**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Total Income (Rs. Mn)</b>	<b>750</b>	<b>885</b>	<b>1036</b>	<b>1200</b>	<b>1392</b>
Interest Income	571	742	890.4	1,051	1,240
Interest Expense	138	139	147	156	166
<b>Net Interest Income (Rs. Mn)</b>	<b>433</b>	<b>603</b>	<b>743</b>	<b>894</b>	<b>1,074</b>
Other Income	179	143	146	149	152
<b>Total Operating Expenses (Rs. Mn)</b>	<b>118</b>	<b>152</b>	<b>163</b>	<b>172</b>	<b>182</b>
Personnel Expenses	31	41	45	47	50
Other Expenses	87	111	118	125	132
<b>Profit Before Tax (Rs. Mn)</b>	<b>494</b>	<b>594</b>	<b>726</b>	<b>871</b>	<b>1,044</b>
<b>Key Performance Indicators</b>					
Investments (Rs.Mn)	1,848	827	868	912	957
Deposits (Rs.Mn)	548	488	512	543	576
Loans and advances (Rs.Mn)	2,735	2,528	2,932	3,402	3,946
Non Performing Advances (Rs.Mn)	1,524	1,259	1,428	1,643	1,889
ROA (%)	7.3	8	7.7	8	8.3
ROE (%)	17.4	17.6	17.1	17.5	18.3
NPL Ratio (%)	50.6	51.4	50	50	50

Sources: Sri Lanka Savings Bank and Department of Public Enterprises

\*Draft

by PSDB amounting to Rs. 77 million were recovered during the year 2012. Further, in 2012 SLSB has settled Rs. 167 million to PSDB depositors. With the Bank diversifying its operations, NPL ratio is expected to improve marginally in the medium term.

### Employees' Trust Fund

Employees' Trust Fund Board (ETF) is established in terms of the Employees' Trust Fund Act No. 46 of 1980.

As per the enabling Act, it is mandatory to contribute 3 percent on gross earnings of employees who are working in the private sector and non-pensionable government organizations. Currently, 70,194 employers contribute to the fund on behalf of 2.2 million active members while there are 9.8 million

total member accounts. In 2012, Rs. 12.7 billion was received by the fund as contribution an increase of 15 percent or Rs.1.6 billion, from Rs. 11.1 billion in 2011. As such the total member account balances amounted to Rs. 153.6 billion in 2012, an increase of Rs. 18.1 billion or 13 percent from Rs. 135.5 billion in 2011. During the year 2012, Rs. 8.6 billion was refunded on 145,788 number of claims made. Self-employed people and migrant workers are also eligible to obtain membership voluntarily and currently there are 43,203 account holders as members.

The total investment portfolio grew by 12 percent up to Rs. 149.6 billion in 2012 from Rs. 134 billion in 2011. For the year 2012, 10 percent dividend and interest rate has been declared on members fund balance.

Table 11.28 > **Financial Outturn of Employees' Trust Fund**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Total Income (Rs.Mn)</b>	<b>13,226</b>	<b>12,920</b>	<b>16,351</b>	<b>20,696</b>	<b>26,199</b>
Investment Income	13,114	12,693	16,088	20,391	25,846
Other Income	112	227	263	305	353
Income Net of Tax	12,826	12,767	16,160	20,455	25,891
<b>Total Expenditure (Rs.Mn)</b>	<b>1,188</b>	<b>1,132</b>	<b>1,330</b>	<b>1,564</b>	<b>1,840</b>
Operating Expenses	669	751	867	1,001	1,156
Member Expenses	519	381	463	563	684
<b>Net Income (Rs.Mn)</b>	<b>11,638</b>	<b>11,635</b>	<b>14,830</b>	<b>18,891</b>	<b>24,051</b>
<b>Profit for Distribution (Rs.Mn)</b>	<b>10,950</b>	<b>12,446</b>	<b>15,017</b>	<b>18,119</b>	<b>21,862</b>
<b>Key Performance Indicators</b>					
Interest on Members Fund 3%	3,695	4,089	4,633	5,249	5,948
Dividend -5.5%	6,757	7,497	10,038	13,440	17,996
Total Rate-Interest & Dividend (%)	8.5	8.5	9.5	10	10

Sources: Employees Trust Fund and Department of Public Enterprises

\*Draft

## 11.9 Insurance

The Insurance sector in the country which is regulated by the Insurance Board of Sri Lanka operates with 22 players of whom 16 are local companies while 6 others are foreign based entities. The state presence in the insurance sector is seen through Sri Lanka Insurance Corporation (SLIC), National Insurance Trust Fund (NITF), Agriculture and Agrarian Insurance Board (AAIB) and the Sri Lanka Export Credit Insurance Corporation (SLECIC).

The SLIC accounting for a market share of 24 percent in general insurance and retaining a market share of 19 percent in the life insurance business in 2012 plays a vital role in insurance market. The NITF operates as the general reinsurer to the insurance industry while managing the public officer's insurance fund the Agrahara Insurance Scheme. The Sri Lankan insurance industry has recorded significant growth in general insurance business with Gross Written Premium (GWP) increasing to Rs. 53,297 million in 2012 from Rs. 35,101 million in 2009. Both SLIC and NITF have recorded growth in the GWP of 27.6 percent from 2009 to 2012 which is higher than the industry average for the same period. The SLECIC with an annual turnover of Rs. 174 million provides export insurance to small number of exporters.

Government securities have been the most preferred investments of the insurance industry, reflected by the SLIC's investment portfolio which has invested Rs. 30 billion or 38.4 percent of its total investments in government securities. NITF too has followed suit with Rs. 4.3 billion invested in government securities.

State sector employees who constitute almost 1 million of the total labour force of

8.5 million are privy to enjoy non-contributory pensions and contributory Agrahara Insurance Scheme. Despite the existence of free health services coupled with extensive government funded welfare schemes the low life insurance penetration in the country offers significant space for growth in the medium term. Similarly with the improved macroeconomic outlook along with the steady growth in disposable income, general insurance for motor vehicles, fire and other forms of insurance too has the potential to grow.

### Sri Lanka Insurance Corporation

Sri Lanka Insurance Corporation (SLIC) has an asset base of Rs. 132 billion, over 1.8 million policies in force with average claims of Rs. 31 million a day and a Rs.6.7 billion life fund under its management. SLIC holds 39.2 percent of the total assets of the local insurance industry. During the year SLIC life policies declined to 617,492 from 642,788 in 2011 while general policies increased to 1,252,811 from 622,297 in 2012.

The growth in the number of policies increased SLIC's liabilities, which constitutes of provisioning for life and non-life policies that increased by 5.8 percent or Rs. 3.9 billion to Rs. 75,784 million in 2012 from Rs. 71,853 million in 2011. Gross Written Premium (GWP) for life insurance increased to Rs. 7.4 billion in 2012 compared to Rs. 6.7 billion in 2011. The GWP for non-life insurance also increased to Rs. 12.8 billion in 2012 in comparison to 2011, with total GWP increased by 10 percent to Rs. 20 billion in 2012 in comparison to Rs. 18 billion in 2011.

SLIC was able to record a profit of Rs. 2.9 billion in 2012, a marginal increase in comparison to Rs. 2.1 billion in 2011 with general insurance categories accounting for

Table 11.29 > **Financial Outturn of Sri Lanka Insurance Corporation**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>34,969</b>	<b>25,286</b>	<b>29,584</b>	<b>34,614</b>	<b>40,498</b>
Gross written premium	18,365	20,172	23,198	27,141	31,755
Net earned premium	14,663	16,624	19,118	22,368	26,170
Insurance claims and benefits	8,350	9,732	11,192	13,094	15,320
Investment income	12,069	7,246	8,333	9,750	11,408
Administrative expenses	1,933	2,159	2,612	3,030	3,515
<b>Profit from operations (Rs.Mn)</b>	<b>14,107</b>	<b>10,035</b>	<b>11,540</b>	<b>13,502</b>	<b>15,797</b>
<b>Net Profit for the year (Rs.Mn)</b>	<b>2,132</b>	<b>2,905</b>	<b>3,341</b>	<b>3,909</b>	<b>4,573</b>
<b>Key Performance Indicators</b>					
Claims ratio - Life	51	56	56	56	56
Claims ratio - General	58	60	58	58	58
Solvency ratio- Life	13	13	13	13	13
Solvency ratio - General	1	1	1	1	1
Life Fund	52,573	67,799	87,461	112,824	145,543

Sources: Sri Lanka Insurance Corporation and Department of Public Enterprises

\*Draft

the total profit. During 2012, SLIC's general claims ratio increased to 60 percent from 58 percent in 2011 which was followed by the life category claim ratio increasing to 56 percent in 2012 from 51 percent in 2011.

SLIC has diversified its investments through its subsidiaries into tourism, health and energy sectors. It has diversified its investment in to equity holdings as well. Investments in subsidiaries has increased by 30 percent or Rs. 2.6 billion to Rs. 11.2 billion in 2012 from Rs. 8.6 billion in 2011. Consequently the Return on Investments from subsidiaries has increased to 12 percent in 2012 in comparison to 11 percent in 2011.

## National Insurance Trust Fund

National Insurance Trust Fund (NITF) was established in 2006 under the National Insurance Trust Fund Act No.28 of 2006. NITF is mainly engaged in the operation and management of the "Agrahara Insurance Scheme" for public officers and the Strike, Riots, Civil Commotion and Terrorism Fund (SRCC&T) the reinsurance fund of the Insurance industry in Sri Lanka.

The Agrahara fund which amounts to Rs. 1,642 billion in 2012 has a membership of 651,167. All Public officers except those employed in the three armed forces are members of this fund with a monthly subscription fee of Rs.75 which is increased to Rs.125 per month from



2013. With the increase in the membership, net premium income increased to Rs. 4,314 million an increase of 19 percent or Rs.3,606 million in comparison to 2011. During 2012, claims amounting to Rs. 1,878 million which shows a marginal decrease of Rs 1 million to Rs. 1,879 million in 2011. GWP increased to Rs. 4.3 billion in 2012 in comparison to Rs.3.6 billion in 2011. Agrahara fund incurred losses in 2012 of Rs. 255 million, a 118 percent increase in comparison to losses of Rs. 117 million in 2011. Almost Rs. 346 million or 31 percent of the total claims from the Agrahara fund is in lieu of claims for private hospital charges and spectacles.

All insurance companies subscribe 20 percent of the premium collected to the Strike, Riots, Civil Commotion and Terrorism Fund (SRCC&T) annually which in 2012 amounted to Rs. 4,791 million a decrease of 29 percent or Rs. 1,993 million from Rs. 6,784 million in 2011

while during 2012 claims made amounted to only Rs. 190 million a marginal decrease over 2011. With GWP increasing to Rs. 2,254 million in 2012 in comparison to Rs. 2,006 million in 2011, SRCC&T fund remains profitable in 2012 recording a profit of Rs. 2,206 million in comparison to Rs. 2,304 million in 2011. From 2013, all Insurance Companies will be required to pay 30 percent of the premium to the SRCC&T fund.

During 2012 NITF's fund decreased at an average of 19 percent or Rs. 1,663 million to Rs. 6,834 million from Rs. 8,497 million in 2011. The Fund remained profitable in 2012 with a profit of Rs. 2,537 million an increase of 9 percent over 2011. In 2012, NITF has decreased its investments in government securities by 58 percent or Rs. 4,446 million to Rs. 3,237 million in 2012 in comparison to Rs. 7,683 million in 2011. Government securities constitute majority of total investments of NITF in 2012.

Table 11.30 > **Financial Outturn of National Insurance Trust Fund**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Total Revenue (Rs.Mn)</b>	<b>4,340</b>	<b>4,943</b>	<b>5,184</b>	<b>5,331</b>	<b>5,481</b>
Gross Written Premium	3,606	4,314	4,530	4,611	4,703
Net Earned premium Income **	3,606	4,314	4,530	4,611	4,703
Other Income	734	629	654	720	777
Insurance Claims & Benefits	(1,879)	(1,878)	(1,961)	(2,040)	(2,121)
<b>Total Expenditure (Rs.Mn)</b>	<b>146</b>	<b>528</b>	<b>418</b>	<b>436</b>	<b>456</b>
Staff Related Costs	53	64	66	68	70
Administration Expenses	72	79	82	85	89
Other Expenses	21	385	270	283	297
<b>Income over Expenditure (Rs.Mn)</b>	<b>2,315</b>	<b>2,537</b>	<b>2,805</b>	<b>2,854</b>	<b>2,904</b>
<b>Key performance Indicators</b>					
Agrahara Claims received (Nos)	122,525	121,274	121,850	122,040	122,125
Agrahara Claims paid (Nos)	105,472	104,744	105,890	106,020	106,700
Agrahara Premium Collected (Rs.Mn)	883	1,490	1505	1,520	1,536
Agrahara Claims paid (Rs.Mn)	1,233	1,187	1,218	1,220	1,227

Sources: National Insurance Trust Fund and Department of Public Enterprises

\*Draft

\*\* No reinsurance payments

## **Agricultural and Agrarian Insurance Board**

Agricultural and Agrarian Insurance Board (AAIB) was established by Agricultural and Agrarian Insurance Act No 20 of 1999 to implement an agricultural insurance scheme, a farmers' pension scheme and a fishermen pension scheme. AAIB operates with 27 district offices.

Although the pension benefit to farmers was originally deemed to be only Rs. 200 per month, in 1995, it was increased to Rs. 500 per month. This was further increased to Rs. 1,000 per month in 2002. However, despite the increase of the pension benefits the contribution from the farmers remained unchanged resulting in a gradual erosion of the pension fund as the benefits paid was greater than the contribution received from the farmers. Due to the mismatch of inflows and outflows, farmers' pension fund became insolvent and hence, Government continued to support the operations of AAIB, whereby at the end of June 2011 Rs. 664.8 million was released to meet the pension payments of the farmers. Fishermen pension scheme which is operated by AAIB also remained weak.

## **Sri Lanka Export Credit Insurance Corporation**

Sri Lanka Export Credit Insurance Corporation (SLECIC) was established in 1979 by Act No 15 of 1978 to provide support services to the export sector through the provision of export credit insurance and credit guarantee services to the exporters of the country. SLECIC offers services such as issuance of export payments' insurance policies, credit guarantees to commercial banks and other financial institutions and facilitate granting of finances to the exporters. In terms of the Act, Government has issued a guarantee amounting to Rs. 1 billion to support the insurance schemes limiting the Corporation's maximum liability to Rs. 20 billion.

During 2012, SLECIC provided insurance to 8,600 exporters at a value of Rs. 23.4 billion. However, this constituted only about 2 percent of the total exports in the country amounting to Rs. 1,247 billion. SLECIC's GWP increased by 22 percent to Rs.173 million in 2012 from Rs. 143 million in 2011. Consequently profit before tax also marked an improvement of Rs. 167 million in 2012 in comparison to Rs. 113 million in 2011.

With exports tipped to increase by 15.6 percent year on year during 2013-2015, SLECIC has the opportunity to expand its operations. SLECIC should facilitate the SME sector to enter export markets with the introduction of specialized insurance products.

## **11.10 Lotteries**

National Lotteries Board (NLB) and Development Lotteries Board (DLB) are the players in lotteries market which offer passive and instant lotteries. NLB's product portfolio at the end of 2012 consists of 7 passive lotteries and 2 instant lotteries while DLB has a portfolio of 6 passive lotteries and 3 instant lotteries. At the end of 2012, NLB had a market share of 25 percent while DLB held the balance 45 percent. Both these entities compete with each other engaging in aggressive advertising and marketing campaigns. During 2012, DLB and NLB incurred Rs. 1,112 million on advertising and marketing an increase of 35 percent or Rs. 290 million in comparison to 2011. Advertising and marketing, accounted for almost 55 percent of their total expenditure.

Total assets of the industry recorded a growth of 5 percent from Rs. 4,578 million in 2011 to Rs. 4,813 million in 2012. Total revenue of the industry has recorded a growth of 23 percent or Rs. 3,820 million to Rs. 20,452 million in 2012 in comparison to 2011. NLB and DLB have

sold 916 million tickets and declared prizes amounting to Rs. 10,682 million compared to Rs. 8,978 million in 2011. During the year 2012, NLB contributed Rs. 2,276 million to the consolidated fund which is an increase of 69 percent over 2011, while DLB has increased their contribution to the President Fund by 18 percent or Rs. 253 million to Rs. 1,648 million. With per capita income projected to grow, NLB and DLB need to introduce products that meet the changing income and the demographics. Usage of technology internet, SMS etc, will facilitate both DLB and NLB to penetrate the market more effectively.

### National Lotteries Board

National Lotteries Boards (NLB) has an Island wide Agency Network of 2,513 normal Agents and 80 Dealers. NLB has issued 09 numbers

of lotteries into the market and NLB has managed to capture 55 percent of the market share by 2012 increasing its turnover to Rs 12,212 million.

During 2012 revenue increased by 25 percent to Rs. 12,212 million in comparison to Rs. 9,763 million in 2011. Total expenditure increased by 24 percent to Rs. 11,646 million in 2012 over 2011 mainly due to the increase in prize declarations by 19 percent. NLB also increased its contribution to the consolidated fund to Rs. 2,276 million or 19 percent of revenue in 2012 in comparison to 14 percent or Rs. 1,345 million in 2011. During 2012, Rs. 2,229 million or 18.6 percent of the turnover was also distributed as agency commission. NLB increased its profits to Rs. 566 million in 2012 from Rs. 396 million in 2011.

Table 11.31 > **Financial Outturn of National Lotteries Board**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>9,763</b>	<b>12,212</b>	<b>13,950</b>	<b>17,119</b>	<b>20,886</b>
Lottery sale income	9,585	11,954	13,716	16,864	20,575
Other Income	178	258	234	255	311
<b>Expenditure (Rs.Mn)</b>	<b>9,367</b>	<b>11,646</b>	<b>13,307</b>	<b>16,330</b>	<b>19,924</b>
Agency commission	1,874	2,229	2,469	3,036	3,704
Prize Declared	4,858	5,797	7,153	8,798	10,734
Contribution to the Consolidated fund	1,345	2,276	1,806	2,203	2,688
Selling and Distribution cost	12	25	63	77	94
Admin Expenses	302	339	448	547	667
Other Expenses	951	952	1,326	1,618	1,974
Finance Cost	25	28	42	51	63
<b>Net profit before tax (Rs.Mn)</b>	<b>396</b>	<b>566</b>	<b>643</b>	<b>789</b>	<b>963</b>
<b>Key Performance Indicators</b>					
Agency Network	2,598	2,593	2600	2600	2600
Contribution to the Consolidated Fund as a percentage of Revenue	14	19	13	12.9	12.9

Sources: National Lotteries Board and Department of Public Enterprises

\*Draft

NLB's medium term outlook will depend largely on the ability of the Board to utilize technology in the background of the country attaining upper middle income status. NLB will also have to strengthen its internal controls so as to prevent the issuance of fake lotteries and the sub optimal utilization of funds.

### Development Lotteries Board

The Development Lotteries Board (DLB) established in 1983 is engaged in the sale of lotteries. The income generated by DLB is credited to the President's Fund, which in turn utilizes 50 percent of the fund for the Mahapola Higher Education Scholarship Trust Fund. During 2012, DLB sold 412 million tickets and declared prizes amounting to Rs. 5,114 million.

Revenue from the sale of lottery tickets increased by 26 percent to Rs. 8,731 million in 2012, from Rs. 6,930 million in 2011. Although

the cost of tickets which consists of cost of printing increased only marginally, the 19 percent increase in prizes declared resulted in the total expenditure to increase to Rs. 6,459 million in 2012. However, the increase in revenue resulted in the DLB surplus to increase to Rs. 2,272 million from Rs. 1,742 million in 2011.

The increase in revenue also resulted in the DLB contribution to the President's Fund to increase to Rs. 1,648 million in 2012 in comparison to Rs. 1,376 million in 2011. The changing income pattern in the country commands different lottery products that appeals to various segments of the country. As such in performing optimally, DLB should undertake a comprehensive market research that will facilitate the introduction of new lottery products while rationalizing the existing ones.

Table 11.32 > **Financial Outturn of Development Lotteries Board**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>6,930</b>	<b>8,731</b>	<b>10,434</b>	<b>12,508</b>	<b>14,748</b>
<b>Lottery sale income</b>	<b>6,884</b>	<b>8,624</b>	<b>10,349</b>	<b>12,419</b>	<b>14,654</b>
Other Income	46	107	86	90	94
<b>Expenditure (Rs.Mn)</b>	<b>5,188</b>	<b>6,459</b>	<b>7,690</b>	<b>9,084</b>	<b>10,675</b>
Ticket Cost	314	360	435	522	703
<b>Prize Declared</b>	<b>4,120</b>	<b>5,114</b>	<b>6,209</b>	<b>7,451</b>	<b>8,792</b>
Distribution expenses	326	498	528	560	593
<b>Administration expenses</b>	<b>281</b>	<b>293</b>	<b>311</b>	<b>329</b>	<b>349</b>
<b>Other expenses</b>	<b>147</b>	<b>194</b>	<b>208</b>	<b>222</b>	<b>238</b>
Net Profit before tax(Rs.Mn)	1,742	2,272	2,744	3,425	4,073
Key Performance Indicators					
Agency Network	2,180	2,187	2,200	2,200	2,200
Contribution to President's Fund (Rs. Mn)	1,376	1,648	1,976	2,466	2,932

Sources: Development Lotteries Board and Department of Public Enterprises

\*Draft

## 11.11 Livestock

With a market shift in livestock industry in recent years with the government emphasis on the encouragement of livestock activities in the country to phase out imports of around US\$ 400 million per annum, MILCO (Pvt) Limited and National Livestock Development Board (NLDB) the two SOBEs in the sector increased its milk production by 15 million litres to 72 million litres in 2012. The private sector comprises of a few multinational companies primarily engaged in the import of milk powder and local enterprises comprising three large companies, SMEs and small dairy farmers of about 400,000. The private sector domestic milk production increased by 26 million litres to 227 million litres in 2012 from 201 million litres in 2011.

In line with the policy of achieving self-sufficiency in milk production during 2012, the government commenced the import of 2,000 cows at a cost of Rs. 624 million over the medium term to increase the milk production and promote the dairy industry among SMEs and small farmers through increased production in milk and associated products.

As has been the case, NLDB and MILCO continue to engage in the production of dairy products competing with each other. With the dairy industry dominated by small and medium sized entrepreneurs, there is an increasing demand for the transfer of knowledge to improve processes and addressing issues such as unhygienic and uneconomical practices, losses specially due to storage issues, market linkages, etc for which the NLDB is well-endowed with the necessary resources. This will facilitate the expansion of NLDB and MILCO in the competitive market environment.

## MILCO (Pvt) Limited

MILCO is engaged in the collecting, processing and distribution of milk in the country. MILCO has a portfolio of products consisting of yoghurt, pasteurized milk, sterilized milk, curd, butter, Ice cream, ghee, processed cheese and milk powder. The company while competing with many others in the market leveraging on its brand name “MILCO” managed to retain its market leadership in yoghurt, butter and sterilized milk.

During the year 2012, MILCO has been able to collect 68.5 million liters of milk or 65 percent of the total milk collection of the country. This is an increase of 30 percent over 2011 which was only 51 percent of the total market. The milk collection network of MILCO consists of 2,992 collection points (farmer managed societies) and 78 milk chilling centers. MILCO also operates with 4 milk processing plants, 13 regional distribution centers, 9 dairy development regional offices, 1 cattle feed plant and 1 model farm. In line with the government policy to expand and upgrade facilities in the dairy industry, government has undertaken an investment of Euro 33.8 million to modernize the entire factory of MILCO.

As such in 2012, MILCO initiated the modernizing of three factories at Ambewela, Digana and Polonnaruwa and the shifting of its factory at Narahenpita to Badalgama. The increase in capacities, when leveraged with MILCO's brand name will enable MILCO to turnaround its operations in the medium term and link with small farmer-milk collection centers for greater productivity of both liquid milk and dairy products. However, the expansion in production and storage capacities needs to be managed prudently within a viable business plan attracting private sector investments and partnerships.

During the year 2012, turnover increased by 16 percent to Rs. 5,263 million. However, due to the increase in the average gate price paid to farmers for liquid milk to Rs. 50/lt, from Rs. 32/lt in 2011 resulted in an increase of direct costs by 25 percent at Rs. 1,001 million. Hence the resultant drop in gross profit margins by 54 percent is reflected in the gross profit of Rs. 249 million in 2012 in comparison to Rs. 537 million in 2011.

It is noted that in 2012, out of the 68.5 million litres of milk purchased at a cost of Rs. 3.47 billion, 800,000 litres (cost of Rs. 40.5 million) had to be discarded as the company had purchased milk over and above its storage capacities in an attempt to support farmers. As such in 2012, driven by the increase in the cost of milk purchased, coupled with increases in finance cost, sales and distribution costs, the company incurred

a loss of Rs. 226 million in 2012 as against the profit of Rs. 83 million reported in 2011. As a result MILCO increased its exposure to banks by Rs. 925 million in 2012, to close the year at Rs. 1,014 million.

### National Livestock Development Board

National Livestock Development Board (NLDB) engages in breeding and multiplication of livestock, issuing of quality breeding materials to farmers at a reasonable price, establishment and maintenance of marketing outlets to supply quality farm products at reasonable prices, sale of fresh cow milk to the public to popularize consumption of fresh milk etc.

The Board presently manages 22 dairy farms, 5 goat farms, 10 poultry farms, 2 swine farms and 9 buffalo farms totaling to 48 livestock and crop integrated farms and a training centre to impart practical and theoretical

Table 11.33 > **Financial Outturn of MILCO (Pvt) Limited**

	Actual			Forecast	
	2010/11	2011/12	2012/13*	2013/14	2014/15
<b>Revenue (Rs.Mn)</b>	<b>4,649</b>	<b>5,430</b>	<b>6,966</b>	<b>8,609</b>	<b>9,544</b>
Sale of Milk Production	4,549	5,263	6,951	8,577	9,500
Other income	100	167	15	32	44
<b>Expenditure (Rs.Mn)</b>	<b>4,538</b>	<b>5,645</b>	<b>6,836</b>	<b>8,423</b>	<b>9,437</b>
Direct Expenses	4,012	5,013	6,200	7,612	8,500
Selling & Distribution	66	73	121	170	235
Administration	413	500	435	477	525
Finance cost	15	36	56	138	150
Other	32	23	24	26	27
<b>Profit/ (Loss) Before Tax (Rs.Mn)</b>	<b>111</b>	<b>(215)</b>	<b>130</b>	<b>186</b>	<b>107</b>
<b>Outstanding Debt to Banks (Rs.Mn)</b>	<b>-</b>	<b>642</b>	<b>560</b>	<b>480</b>	<b>400</b>
<b>Key Performance Indicators</b>					
Milk Collection (ltrs Mn)	52.8	68.5	80.0	88.0	96.0
Earning per share Rs.	2.60	-7.09	3.80	5.46	3.20

Sources: MILCO (Pvt) Limited and Department of Public Enterprises

\*Draft

knowledge to farmers. In 2012, with a view to promote liquid milk consumption, the Board opened 79 milk stalls in various parts of the country. Currently, NLDB is in the process of implementing a fresh milk promotion project, embryo project, pasture development project, maize cultivation, compost fertilizer project and the project for importation of dairy animals.

During the year 2012, NLDB managed to produce 4.1 million liters of milk, 0.5 million layer chicks and 1.8 million broiler chicks. Revenue decreased marginally to Rs.1, 219 million in 2012 from Rs. 1,232 million in 2011.

The Board continued to be profitable in 2012 with a net profit of Rs. 28 million. However, it is less than the profit recorded at 89 percent in 2011. Of the total dairy farms only 15 has recorded a growth while the others have either stagnated or has experienced a deceleration in its growth.

## 11.12 Plantation

In the plantation sector, the Government operates the remaining enterprises after privatization of plantation industries prior to 2004 which include fully owned Janatha Estate Development Board (JEDB), Sri Lanka State Plantation Corporation (SLSPC), Chilaw (CPL), Kurunegala (KPL), Elkaduwa (EPL) Plantation Companies' and Kalubowitiyana Tea Factory Ltd. (KTFL) .

The JEDB, SLSPC and EPL having acreage of 11,695 ha, 11,757 ha and 4,083 ha respectively are engaged in growing Tea and Rubber. Chilaw and Kurunegala Plantation Companies, Coconut Cultivation Board and the Coconut Research Institute manage 9,303 ha of land or 2.3 percent of the total land extent for coconut cultivation, produced 44.7 million coconuts (Nuts) which is a 6.7 percent increase over 2011 and accounted for 1.5 percent of the total coconut production of the country.

Table 11.34 > **Financial Outturn of National Livestock Development Board**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs. Mn)</b>	<b>1,232</b>	<b>1,219</b>	<b>1,389</b>	<b>1,555</b>	<b>1,742</b>
<b>Expenditure (Rs.Mn)</b>	<b>982</b>	<b>1,191</b>	<b>1,359</b>	<b>1,501</b>	<b>1,671</b>
<b>Profit/(Loss) Before Tax (Rs.Mn)</b>	<b>250</b>	<b>28</b>	<b>30</b>	<b>54</b>	<b>71</b>
<b>Key Performance Indicators</b>					
Neat Cattle Milk (lt,'000)	2,868	3,442	4,130	4,956	5,972
Buffaloes Milk (lt,'000)	635	684	739	798	862
Goat Milk (lt,'000)	11	5	2	1	0.5
Curd Production (lt,'000)	407	396	384	372	360
Yoghurt (80ml Cups) (Nos,'000)	469	526	589	659	738

Sources: National Livestock Development Board and Department of Public Enterprises

\*Draft



During 2012, tea production by JEDB, SLSPC, EPL and KTFL amounted to 8.6 million Kg, a 3 percent increase over 2011 and accounted for 2.5 percent of the total tea production of the country. This is despite the total land held by these Companies' accounting for almost 11.5 percent of the total land used for production of tea in the country. The yields at 337 kg/ha at the JEDB, SLSPC, EPL and KTFL's is almost 76 percent less than the average yield in the country of 1,400 kg/ha indicating a substantial underutilization of capacity by these enterprises.

JEDB, SLSPC and Kurunegala Plantation Ltd. (KPL) together produced 515,000 Kg of rubber, a decrease of only 0.2 percent over 2011 and accounted for only 0.3 percent of the total Rubber production of the country. This is despite the total land held by these Companies accounting for almost 0.74 percent of the total land used for rubber production of the country. The yield at 463 kg/ha at the JEDB, SLSPC and KPL is almost 71 percent less than the average yield in the country of 1,607 kg/ha requiring complete restructuring of these enterprises.

It is noted that state entities such as JEDB, SLSPC and EPL lag behind in terms of productivity in comparison to the entire sector in the country. This could be attributed to both structural issues such as inadequate investments in land use, replanting, fertilizer application, new machinery and technology coupled with excessively high labour force yet lacking core staff and failure to arrest deterioration in internal control systems and procedures.

The fixed day's wage structure that is prevalent in the plantation sector as opposed to a productivity linked wage structure has had a negative impact on JEDB, SLSPC and EPL which are also faced with low yields, which in turn is reflected in the continuous losses incurred by these entities. The State owned plantation entities are faced with the challenge of meeting the increasing wage bills, in the background of continuous lack of productivity and inadequate replanting, infusion of technology and management inefficiencies. This has resulted in these entities not been able to meet even the statutory payments on time. JEDB, SLSPC and EPL which have less fertile lands due to prolonged negligence and lack of investments require a significant capital infusion of at least Rs. 2 billion over the medium term. However, the lack of own funds coupled with inadequate freedom to restructure weak balance sheets have made it difficult for these entities to improve their productivity through replanting, infusion of fertilizer etc, giving rise to a vicious cycle in these businesses.

Newly formed Lanka Sugar Company to take over the assets vested in the government to revive sugar plantation and associated industry is expected to expand its cultivation programme covering 12,000 small holders, modernize factories and to operate on a fully commercial company from 2012. The company is expected to take over Kanthale and Hingurana sugar cultivations and processing activities as well in order to consolidate its business operations.

Table 11.35 > **Financial Outturn of State Owned Plantation Enterprises**

		Actual		Forecast		
		2011	2012*	2013	2014	2015
Kurunegala Plantation Ltd	<b>Operational Performance</b>					
	Rubber Production (kg '000)	228	232	235	239	244
	Coconut Production (Nuts Mn)	15	18	18	19	19
	<b>Financial Performance</b>					
	Total Revenue (Rs. Mn)	513	550	649	671	696
	Rubber Sales (Rs. Mn)	104	78	88	94	101
	Coconut Sales (Rs. Mn)	399	395	441	455	468
	Net Profit/ (Loss) Before Tax (Rs. Mn)	225	186	194	202	213
	Dividends (Rs. Mn)	50	40	43	45	47
Chilaw Plantation Ltd	<b>Operational Performance</b>					
	Coconut Production(Nuts Mn)	15	16	17	20	24
	Yield per Ha (Nuts)	3,995	4,331	4,560	4,774	5,020
	<b>Financial Performance</b>					
	Total Revenue (Rs. Mn)	463	473	495	520	550
	Coconut Sales (Rs. Mn)	368	362	380	400	420
	Net Profit/ (Loss) Before Tax (Rs. Mn)	97	86	90	94	101
	Dividends (Rs. Mn)	75	75	78	83	87
Elkaduwa plantation Ltd	<b>Operational Performance</b>					
	Tea Production (MT)	3,203	2,527	2,577	2,629	2,681
	Rubber Production (MT)	128	114	116	118	121
	Coconut Sales (Nuts '000)	1,406	1,219	1,243	1,268	1,293
	<b>Financial Performance</b>					
	Total Revenue (Rs. Mn)	263	280	298	318	338
	Tea Sales (Rs. Mn)	155	165	176	187	199
	Rubber Sales (Rs. Mn)	64	68	73	77	82
	Coconut Sales (Rs. Mn)	20	21	23	24	26
	Net Profit/ (Loss) Before Tax (Rs. Mn)	(30)	(37)	(39)	(42)	(45)
Sri Lanka Cashew Corporation	<b>Operational Performance</b>					
	Yield per Ha	112	340	150	332	342
	Average Price Rs/Kg	2,100	2,150	2,200	2,240	2,290
	<b>Financial Performance</b>					
	Total Revenue (Rs. Mn)	143	150	146	153	160
	Net cashew sale	118	123	119	125	131
	Net Profit/ (Loss) Before Tax (Rs. Mn)	20	44	43	45	47

Table 11.35 Contd..

		Actual		Forecast		
		2011	2012*	2013	2014	2015
Janatha Estate Development Board	<b>Operational Performance</b>					
	Tea Production (MT)	1,470	1,750	1,715	1,681	1,647
	Rubber Production (MT)	239	250	255	267	270
	<b>Financial Performance</b>					
	Total Revenue (Rs. Mn)	837	926	945	963	983
	Cost of Production (Rs.Mn)	1064	1177	1212	1249	1286
	Net Profit/ (Loss) Before Tax (Rs. Mn)	(258)	(252)	(241)	(248)	(258)
Sri Lanka State Plantation Corporation	<b>Operational Performance</b>					
	Tea Production (MT)	2,301	2,574	2,523	2,472	2,423
	Rubber Production (MT)	49	33	32	30	30
	<b>Financial Performance</b>					
	Total Revenue (Rs. Mn)	552	575	587	598	610
	Cost of Production (Rs.Mn)	703	715	736	759	781
	Net Profit/ (Loss) Before Tax (Rs. Mn)	(52)	(119)	(123)	(126)	(130)
Kalubowitiyana Tea Factory Ltd (KTFL)		2010/11	2011/12	2012/13	2013/14	2014/15
	<b>Operational Performance</b>					
	Made Tea Production (MT)	1,264	1,412	1,534	1,687	1,856
	Sales Quantity (MT)	1,192	1,301	1,553	1,677	1,811
	<b>Financial Performance</b>					
	Total Revenue (Rs. Mn)	547	637	767	905	1,067
	Net Profit/ (Loss) Before Tax (Rs. Mn)	31	91	32	44	51
Lanka Sugar Company Ltd	<b>Operational Performance</b>					
	Suger Production (MT)	22,713	9,631	48,946	58,345	65,109
	Sprit Production (000 Liters)	11,623	4,440	3,995	4,594	5,430
	<b>Financial Performance</b>					
	Total Revenue (Rs. Mn)	3205	3548	7165	8073	9,328
	Sugar Sales (Rs.Mn)	2111	2349	4529	5500	6,308
	Sprit Sales (Rs.Mn)	1094	1199	2636	2573	3,020
	Net Profit/ (Loss) Before Tax (Rs. Mn)	1283	93	1973	2238	2621

Sources: Kurunegala Plantation Ltd, Chilaw Plantation Ltd, Elkaduwa plantation Ltd, Sri Lanka Cashew Corporation, Janatha Estate Development Board, Sri Lanka State Plantation Corporation,

Kalubowitiyana Tea Factory Ltd (KTFL), Lanka Sugar Company Ltd and Department of Public Enterprises

\*Draft

RPC's are listed in the Colombo Stock Exchange

## Lanka Sugar Company Ltd

The leased lands of Sevanagala Sugar Industries Limited and Pelwatta Sugar Industries Limited (SSIL & PSIL) were vested with the Government in terms of the Revival of Underperforming Enterprises or

Underutilized Assets Act No. 43 of 2011 to revive the full potential of the sugar industry. A Cabinet Sub - Committee, Official Committee Competent Authorities, and Valuation Panel were appointed by the Cabinet of Ministers to oversee the transition. Lanka Sugar Company

Ltd (LSC) which is a 100 per cent Government owned company has been formed to take over the assets of the SSIL & PSIL and revive the business.

LSC produced 9,631 MT of sugar in 2012. This is almost 1 percent of the total sugar consumed in the country in 2012. LSC has the capacity to produce almost 65,000 MT of sugar thereby meeting almost 11 percent of the sugar demand of the country. The production of sugar in the country is expected to result in the savings of almost US\$ 450 million per annum of imports in the medium term. This venture is also projected to generate direct employment for about 5,585 people in the area and raise farmers' income on sugar cultivation.

### 11.13 Health

State Pharmaceutical Corporation (SPC) and State Pharmaceutical Manufacturing Corporation (SPMC), the two SOBEs are entrusted with the provision of high quality drugs to the Department of Health Services

(DHS). SPC operates as the procurement arm of the Department of Health Services (DHS) while SPMC manufactures 60 drugs varieties. Sri Lanka Ayurvedic Drugs Corporation is engaged in the research and manufacturing of Ayurvedic products and services. Sri Jayewardenepura Hospital (SJH) is the only fee levying government owned hospital which offers a comprehensive range of clinical and Para-clinical services in the country. SJH also plays a vital role as a teaching hospital, in training medical students of Sri Jayewardenepura University and nurses.

#### State Pharmaceuticals Corporation

State Pharmaceuticals Corporation (SPC) apart from being the major supplier to the Government Medical Supplies Division, imports and sells nearly 600 varieties of pharmaceuticals in the generic form, through 27 Osusala Outlets, 189 Franchised Osusala Outlets, 12 Authorized Retailers and 52 distributors, throughout the country. However, its market share in the private sector is only 30 percent.

Table 11.36 > **Financial Outturn of State Pharmaceuticals Corporation**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs. Mn)</b>	<b>17, 375</b>	<b>20,215</b>	<b>21,427</b>	<b>23,141</b>	<b>25,061</b>
DHS	12,569	15,938	16,894	18,245	19,759
SPC	4,806	4,277	4,533	4,895	5,301
<b>Expenditure (Rs. Mn)</b>	<b>16,899</b>	<b>19,747</b>	<b>20,915</b>	<b>22,426</b>	<b>23,547</b>
Operational Expenses	16,116	18,697	20,027	21,259	21,996
Establishment & Administration	614	655	604	714	858
Other	307	395	284	453	693
<b>Profit/ (loss) (Rs. Mn)</b>	<b>418</b>	<b>468</b>	<b>512</b>	<b>715</b>	<b>1,207</b>
Outstanding Debt to Banks (Rs.Mn)**	4,717	7,897	4,397	1,397	1,200
Osusala outlets operated (Nos)	25	27	30	31	33

Sources: State Pharmaceuticals Corporation and Department of Public Enterprises

\*Draft

\*\*To be financed by the government budget in 2013-2015

Revenue increased to Rs. 20,215 million in 2012 in comparison to Rs.17,375 million in 2011 and increase of the profit to 468 million 2012, in comparison to Rs.418 million in 2011 . However, expenditure increased by 17 percent in 2012 over 2011. The differed payments in this background resulted in an increase in receivables of SPC to Rs. 10,143 million in 2012 from Rs. 5,124 million in 2011. The resultant liquidity constraints lead to SPC to finance its procurements from Banks which increased to Rs. 7,897 million at the end of 2012. The government provides a revolving facility to the SPC to ensure a smooth supply of pharmaceutical drugs to the hospital network and meets this expenditure through the Ministry of Health in providing free medicine.

The Osusala network with 27 outlets accounted for almost 21 percent of the revenue of SPC in 2012. The expansion of this network in the medium term in conjunction with the state retail chain Lak Sathosa, Sri Lanka Railways

and other entities will have a positive impact in easing off the liquidity constraints faced by the SPC during 2013-2015. The effectiveness of the SPC operations is largely dependent on the success of the coordination between SPC and the system improvement in the procurement arrangement by DHS, which will require the implementation of a better computerized system that facilitates procurement together with the preparation of annual requirements of medicine on a transparent basis considering the large and rising expenditure on pharmaceutical procurements, the importance of health services will be required to restructure its procurement arrangements distribution system, storage management to enable SPC to improve its commercial efficiency.

The SPC may also explore its own markets in the private sector and reputed suppliers to improve its supplies. SPC is equipped with a fully-fledged laboratory which has obtained ISO 17025 accreditation.

Table 11.37 > **Financial Outturn of State Pharmaceutical Manufacturing Corporation**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs. Mn)</b>	<b>1,432</b>	<b>1,414</b>	<b>1,498</b>	<b>1,617</b>	<b>1,751</b>
Sales -DHS	1,006	1,001	1,061	1,145	1,240
Sales - SPC	426	412	436	470	509
Other	-	1.4	1.5	1.7	2.2
<b>Expenditure (Rs. Mn)</b>	<b>1,187</b>	<b>1,298</b>	<b>1,328</b>	<b>1,402</b>	<b>1,498</b>
Cost of Raw material	935	989	1,058	1,121	1,177
Administration	73	75	81	85	89
Research and development	7	8	9	10	24
Selling & Distribution	6	23	23	24	32
Finance Cost	2	2	3	3	3
<b>Net profit before tax (Rs. Mn)</b>	<b>245</b>	<b>116</b>	<b>170</b>	<b>215</b>	<b>253</b>
Outstanding Debt to Banks (Rs. Mn)**	279	292	298	295	280

Sources: State Pharmaceutical Manufacturing Corporation and Department of Public Enterprises

\*Draft

\*\*To be financed by the government budget in 2013-2015

## State Pharmaceutical Manufacturing Corporation

During 2012, State Pharmaceutical Manufacturing Corporation (SPMC) supplied almost 15-20 percent of the total drug requirement of the DHS at a value of Rs. 1 billion. SPMC has introduced 63 formulas since 1987. SPMC products are made to international quality standards of British Pharmacopoeia (BP) and United States Pharmacopoeia (USP). Implementation of GMP (Good Manufacturing Practices) regulations and procedures are regularly monitored through internal quality auditing and factory inspections.

SPMC's revenue declined marginally to Rs. 1,414 million in 2012 in comparison to Rs. 1,432 million in 2011. The cost of raw materials at Rs. 989 million, which constitutes almost 76 percent of the total expenditure increase of almost by 6 percent in 2012 over 2011, resulted

in an increase in the total expenditure to Rs. 1,298 million in 2012 in relation to 2011. As such, profits of SPMC declined by 53 percent to Rs. 116 million in 2012 over 2011.

Currently, SPMC supplies to the local market through SPC and exports mainly to Fiji Islands and Papua New Guinea. SPMC has planned to enhance the production capacity within the next 3 years requiring an investment of at least Rs. 1,600 million phased over 2013- 2015. SPMC invested Rs. 48 million to expand its capacities by upgrading its machinery in 2012. The SPMC's borrowings increased by Rs. 13 million to Rs. 292 million in 2012. Considering the scope of domestic market and particularly the demand of DHS, the government has sought assistance of the government of Japan to expand the production capacity of the SPMC to meet country's rising pharmaceutical needs.

Table 11.38 > **Financial Outturn of Sri Jayewardenepura General Hospital**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>1,694</b>	<b>1,855</b>	<b>1,966</b>	<b>2,123</b>	<b>2,455</b>
Hospital Revenue	828	991	1,050	1,134	1,228
Other	865	864	915	988	1,070
<b>Expenditure (Rs.Mn)</b>	<b>1,710</b>	<b>1,972</b>	<b>2,107</b>	<b>2,235</b>	<b>2,346</b>
Staff Cost	946	1,065	1,139	1,207	1,267
Operating cost	264	304	325	345	362
Other	500	603	645	683	717
<b>Operating Surplus/(Deficit) (Rs.Mn)</b>	<b>(28)</b>	<b>(121)</b>	<b>(141)</b>	<b>(110)</b>	<b>(108)</b>
Outstanding Debt to Banks (Rs.Mn)	-	-	-	-	-
<b>Key Performance Indicators</b>					
Clinics Held (Nos)	2,851	2,939	2,086	3,241	3,402
Patients Visits (Nos)	147,289	147,757	154,145	162,902	171,047
Admissions (Nos)	52,554	57,119	59,975	62,974	66,122
Surgeries (Nos)	13,174	13,613	14,294	15,008	15,759

Sources: Sri Jayewardenepura General Hospital and Department of Public Enterprises

\*Draft

## Sri Jayewardenepura General Hospital

Sri Jayewardenepura General Hospital (SJGH) was set up to supplement the curative health services in the country and to assist in the training of medical undergraduates, postgraduates & other health personnel. As the largest semi-government hospital which is also the largest government controlled commercialized Health Care Center in Sri Lanka, SJGH has 1,088 beds, 37 specialists, 12 operating theaters and a comprehensive range of clinical and para-clinical services.

During the year 2012, total admissions increased by 9 percent to 57,119 or 4,565 patients. The hospital's number of beds has increased to 1,088 in 2012 from 1,047 in 2011 with bed occupancy rate also improving to 71 percent from 66 percent in 2011.

SJGH has been able to complete the new dialysis unit and implemented the first phase of IT project to maintain a sound management information system for the Hospital network covering the entire value chain during the year 2012. At the same time SJGH was also able to install modern equipment in the neuro surgical unit. All types of surgical operations have increased by 3.3 percent in 2012 compared to 2011.

Total revenue of the hospital increased to Rs. 1,855 million in 2012 an increase of 9.5 percent over 2011, while total expenditure increased by 15 Percent to Rs. 1,972 million in 2012. SJGH has been privy to budgetary support since its inception as the pricing structure is not fully cost reflective. Hence, despite receiving budgetary support amounting to Rs. 898 million for both recurrent and capital expenditure, SJGH recorded a deficit of Rs. 121 million during the year 2012 underscoring the need for a better business plan and improvements in corporate management to improve its financial viability.

The hospital's financial outlook reflects its capacity to reduce its losses significantly during the 2013-2015 with the expansion of the paying wards. Similar to the MOU entered into between the Ministry of Vocational Training and the SJGH, which requires the training of 100 care givers and 50 bio medical technicians annually, SJGH should enter into such ventures in conjunction with both state and private entities. An investment of at least Rs. 450 million over the medium term will enhance the hospital's research capacities especially high value clinical research with the private sector.

## Sri Lanka Ayurvedic Drugs Corporation

Sri Lanka Ayurvedic Drugs Corporation (SLADC) is engaged in the manufacturing and marketing of Ayurvedic Drugs to the government hospitals, ayurvedic physicians and the private sector. The corporation is in the process of supplying more than 150 varieties of drugs manufactured by the corporation to all Ayurvedic hospitals in the island and the dispensaries in the provincial and local councils. SLADC's portfolio of products amounted to 156 at the end of 2012 of which the SLADC carries the approval for 8 products from formulators committee and 148 products are processing under the Ayurvedic Pharmacopoeia.

Although total revenue has increased by 11 percent in 2012 to Rs.415 million compared to previous year, the government, taking a medium term view supported SLADC through the budget with a capital grant of Rs.106 million to facilitate the purchase of land and storage facilities for ayurvedic drugs. With the Cost of sales recording a 21 percent increase to Rs.245 million, net profit for 2012 inclined by 6 percent or 67 million in 2012 in comparison to 2011. SLADC having identified the scarcity of herbs and other raw materials in manufacturing ayurvedic products as a major challenge initiated a project to cultivate herbal crops in the existing herbal gardens in Nikaveratiya (56



Table 11.39 > **Financial Outturn of Sri Lanka Ayurvedic Drugs Corporation**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>374</b>	<b>415</b>	<b>440</b>	<b>475</b>	<b>514</b>
Sales	358	396	419	452	490
Non - Operational	16	18	21	23	24
<b>Expenditure (Rs.Mn)</b>	<b>310</b>	<b>361</b>	<b>383</b>	<b>413</b>	<b>447</b>
Cost of Sales	201	245	262	277	290
Administration & Establishment	77	77	82	87	91
Sales & Distribution	30	36	38	39	41
Finance Cost	-	2	2	3	3
<b>Operating Profit (Rs.Mn)</b>	<b>64</b>	<b>54</b>	<b>57</b>	<b>62</b>	<b>67</b>
Outstanding Debt to Banks (Rs.Mn)	-	60	57	53	49

Sources: Sri Lanka Ayurvedic Drugs Corporation and Department of Public Enterprises

\*Draft

Acres), Madawachchiya (40 Acres) and Padaviya (40 Acres) in 2012 to meet the requirement of raw materials.

Responding to the demand in the market for natural personal care products, SLADC launched new personal care products in 2012. However, the corporation needs to expand its research capacities which will facilitate the manufacturing of products that meets international standards and compete with emerging indigenous health industry led by the private sector.

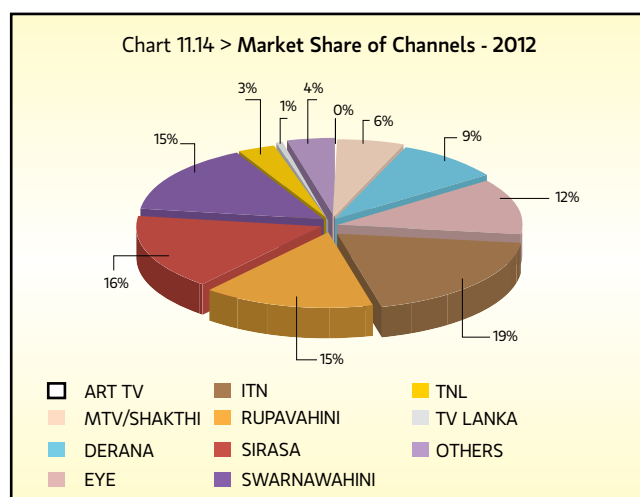
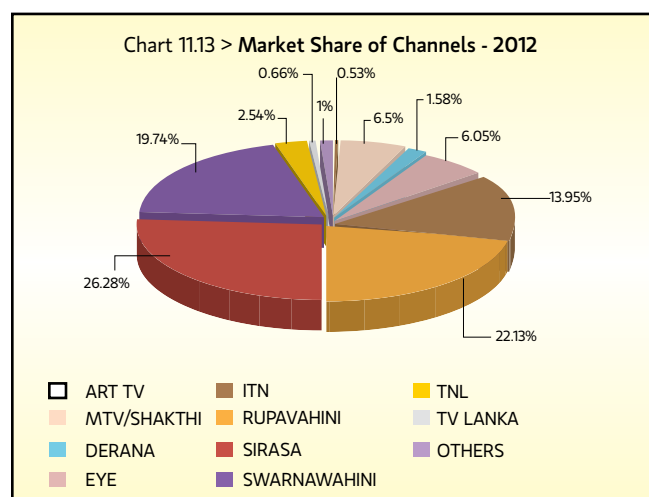
## 11.14 Media

Sri Lanka Broadcasting Corporation (SLBC), Sri Lanka Rupavahini Corporation (SLRC) and Independent Television Network Limited (ITN) continue to play an important role in the media industry of the country with a market share of almost 32 percent. In line with the government policy on catering to all communities in the country, state media entities which compete with privately owned 18 television and 39 radio stations expanded their operations by introducing new channels

in all three languages. SLRC and ITN managed to expand their operations capturing new revenue streams. However, SLBC continues to be supported through the national budget. The relatively stronger financial position of both ITN and SLRC has encouraged an investment programme to upgrade equipment and facilities within the next three years.

Table 11.40 > **Radio and TV Stations in Sri Lanka**

	Radio Stations		TV Stations	
	2005	2012	2005	2012
<b>State Owned Stations</b>				
Sinhala	13	19	2	2
Tamil	5	4	1	2
English	2	2	1	2
<b>Total</b>	<b>20</b>	<b>25</b>	<b>4</b>	<b>6</b>
<b>Privately Owned Stations</b>				
Sinhala	6	22	5	11
Tamil	1	6	1	3
English	5	11	3	4
<b>Total</b>	<b>12</b>	<b>39</b>	<b>9</b>	<b>18</b>
<b>Total Stations</b>	<b>32</b>	<b>64</b>	<b>13</b>	<b>24</b>



During the year Telecommunication Regulatory Commission of Sri Lanka (TRCSL) reallocated frequencies to FM radio networks so as to ensure listeners with better clarity, from any part of the country.

### Independent Television Network Limited

Independent Television Network Ltd (ITN) which is the first television broadcasting service in Sri Lanka commenced operations in 1979 as a private sector company and vested with the government under the Business Acquisition

Table 11.41> **Financial Outturn of Independent Television Network Limited**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>2,184</b>	<b>2,378</b>	<b>2,582</b>	<b>2,737</b>	<b>3,049</b>
Sale of Air Time-ITN	1,937	2,043	2,247	2,382	2,654
Sale of Air Time-VasanthamTV	52	67	74	78	87
Sale of Air Time-Lakhandha	94	102	112	119	132
Sale of Air Time-Vasantham FM	9	13	14	15	17
Other Income	92	153	135	143	159
<b>Expenditure (Rs.Mn)</b>	<b>1,506</b>	<b>1,639</b>	<b>1,648</b>	<b>1,793</b>	<b>1,953</b>
Procurement and Production	451	457	484	513	544
Distribution	267	248	263	279	295
Administration	788	934	901	1,001	1,114
<b>Operating profit/ (loss)(Rs.Mn)</b>	<b>678</b>	<b>739</b>	<b>934</b>	<b>944</b>	<b>1,096</b>
<b>Outstanding Debt to Banks (Rs.Mn)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Sources: Independent Television Network Limited and Department of Public Enterprises

\*Draft

Act No.35 of 1971. Since then its assets base has increased to Rs. 2.5 billion in 2012 with an increase in turnover of Rs. 2.3 billion. In an environment of intense competition ITN has managed to remain the market leader as a result of a marketing strategy to capture prime time viewers between 7- 9 pm. ITN has been ranked as the market leader in the television industry since 2009 by Lanka Marketing Research Bureau (LMRB). ITN has already initiated an investment programme to upgrade and replace machinery and equipment of around Rs. 340 million in 2012 to be strengthened over 2013-2015 to further consolidate its position.

Revenue increased to Rs. 2,378 million in 2012 from Rs. 2,184 million in 2011, with the earnings from television channel accounting for almost 89 percent of the total revenue. ITN continued to be profitable in 2012, increasing its profits by 9 percent to Rs. 739 million from Rs. 678 million in 2011. A closer watch on the

administrative expenditure which accounted for 57 percent of expenditure and increased by 9 percent in 2012 would be necessary to increase its profitability and support the medium term investments plan to secure its market leadership in the intensely competitive market environment.

### Sri Lanka Broadcasting Corporation

“Radio Ceylon” the oldest radio station in South Asia commenced operations in 1925. Radio Ceylon which became a public corporation under the Act No. 37 of 1967 was renamed as Sri Lanka Broadcasting Corporation (SLBC) in 1972. SLBC broadcasts through 7 main channels, 7 area channels, 3 community channels and 4 foreign channels serving all the communities within the country and to a limited clientele overseas as well. During 2012, SLBC upgraded the Yatiyanthota transmission from 5 Khz to 10 Khz and improved their quality of transmission. In 2012,

Table 11.42 > **Financial Outturn of Sri Lanka Broadcasting Corporation**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>747</b>	<b>1,051</b>	<b>1,127</b>	<b>1,272</b>	<b>1,442</b>
Sale of Air Time Asia Service	21	21	23	24	26
Sale of Air Time T.W.R	108	105	116	118	121
Sale of Air Time - Local service	363	491	638	753	889
Sale of Air Time - Other	59	37	22	28	37
Other Income	196	397	329	348	369
<b>Expenditure (Rs.Mn)</b>	<b>820</b>	<b>1,104</b>	<b>1,155</b>	<b>1,203</b>	<b>1,259</b>
Cost of Sales	323	355	373	391	411
Distribution	68	95	100	105	110
Administration	252	295	315	330	350
Operating and maintainance	177	359	368	377	388
<b>Operating profit/(loss) (Rs.Mn)</b>	<b>(78)</b>	<b>(54)</b>	<b>(28)</b>	<b>69</b>	<b>183</b>
<b>Outstanding Debt to Banks (Rs.Mn)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Sources: Sri Lanka Broadcasting Corporation and Department of Public Enterprises

\*Draft

in terms of the agreement between SLBC and Deutsche Welle (DW), SLBC was given possession of all DW fixed assets with a net worth of Rs. 2,350 million.

SLBC revenue increased to Rs. 1,051 million in 2012, from Rs. 747 in 2011 driven by 12 percent growth in local sales of air time to generate Rs. 407 million in 2012, add back of Rs. 85 million long outstanding creditors to account and receipt of Rs. 29 million government grants for Deutsche Welle operations as decided by the Cabinet. However total expenditure to increase by almost 35 percent to Rs. 1,104 million in 2012, mainly due to a 107 percent increase in operating and maintenance expenditure to Rs. 354 million in 2012 in comparison to 2011 associating with the ongoing modernizing of the asset base. Budgetary support to SLBC continued into 2012 in support with its outstation programme as well as to finance public awareness programmes. Capital grant of Rs. 68 million and recurrent grant of Rs. 140 million was provided accordingly. However, total budget support of Rs. 208 million in 2012 was

lower in comparison to Rs. 296 million in 2011.

It is noted that only one channel out of twelve contributes to 70 percent of the total revenue indicating SLBC to reexamine and rationalize its channels which does not have financial or strategic benefit to SLBC. In an increase competitive environment SLBC will have to improve its technology and bringing professional skills to consolidate its national importance. Its library of records holding more than 10,000 original records dating back to 1925 gives SLBC a prime resourced all over the region and an opportunity to exploit the premium value from demand of the Sri Lankan listeners. The modernization of administrative and operating expenditure and the rationalization of the use of multiple channels will support to phase out operating losses and transform this enterprise to a profitable one over the medium term.

### Sri Lanka Rupavahini Corporation

Sri Lanka Rupavahini Corporation (SLRC) which commenced operations in 1982 has expanded its channels to four, Rupavahini, Nethra TV (which broadcasts in Tamil), Channel Eye and NTV (which

Table 11.43 > **Financial Outturn of Sri Lanka Rupavahini Corporation**

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>2,420</b>	<b>2,026</b>	<b>2,235</b>	<b>2,430</b>	<b>2,697</b>
Sale of TV time- Channel 1	1,341	1,526	1,679	1,820	2,027
Sale of TV time- Channel Eye	854	216	238	252	267
Sale of TV time- Contra deal	58	87	92	98	104
Other Income	167	197	227	261	300
<b>Expenditure (Rs.Mn)</b>	<b>2,247</b>	<b>1,979</b>	<b>2,146</b>	<b>2,325</b>	<b>2,523</b>
Programme	1,526	1,292	1,421	1,563	1,720
Distribution	315	260	276	276	276
Administration	406	427	449	487	528
<b>Operating Profit/ (loss) (Rs.Mn)</b>	<b>173</b>	<b>47</b>	<b>89</b>	<b>104</b>	<b>174</b>
<b>Outstanding Debt to Banks (Rs.Mn)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Sources: Sri Lanka Rupavahini Corporation and Department of Public Enterprises

\*Draft

broadcast in English). Rupavahini broadcasts its channels in both VHF and UHF frequencies. In line with the government policy to convert from analog to digital transmission, with the construction of Kokawil transmission station, SLRC commenced digital transmission to almost 60 to 70 kilometers of the country. SLRC has already invested Rs. 67 million in 2012 on acquiring DVB-T2 technology to commence digital transmission to the Northern Province of the country. Full digitalization is expected to be completed by 2015.

During 2012, revenue declined by 16 percent or Rs. 394 million, to Rs. 2,026 million in comparison to 2011 in the context of intense competition from private channels, state owned ITN and cable-TV networks particularly by losing its earnings significantly by Channel Eye operations. SLRC's strategy to introduce a new prime time programme between 6-7 pm, has paid off with the improvement of SLRC rating significantly in 2012 to place amongst the top 5. However, SLRC's ability to become the market leader will depend on its strategy to be innovative without compromising quality, and also by revision of its underperforming channels in the medium term. In the face of stiff competition SLRC will have to expand its revenue streams by marketing its facilities as a production house and utilizing its asset base more productively.

In spite the reduction in revenue in 2012 to Rs. 2,026 million from Rs. 2,420 million in 2011, the SLRC manage to maintain a marginal profit of Rs. 47 million in 2012 in comparison to Rs. 173 million in 2011 owing to a reduction in programme and distribution expenditure. SLRC will have to consider options to augment its revenue stream from multiple operations of TV channels.

## 11.15 Marketing and Distribution

Several state enterprises are engaged in trading activities. Among them Lak Sathosa plays an important role particularly keeping the market competition at the lower end of the market ensuring regular supplies at affordable prices, while Laksala has projected the country's handicraft industry among the growing tourist population as well as attracting local craft industry to expand its products with secured market arrangements. Both enterprises command strong market share of influencing the market trend as well as to expand with strong profit margins and welfare service to both consumers as well as small producers. The closer linkages with local production supply chain will also improve value addition and support to SME growth in place of imports. The Fishery Harbour Corporation is engaged in the provision of infrastructure to fishermen through fishery harbor facilities and required services to over 4,000 vessels, while Fisheries Corporation is engaged in the procurement of fish and supply to the market playing a price stabilization role. The State Printing Corporation engages in the printing of school text books accounting for 25 percent of the market and competes with the private sector.

In the context of agriculture sector importance in government policy, Ceylon Fertilizer Company (CFC) and the Colombo Commercial Fertilizer company (CCFC) play a significant role in the supply and distribution of fertilizer to the small holder agriculture. Total cost of fertilizer imports to the country amounts to Rs. 39,859 million. Total fertilizer imports decreased to 640,000 MT in 2012 from 801,000 MT in 2011 due to the drought and stock accumulation from 2011. During 2012, CFC and CCFC together accounted for 79

percent or 505,000MT of the total fertilizer imports in 2012 while the balance 409,000 MT was imported by the private sector. In 2012, while the SOBE imports have increased by 29 percent or 113,000 MT while the private sector imports at 135,000 MT in 2012 in a decrease of 67 percent from 409,000 MT in 2011.

### Lanka Sathosa Limited

Lanka Sathosa Limited (LSL), a government owned supermarket network operates with 270 outlets is engaged in the provision of essential items to consumers at affordable

prices accounting for almost 25 percent of the market share. Steadily expanding its market presence in recent years, LSL's expansion in market outlets to 270 since 2008 at an investment of Rs. 1,185 million, was financed through budgetary support amounting to Rs. 800 million and the balance Rs. 385 million from internally generated funds.

Despite adopting a pricing strategy aimed at ensuring the lowest prices in the market, LSL recorded a profit growth of 700 percent to

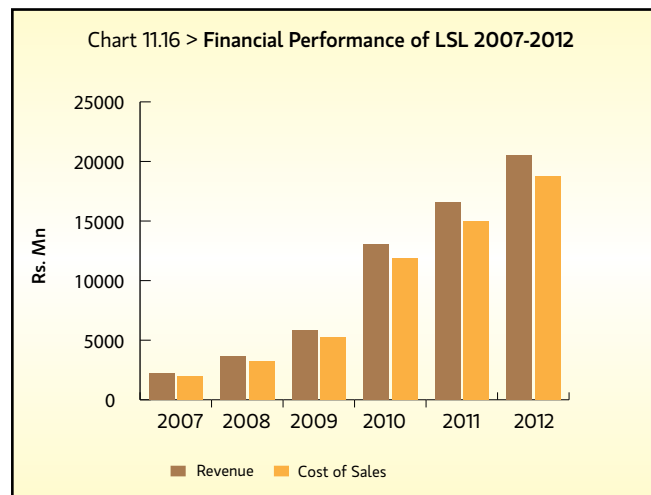
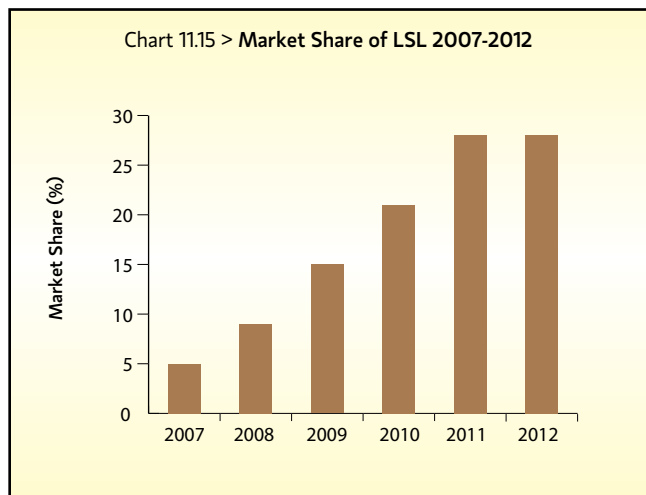


Table 11.44 > Financial Outturn of Lanka Sathosa Limited

	Actual		Forecast		
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>16,633</b>	<b>20,661</b>	<b>22,944</b>	<b>26,749</b>	<b>30,554</b>
Sales	16,551	20,548	22,831	26,636	30,441
Indirect Income	82	113	113	113	113
<b>Expenditure (Rs.Mn)</b>	<b>16,554</b>	<b>20,614</b>	<b>22,875</b>	<b>26,660</b>	<b>30,416</b>
Cost of Sales	14,957	18,798	20,861	24,417	27,921
Other Expenditure	1,597	1,816	2,014	2,243	2,495
<b>Profit/ (Loss) Before Tax (Rs.Mn)</b>	<b>79</b>	<b>47</b>	<b>69</b>	<b>89</b>	<b>138</b>
<b>Key Performance Indicators</b>					
Outlets (Nos)	250	270	300	350	400

Sources: Lanka Sathosa Ltd and Department of Public Enterprises

\* Draft

Rs.79 million in 2011 from Rs.11 million in 2008. However, with the sharp rise in the cost of sales the profit margin narrowed in 2012, resulting in a decline in its profit to Rs. 47 million from Rs. 79 million in 2011. Aggressive expansion in private sector super market network has slowed the growth in market share in 2012.

The lapses in the internal control system and poor stock and information management system were reflected in the stock outs which have been Rs. 48 million and Rs. 149 million in 2011 and 2012 respectively. As such in addressing this issue budgetary support to the tune of Rs. 200 million was provided in 2012 to establish an ERP system, which will be commissioned by 2013.

In line with the budget proposal 2013, it is expected to increase the number of outlets up to 1,000 over the medium term. LSL, if it is to remain the cheapest supermarket to shop for the retail consumer, while being able to protect its margins, will need to adopt a savvy business strategy that can counter other supermarket chains that has initiated vertical integrations so as to secure its margins and provide the consumer with competitive prices.

### State Timber Corporation

State Timber Corporation (STC) is engaged in extracting and purchasing of timber and converting them in to value added products. STC is also involved in reforestation. Extracted log sales represent over 50 percent of the total revenue while railway sleepers, transmission poles and sawn timber account for the balance.

The corporation continued to be a profitable entity reporting a before tax profit of Rs. 828 million in 2012 which includes an interest income of Rs. 200 million. However, STC incurred an operating loss of Rs. 89 million from the core business. Overall Return on Investment (ROI) is 4.5 percent while the core business contribution to ROI is at negative 3 per cent indicating that STC's core business has failed to generate adequate returns.

Chart 11.18 > Product Portfolio of STC - 2012

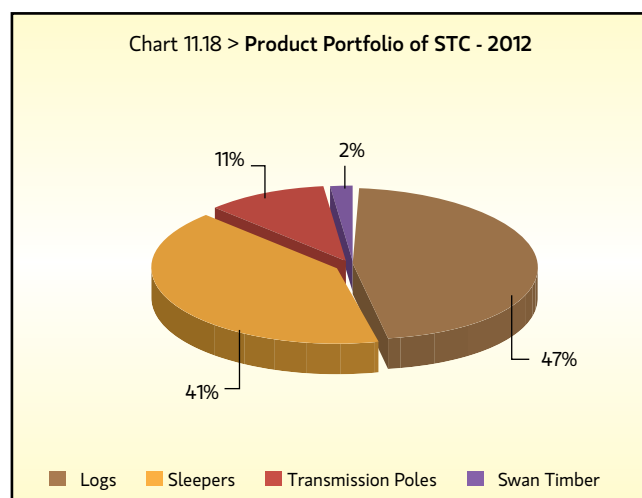
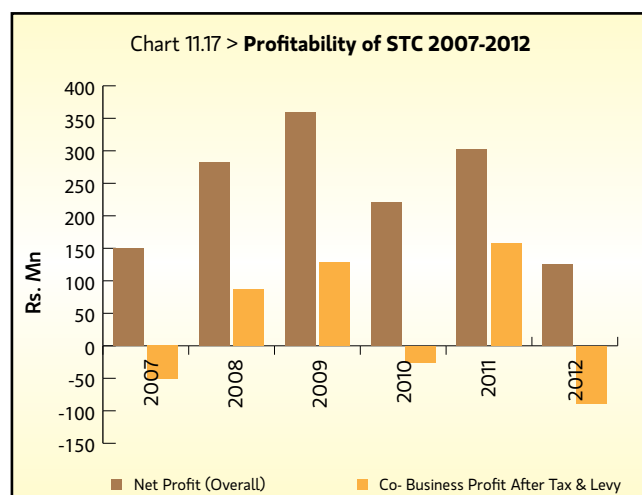


Chart 11.17 > Profitability of STC 2007-2012



In 2012, almost 55 percent of STC's revenue is generated from felling of trees from forests grown above an altitude of 5,000 feet. However, with the impositions of restrictions in 2012, on the felling of timber in forests above the altitude of 5,000 feet, STC, in the medium term is faced with the challenge of a drop in revenue by almost 40 percent and will be a lost making entity in 2013. In this background STC will be required to position itself through the adoption of an innovative business strategy to suit its mandate.

It is also noted that STC have been producing sleepers with relatively low profit margins



Table 11.45> **Financial Outturn of State Timber Corporation**

	Actual			Forecast	
	2011	2012	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>3,103</b>	<b>3,562</b>	<b>2,098</b>	<b>2,213</b>	<b>2,317</b>
Timber Sales	2,959	3,362	1,898	2,013	2,117
Investment	144	200	200	200	200
<b>Expenditure (Rs.Mn)</b>	<b>2,500</b>	<b>2,734</b>	<b>2,156</b>	<b>2,330</b>	<b>2,510</b>
Cost of Sales	1,633	1,723	1,044	1,107	1,164
Other Expenditure	867	1,011	1,112	1,223	1,346
<b>Profit Before Tax (Rs.Mn)</b>	<b>603</b>	<b>828</b>	<b>(58)</b>	<b>(117)</b>	<b>(193)</b>
<b>Key Performance Indicators</b>					
Production -Non-value added Logs (Units)	138,632	132,859	72,885	65,597	59,037
Value added Product - Sleepers (Units)	66,699	117,306	86,597	88,055	89,367
Transmissions (Units)	31,863	30,469	22,493	23,950	25,262
Sworn timber (Units)	3,753	4,955	3,658	8,031	11,967
<b>Revenue Structure of products</b>					
Non-value added Product (Logs) (%)	54	53	39	35	32
Value added Products (%)	46	47	61	65	68

Sources: State Timber Corporation and Department of Public Enterprises

over and above the demand tying up with a significant amount of funds in working capital. As such STC should optimize its resources by developing its product portfolio to the manufacturing value added treated timber which command relatively higher profit margins. In keeping with the government policy of promoting green economy, STC should explore possibilities of producing ecofriendly products to cater to niche markets.

### Sri Lanka Handicrafts Board

Sri Lanka Handicrafts Board or Laksala as it is known is engaged in promoting the sale of local handicrafts and providing essential market linkages to traditional craftsmen to market their products. With the implementation of a well-designed medium term business plan aiming at rationalizing its market network as well as employees, Laksala was able to generate profits in 2011 reversing its past trend of operational losses. The performance since 2010 also benefited from the increase in tourist arrivals.

It is noted that Laksala as part of its business strategy to turnaround its performance increased its profit margins aslo to almost 60 percent which had the benefit of improving the liquidity position of the entity. The improvement of the performance of the entity, has also projected local handicrafts and indigenous products among visiting tourists as well as provided improved market competition to local craftsmen. In this context it is important that improved arrangements be made to settle to suppliers' claims as their involvement is essential in achieving the overall objectives of Laksala operations.

In recognising the potential of Laksala particularly in the context of supporting backward economy the Ministry of Economic Development, under Divi Naguma program in 2012 granted Rs.100 million to meet the reconstruction and refurbishment cost of the Laksala Sales Complex at the Museum. It is estimated that the number of outlets will increase from 20 in 2012 to 35 by 2015.

Table 11.46> **Financial Outturn of Sri Lanka Handicraft Board**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Total Revenue (Rs.Mn)</b>	<b>297</b>	<b>511</b>	<b>622</b>	<b>744</b>	<b>867</b>
Revenue	276	490	612	734	857
Other Income	21	21	10	10	10
<b>Total Cost (Rs.Mn)</b>	<b>246</b>	<b>438</b>	<b>534</b>	<b>636</b>	<b>738</b>
Cost of Sales	111	203	245	294	343
Other Expenditure	126	212	265	318	371
Finance Cost	9	23	24	24	24
<b>Profit Before Tax (Rs.Mn)</b>	<b>51</b>	<b>73</b>	<b>88</b>	<b>108</b>	<b>129</b>
<b>Bank Loans (Rs.Mn.)</b>	<b>140</b>	<b>160</b>	<b>170</b>	<b>170</b>	<b>170</b>
<b>Key Performance Indicator</b>					
Outlets (Nos)	14	20	25	30	35

Sources: Sri Lanka Handicrafts Board (SLHB) and Department of Public Enterprises

\*Draft

## Sri Lanka State Trading (General) Corporation Ltd

STC General Trading Corporation Ltd (STC) is engaged in the retail business with a product portfolio consisting of chemicals and allied products, office supplies, construction materials and agricultural supply products, motor cycles,

machinery and equipment, automotive tire products following a product diversification strategy in its trading in recent years.

STC's performance recorded an improvement in 2012 with the profit of Rs.105 million compared to the profit of Rs. 62 million in 2011. With

Table 11.47 > **Financial Outturn of Sri Lanka State Trading (General) Corporation Ltd**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Total Revenue (Rs.Mn)</b>	<b>1,948</b>	<b>2,379</b>	<b>2,716</b>	<b>3,107</b>	<b>3,557</b>
Revenue	1,869	2,270	2,611	3,002	3,452
Other income	79	109	105	105	105
<b>Total Cost (Rs.Mn)</b>	<b>1,886</b>	<b>2,274</b>	<b>2,584</b>	<b>2,963</b>	<b>3,390</b>
Cost of Sales	1,572	1,925	2,193	2,522	2,900
Operating Expenditure	299	325	367	417	466
Finance Cost	15	24	24	24	24
<b>Profit /(Loss) (Rs.Mn)</b>	<b>62</b>	<b>105</b>	<b>132</b>	<b>144</b>	<b>167</b>
<b>Bank Loans (Rs.Mn)</b>	<b>147</b>	<b>154</b>	<b>154</b>	<b>154</b>	<b>154</b>

Sources: STC General Trading Corporation Ltd and Department of Public Enterprises

\*Draft

the demand for consumables projected to increase in line with the increase in disposable income, STC has ample opportunity to market its products, though it needs to recognize that market competition is intense and market share of STC is too small to influence the significant impact. Hence, in order to justify its operations, market presence and generate profit, STC needs to develop strategically new approach through unique market diversification and broadening specific identity without resorting large capital and trading outlets and non-moving stocks.

### Ceylon Fertilizer Company Limited

Ceylon Fertilizer Company (CFC) is the leading state entity engaged in importing, blending and distributing fertilizer operating under the brand name “Lakpohora” with a market share of 65 percent. In 2012, CFC distributed 280,869

MT of fertilizer for paddy, utilizing 376 island wide Agrarian Service Centers. CFC also has 54 stores which has a storage capacity of 150,000 MT. CFC is also equipped with a centralized laboratory which is one of the three Government owned Laboratories in Sri Lanka accredited by Sri Lanka Accreditation Board for testing of fertilizer. It has also been awarded ISO/ICE/17025:25 International Certificate in 2012.

During the year 2011/12 CFC sold 90 percent i.e. 370,000 MT of fertilizer imports and local purchases (i.e. 3,000 MT) an increase of 31.6 percent over 2010/11. CFC implemented almost 2/3 of the total fertilizer subsidy amounting to Rs. 19.94 billion in 2012. It is noted that demand for fertilizer during the 2012 Maha season dropped due to the severe drought conditions that prevailed in the country which resulted in

Table 11.48 > **Financial Outturn of Ceylon Fertilizer Company Limited**

	Actual			Forecast	
	2010/11	2011/12	2012/13*	2013/14	2014/15
<b>Revenue (Rs.Mn)</b>	<b>2,403</b>	<b>2,763</b>	<b>2,849</b>	<b>2,878</b>	<b>2,905</b>
Core-Business	2,246	2,496	2,599	2,628	2,655
Other Income	157	267	250	250	250
<b>Expenditure (Rs.Mn)</b>	<b>2,330</b>	<b>2,667</b>	<b>2,747</b>	<b>2,758</b>	<b>2,808</b>
Cost of Sales	1,832	2,183	2,287	2,316	2,344
Distribution	4	59	13	14	15
Administration	367	388	407	428	449
Finance Cost	127	37	40	0	0
<b>Profit/Loss before tax (Rs.Mn)</b>	<b>73</b>	<b>96</b>	<b>102</b>	<b>120</b>	<b>97</b>
Outstanding Debt (Rs.Mn)	71	82	-	-	-
<b>Key Performance Indicators</b>					
<b>Sales Quantity (MT)(,000)</b>					
Chemical	281	330	281	266	253
Carbonic	-	-	50	64	77
Other	-	40	40	40	40
<b>Govt. Fertilizer Subsidy (Rs.Mn)</b>	<b>16,348</b>	<b>19,936</b>	<b>17,596</b>	<b>17,358</b>	<b>17,124</b>

Sources: Ceylon Fertilizer Company Ltd and Department of Public Enterprises

\*Draft

the CFC holding on to significant volume of stocks. The excess stocks from the Maha season 2012 were subsequently sold during the Yala season 2012 where demand picked up again.

As such, CFC's revenue increased to Rs. 2,496 million in 2011/12 from Rs. 2,246 million in 2010/11. The increase in demand for fertilizer in 2011/12 over 2010/11, coupled with the appreciation of the dollar in 2012 by 14.5 percent which resulted in total cost of imports to increase by Rs. 2,689 million or 15.9 percent to Rs. 19,635 million in 2011/12 from Rs. 16,947 million in 2010/11. Increase in the cost of imports coupled with an increase in overheads resulted in the CFC's total expenditure to increase by 14.5 percent to Rs. 2,667 million in 2011/12 over 2010/11.

During the period 2011/12, CFC earned a profit after tax of Rs.45 million, an increase of 50 percent over 2010/11. CFC's operational profitability is dependent on the margin of Rs. 3.50/Kg received on the fertilizer distributed. However, this margin of Rs. 3.50/Kg is not adequate for the CFC to meet its

total operational expenditure resulting in an operational loss of Rs.22 million in 2011/12. However, CFC closed the year 2011/12 with a net profit of Rs. 45 million which is due to the non-operational income received by way of interest from investments in Treasury Bills and Bonds amounting to Rs.67 million. This indicates that unless the margins increase coupled with an improvement in productivity, the importing, blending and distributing fertilizer will not yield any positive returns.

Despite experiencing a marginal reduction in staff in comparison to 2007/08, cost per employee per annum has increased by 61 percent from Rs. 299,000 in 2007/08 to Rs. 481,000 in 2011/12. Non-moving doubtful debtor balance as of end March 2012 amounted to Rs. 158 million. This consists mainly of receivables from government organizations. Thus ensuing liquidity constraints faced by the company has resulted in an exposure to Banks to Rs. 7,696 million in 2012 in comparison to 2011. The government policy to encourage more organic fertilizer substituting chemical fertilizer will need to be addressed in the CFC

Table 11.49 > **Financial Outturn of Colombo Commercial Fertilizers Limited**

	Actual			Forecast	
	2010/11	2011/12	2012/13*	2013/14	2014/15
<b>Total Revenue (Rs. Mn)</b>	<b>1,235</b>	<b>1,072</b>	<b>1,224</b>	<b>1,346</b>	<b>1,413</b>
<b>Expenditure (Rs. Mn)</b>	<b>908</b>	<b>807</b>	<b>821</b>	<b>900</b>	<b>938</b>
Cost of Sales	761	656	612	673	707
Administration Expenses	60	73	85	94	99
Distribution Expenses	17	36	38	50	54
Finance Cost	68	40	82	78	70
Other	2	2	4	5	8
<b>Profit Before Tax (Rs. Mn)</b>	<b>327</b>	<b>265</b>	<b>403</b>	<b>446</b>	<b>475</b>
<b>Importation of Fertilizer (MT'000)</b>	<b>169</b>	<b>155</b>	<b>170</b>	<b>187</b>	<b>197</b>
<b>Outstanding Debts (Rs. Mn)</b>	<b>4,326</b>	<b>3,587</b>	<b>3,387</b>	<b>3,150</b>	<b>3,000</b>

Sources: Colombo Commercial Fertilizers Limited and Department of Public Enterprises

\*Draft

business model. It is expected that the sales quantity of chemical fertilizer in 2013 will come down by 15 percent to be replaced by 50 MT of organic fertilizer sold at a 10 percent profit margin. With the promotion of organic fertilizer it is estimated that the demand for chemical fertilizer will decrease year on year by 5 percent in the medium term. However, the increase in volumes of fertilizer demand in the absence of a revision in the margins will result in the CFC decreasing operational profit to almost Rs. 56 million in 2015.

### **Colombo Commercial Fertilizers Limited**

Colombo Commercial Fertilizer Limited (CCFL) mainly engages in the importing, mixing, packing and distribution of fertilizer using 17 regional stores. CCFL covers 35 percent of total paddy fertilizer requirement of the country and accounts for 24 percent of the total fertilizer imports to the country. During the year 2011/12 CCFL imported 155,000 MT of paddy fertilizer and distributed 95 percent i.e. 148,000 MT to farmers through agrarian Service Centers spread all over the Island.

During the year 2011/12 revenue of CCFL has dropped from Rs.1,235 million to Rs. 1,072 million by 13 percent as demand dropped due to the severe drought that prevailed in the Maha season in 2012. With the drop in fertilizer sales 2011/12, profit of the company has dropped to Rs. 265 million from Rs. 327 million in 2010/11 by 51 percent.

### **State Printing Corporation**

State Printing Corporation (SPC) accounts for 25 percent of school text book printing market, 15 percent of exercise book and 40 percent of lottery printing market. During the period 2010-2012 SPC has recorded a growth of 75 percent for printing of school text books, 20 percent in the printing of lotteries and 50 percent in producing stationeries when

compared with the period 2007-2009. SPC was also able to increase its revenue by 40 percent during 2010-2012 period over 2007-2009. As a result, the average profit has increased by almost four folds to Rs. 141 million in 2012 from Rs. 34 million in 2007.

State Printing Corporation which operates utilizing a capacity of 60 percent was able to increase its profit to Rs. 141 million in the year 2012. SPC will have to increase the utilization of its capacity to 70 percent if profitability is to increase and sustained over the medium term.

### **Ceylon Fishery Harbours Corporation**

Ceylon Fishery Harbours Corporation (CFHC) construct and maintain fishery harbours to deliver high quality, modern fishery harbor related services together with supporting infrastructure facilities to the fishing community. At present CFHC maintains 19 fishery harbours that provide shore facilities, refrigeration and fuel.

The government through the CFHC invested Rs. 1,024 million during the period 2005-2012 to build and upgrade fishery harbor facilities. The Dikowita harbor one of the largest in South Asia, was built at a cost of Rs. 7,615 million, possesses facilities for bunkering shipping vessels with four ice plants, four cool rooms, fuel sheds, a fish processing area, a fish net repairing facility and a remote controlled operated boat lifting facility.

CFHC although is required to be self-sufficient has been supported through the budget which in 2012 amounted to Rs.108 million. Although 2012, revenue almost doubled to Rs. 442 million CFHC recorded an increase in its losses to Rs. 211 million from Rs. 189 million in 2011. However, it is noted that administration costs which consist of salaries accounted for 82 percent of the total expenditure in 2012, while direct

Table 11.50 > **Financial Outturn of State Printing Corporation**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Total Revenue (Rs.Mn)</b>	<b>1,200</b>	<b>1,235</b>	<b>1,296</b>	<b>1,348</b>	<b>1,450</b>
Revenue	1,189	1,219	1,280	1,332	1,434
Indirect Income	11	16	16	16	16
<b>Total Cost (Rs.Mn)</b>	<b>1,066</b>	<b>1,094</b>	<b>1,149</b>	<b>1,186</b>	<b>1,253</b>
Cost of Sales	636	693	728	757	815
Other Expenditure	430	401	421	429	438
<b>Profit/ (Loss) before tax (Rs.Mn)</b>	<b>134</b>	<b>141</b>	<b>147</b>	<b>162</b>	<b>197</b>
<b>Key Performance Indicators</b>					
Capacity (Machine Hours)	200	200	200	200	200
Capacity Used	124	119	125	130	140
Capacity utilisation (%)	62	60	63	65	70

Sources: State Printing Corporation, Department of Public Enterprises

\*Draft

operating costs accounts for only 37 percent or Rs. 191 million in 2011. This indicates that CFHC needs to manage its human resources strategically.

During the year the CFHC harbours provided services to 4,326 vessels an increase of 12 percent in comparison to 2011. Of the 19 fishery harbours, 16 harbours contributed to 39 percent of the revenue in 2012, while only 9 harbours were profitable. The lackluster growth in the fishery industry during the last 3 years in comparison to many other industries in the country is also due to the mismanagement of the fishery harbours by the CFHC. CFHC requires strengthening its internal controls so as to facilitate a better management of the fishery harbours in the country. This will also support the attraction of private investment into the sector in the medium to long term.

## Ceylon Fisheries Corporation

Ceylon Fisheries Corporation (CFC) engages in the procurement of fish from fishermen and supplies to the market operating as a price stabilizer. CFC which has been continuously incurring losses and was able to record an improvement in its performance by reducing the losses to Rs. 42 million in 2012 from Rs. 69 million in 2011. This was driven by the average increase in fish prices (despite a decrease in sales volumes) in 2012 by 39 percent over 2011, which increased total revenue by 7 percent during 2012. CFC's exposure to Banks decreased to Rs. 258 million in 2012 from Rs. 283 million in 2011.

With the increase of per capita income, the per capita consumption level of the fish and fishery products has increased during the last few years by 64 percent to 23kg in 2012 from 14 kg in 2009. It indicates that CFC has potential market opportunities to expand their business in the local market in the 2013-2015 period.

Table 11.51> **Financial Outturn Ceylon Fishery Harbours Corporation**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>126</b>	<b>442</b>	<b>466</b>	<b>513</b>	<b>564</b>
Rent	1	15	14	15	17
Dredging	12	73	20	22	24
Harbour	78	213	218	240	264
Security	31	41	11	12	13
Other	4	100	203	224	246
<b>Expenditure (Rs.Mn)</b>	<b>428</b>	<b>719</b>	<b>674</b>	<b>663</b>	<b>658</b>
Harbor Expense	3	105	110	126	145
Administration	365	590	550	525	500
Finance Cost	10	2	2	2	3
Other	50	22	12	10	10
<b>Profit /(Loss) before Tax (Rs.Mn)**</b>	<b>(302)</b>	<b>(277)</b>	<b>(208)</b>	<b>(150)</b>	<b>(94)</b>
Government Grant (Rs.Mn)	113	108	108	110	110
Bank Overdraft	0	26	18	18	18
Outstanding Debt to Bank	0	54	44	39	35

Sources: Ceylon Fishery Harbours Corporation, Department of Public Enterprises

\*Draft

\*\*Without Government grant

Table 11.52 > **Financial Outturn of Ceylon Fisheries Corporation**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>1,997</b>	<b>2,133</b>	<b>2,345</b>	<b>2,697</b>	<b>3,020</b>
Fish Trading	1,840	1,901	2,091	2,405	2,693
Ice Trading	86	104	114	131	147
Cold Room	49	40	44	48	55
Other	22	88	96	113	124
<b>Expenditure (Rs.Mn)</b>	<b>2,066</b>	<b>2,175</b>	<b>2,384</b>	<b>2,663</b>	<b>2,932</b>
Cost of Sales	1,372	1,378	1,524	1,752	1,962
Distribution Cost	121	168	185	213	238
Administration Cost	529	571	600	610	630
Other	23	29	35	37	42
Finance Cost	21	29	40	51	60
<b>Operating profit/ (loss) (Rs.Mn)</b>	<b>(69)</b>	<b>(42)</b>	<b>(39)</b>	<b>(34)</b>	<b>88</b>
<b>Outstanding Debt to Banks (Rs.Mn)</b>	<b>283</b>	<b>258</b>	<b>227</b>	<b>261</b>	<b>295</b>
<b>Key Performance Indicators</b>					
Outlets (Nos)	102	124	159	209	279

Sources : Ceylon Fisheries Corporation (CFC) and Department of Public Enterprises

\*Draft



## Hotel Developers Lanka Plc

Hotel Developers Lanka Plc (HDL) was vested with the Government under the provisions of the Revival of Under Performing Enterprises or Underutilized Assets Act No. 43 of 2011 and operates as a fully owned Government company, in terms of the Articles of Association.

Steps were taken to revive it, having appointed a Cabinet Sub Committee, Official Committee, Compensation Tribunal, a Competent Authority and a new Board of Directors by the Cabinet of Ministers to facilitate the multi-faceted activities in the process.

The new Board having renegotiated the Management Agreement between Hilton International Ltd and HDL reduced the management fee to 11.75 percent of gross operating profit from 33 percent, resulting in a saving of around Rs. 13 million per month. The balance sheet was strengthened with the

conversion of 80 percent of the government loan to equity. The land where the hotel is situated was alienated to the HDL on a long term lease and the leasehold value was converted to equity to further strengthen the balance sheet. The balance land was leased on a rent free basis to HDL for a period of 5 years to facilitate the relocation of the swimming pool etc.

The assets base of the company has substantially improved with the capitalization of debt and leasehold value of main land into equity resulting in a positive net asset of Rs 11.4 billion as at 31.03.2013. Total revenue increased by 20 percent to Rs. 3,477 million in 2012/13 in comparison to Rs. 2,901 million in 2011/12 which is mainly due to the increase in the Average Room rate from US\$ 130 to US\$ 138 while maintaining an occupancy rate of 70 percent.

Reflecting the impact of the business restructuring programme, which includes the reduction in the management fee, interest

Table 11.53> **Financial Outturn of Hotel Developers Lanka Plc**

	Actual			Forecast	
	2011/2012	2012/2013*	2013/2014	2014/2015	2015/2016
<b>Revenue (Rs.Mn)</b>	<b>2,901</b>	<b>3,477</b>	<b>3,840</b>	<b>4,252</b>	<b>4,719</b>
Room Revenue	1,370	1,578	1,736	1,910	2,101
Food & Beverage Revenue	1,296	1,406	1,511	1,624	1,746
Other Operating Departments	138	127	136	147	158
Other Income	97	366	457	571	714
<b>Expenditure (Rs.Mn)</b>	<b>3,362</b>	<b>2,189</b>	<b>2,353</b>	<b>2,542</b>	<b>2,761</b>
Cost of Sales	489	529	571	617	666
Interest on Long-term Loans	1,494	347	434	542	678
Administrative Expenses	1,566	1,518	1,578	1,642	1,707
Other Expenses	302	324	341	358	376
Profit or Loss Before Tax	(948)	758	948	1,185	1,481
Borrowings from Banks (net) (Rs.Mn)	35	(35)	3,175	0	0
Outstanding dues to Banks and Government	8,258	3,099	2,066	3,890	2,571

Sources: Hotel Developers Lanka Plc and Department of Public Enterprises

\*Draft

expenses and increase in equity, total expenditure declined by 35 percent or Rs. 1,173 million to Rs. 2,189 million in the year 2012/13 in comparison to Rs. 3,362 million in 2011/12. The conversion of 80 percent of the Government Loan into equity resulted in the Finance cost to reduce by 77 percent to Rs. 347 million in 2012/13 over Rs. 1,494 million in 2011/12. Consequently, HDL posted a profit before tax of Rs. 758 million in year 2012/13 against the loss of Rs. 948 million incurred in 2011/12.

### 11.16 Non Renewable Resources

The state enterprises command the state business presence in the nonrenewable resources sector in the country with explicit policy strategy towards non privatization of State Enterprises and assets. The liberation of conflict affected areas and the policy towards increase in value addition to primary raw materials and encouraging global demand for mineral resources, the three enterprises operating in mineral resources not only possesses significant business scope but also has a strategic role to play in the country's development though the operations in fertilizer and graphite manufacturing activities have not come up to the scale of operations in terms of their potential.

*The state enterprises command the state business presence in the nonrenewable resources sector in the country with explicit policy strategy towards non privatization of State Enterprises and assets.*

### Lanka Phosphate Limited

The main business activity of the Lanka Phosphate Limited (LPL) is excavating and processing rock phosphate for Fertilizer. The Eppawela Phosphate deposit which has a capacity of almost 60 million MT of rock Phosphate is unique as it has a high content of phosphorous pentoxide. At present LPL produces two types of Rock Phosphate fertilizer namely, Eppawala Rock Phosphate (ERP) and High-Grade Eppawala Rock Phosphate (HERP).

LPL has produced 44,542 MT in 2012, which is less than the production of 59,486 MT in 2011. Consequently, LPL recorded a decrease in revenue of 17 percent to Rs.449 million in 2012/13. The existence of synthetic phosphate a substitute for natural phosphate poses a challenge to the LPL's Eppawela phosphate deposit. Extraction of phosphate with increased solubility will require a substantial investment. The LPL will have to diversify its revenue sources by exploring possibilities of producing organic fertilizer, which is a priority of the government. However, considering the demand for fertilizer and large expenditure on fertilizer imports, the LPL operations remain sub-optimal and require formulating a strong investment strategy and its financing arrangements.

Table 11.54 > **Financial Outturn of Lanka Phosphate Limited**

	Actual			Forecast	
	2010/11	2011/12	2012/13*	2013/14	2014/15
<b>Total Revenue (Rs. Mn)</b>	<b>426</b>	<b>541</b>	<b>449</b>	<b>569</b>	<b>768</b>
Eppawela Rock Phosphate	341	394	328	380	523
High Grade Eppawala Rock Phosphate	52	98	71	141	169
Other Income	33	49	50	48	76
<b>Expenditure (Rs. Mn)</b>	<b>300</b>	<b>339</b>	<b>336</b>	<b>410</b>	<b>495</b>
Cost of Sales	174	192	178	247	315
Administration Expenses	114	132	140	141	146
Distribution Expenses	5	7	6.4	7	15
Depreciation	6	8	11	13	16
Other	1	0	1	2	3
<b>Profit/ (Loss) (Rs.Mn)</b>	<b>126</b>	<b>202</b>	<b>113</b>	<b>159</b>	<b>273</b>
Production (MT)	47,778	59,486	44,542	51,470	56,617
Investments	6	3	4	4	5

Sources: Lanka Phosphate Ltd and Department of Public Enterprises

\*Draft

## Kahatagaha Graphite Lanka Limited

Kahatagaha Graphite Lanka Limited (KGLL) as a fully government owned company engages in excavating, processing and exporting graphite as an industrial raw material used for the production of pencil, batteries for hybrid cars, carbon brushes, grease, nano tube etc. KGLL has graphite deposits of almost 70,000 MT.

Demand for graphite has continued to increase in 2012/13 to 959 MT. Consequently, in 2012/13 revenue, which solely consists of exports of Rs. 157 million is increase as 8 percent over 2011. KGLL mainly depends on few regular foreign buyers for its exports weakening the entity's ability to command high prices in the international market.

The seasonal trend in sales gives rise to liquidity issues which resulted in KGLL dues to Banks to remain around Rs. 9 million in 2012/13. The investment amounting to Rs. 66 million has been reserved in line with international norms for mining that requires

the retention of funds to meet any damages from possible industrial accidents. Synthetic Graphite remains a significant challenge to natural graphite produced by KGLL in the international market. As such in 2013-2015, KGLL will have to adopt a multi-pronged strategy of diversifying its customer base while exploring the possibility of exporting value added products.

## Lanka Mineral Sands Limited

Lanka Mineral Sands Limited (LMSL) engages in mining, processing and marketing of heavy mineral sands specially Illmenite, Rutile and Zircon. Majority of these minerals are exported as raw materials through an International bidding process though steps are now being taken to promote value addition locally.

The end of the conflict enabled LMSL to expand its operations whereby the company was able to increase its revenue to Rs. 2,230 million in 2012 from Rs. 1,764 million in 2011. LMSL continued to be a profitable entity in recording a profit of

Table 11.55 > **Financial Outturn of Kahatagaha Graphite Lanka Limited**

	Actual			Forecast	
	2010/11	2011/12	2012/13*	2013/14	2014/15
Total Revenue (Rs. Mn)	108	145	157	187	223
Exports	108	145	157	187	223
<b>Expenditure (Rs. Mn)</b>	<b>70</b>	<b>91</b>	<b>99</b>	<b>117</b>	<b>140</b>
Cost of Sales	43	53	57	69	83
Administration	12	18	20	24	29
Finance Cost	3	2	2	2	3
Depreciation	4	5	6	7	8
Other	8	13	14	15	17
<b>Net Profit before Tax (Rs. Mn)</b>	<b>38</b>	<b>54</b>	<b>58</b>	<b>70</b>	<b>83</b>
Borrowings from Banks(net) (Rs.Mn)		(10)	(1)	(1)	(1)
Outstanding dues to Banks	19	9	8	7	6
Investments (Rs.Mn)	35	58	66	76	88
<b>Key Performance Indicators</b>					
Production (MT)	771	888	959	1,054	1,160

Sources: Kahatagaha Graphite Lanka Ltd, and Department of Public Enterprises

\*Draft

Rs. 1,373 million in 2012, an increase of 24 percent from Rs. 1,107 million in 2011. The outdated factory complex of LMSL in the absence of investments due to 30 year conflict in the area needs to be upgraded to enhance its

capacity and efficiency. Accordingly investment around Rs. 4,680 million during 2013-2015 has been planned to command competitive prices for this valuable resource.

Table 11.56 > **Financial Outturn of Lanka Mineral Sands Limited**

	Actual			Forecast	
	2011	2012*	2013	2014	2015
<b>Revenue (Rs.Mn)</b>	<b>1,764</b>	<b>2,230</b>	<b>2,691</b>	<b>2,818</b>	<b>3,235</b>
Illmenite	1,174	694	833	916	1,008
Rutile	290	420	461	508	558
Zircon	36	136	150	165	181
Hi Ti Illmenite	66	231	254	279	307
Others	198	749	993	950	1,181
<b>Expenditure (Rs.Mn)</b>	<b>657</b>	<b>857</b>	<b>1027</b>	<b>741</b>	<b>514</b>
Cost Of Sales	260	356	419	492	206
Distribution	4	6	8	11	13
Administrative	145	201	240	95	118
Other Operating	248	294	360	143	177
<b>Profit before tax (Rs.Mn)</b>	<b>1,107</b>	<b>1,373</b>	<b>1,664</b>	<b>2,077</b>	<b>2,721</b>
Investments (Rs.Mn)	548	368	405	445	490

Sources: Lanka Mineral Sands Ltd. and Department of Public Enterprises

\*Draft

Annex 1 > **Enterprises under Restructuring**

Enterprise	Core Activities	Performance/ Issues	Total Expenditure in 2012 Rs.Mn	Total Revenue in 2012 Rs.Mn
Lanka Salusala Ltd	Not engaged in commercial operations	Restructuring plan is being prepared focusing on creating market linkages for the local handloom industry focusing on the tourism sector	217	194
Co-operative Wholesale Establishment (CWE)	Currently engaged in rice mill development, farm shop project, logistic services and packaging services	Even though core-business revenue increased by 41 percent, CWE has generated a core-business loss of Rs. 246 million in 2012 mainly due to increase in overhead expenses. CWE has to settle Rs.4.4 billion of Corporate Bonds in 2016.	373	127
The State Trading (Co-Operative Wholesale) Company Ltd.	Not engaged in commercial operations	The line ministry has initiated a restructuring process	-	-
Janatha Fertilizer Enterprises Limited (JFEL)	Under liquidation	Cabinet approval has been granted on 18th July 2012 to transfer all stores and head office building of JFEL to UDA. Liquidation is in progress.	253	30
Sri Lanka Rubber Manufacturing and Export Corporation (SLRMEC)	Not engaged in commercial operations	Leased out two factories to a private investor for 30 year period. The line Ministry is in the process of finding a suitable investor to lease the remaining factory.	-	-
Ceylon Ceramics Corporation (CCC)	Produce Roofing tiles, Floor tiles and wire - cut bricks	Production has been increased due to the utilization of the factory premises to produce bricks for the Ranaviru Seya by Armed forces, recording a profit of Rs. 6 million in 2012.	104	110
Hingurana Sugar Industries Ltd. (HSIL)	Under liquidation	HSIL which was under the purview of Ministry of State Resources and Enterprises Development has been transferred to the newly established Ministry of Sugar Industries Development for revival.	11	12
Kanthale Sugar Industries Ltd (KSIL)	Operations were suspended since 1993 and now under restructuring	KSIL which was under the purview of Ministry of State Resources and Enterprises Development has been transferred to the newly established Ministry of Sugar Industries Development for revival.	15	-

Annex I > **Enterprises under Restructuring Cont...**

Enterprise	Core Activities	Performance/ Issues	Total Expenditure in 2012 Rs.Mn	Total Revenue in 2012 Rs.Mn
Lanka Fabrics Ltd	Under liquidation	A liquidator has been appointed in terms of the Cabinet decision.	-	-
BCC Lanka Limited	Manufacturing coconut oil and soap related products	35 percent of its total income depends on rental income from assets. Due to the implementation of a Voluntary Retirement Scheme (VRS), BCC was able to record a net profit of Rs. 8 million in 2011 and Rs. 32 million in 2012. A factory modernization programme has been introduced for 2012-2015 period.	70	102
Manthai Salt Limited (MSL)	Manufacturing normal salt, crushed salt and iodized salt.	Low yields resulted in the closing of the operations of the Chemmani saltern. MSL at present produces raw salt out of which 60 percent is sold as bulk at low profit margins MSL should differentiate its products and leverage on their brand names.	39	50
North Sea Limited	Manufacturing and supplies fishing gear and provides support services to the fishermen.	Has manufactured around 480 MT of fish nets per annum or 10 percent of the market share. Revenue increased to Rs.172 million in 2012 and expenditure also increased to Rs. 255 million from Rs. 50 million. Accordingly, losses increased to Rs. 83 million from Rs. 1 million in 2011, resulting in a severe liquidity issues. Exposure to banks increased from Rs. 3 million in 2011 to Rs.20 million in 2012.	255	172
Lanka Leyland (Private) Limited	Holds 42 percent of the shares in Lanka Ashok Leyland Limited	Lanka Leyland Limited (LLL) was founded in 1968 as a limited liability company fully owned by GOSL. In 1983, LLL entered into a collaboration agreement with the Ashok Leyland India Ltd (ALIL) to form a joint venture Lanka Ashok Leyland Limited (LALL) to assemble and manufacture motor vehicles including buses, trucks and components in Sri Lanka. LLL holds 42 percent of the shares of the joint venture LALL.  LLL's contribution to equity has been in the form of land and building situated at Panagoda. The dividend income received from the joint venture amounted to Rs.81 million. Since LLL does not conduct any operational activities, it has been advised to liquidate or wind up the company and transfer its shares to the Treasury, whereby the dividend income will not be needed to maintain LLL.	5	86

Annex I > **Enterprises under Restructuring Cont...**

Enterprise	Core Activities	Performance/ Issues	Total Expenditure in 2012 Rs.Mn	Total Revenue in 2012 Rs.Mn
Lanka Cement Company	Imports and sells Cement in the	Cabinet decision was taken to amalgamate Sri Lanka Cement Corporation (SLCC) with Lanka Cement Limited (LCL. SLCC and LCL jointly plan resuming bagging operations at Kankesanthurai factory.	120	79
Sri Lanka Cement Corporation	local market.		86	340
Paranthan Chemicals Company Ltd	engaged in the importing and refilling of imported chemicals	During 2012 PCCL sold 2,025 MT of Chlorine, 88 MT of Caustic Soda and 17 MT of hydrochloric acid. PCCL has importing and selling mainly Chlorine and related products.	198	232
National Paper Company Limited	manufacture and sell paper, paper boards and all types of products made from pulp and paper	The NPCL still operates the Valachchenai Paper Mill despite incurring losses. However in terms of the Restructuring Program, a Competent Authority was appointed in 2012. Valachchenai Paper Mill is to undergo a renovation process at a cost of Rs. 100 million phased out over 2012-2013, facilitating the machines to operate at full capacity.	181	109
Lakdiva Engineering Company (Private) Limited	engaged in building and repairing bus bodies	Revenue from repairs of buses declined by 21 percent to Rs. 23 million in 2012/13 from Rs. 29 million in 2011/12 due to the decrease in the number of buses repaired to 52 in 2012 in comparison to 71 in 2011 is mainly due to the non-availability of skilled technical staff and lack of modern machinery. In 2012/13 LECL incurred a loss of Rs. 27 million compared to 2011/12. The budgetary support amounted to Rs. 21 million provided in 2011/12, as the entity continues to incur losses. With the LECL not having the capacity to meet the demand of the Sri Lanka Transport Board (SLTB), repairing of buses are undertaken by the SLTB itself. COPE has observed that the LECL operations need to be rationalized to avoid duplication with that of SLTB.	29	23
Building Material Corporation (BMC)	To supply quality building materials and equipment at competitive prices throughout the country.	The company has been able to earn a net profit of Rs. 48 million in 2011 but in the year 2012 again company recorded a loss of Rs. 7 million as a result of a reduction of sales by 29% compared to 2011.	183	176



Annex II > **Profitability of State Owned Business Enterprises**

Enterprise		Profit/(Loss )			Rs. Mn		
					Budgetary Support-2012		
					Recurrent	Capital	
		2005	2011	2012			
1	Bank of Ceylon	3,120	16,485	19,794	110,138	-	-
2	People's Bank	4,035	15,600	15,249	94,633	-	-
3	National Savings Bank	3,457	9,255	6,189	53,483	-	-
4	State Mortgage & Investment Bank	415	688	436	3,012	-	-
5	Housing Development & Finance Corporation	162	321	73	2,689	-	-
6	Lankaputhra Development Bank Ltd*	-	124	232	588	-	-
7	Pradeshiya Sanwardana Bank	658	1,875	1,493	9,645	-	-
8	Sri Lanka Savings Bank Ltd*	-	494	594	885	-	-
9	Employee Trust Fund Board		10,950	12,446	12,920	-	-
10	Sri Lanka Insurance Corporation	1,215	2,132	2,905	25,286	-	-
11	National Insurance Trust Fund*	-	2,315	2,537	4,943	-	-
12	Ceylon Electricity Board	(6,852)	(19,266)	(61,163)	170,652	-	-
13	Ceylon Petroleum Corporation	9,839	(94,508)	(89,658)	515,704	-	-
14	Sri Lanka Ports Authority	13,239	329	5,303	38,342	-	-
15	National Water Supply & Drainage Board	(22)	421	(579)	16,294	-	29,590
16	Airport and Aviation Services (Sri Lanka) Ltd	670	3,421	4,826	11,431	-	-
17	Sri Lankan Airlines Ltd	834	(19,675)	(25,973)	117,186	-	14,286
18	Mihin Lanka Ltd**	-	(1,967)	(2,866)	7,452	-	507
19	Sri Lanka Transport Board	(1,119)	(3,490)	(4,653)	20,165	5,516	579
20	State Engineering Corporation	(42)	211	247	8,407	-	-
21	Central Engineering Construction Bureau	45	428	471	9,604	-	-
22	State Development & Construction Corporation	21	43	73	3,570	-	-
23	Milco (Pvt) (Ltd)	85	111	(215)	5,430	-	37
24	National Livestock Development Board	(12)	250	28	1,219	-	-
25	Ceylon Fisheries Corporation	(34)	(69)	(42)	2,133	-	-
26	Ceylon Fishery Harbour Corporation	(66)	(302)	(277)	442	109	96
27	State Pharmaceuticals Manufacturing Corporation	15	245	116	1,414	-	-
28	Sri Lanka Ayurvedic Drugs Corporation	6	64	54	415	-	-
29	State Pharmaceuticals Corporation	431	418	468	20,215	-	-
30	Sri Jayawardenapura General Hospital	(185)	(28)	(121)	1,855	843	71
31	Independent Television Network Ltd	39	678	739	2,378	-	-
32	Sri Lanka Rupavahini Corporation	228	173	52	2,026	-	67
33	Sri Lanka Broadcasting Corporation	(98)	(78)	(54)	1,051	134	65
34	Ceylon Fertilizer Company Ltd	48	96	102	2,849	-	-
35	Colombo Commercial Fertilizer Company Ltd	10	165	403	1,224	-	-
36	State Timber Corporation	408	603	828	3,562	-	-
37	Sri Lanka State Trading (General) Corporation Ltd	(112)	62	105	2,379	400	-
38	Hotel Developers Lanka PLC	-	(998)	758	3,477	-	-
39	Lanka Sugar (Pvt) Ltd	-	93	1,973	7,165	-	-
40	Lanka Sathosa Limited	(4)	79	47	20,661	-	-
41	Development Lotteries Board	1,218	1,742	2,272	8,731	-	-
42	National Lotteries Board	269	396	566	12,212	-	-
43	Lanka Mineral Sands Ltd	420	1,107	1,373	2,230	-	-
44	Lanka Phosphate Ltd	39	202	113	449	-	-
45	State Printing Corporation	21	134	141	1,235	-	-
46	Sri Lanka Export Credit Insurance Corporation	86	113	163	287	-	-
47	Agriculture & Agrarian Insurance Board	(98)	(3,692)	(4,841)	400	135	-
48	Sri Lanka State Plantations Corporation	(84)	(52)	(119)	575	-	-
49	Kurunegala Plantations Ltd.	20	225	186	550	-	-
50	Chilaw Plantations Ltd.	55	97	86	473	-	-
51	Kalubovitiyana Tea Factory Ltd	25	31	91	637	-	-
52	Janatha Estates Development Board	(135)	(258)	(252)	926	-	-
53	Sri Lanka Cashew Corporation	(1)	20	44	150	59	28
54	Sri Lanka Handicraft Board (Laksala)	1	50	73	511	-	-
55	Kahatagaha Graphite Lanka Limited	4	54	58	157	-	-

Sources: State Owned Enterprises and Department of Public Enterprises

\*Established in 2006

\*\*Established in 2007

Annex III > **Submission of Annual Reports – State Owned Business Enterprises**

		2009	2010	2011	2012
1	Bank of Ceylon	✓	✓	✓	✓
2	People's Bank	✓	✓	✓	✓
3	National Savings Bank	✓	✓	✓	✓
4	State Mortgage & Investment Bank	✓	✓	✓	
5	Housing Development and Finance Corporation	✓	✓	✓	
6	Lankaputhra Development Bank Ltd *	✓	✓	✓	
7	Pradeshiya Sanwardhana Bank	✓	✓	✓	✓
8	Sri Lanka Savings Bank Ltd *	✓	✓	✓	
9	Employee's Trust Fund Board	✓	✓	✓	
10	Sri Lanka Insurance Corporation	✓	✓	✓	
11	National Insurance Trust Fund*	X	X	X	
12	Ceylon Electricity Board	✓	✓	X	
13	Ceylon Petroleum Corporation	X	X	X	
14	Sri Lanka Ports Authority	✓	✓	X	
15	National Water Supply and Drainage Board	✓	X	X	
16	Airport and Aviation Services (Sri Lanka )Ltd	✓	✓	X	
17	Sri Lankan Airlines Ltd	✓	✓	X	
18	Mihin Lanka (Pvt) Ltd**	✓	X	X	
19	Sri Lanka Transport Board	X	X	X	
20	State Engineering Corporation	✓	X	X	
21	Central Engineering Consultancy Bureau	✓	✓	X	
22	State Development and Construction Corporation	X	X	X	
23	Milco (Pvt) Ltd	✓	X	X	
24	National Livestock Development Board	✓	✓	✓	
25	Ceylon Fisheries Corporation	✓	X	X	
26	Ceylon Fishery Harbour Corporation	✓	X	X	
27	State Pharmaceuticals and Manufacturing Corporation	✓	✓	✓	
28	Sri Lanka Ayurvedic Drugs Corporation	✓	✓	X	
29	State Pharmaceuticals Corporation	✓	✓	X	
30	Sri Jayawardenapura General Hospital	✓	✓	X	
31	Independent Television Network Ltd	✓	✓	✓	
32	Sri Lanka Rupavahini Corporation	✓	✓	X	
33	Sri Lanka Broadcasting Corporation	✓	X	X	
34	Ceylon Fertilizer Company Ltd	✓	✓	X	
35	Colombo Commercial Fertilizer Company Ltd	✓	X	X	
36	State Timber Corporation	✓	✓	X	
37	Sri Lanka State Trading (General) Corporation Ltd	✓	X	X	
38	Hotel Developers Lanka PLC	✓	✓	✓	
39	Co-operative Wholesale Establishment	✓	X	X	
40	Lanka Sathosa Ltd	X	X	X	
41	Development Lottery Board	✓	✓	✓	
42	National Lottery Board	✓	✓	✓	
43	Lanka Mineral Sands Ltd	✓	✓	X	
44	Lanka Phosphate Ltd	✓	✓	X	
45	State Printing Corporation	✓	✓	✓	
46	Sri Lanka Export Credit Insurance Corporation	✓	X	X	
47	Agriculture & Agrarian Insurance Board	✓	X	X	
48	Sri Lanka State Plantations Corporation	X	X	X	
49	Kurunegala Plantations Ltd	✓	✓	✓	
50	Janatha Estates Development Board	X	X	X	
51	Chilaw Plantations Ltd	✓	X	X	
52	Kalubovitiyana Tea Factory Ltd	✓	X	X	
53	Sri Lanka Cashew Corporation	✓	X	X	
54	Sri Lanka Handicraft Board (Laksala)	✓	X	X	
55	Kahatagaha Graphite Lanka Ltd	✓	✓	X	

Sources: State Owned Enterprises and Department of Public Enterprises

\*Established in 2006

\*\*Established in 2007

12

# DEVELOPMENT FINANCE

## 12.1 Overview

Recognizing the vast scale of operations by Small and Medium Enterprises (SMEs) in handlooms, textiles, fabric & apparel, plantations and plantation industries, tourism, agriculture, food and beverages, construction, trade, manufacturing, storage, transport and other services, the government gives highest priority to this sector for progress in the real economy under the “Mahinda Chintana” Development Policy Framework of the Government. The SME contribution to the Gross Domestic Product (GDP) is around 30 percent providing 35 percent employment,

development. Capitalizing on a favourable policy regime, a number of SMEs have moved on to value chain production processes and reached domestic markets as well as advanced economies.

## 12.2 SME Financing

Since access to finance is a critical factor in the promotion of SMEs, continued policy initiatives are maintained to address concerns relating to financing of SMEs. In this context, a sum of Rs. 190,979 million has been provided to

### Highlights of Development Finance

#### Finance for Primary Sector Development

- Fertilizer Subsidy Programme
- Promotion of production and use of organic fertilizer
- Provision of seeds and planting material
- Introduction of a “Crop Insurance Scheme” to minimize the risk of crop losses
- The Paddy Purchasing Programme

#### Intervention on Microfinance Sector Development

- Encouragement to provide financial services such as insurance and leasing
- Entrepreneur training and skills development
- Increase in the financial inflows to microfinance market through “Divineguma”/Samurdhi Programme
- Microfinance Bill to be introduced to set up a supervisory or regulatory mechanism;

#### Strategic Intervention in SME Sector Development

- Improved access to financing
- Improved market opportunities
- Improved subcontract arrangements
- Improved tax environment

20 percent exports, and 30 percent value addition in the manufacturing sector. The Government has provided many incentives including a lower income tax regime, enhance access to finance and infrastructure to improve productivity, competitiveness, innovation, and encouragement of value added production of SMEs considering their potential for

SMEs during 2012 for the improvement of agriculture, industry and services by public and private sector banks. It is encouraging to note that private banks have invested in operation of SMEs more than state banks in 2012, underscoring a greater public and private sector participation in the development of SMEs.

Table 12.2.1 > **SME Loans Provided by Banks in 2012**

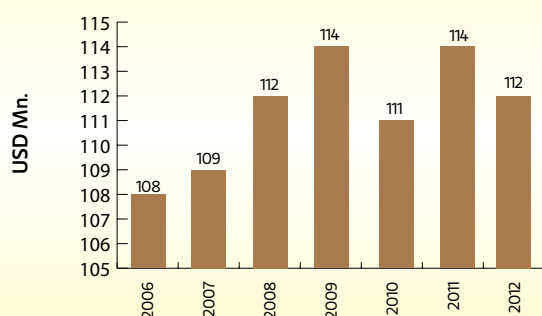
Bank	Agriculture		Industries		Services		Other	
	No. of Loans	Amount (Rs. Mn)	No. of Loans	Amount (Rs. Mn)	No. of Loans	Amount (Rs. Mn)	No. of Loans	Amount (Rs. Mn)
Bank of Ceylon	12	15.0	356	3,354.00	231	2,395.0	36	346.00
People's Bank	3,247	6,869.9	1,607	10,393.70	1,795	4,135.5	1,227	3,643.40
Regional Development Bank	385	195.0	590	490.00	170	85.0	280	590.00
Lankaputhra Development Bank Ltd.	42	101.3	241	1,120.60	39	243.2	31	113.54
Sanasa Development Bank Ltd.	22	152.0	42	581.00	9	139.0	61	625.00
National Development Bank PLC	370	1,725.8	1,098	3,346.70	380	1,132.9	2,817	5,748.30
DFCC Bank	487	1,445.4	2,953	13,053.60	1,017	5,981.1	-	-
Commercial Bank of Ceylon PLC	18,362	8,986.7	31,186	50,939.89	9,724	19,224.5	18,210	16,362.88
Sampath Bank	163	894.9	1,828	7,746.26	215	1,074.3	191	1,633.39
Hatton National Bank PLC	4,364	9,323.8	2,553	8,800.00	4,670	13,500.0	10,397	31,000.00
Nations Trust Bank PLC	132	679.2	537	1,129.88	2,453	3,806.1	8,876	10,929.35
Union Bank of Colombo Ltd.	2,526	756.0	3,286	4,839.00	1,382	2,326.0	34,873	3,680.00
<b>Total</b>	<b>30,112</b>	<b>31,145.1</b>	<b>46,277</b>	<b>105,794.6</b>	<b>22,085</b>	<b>54,042.6</b>	<b>76,999</b>	<b>74,671.9</b>

Source: Department of Development Finance

The Government has also secured foreign financing for SMEs during the recent past in view of the SME sector contribution to the economic

development of the country. The total foreign financing commitments to the SME sector have increased by around 6 percent from 2006 to 2011.

Chart 12.1 &gt; Foreign Financing Commitments 2006 - 2011



*Some of cash crops which have been promoted as import substituted crops have reached near self sufficiency level.*

## Rural Credit Scheme

During 2012, the Government continued with the provision of an interest subsidy to lending banks and paid Rs. 195.8 million as interest subsidy on loans granted by PFIs using their own funds under the New Comprehensive Rural Credit Scheme (NCRCS). Compared with 2011, the demand for loans under this programme increased by 46 percent in 2012. In terms of regional distribution, the highest

number of beneficiaries was recorded in the Northern Province, followed by the North Central and Eastern Provinces. In terms of the amount disbursed, a significant growth has been recorded in the Eastern and Northern Provinces compared with 2011 due to the broader access to credit and the peaceful environment that encouraged more investment in the area.

Table 12.2.2 &gt; Overall Cultivation Loans under NCRCS, 2011-2012

Description	2011	2012
Loans released (Rs. Mn)	6,419.2	9,359.8
Extent of land cultivated (Acres)	316,326.3	355,752.9
Number of beneficiaries	98,593	112,413
Subsidy Paid (Rs. Mn)	205.2	195.8

Source: Regional Development Department, Central Bank of Sri Lanka

Table 12.2.3 > **Distribution of Cultivation Loans under NCRCS, 2011-2012**

Province	No. of Loans granted			Amount released (Rs. Mn)		
	2011	2012	Growth%	2011	2012	Growth%
Western	14	0	-100.0	0.9	0.0	-100.0
Central	4,898	7,086	44.6	329.2	494.7	50.3
Southern	11,554	11,486	-0.5	586.2	674.1	14.9
North Central	36,989	30,773	-16.8	1,799.9	1,732.1	-3.8
North Western	1,435	1,165	-18.8	63.9	58.6	-8.3
Uva	5,632	8,105	43.9	330.7	483.6	46.2
Sabaragamuwa	569	503	-11.6	22.2	21.5	-3.1
Eastern	9,758	16,686	70.9	591.1	1,243.2	110.3
Northern	27,719	36,609	32.0	2,732.2	4,652.0	70.2
<b>Total</b>	<b>98,568</b>	<b>112,413</b>	<b>43.7</b>	<b>6,456.3</b>	<b>9,359.8</b>	<b>176.7</b>

Source: Regional Development Department, Central Bank of Sri Lanka

Table 12.2.4 > **Loans granted by Crop in 2012**

Crop	No. of Loans	Amount Released (Rs. Mn)	Land Extent (Acres)
Chillie	2,494	150.5	4,116.7
Maize	8,489	389.3	21,240.4
Onion	17,334	2,241.8	31,418.7
Paddy	73,488	5,472.6	281,663.4
Potato	4,198	558.5	5,165.9
Vegetable	5,290	485.4	8,032.5
Other	1,120	61.7	4,115.2
<b>Total</b>	<b>112,413</b>	<b>9,359.8</b>	<b>355,752.9</b>

Source: Regional Development Department, Central Bank of Sri Lanka

In terms of crop distribution, the paddy sector dominates disbursements, accounting for 73,488 loans amounting to Rs. 5,472.6 million followed by maize and onions which have been promoted as import substitute crops to minimize foreign exchange outflows.

These subsidized loans encourage farmers to shift towards cash crops which have been promoted as import substitution crops to save

foreign exchange. The progress achieved in 2012 further shows that about 30 percent of the total number of loans granted and 35 percent of disbursement was obtained by farmers who were cultivating cash crops such as Maize, Onion, Potato and Chillies which are being promoted as import substituted crops. Some of these cash crops have reached near self-sufficiency level i.e. maize and soya bean showing potential for export.



## Agro Livestock Development

Table 12.2.5 > **Agro Livestock Development Loan Scheme, 2008 - 2012**

Beneficiaries	No of Loans	%	Amount Released (Rs. Mn)	%
Small farmer borrowers	13,282	93.5	1,573.1	65.9
Investors in the private sector	911	6.5	813.7	34.1
<b>Total</b>	<b>14,193</b>	<b>100</b>	<b>2,386.8</b>	<b>100</b>

Source: Regional Development Department, Central Bank of Sri Lanka

The Loan scheme was started with a view to improve the small dairy farmers by providing loan facilities to meet their capital requirements in order to enhance local milk production in the country. The Scheme commenced in March 2008 and was initially scheduled to disburse Rs. 5,000 million during a 3 year period ending February 2011. However, the project period was extended until June 30<sup>th</sup>, 2012.

Small dairy farmers have benefited mostly from this programme since more than 93 percent of loans were obtained by them. The 11 commercial banks are engaged as PFIs providing loans utilizing their own funds, and the government has paid approximately Rs. 150

million to PFIs as interest subsidy up to end of 2012.

### SME Bank Centres

The 2012 budget encouraged the banking system to setup dedicated SME bank Centres in each district. These Centres have been given incentives to encourage each commercial bank to move in this direction. In line with this proposal, steps have been taken by commercial banks to establish SME Centres at district level to be equipped with state-of-the-art facilities to support SME entrepreneurs. The Centres are now fully operational with dedicated staff to provide the entrepreneurs with required advisory and financial support.

Table 12.2.6 > **Performance of SME Bank Centres**

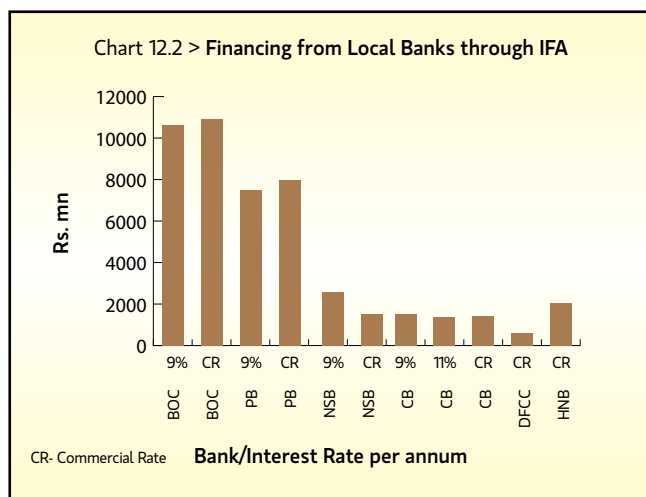
Bank	Agriculture		Industries		Services		Other	
	No. of Loans	Amount (Rs. Mn)	No. of Loans	Amount (Rs. Mn)	No. of Loans	Amount (Rs. Mn)	No. of Loans	Amount (Rs. Mn)
Bank of Ceylon	27	241.2	341	3,263.1	231	2,332.3	36	263.5
People's Bank	19	50.5	137	603.5	55	389.4	54	163.0
Regional Development Bank	6	6.7	8	10.4	17	27.6	00	00
<b>Total</b>	<b>52</b>	<b>298.4</b>	<b>486</b>	<b>3,877.0</b>	<b>303</b>	<b>2,749.3</b>	<b>90</b>	<b>462.5</b>

Source: Department of Development Finance

## Investment Fund Account

The Investment Fund Account (IFA) which was created by channeling tax savings from income tax and VAT reforms in 2011 have come forward to contribute to the development process of the country through a long term financing approach which was lacking in the country. The creation of the IFA has promoted domestic contractors to various project financing to undertake construction work. Accordingly, 18 road projects

income rural and urban community including informal sector entrepreneurs who do not have direct access to the formal banking system and financial institutions due to collateral and other formal requirements. Having recognized the significant role in facilitating and stimulating a viable and sustainable microfinance sector for the growth of small economies in the country, the government has taken steps to initiate various financial supports to micro enterprises as well as poor households for their livelihood development enabling them to access the main economic stream. The progress of micro financing programmes carried out by microfinance institutions in 2012 is given in table 12.3.1.



totaling 575.62 km are being developed with financial assistance of Rs. 46 billion from the Commercial Bank, Bank of Ceylon, National Savings Bank, HNB, DFCC and People's Bank, through their IFA, at a competitive interest rate. Banks through IFAs have also gradually developed their medium term project portfolio to provide funds to other sectors as well.

### 12.3 Microfinance

Microfinance has been an effective instrument to satisfy the financial needs of the low

The outstanding loan portfolio of major microfinance institutions stands at Rs. 256 billion. The Regional Development Bank (RDB) holds the highest outstanding loan portfolio with Rs. 106 billion followed by Samurdhi Banking Societies which hold Rs. 84 billion. Commercial Banks also played a role in the facilitation of microfinance and loan disbursements to the microfinance sector. Their presence in 2012 is given in table 12.3.2.

In 2012 the formal banks also have disbursed Rs. 92 billion to the microfinance sector out of which Rs. 45 billion was by Bank of Ceylon for implementing various micro credit programmes. Sanasa Development Bank too played a significant role in this process and has disbursed Rs. 16 billion in 2012. Hatton National Bank (HNB) remains active among commercial banks in microfinance activities and has offered a significant amount in loans to the microfinance sector in all range of loan amounts.

Table 12.3.1 > **Progress of Major Microfinance Institutions in 2012**

Microfinance Institute	Total Deposits (Rs. Mn)	Total Borrowings (Rs. Mn)	Total Assets (Rs. Mn)	Total Investment (Rs. Mn)	Total Loan Portfolio (Rs. Mn)
Samurdhi Societies/Banks	42,233	87,046	47,323	42,098	84,251
Department of Co-operative Development	76,378	29,395	67,585	20,100	43,350
Department of Agrarian Development	237	184	1042	359	4,715
Regional Development Bank	54,710	6,078	69,134	11,385	105,870
SANASA Development Bank	18,003	10,337	24,834	3,430	17,919
<b>Total</b>	<b>191,561</b>	<b>133,040</b>	<b>209,918</b>	<b>77,372</b>	<b>256,105</b>

Source: Department of Development Finance

Table 12.3.2 > **Loan Disbursement to the Microfinance Sector by major Banks in 2012**

Name of the Bank	Loan Disbursement				Total Rs. Mn
	Less than Rs. 2 Mn	Rs. 2-5Mn	Rs. 5-10Mn	More than Rs. 10 Mn	
Bank of Ceylon	41,493	3,381	143	414	45,431
People's Bank	2,791	798	494	450	4,534
Regional Dev. Bank	7,748	-	-	-	7,748
NDB Bank	29	-	-	-	29
SANASA Dev.Bank	16,461	-	-	-	16,461
Commercial Bank	1,602	-	-	-	1,602
Sampath Bank	74	3	10	-	87
Hatton National Bank	9,106	2,643	1,889	2,745	16,383
<b>Total</b>	<b>79,304</b>	<b>6,825</b>	<b>2,536</b>	<b>3,609</b>	<b>92,275</b>

Source: Department of Development Finance

## Pawning Market

Pawning has become a most popular lending method among all segments of the society perhaps emphasizing that traditional banks still cannot cater to the low income people due to collateral issues. These loan programmes are prepared to meet the basic and urgent needs and expectations of the

target customer group. Further, it was found that "Pawning" is more popular in rural areas. These facilities are different from most banks lending and provide a high volume of small loan advances within a short period of time. The progress of the pawning sector by 2012 is as follows.

Table 12.3.3 > **Pawning Data from 2007-2012**

Name of the Bank	Amount of Loans (Rs. Mn)					
	2007	2008	2009	2010	2011	2012
Commercial Bank	-	12.80	539.60	3,757.60	23,928.40	26,043.54
DFCC Vardhana	27.00	206.80	339.50	962.80	4,361.00	3,403.56
HNB	16,780.00	21,130.00	21,920.00	27,970.00	35,720.00	62,850.00
Peoples Bank	76,143.60	96,313.50	125,120.30	189,797.20	291,325.70	317,135.85
Sampath Bank	11,962.00	16,444.00	24,817.00	43,306.00	64,009.00	61,107.44
RDB	46,729.50	53,883.00	58,234.10	66,189.20	75,917.70	33,858.55
BOC	24,670.00	37,783.90	55,278.00	93,796.20	188,481.10	640,968.84
NSB	10,758.30	14,607.10	24,572.00	36,217.00	57,822.60	72,806.30
Seylan Bank	1,577.00	4990.40	7219.00	17,601.00	30,623.20	36,296.25
<b>Total</b>	<b>188,647.40</b>	<b>245,371.50</b>	<b>318,039.50</b>	<b>479,597.70</b>	<b>772,188.70</b>	<b>1,254,470.33</b>
<b>No. of loans provided</b>	<b>5,095,518</b>	<b>5,900,434</b>	<b>6,673,524</b>	<b>7,608,067</b>	<b>9,027,369</b>	<b>13,139,894</b>
<b>Interest rate</b>	<b>19-24%</b>	<b>18-24%</b>	<b>14-23%</b>	<b>10-14%</b>	<b>10-14%</b>	<b>17-21%</b>
<b>Average loan size (Rs.)</b>	<b>37,729</b>	<b>42,301</b>	<b>47,682</b>	<b>63,899</b>	<b>85,538</b>	<b>95,470</b>
<b>Growth rate</b>	<b>-</b>	<b>30%</b>	<b>30%</b>	<b>53%</b>	<b>60%</b>	<b>61%</b>

Source: Department of Development Finance

Pawning has increased during the last six years at an average rate of 47 percent per annum. The interest rate for gold pawning is market oriented and varies in the range of 14-20 percent. The total pawn loan portfolio is significant and loan disbursement in 2012 exceeded Rs. 1,254 billion among 13,139,894 clients. The average loan size has more than doubled within the last six years from Rs. 37,729 in 2007 to Rs. 95,470 in 2012.

The institution of an appropriate supervisory or regulatory mechanism is essential to ensure prudent practice among MFIs. For this purpose, the Microfinance Act has been drafted to introduce regulatory and supervisory arrangements through the Monetary Board of the Central Bank of Sri Lanka (CBSL) to perform as the regulator of the microfinance sector.

## 12.4 Development of a Backyard Economy

Promoting the backyard economy, ensuring sustainable income and employment

opportunities to households, with the ultimate goal of strengthening “home-based economy” has been the centerpiece in government rural development strategy the “Divineguma Programme”. This covers a wide range of livelihood promotion measures including home gardening, livestock, fisheries, cottage industries etc. Home gardening was promoted by distributing planting materials such as seed packages, fruit and vegetable plants, minor crop export plants and other herbal and commercial crop plants among households spending Rs. 2,172 million up to December 2012. In addition, Rs. 341 million has been invested in setting up 2,779 green houses and nurseries. For livestock development activities include rearing cows, goats, bee hives, fowls and establishing cattle sheds and cages, Rs. 707 million has been utilized. Rearing fowls at household level was the main activity encouraged under livestock activities by providing 10 chicks each to a family. The total number of chicks distributed among low income families up to the end of 2012 was 28,447,726 spending Rs. 433 million.



Sustainable  
Income and  
Employment  
Opportunities  
Created  
through  
“Divineguma”  
Programme



## 12.5 Development Support for Small Sector

The Government assistance to small producer activities through a wide range of facilities ensuring a stable remunerative producer price for agricultural commodities such as

Secretaries/Government Agents (GAs) and cooperative societies which have created a stable level of price for farmers in 2012. The selling prices of paddy for farmers and the retail prices of rice for consumers have also been very stable since in the 2008 Yala season as a

Table 12.5.1 > **Farm Gate Price for Selected Crops 2006-2012**

Crop	Farm gate price (Rs. per kilo gram)						
	2006	2007	2008	2009	2010	2011	2012
Paddy	13-14	15-18	20 - 22	28-30	28-30	28-30	32-35
Chillie (dried)	130	162	163-194	173-193	161-187	214-228	162-201
Maize	17-20	20-25	27-36	28-36	29-38	34-46	35-43
Onion	33-46	40-50	33-62	30-89	43-151	55-175	46-101
Potato	52-57	55-58	52-67	55-85	50-81	64-88	64-103
Milk (per litre)	22.72	23.97	30.83	31.20	34.80	50.00	50.00

Source: Department of Development Finance

paddy, maize, soya bean, onion, potato and milk has been the extended support to encourage agricultural productivity.

The Government has been able to manage the price fluctuation of paddy by intervening in the market by purchasing paddy through the Paddy Marketing Board (PMB), and District

result of the guaranteed price scheme adopted by the Government for the paddy sector as shown in chart 12.5.1

The landmark of the paddy purchasing programme is establishment of a guaranteed price for paddy creating a favorable impact on paddy farmers. Table 12.5.2 illustrates the increase in the guaranteed price during last seven years. It is evident that the guaranteed price has become more than double during the last seven year period whereas the average cost of production of paddy remained around Rs.16.50 per kilogram in 2012. In order to ensure a stable market environment for paddy the Government, in the Budget Proposals 2013, has increased the guaranteed price to Rs. 32 per kilogram of Nadu and Rs. 35 per kilogram of Samba from the 2012/13 Maha season introducing at the same time a guaranteed price of Rs. 40 per kilogram of paddy produced using organic fertilizer.

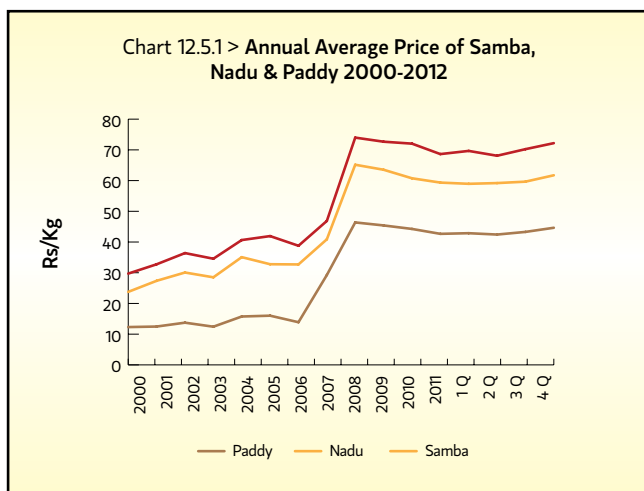


Table 12.5.2 > **Guaranteed Price for Paddy, 2006 – 2013**

Period	Guaranteed Price (Rs./Kg)
2005/06 Maha	15.50 – 16.50
2006 Yala	15.50 – 16.50
2006/07 Maha	16.50 – 17.50
2007 Yala	16.50 – 17.50
2007/08 Maha	20.00 – 22.00
From 2008 Yala to 2012 Yala	28.00 – 30.00
2012/13 Maha	32.00 – 35.00

Source: Paddy Marketing Board

In addition to paddy purchasing programme the Government facilitated the purchase of soya beans and maize through the Thriposha Programme. The processed maize was purchased at Rs. 45 per kilogram from suppliers by the Thriposha Institute while paying Rs. 32 per kilogram to farmers. The entire requirement of soya beans for the Thriposha Programme is met from local suppliers. Accordingly, the farmer was paid Rs. 85 per kilogram by the supplier and the Thriposha Institute purchased soya beans from supplier at a rate of Rs. 95 per kilogram. Subsequently, this price was increased to Rs. 115 considering the fact that some of the soya

beans have been purchased from the farmers at a price of Rs. 105 per kilogram due to shortage of supply.

The government also successfully intervened in the liquid milk market through MILCO and guarantees a farm gate price at Rs. 50 per liter for fresh milk. Rs. 160 million was paid to MILCO in 2012 in order to develop the local dairy industry towards self-sufficiency. The positive impact of these price alterations was further enhanced by the provision of high yielding seeds, improved water management, reduction of wastage in transport, and ensuring environmental conservation through ecological balance etc.

*The selling prices of paddy for farmers and the retail prices of rice for consumers have also been very stable since in the 2008 Yala season as a result of the Government intervention.*



## 12.6 Fertilizer Subsidy

### 12.6.1 Fertilizer Subsidy for Paddy

The Government has continuously emphasized the proper application and utilization of fertilizer in agriculture and recognized the need to provide a subsidy to reduce production cost in agriculture. Since the high prices of fertilizer remained a major constraint on paddy cultivation, the Government announced the Fertilizer Subsidy Programme for paddy in 2005 and it has continued successfully for the seventh consecutive year in 2012. Accordingly, the three major types of fertilizer made available for paddy cultivation; ie. Urea, TSP

and MOP are sold at a subsidized price of Rs. 350 per 50 Kg bag each island-wide through Agrarian Service Centres.

The subsidy paid by the Government on a 50 Kg bag of paddy fertilizer ranges from 86.5 to 91.5 percent of the market price and also the subsidy borne by the Government on a 50 Kg bag of paddy fertilizer has increased during the recent years.

As illustrated by Table 12.6.1.1 the average yield per hectare has increased through years with the Paddy Fertilizer Subsidy Programme. However, vagaries of weather have had a direct impact on paddy production frequently affecting the contribution for fertilizer subsidy, seeds and credit facilities to this sector in recent years. This led to further improvement in irrigation and water management system, greater interest in soil nourishing and conservation initiatives, development of high quality seeds, planting materials and better land used planning to get maximum benefits.

It should be noted that the implementation of the fertilizer subsidy and maintenance of fertilizer prices at Rs. 350 per 50 kg bag to paddy farmers for 14 consecutive cultivation seasons have contributed to increase in the number of farmers involved in paddy production as well as the application of fertilizer in cultivation.

Chart 12.6.1.1 > Comparison of the Amount of Subsidy Borne by the Government for a 50kg Bag of Paddy Fertilizer from 2010 to 2012

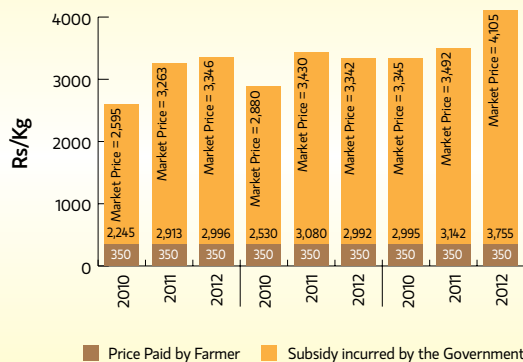


Table 12.6.1.1 > **Change in Paddy Statistics through Benchmark Years - Maha Season**

Description	1999/00 (Without Fertilizer Subsidy)	2005/06 (Initial Stage of Implementing the Fertilizer Subsidy Programme)	2011/12 (After 6 years of Implementing the Fertilizer Subsidy Programme)	Percentage Increase (%)	
				1999/00 to 2011/12	2005/06 to 2011/12
Paddy Production (Mt)	1,781,000	2,135,592	2,716,961	34.45	21.40
Gross Extent Sown (Ha)	549,000	591,295	702,075	21.80	15.78
Gross Extent Harvested (Ha)	526,000	585,903	684,636	23.17	14.42
Average Yield (Kg/Ha)	3,798	4,069	4,444	14.54	8.44

Source: Department of Census and Statistics

Table 12.6.1.2 > **Annual Fertilizer Distribution under the Paddy Fertilizer Subsidy Programme – 2006 - 2012**

Year	No of Farmers entitled in the scheme in both seasons	Distributed Quantity of Fertilizer (Mt)				Expenditure incurred by the Government for fertilizer subsidy (Rs. Mn)
		Urea	TSP	MOP	Total	
2006	1,099,983	120,509	27,347	30,753	178,609	3,970
2007	1,366,234	200,224	64,380	60,481	325,085	9,263
2008	1,693,323	257,043	88,073	76,400	421,516	22,561
2009	1,741,362	234,343	80,736	71,566	386,645	44,280
2010	1,886,509	275,273	92,262	82,533	450,068	21,242
2011	1,877,869	285,973	95,039	84,688	465,700	22,901
2012	1,701,827	253,068	85,083	77,252	415,403	26,268

Source: Department of Agrarian Development and National Fertilizer Secretariat

## 12.6.2 Fertilizer Subsidy for Other Crops

The fertilizer subsidy programme for other crops was announced on 06<sup>th</sup> May 2011 as an incentive for farmers to expand their cultivating capacity from one crop to multiple crops and to encourage productivity of agriculture particularly small holder agriculture which accounts for 75-90 percent in other crops. At the same time, this scheme has increased the accessibility to fertilizer, providing users with a variety of straight and mixed types with a range of quantities from both private and state owned fertilizer outlets.

It allows the following concessions to fertilizer consumers,

- A 50 Kg bag of any type of straight fertilizer of which the market price is higher than Rs. 1,200, to be sold at Rs. 1,200
- A 50 Kg bag of any type of straight fertilizer of which market price is less than Rs. 1,200, to be sold at its price
- A 50 Kg bag of mixed fertilizer to be sold at Rs. 1,300

By the removal of the need to obtain approval from authorities and avoiding the unnecessary burden of documentation, the fertilizer subsidy programme for all crops other than paddy allowed the farmers, planters as well as ordinary home gardeners to obtain their requirements conveniently from the open market. Moreover, this programme enabled farmers to reduce their cost of production for multiple crops.

The subsidy as a percentage of the market prices for a 50 Kg bag of straight fertilizer lies between 43.1 to 80.8 percent. Another major benefit of this programme is that it has extended a greater support to the ongoing under “Divineguma” “1,000,000 home gardens” programme empowering the country to fast track current livelihood development activities.

During the last five years the total usage of chemical fertilizer for other crops has increased by 124 percent from 170,020 Mt in 2008 to 380,829 Mt in 2012.

In 2012, the Government incurred a cost of around Rs. 36,456 million on the fertilizer subsidy programmes which was around 0.5 percent of the GDP. Taking this together with the expenditure incurred by users, it appears that nearly one percent of GDP is spent in the form of fertilizer expenditure in the country.

Chart 12.6.2.1 > Fertilizer Subsidy for Other Crops for a 50 Kg bag - 2012

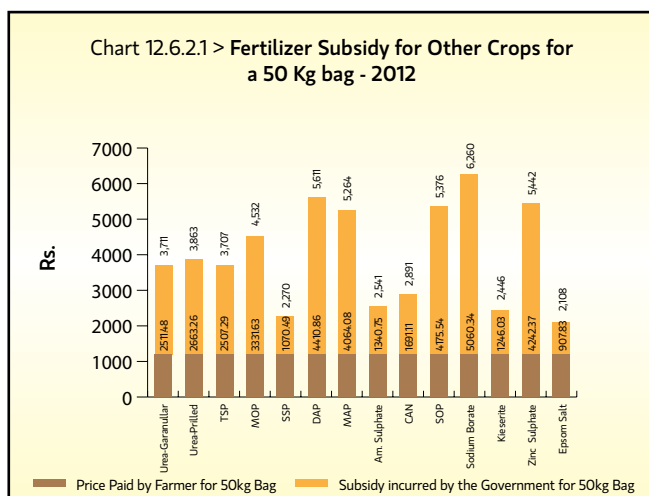
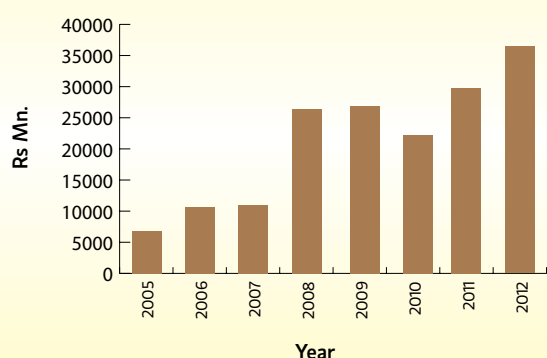


Table 12.6.2.1 > **Fertilizer Usage for Other Crops 2008 - 2012 (Mt.)**

Crop	2008	2009	2010	2011	2012	Percentage increase from 2008-2012
Tea	113,418	171,659	193,474	169,534	195,593	72
Rubber	7,552	7,150	10,825	14,291	15,559	106
Coconut	16,872	17,625	26,502	54,194	45,710	171
Vegetable	18,553	23,353	31,566	51,719	66,494	258
Other Crops	13,625	12,881	19,312	45,585	57,473	322
<b>Total</b>	<b>170,020</b>	<b>232,668</b>	<b>281,679</b>	<b>335,323</b>	<b>380,829</b>	<b>124</b>

Source: Department of Development Finance

Chart 12.6.2.2 > **Government Expenditure on Fertilizer Subsidy Programme 2005 - 2012**

### Highlights of Fertilizer Subsidy

- Maintenance of sufficient levels of buffer stocks of fertilizer to ensure regular supply.
- Promotion of awareness to prevent excessive use of chemical fertilizer and to use both organic and chemical fertilizer in appropriate mix.
- Implementation of a “Crop Insurance Scheme” for paddy farmers who are entitled in the paddy fertilizer subsidy.
- Promotion of small and medium scale organic fertilizer manufacturers who have complied with recognized quality standards to supply at a guaranteed price of Rs. 400/- per 50 Kg bag of organic fertilizer through the Ceylon Fertilizer Company.

## 12.7 Maintaining of Buffer Stocks for Food Security

The Paddy Marketing Board (PMB) has been assigned the maintenance of the buffer stock of paddy to ensure food security. For this

million during 2012. Both PMB and GAs have purchased more than 92 percent of their paddy stocks in 2011/12 Maha season.

While achieving self sufficiency in the level of production and building the capacity to

Table 12.7.1 > **Stock Position of the PMB, 31.12.2012**

Season	Paddy Stock			Value (Rs. Mn)
	Nadu (Mt)	Samba (Mt)	Total (Mt)	
2010 Yala	83,819	27,910	111,729	3,184.2
2010/11 Maha	2,913	556	3,469	98.2
2011 Yala	58,967	16,205	75,172	2,137.2
2011/12 Maha	107,319	8,467	115,786	3,258.9
2012 Yala	9,936	540	10,476	294.4

Source: Paddy Marketing Board

purpose the PMB has purchased 126,262 Mt of stock of paddy spending Rs. 3,553.35 million in 2012 which would be sufficient for national consumption for nearly three weeks.

Further the District Secretaries have purchased through co-operative societies 37,497.28 Mt of paddy stock at Rs.1, 096.61

maintain sufficient stocks to ensure food security, the government has also attempted to promote rice production beyond the import replacement target. Accordingly, 22,950 Mt of rice was exported through PMB and 6,987 Mt of rice was donated to the Government of Somalia in 2012 in collaboration with the World Food Programme (WFP).

Table 12.7.2 > **Financing of Paddy Purchasing Program (Rs. Mn)**

Source	Paddy Marketing Board		Limits for District Secretaries
	Exposure Limit of pledge loans/Advances	loans/ advances granted as at 31.12.2012	
Bank of Ceylon	3,100.0	3,100.0	
People's Bank	2,100.0	1,668.9	
Regional Development Bank	450.0	250.0	
National Savings Bank*	1,000.0	725.9	
Treasury Advances	2,000.0	2,000.0	1,340.0
Other		1,155.0	
<b>Total</b>	<b>8,650.0</b>	<b>8,899.0</b>	<b>1,340.0</b>

Source: Ministry of Cooperatives and Internal Trade, State Banks

\* Normal Loan Facility



*Donations made to the Government of Somalia - 2012*

The contribution made by the private sector to the purchase of paddy is considerable. Around 65 percent of the annual paddy production is purchased by the private sector. The state banks and the private banks assisted the private sector by granting pledge loans to the value of Rs. 10,024 million in 2012. The state banks have granted the larger share of 73.5 percent of total pledged loans to the private sector led paddy purchases, disbursed mostly among small scale purchases.

**Table 12.7.3 > Loans Granted to Private Sector for Paddy Purchasing - 2012**

Bank	2011/12 Maha		2012 Yala		Total	
	No.	Value (Rs. Mn)	No	Value (Rs. Mn)	No.	Value (Rs. Mn)
People's Bank	120	1,010.6	90	512.3	210	1,522.9
Bank of Ceylon	69	3,386.0	33	2,306.0	102	5,692.0
Regional Development Bank	41	61.1	42	88.3	83	149.4
<b>Total of State Banks</b>	<b>230</b>	<b>4,457.7</b>	<b>165</b>	<b>2,906.6</b>	<b>395</b>	<b>7,364.3</b>
Commercial Bank	64	404.9	11	43.5	75	448.4
Hatton National Bank	87	690.5	92	849.7	179	1,540.2
Seylan Bank	33	150.0	31	198.1	64	348.1
Sampath Bank	75	323.0	-	-	75	323.0
<b>Total of Private Banks</b>	<b>259</b>	<b>1,568.4</b>	<b>134</b>	<b>1,091.3</b>	<b>393</b>	<b>2,659.7</b>
<b>Grand Total</b>	<b>489</b>	<b>6,026.1</b>	<b>299</b>	<b>3,997.9</b>	<b>788</b>	<b>10,024.0</b>

*Source: Information obtained from respective banks and compiled by the Dept of Development Finance*

## 12.8 Storage Capacity Expansion

With the increased grain and other agricultural commodity production, the government has given attention to building up the storage capacity of the PMB and District Secretaries/ Government Agents (GAs), cooperative societies and farmers to ensure post harvest production is well managed. The total storage capacity of PMB is 226,610 Mt island wide and Rs. 333 million has been utilized to rehabilitate and construct new capacity during last two years. Further, the storage facility under GAs and cooperative societies is approximately 60,000 Mt. The newly built warehouse for grain storage at Oyamaduwa, Anuradhapura at a cost of Rs. 250 million is a new addition

to paddy, maize and other storage facilities, which increased the total capacity by further 24,000 Mt. These stores were utilized to store 17,395 Mt of paddy which was purchased from 2011/12 Maha season by PMB. Measures have been taken to establish a warehouse complex for paddy in Maradagamula, Gampaha at a cost of Rs. 332 million to store 15,000 Mt of paddy to feed small and medium rice millers to ensure a regular rice supply in the metropolitan market. It is expected that this complex will function as a trade centre integrating markets and linking farmers, millers, traders and other service providers in both urban and rural areas involved in paddy base value chain activities.



*Warehouse for Grains at Oyamaduwa, Anuradhapura*

At present, domestic production of big onion caters to about 40 percent of the total requirement of the country. Out of the total production, around 80 percent is produced in the Matale District. Due to its highly seasonal nature, virtually the entire area under big onion is planted at the same time and consequently, the entire production of onion comes to the

market almost at the same time. In the absence of storage facilities at the farm level and also at the upper end higher levels in the marketing chain, the glut situation causes a drastic drop in the producer price. Storing big onions within a short period of 2-3 months until at least the glut period is over; the farm gate price could be nearly doubled.





*Traditional Storing System of B-Onion*



Given the significance of the problems arising from inadequacy of storage facilities available at the farm level, the Government has initiated the construction of 400 small backyard warehouses in the Matale district that could be used to support the farmers to store their onion production in their home. Out of them, construction has commenced on 100 warehouses as a pilot project during 2012. The total cost of a warehouse is Rs. 230,000 and the Government has provided Rs. 100,000 as a cash grant to the farmer through the District Secretary. The balance amount is financed by the farmer. As at the end of 2012,

65 warehouses have been completed and the remaining 35 are under construction.

Considering the success of the pilot project in Matale District, the Government has made arrangements to construct 1,000 warehouses for big onion farmers; 500 in Matale district and remaining 500 in Puttalam, Polonnaruwa, Vauniya and Killinochchi districts. The Regional Development Bank provides loan facility for farmers up to a maximum limit of Rs. 100,000 while the Government provides grant assistance of 50 percent of the estimated cost.



*Warehouse Facility Provided by the Government for B-Onion Farmers*

## 12.9 CESS as a Tool for Value Creation and Development

The government imposes a CESS under the 1979 Sri Lanka Export Development Act, as a policy tool to collect funds for development of specific areas in the economy particularly in primary commodities, and to promote value chain activities for greater employment and income generation. Accordingly, a CESS is imposed on export of primary raw materials to encourage value added export. Similar levies are imposed on imports to discourage low quality products.

According to the “Mahinda Chinthana” development policy framework of the government, emphasis has been placed on allocating revenue from the CESS to ensure that the productivity, profitability and sustainability of the plantation sector is improved. The CESS revenue has contributed to the development activities by way of providing fertilizer subsidy, crop subsidy and funds for research and development. Hence public investment scheduled for plantation sector development has been gradually increased from Rs. 680 million in 2005 to Rs. 4658 million in 2012.

Table 12.9.1 > **CESS Revenue from Plantation Related Primary Imports and Exports 2005 – 2012**

Year	Tea		Coconut		Export Volume MnKg	Rubber				Total
	Export Volume (Mn Kg)	CESS Income (Rs.Mn)	Export Volume (Nut Mn)	CESS Income (Rs.Mn)		CESS Income (Rs.Mn)				CESS Income (Rs. Mn)
						Export	Import	Local	Total	
2005	299	771	418	147	32	129	222	-	352	1,269
2006	315	755	498	187	46	180	246	-	426	1,368
2007	294	1,147	489	225	51	195	296	38	528	1,900
2008	301	1,186	399	189	49	203	405	275	883	2,257
2009	280	1,103	417	178	56	233	778	141	1,152	2,433
2010	306	1,194	289	180	52	215	977	219	1,412	2,786
2011	303	2,058	481	119	43	471	1,148	278	1,897	4,074
2012	306	2,051	459	108	37	581	1,331	235	2,147	4,306

Source: Ministry of Plantation Industries

Table 12.9.2 > **Development Expenditure in the Plantation Sector 2005-2012 (Rs. Mn)**

Category	2005	2006	2007	2008	2009	2010	2011	2012
<b>Research and Development</b>	<b>227</b>	<b>237</b>	<b>412</b>	<b>634</b>	<b>665</b>	<b>697</b>	<b>746</b>	<b>703</b>
Tea sector				283	267	283	316	283
Rubber sector	125	125	202	170	202	209	215	232
Coconut sector	102	112	210	181	195	206	215	189
<b>Crop Subsidy</b>	<b>424</b>	<b>637</b>	<b>843</b>	<b>1130</b>	<b>869</b>	<b>891</b>	<b>979</b>	<b>1,003</b>
Tea Sector	184	188	199	232	211	191	171	182
Rubber Sector	116	180	465	677	422	411	484	435
Coconut Sector	124	270	179	221	237	290	324	386
<b>Subsidy for Technical Services and to Guarantee the quality of production</b>	<b>29</b>	<b>32</b>	<b>20</b>	<b>20</b>	<b>27</b>	<b>25</b>	<b>10</b>	<b>11</b>
<b>Weligama Coconut Leaf Wilt &amp; Rot Disease</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>25</b>	<b>167</b>	<b>134</b>
<b>Fertilizer Subsidy</b>		<b>3</b>	<b>831</b>	<b>2,067</b>	<b>3,817</b>	<b>2,000</b>	<b>5,096</b>	<b>2,807</b>
<b>Total</b>	<b>680</b>	<b>909</b>	<b>2,106</b>	<b>3,851</b>	<b>5,378</b>	<b>3,638</b>	<b>6,898</b>	<b>4,658</b>

Source: Department of National Budget

## 12.10 Subsidy for Plantation Crops

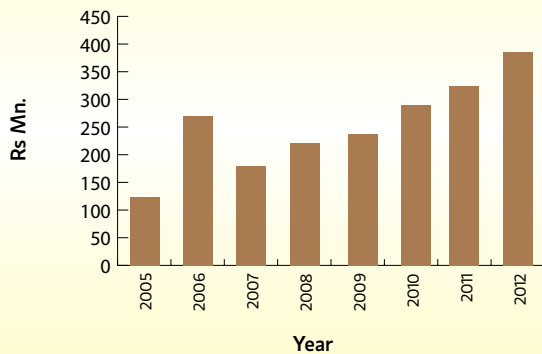
The government provides a wide range of incentives to strengthen small holder farming to maintain a rate of re-planting at 2 percent for tea, 3 percent for rubber and 2 percent for coconut. Subsidy for re-planting of tea has increased from Rs. 300,000 to Rs. 350,000 per hectare and new-planting of tea has increased from Rs. 150,000 to Rs. 250,000 per hectare from 2012 and 2013 budget to promote such activities.

The Budget 2012, proposed to develop 10,000 hectares of small holder rubber lands in Ampara and Mahaoya areas by 2015 of which cultivation in 550 hectares commenced in 2012. Furthermore rubber cultivation expanded from traditional growing areas to non-traditional areas targeting, new areas such as Moneragala, Hambantota, Vavuniya and Mullaittivu districts and also to establish a new plant nursery for

the supply of plants. The government continues the payment of subsidies to farmers, both those who own small holdings and plantation companies for expansion of fixing of rain guards for rubber cultivation and further conducting of awareness programmes for the purpose.

The annual requirement of coconut for consumption, local and export oriented industries is around 3,650 million nuts as against the actual annual production of around 2,400 – 3,000 million of nuts. The Coconut Cultivation Board (CCB) has produced and distributed 9 million Coconut palms among the low income people and coconut growers in 2012. Also CCB is carrying out subsidy programmes on re-planting, new-planting, under planting and in filling in the existing plantations to increase the productivity of existing lands.

Chart 12.10.1 &gt; Public Expenditure on Coconut Subsidy (2005-2012)



## Research and Development

High priority is being placed on research to develop the plantation sector, especially for improvement in productivity, quality and breeding of new cultivars, development of factories and machinery, identification of value added products, and product diversification.

## Way Forward

### Building up the plantation industry

- Promoting value added products for increase productivity & competitiveness in the global market.
- Promotion to get strengthening the brand promoting to get a higher price for "Ceylon-Tea".
- Diversifying & introducing new products to reach the emerging markets.
- Bring 75 percent of the tea and 80 percent of the rubber exports as value added products by 2020.
- Phase out importation of coconut oil, natural rubber sheets by 2020.
- Incentivize the planters to produce organic tea & specialty tea and phase out bulk tea exports.
- Providing required capital & technology to the private sector to enhance the value added products.

### Increasing the Rate of Re-Planting

- Increase the production & productivity through increasing the rate of re-planting of tea from, 0.8 percent to 2 percent, rubber from 1 percent to 3 percent and coconut from 1 percent to 2 percent per annum.

Enhance the productivity, profitability and sustainability of the plantation industry through ensuring an economically, socially and environmentally viable plantation sector.

### New-planting in non-traditional areas

- Expanding rubber cultivation in new areas such as Eastern province & dry-zone and coconut cultivation in non-traditional areas.
- Promoting inter cropping including energy crops at early stages of rubber & coconut plantation to increase land productivity and energy requirement.

### Encourage Research and Development

- Introduction of new clones, improved varieties & innovation of modern technology to increase production.
- Modernization of factories to internationally accepted standards.
- Enhance productivity through modern technology.
- Intensify knowledge transfer through efficient extension programmes for small holders.
- Conducting research to minimize the disease risks.
- Minimize the cost of production through social conservation, use of quality seed and planting materials, use of fertilizer and water in optimum quantities and minimize pre and post harvest losses.



# RECONCILIATION AND DEVELOPMENT

## 13.1 Overview

Sri Lanka has passed four years since the 30 year long conflict ended in May 2009. As uncertainty has come to an end, development has gathered momentum. The new environment in the country has restored the investor confidence, which is evident in many areas. In particular, the gross foreign portfolio investment (mainly to stock market) in Sri Lanka increased to US\$ 574 million in 2012, US\$ 452 million in 2011 and US\$ 819 million in 2010 compared to US\$ 375 million in 2009. The yield rate on Sri Lanka's international sovereign bonds stabilized at around 5 percent despite uncertain global financial outlook. The Government raised funds from international capital market by floating a further US\$ 1,000 million in 2012 at an interest rate of around 5 percent following the successful floatation of US\$ 1,000 million each year in 2010 and 2011 at competitive rates for 10 year maturity enabling country's active presence in the international capital market. Large foreign direct investment projects in integrated hotel facilities, ports, urban property development, basic industries, renewable energy and manufacturing are being implemented by the private sector. Foreign direct investments in each year since 2010 have exceeded US\$ 1 billion.

The tourism, which remained stagnant for almost three decades, has begun to take off. Many countries that had imposed adverse travel advisories on Sri Lanka have removed them. With the peaceful situation in the country, there is an unprecedented surge in tourist arrivals boosting the post conflict economic activities all over the country. Tourist arrivals, which increased by 46.1 percent to a record level of 654,476 tourists in 2010, increased further to 855,975 tourists in 2011 and reached 1,005,605 in 2012 with foreign earnings level exceeding US\$ 1 billion in comparison to about US\$ 400 million average earnings during conflict period prior to 2009. International airlines which had suspended operations in Sri Lanka have resumed their operations bringing total international carriers to 34 in 2012, reflecting the positive outlook in the country. Many of the tourist attractions which were not accessible due to the conflict are now opened with improved facilities to both local and foreign tourists. Many tourist attractions, including Zoological Gardens, receive a record number of visitors, helping them to achieve new heights in their expansion programme.

Chart 13.1 > Foreign Visitors to Wild Life Parks

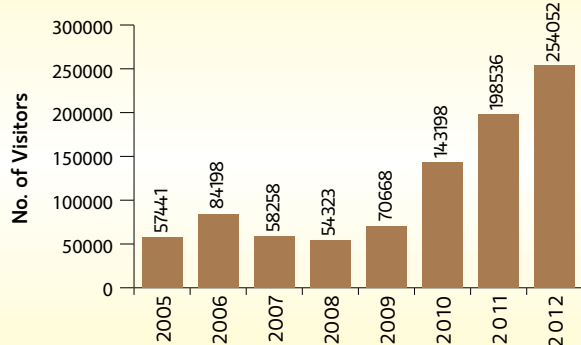


Chart 13.2 > Foreign Visitors to Cultural Triangle

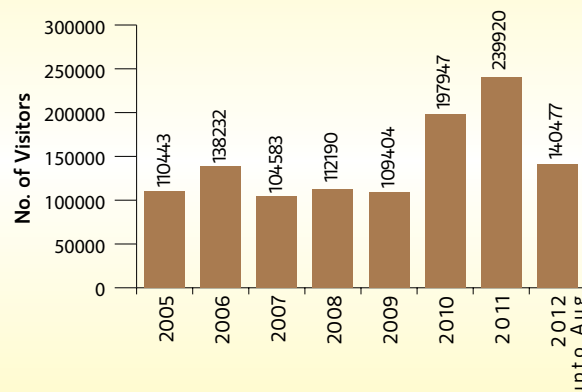




Chart 13.3 &gt; Foreign Visitors to Zoological Gardens

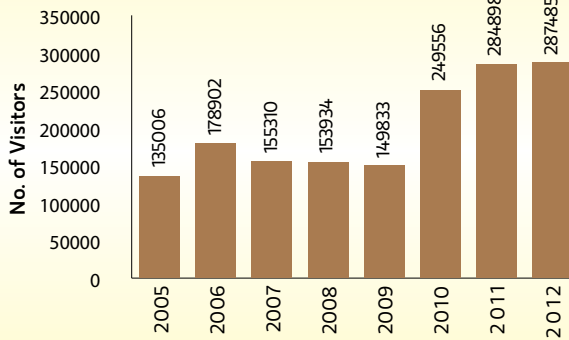
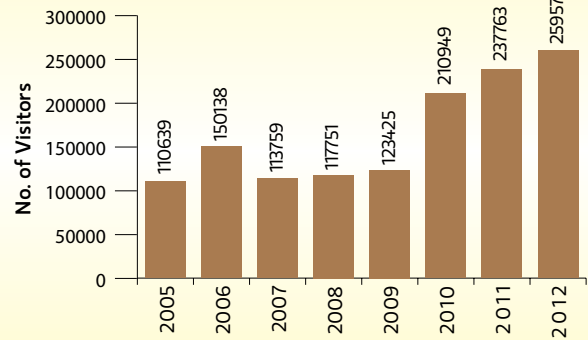


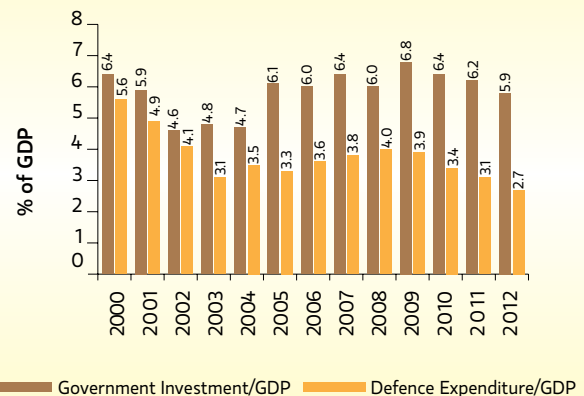
Chart 13.4 &gt; Foreign Visitors to Botanical Gardens



One of the major beneficiary factors is the decline in defence expenditure as a result of the lower expenditure on military hardware due to the absence of terrorist offensives. The defence expenditure as a percent of GDP in 2012 declined to 2.7 percent from 3.9 percent in 2009. Resources are increasingly being channeled for rehabilitation and reconstruction activities and security personnel are also engaged in the reconstruction and development work. A landmark contribution made by security personnel in the post conflict environment include the demining of almost 95 percent of the mined areas and the resettlement of almost 300,000 displaced people. The gradual decline in defence expenditure helps maintaining public investment at around 6 percent of GDP providing improved infrastructure facilities for private investments while phasing out budget deficit and national debt.

In line with this policy, a broad set of policies and development initiatives have been implemented by the government, complemented by the support of the development partners, including Japan, China,

Chart 13.5 &gt; Government Investment and Defence Expenditure



India, Germany, Switzerland, Australia, US, World Bank, Asian Development Bank (ADB), United Nations Development Programme (UNDP), World Food Programme (WFP), United Nations Children's Fund (UNICEF), the European Union (EU) and International Fund for Agriculture Development (IFAD) as well as other stakeholders, to bring the affected areas back to rapid development and reconciliation. Resettlement of IDPs and fast track development of the Northern Province while

creating a safe environment for the people to return their places of origin, rehabilitation of ex-combatant and child soldiers and reconciliation through the promotion of Tamil and Sinhala as working languages and addressing housing and livelihood related activities of affected people where the key components in Government's initiatives towards post conflict reconciliation efforts.

### 13.2 Secured Environment for Internally Displaced Persons and their Resettlement

At the time of ending the conflict in May 2009, there were 295,136 Internally Displaced Persons (IDPs) who could not go back to their own places. The majority of them were from Mullaitivu and Killinochchi districts, which have been highly contaminated by land mines and other unexploded ordinances (UXOs). They were initially accommodated in welfare centers and subsequently brought in to welfare villages.

Two multi-pronged regional development strategies, i.e. "Uthuru Wasanthaya" and "Negenahira Navodaya", have been implemented as the major programmes in addressing immediate requirements as well as long standing development needs of the Northern and Eastern provinces. The identification of priorities and preparation of plans accordingly, accelerated implementation of "180 - Day programme", effective implementation, continuous monitoring, setting up of necessary institutions and ensuring their capacity building were among the salient features of the initiatives of the government, particularly in the Northern province. The highest priority was given to the welfare of these IDPs. The welfare villages were managed in keeping with international best practices in running such activities. Accordingly, the IDPs were provided with all basic facilities, including food, water, sanitation, and shelters. More

importantly, the IDPs were given 1,900 Kilo Calorie daily, which is equivalent to standards of the World Food Programme (WFP). Facilities such as primary healthcare centers, mobile health clinics, night clinics, mobile labs, operation theaters, counseling services, were provided to welfare villages. Furthermore, other main facilities, such as schools, religious support, banks, shops, communication facilities etc. are also provided. The security for the IDPs was provided by the security forces and police while the day to day work was handled by civilian administration. Since 1 December 2009, the government has converted these welfare villages into "open camps" ensuring "freedom of movement" of IDPs. The government also welcomed the visits of Sri Lanka development partners to these cities and conflict affected areas. The government incurred Rs. 18,880 million during 2009 - 2012 period for the welfare of IDPs. At the initial stage, the welfare activities were conducted by using domestic funds, which were subsequently complemented by assistance by development partners.

### 13.3 Progress towards a Mine Free Sri Lanka



The end to the 26 years long terrorist insurgency in the North in May 2009 provided a long awaited opportunity for Sri Lanka to enjoy

peace. However, the immediate challenge at the end of the conflict was the creation of mines free environment in the former conflict affected areas which contaminated with land mines, both the anti-personal and anti-vehicle, unexploded ordinances (UXOs) and improvised explosives devices (IEDs). It has initially been identified that over 640 villages are affected by these mines. It is estimated that there are over one million (estimated 1.3 million to be unearth) landmines in the conflict affected area of Sri Lanka<sup>1</sup>.

domestic and international non-governmental organizations (NGOs).

Sri Lanka has made a steady progress in de-mining activity and resettlement of internally displaced people (IDPs). During the 3 year period of 2009-2011, a total of 1577 km<sup>2</sup> has been cleared. The areas so cleared have been released for livelihood development and infrastructure activities. With these initiatives, 295,136 IDPs in the North, almost the entirety has been resettled,

Table 13.1 > **Progress and Expenditure on De-Mining Programme (As at end March 2013)**

Description	Unit	Amount
Area Cleared - Clearance Progress (BAC & MF)		
From 2002 to May 2009	Km2	359
From June 2009 to March 2013	Km2	1,577
Area to be cleared	Km2	94
Expenditure by the Government 2009 - March 2013	Rs. Mn	11,374
Expenditure by foreign development partners and other NGOs INGOs	Rs. Mn	8,128

The existence of landmines became an impediment in resettlement of people in their communities of origin and implementation of development activities in the conflict affected areas. Considering the economic dynamism in all sectors in the province particularly in agriculture activities and thereby helping the people in the area to have employment and various other income generating opportunities, de-mining turned out to be a major priority of the government. Consequently, a humanitarian de-mining programme was accelerated by the government to clear the respective areas and create an environment free of mine and explosive remnants of war (ERW) targeting public places, farm lands, livelihood areas, schools, and hospitals etc. are priority with the help of development partners as well as

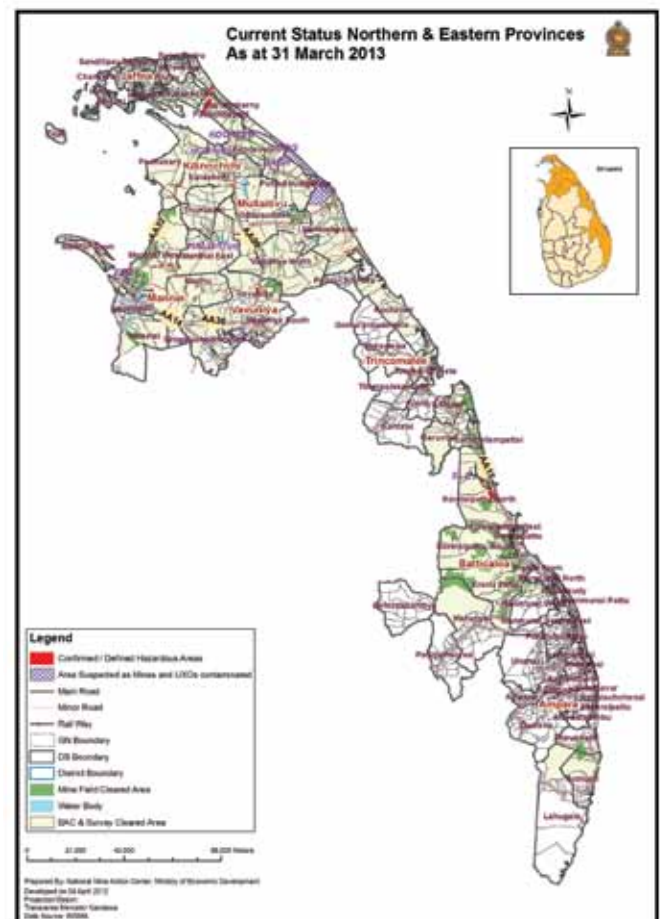
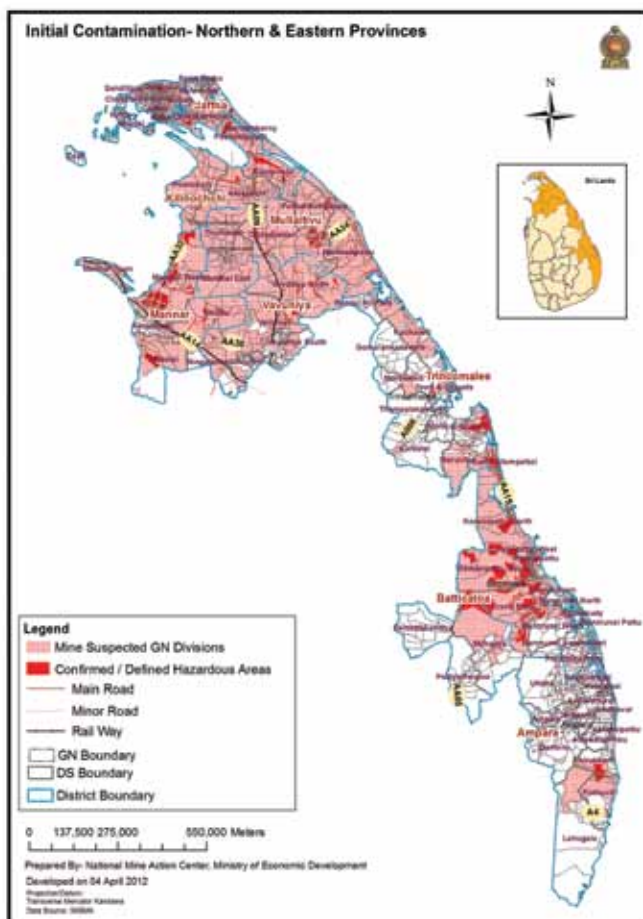
indicating a remarkable progress in resettling IDPs compared to such programmes in other countries. As at 31 March 2013, about 94 km<sup>2</sup> remained to be cleared. In order to clear the entire land of the North and East and to achieve a mine free Sri Lanka by the end of 2020, there is a need for enhanced human, financial and physical resources.

At present, the mine action activities are implemented by the government through the Sri Lanka National Mine Action Centre (SLNMAC) that has been setup at the Ministry of Economic Development (MED) to coordinate and fast tract the de-mining process. National Steering Committee for Mine Action (NSCMA) acts as the decision making body on mine action through SLNMAC in collaboration with respective institutions and agents.

<sup>1</sup>Strategy Paper 'The National Strategy for Mine Action in Sri Lanka', Ministry of Economic Development.

The de-mining operations, which is a high cost, high risk, time consuming as well as painstaking process, at the ground level are led by the Humanitarian De-mining Unit (HDU) of the Sri Lanka Army and participated by eight other local and foreign mine action operators. They are The HALO Trust, Danish Demining Group, Foundation Suisse de Déminage, MAG (Mines Advisory Group), Sarvatra, Horizon, Milinda Moragoda Institute for Peoples' Empowerment

of the entire country from terrorist activities, especially in the procurement of equipment for mine clearance activities as well as maintenance of demining cadre. Australia, United States, Japan, China, India and international institutions such as, United Nations High Commissioner for Refugees (UNHCR) and International Organization for Migration (IOM) are among the major partners helped in implementing government's demining programme. The United



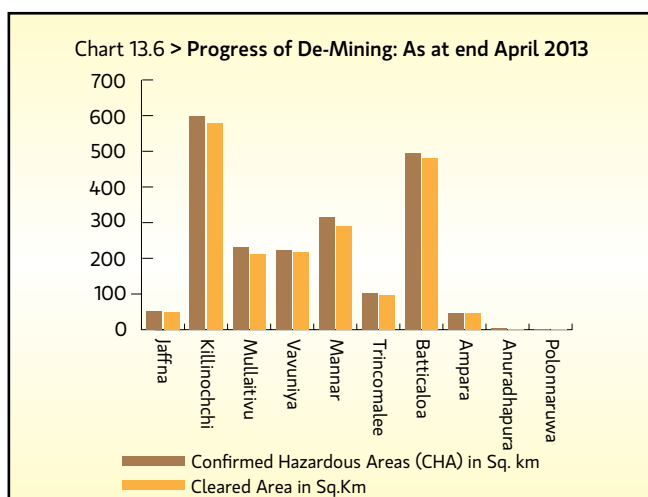
and Development Assistance for Social Harmony.

The government has spent approximately Rs. 11,375 million during the period of 2009 and 2012 in de-mining activities after liberation

Nations Development Programme (UNDP), and United Nations Children's Fund (UNICEF) help the activities by coordination and quality management, and providing necessary expertise and technical assistance. In addition, both local and international agencies are engaged in mine

surveys and mine risk education (MRE) in the identified areas.

The government is also engaged in providing various facilities, including medical treatments, to mine survivors while such assistance as counseling and mobility aids, are provided by domestic and international organizations. Livelihood development programmes are also being implemented for them. In addition, MRE campaigns are also being implemented in collaboration with NGOs, community based partners and volunteers.



De-mining organizations, excluding Humanitarian Demining Unit of the Sri Lanka Army, generate funding for de-mining operations through their own fund raising programmes. Various donors such as Japan,

Australia, EU, Canada, Switzerland, the United Kingdom, and Norway etc. are funding for them to undertake de-mining operations in Sri Lanka.

### 13.4 Resettlement and Rehabilitation

The resettlement was continued in parallel with the demining programme. From an original 295,136 IDPs at the time of ending the internal conflict in May 2009, all IDPs were resettled by 2012, reflecting the strong effort taken by the government to resettle them with the help of development partners and other stakeholders.

The first phase of the resettlement and rehabilitation concentrated on the provision of humanitarian assistance required for the successful resettlement of IDPs. This was achieved through the provision of a package of humanitarian assistance consisting of cash disbursements, and various other support, such as food rations, nonfood relief items, shelter material, agricultural assistance and a cash grant for land preparation. Provision of livelihood assistance to create income generating activities while concentrating on shelter, food security, water and sanitation was also a part of the process. In the second phase, continuation of the above measures was stepped up and concentrated more on the livelihood development. Accordingly, enhanced attention was paid on other areas such as health, education, creation of a supportive environment for agriculture activities by providing required inputs and services as well as providing necessary equipment and support for sea, lagoon and inland fishing.



## 13.5 Reconstruction and Development

The resettlement and rehabilitation activities in the Northern Province are complemented by the reconstruction of social and economic infrastructures that have been devastated due to the conflict. It included a short, medium and long term projects aiming at creating an environment conducive for a decent, peaceful and active life for people in the area with intra and inter-province connectivity. These include the rehabilitation and rebuilding of housing facilities, water supply, sewerage, hospitals, school buildings, roads & rail network, highways, irrigation schemes, bridges and culverts, electricity facilities, administrative buildings, livelihood improvement support, vocational training, and industrial zones to redevelop the entire area.

Under the infrastructure development initiatives, the government has launched 21 large scale projects with a total investment of Rs. 95 billion of which the investment in 2011 alone was about Rs. 38 billion (from 2009-2011, the total investment in Northern province is Rs. 145 billion). Most of these projects will be completed by 2011-2013.

Total cost of the development and welfare activities carried out by the government during 2009-2012 period amounted to Rs. 202 billion.

## 13.6 Towards Reconciliation and Development

Following the restoration of peaceful conditions, removal of infrastructure barriers through public investments in power generation, highway network, irrigation and port facilities and corrective actions to adjust the economy in external and market places, the economy of the Northern Province has achieved 24.4 percent growth in 2010. Many positive factors such as

Table 13.2 > **Resources Use to Northern Province Development (2009-2012)**

Rs. Mn.	
Description	Total Amount
Welfare of IDP	18,880
Demining of 1936 sqkm <sup>2</sup> Area	11,375
Resettlement of 295,136 People	5,811
Infrastructure Development	
Roads	46,392
Transport	15,302
Electricity	9,802
Water Supply & Irrigation	6,409
Health	19,695
Education	17,786
Housing	11,116
Court Houses	1,110
Agriculture and Fisheries	17,343
Livelihood Development & Others	21,057
<b>Total</b>	<b>202,078</b>

Source : Department of National Budget and Ministry of Resettlement

resettlement, rehabilitation and reconciliation towards consolidation peaceful environment, improved macroeconomic conditions, revitalized production activity, non-existence of security related barriers, increased use of available land, sustained expansion in tourism and construction, particularly helped increase the production while creating new opportunities for the private sector. In particular, the improvement in import substitution in agriculture and fishery was supported by the enhanced extent of land and sea resources. The new and abandoned lands are being increasingly cultivated in the conflict affected districts and about 104,717 ha. of land have been brought under cultivation of paddy and other highlands crops during last two years.

The output of fishing, livestock and other field crops also have improved significantly.

In particular, the fish production in the conflict affected districts which increased by 40 percent to 125,840 metric tons in 2010 further increased to 155,690 metric tons in 2011 and 184,160 metric tons in 2012. In addition, many industries that were not operative for years are also being revamped. The new prosperity that has been extended to all over the country has boosted the wholesale and retail trade, particularly with the Northern and Eastern provinces, providing more opportunities for people in those areas.

The 9.3 percent expansion in the construction sector, supported by the 12 percent increase in domestic production of building materials and the 18.1 percent growth in cement availability, was also a reflection of the impact of peaceful situation on the construction activities throughout the country. The construction activities in the conflict affected areas in restoring railway system, highways, water supply, irrigation, housing, hospitals and school facilities and administrative buildings have boosted construction activities in those areas.

In the services sector, tourism and other services, such as telecommunication and transportation, are being increased thereby supporting the achievement of a higher economic growth. In addition, business activities related to banking and finance as well as industries are also being expanded. Since the end of the terrorist insurgency, 283 branches have been opened by banking and financial institutions reflecting the business progress in the country. The average GDP growth at 24.4 percent in the Northern Province has been much higher than the national average of 16.3 percent (in nominal terms) during 2010 - 2011 period.

### 13.7 Promoting National Reconciliation

The Government has implemented several initiatives to promote national reconciliation efforts as well. The Local Government Elections were conducted in 2011 and civil administration setup was strengthened to improve the service delivery and country level. These include a formulation of a Special Integration Policy,

Table 13.3 > **Performance of Development Indicators**

Province	North		East	
Covering Districts	Jaffna, Mullativu Kilinochchi, Mannar Vavuniya		Ampara, Batticaloa Trincomalee	
	2011	2016	2011	2016
Provincial GDP (Rs Bn)	241	787	375	797
Poverty Head Count Index	12.8	6.9	14.8	2
Infant Mortality Per 100 Live Births (2009)	3.0	1.5	10.7	5.9
Maternal Mortality Ratio per 100,000 Live Births	0.56	0.31	0.38	0.38
Access to Electricity (%)	72	100	75	100
Access to Water (%)	89	100	93.4	100
Sanitation Facilities (%)	77	100	89	100
Houses - Permanent Walls (%)	77	100	89	100
- Roofs (%)	91	100	95	100

Source : Department of National Budget and Ministry of Resettlement



National Languages Policy, and Awareness program to respect cultural diversity, religion and communal values. In order to implement these programs at grass route level, key level officials have been attached to District Secretariats and Divisional Secretariats. Mobile services are being carried out to attend needs of vulnerable groups. Language labs are being setup to promote the skills in both Sinhala & Tamil for public officials and 1,000 language clubs have been established to promote bilingual language skills among the ordinary people.

With regard to the ex-child combatants, the government has implemented rehabilitation programmes to integrate them with the society. The progress in the re- integration of Ex-LTTE carders is given in Table 13.4.

Table 13.4 > **No. of Ex-LTTE Combatants Rehabilitated**

Year	Male	Female	Total
2009	108	116	224
2010	3,589	1,977	5,566
2011	4,495	70	4,565
2012	668	101	769
2013	384	-	384
<b>Total</b>	<b>9,244</b>	<b>2,264</b>	<b>11,508</b>

Source : Department of National Budget and Ministry of Resettlement

### 13.8 Lessons Learnt and Reconciliation Commission (LLRC) – Towards Lasting Peace and Stability

Sri Lanka has successfully completed the fourth consecutive terrorism free year since the Government was able to overcome a twenty six-year conflict, by defeating the LTTE in May 2009. Ending of the twenty six-year conflict complemented country's development strategy which targets progress towards an upper middle income country.

Parallel with the progress in demining, resettlement and reconstruction in the affected areas an independent Commission on Lessons Learnt and Reconciliation (LLRC) was appointed by His Excellency the President in view of looking back at the conflict Sri Lanka has suffered, as well as to look ahead for an era of healing and peace building in the country. The independent eight-person Commission brought together eminent individuals representing all of Sri Lanka's communities. The committee held hearings in Colombo and in former conflict affected areas such as Batticaloa, Jaffna, Kilinochchi, Mannar and Vavuniya. Field visits too were conducted to the former war region and detention centres where surrendered Tamil Tiger combatants were held. After analyzing over 1,000 oral and 5,000 written submissions it had received, the commission presented its 388-page final report to the His Excellency the President on 15 November, 2011. It was made public on 16 December, 2011.

The LLRC identified 135 recommendations focusing five major areas; International Humanitarian Law Issues, Human Rights, Land Return and Resettlement, Restitution & Compensatory Relief and Reconciliation.

#### 13.8.1 Implementation of LLRC Recommendations

It is noticeable that, as a result of the high priority given to the Northern and Eastern Provinces, most of the LLRC recommendations had been already implemented through different projects and programmes at the time of the recommendations were issued. Some of the activities covered by recommendations are still being continued under different programmes implemented by the government agencies. Example: Bimsaviya programme- Ministry of Land and Land Development.

Nevertheless, a National Plan of Action for implementing of these recommendations was

prepared and approved by the Cabinet of Ministers in July, 2012. The implementation responsibility rests with 19 line Ministries, Presidential Secretariat, Attorney General's Department and the Presidential Task Force for Resettlement, Development & Security in the Northern Province. The National Plan of Action has considered 86 recommendations are most significant and given propriety in implementation.

All implementing agencies have combined together and working towards reaching the desired targets in recommendations.

Since year 2005, a considerable amount of funds have been spent on activities implemented for rebuilding war affected areas. In addition, Rs.763 million has been allocated

### 13.8.2 Challenges and Major Achievements since 2009

At the time of ending the war, several challenges were frontage on the government such as;

- More than 300,000 Internally Displaced People (IDPs) to be resettled
- Removal of land mines and land area of 2,065,962,916 sqm. had to be cleared
- Blocked access for livelihood had to be reopened
- Schools and other public places could not be used
- Agricultural lands, water resources were suspected as contaminated etc.

Table 13.5 > **Involvement of Agencies in Implementation of LLRC Recommendations**

No	Focus area	No of Recommendations	No of Agencies involved
1	International Humanitarian Law Issues	06	05
2	Human Rights	48	13
3	Land Returns and Resettlement	23	05
4	Reconciliation	50	16
5	Restitution & Compensatory Relief	08	04

Source : Department of National Budget and Ministry of Resettlement

from the budget 2013 under respective agencies to promote trilingual Sri Lanka, social integration programmes, rehabilitation and resolution of land related issues, providing housing needs and strengthening local authorities and public service in these areas.

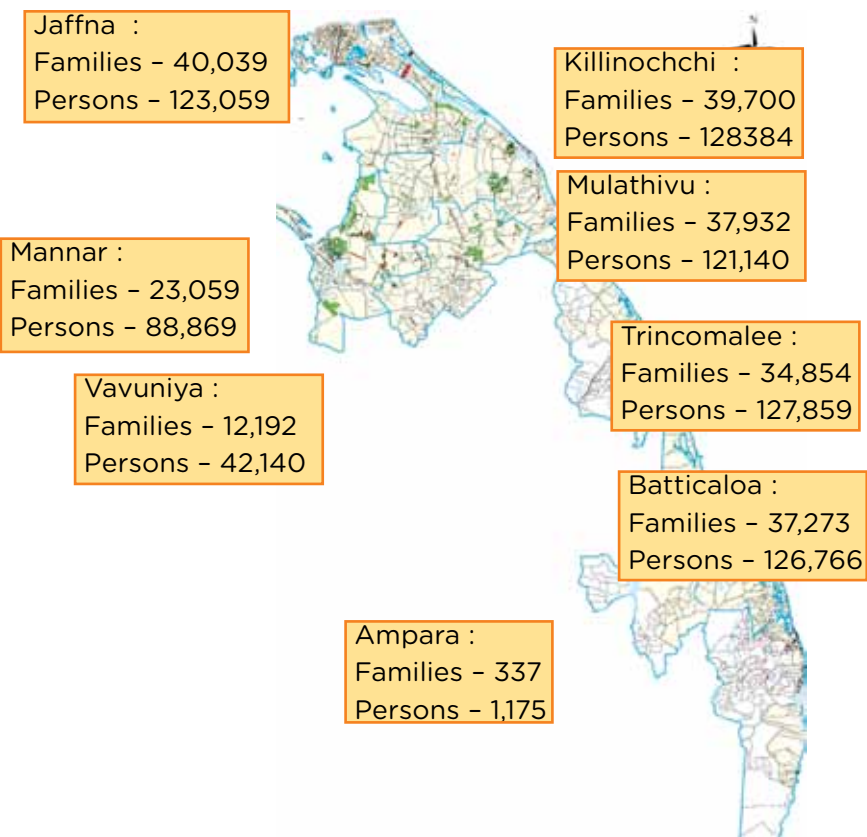
The steering committee headed by Secretary to the President oversees the methodologies undertaken by the agencies. The implementing agencies are working closely with the presidential secretariat and the progress is being regularly monitored.

- With the quick and tactical steps taken, the Government has been able to achieve a considerable progress towards bringing the affected areas back to normalcy.
- Out of the confirmed hazardous areas of 2,065,962,916 sqm. area of 1,967,299,992 sqm. have been cleared spending Rs.11,449 million.
- Number of 768,097 devices were recovered.



Source : Mine Action Programme Ministry of Economic Development

- A total of 225,476 families displaced in Northern and Eastern provinces have been resettled in their place of origin.
  - Re-started livelihood activities
  - Re-started the irrigation and agricultural activities
  - Reestablished the Roads, Irrigation Systems Water Tanks, Communication System, Electricity and other infrastructures



Source : Mine Action Programme  
Ministry of Economic Development

- Most of the recommendations made by the LLRC which are connected with the Sri Lanka Army, such as re-settlement of IDPs, rehabilitation of ex LTTE cadres, disarming of militant groups, de-mining etc. have already been implemented.

The implementation progress of the National Plan of Action is recorded and periodically uploaded to the official web site of the Presidential Secretariat, [www.presidentsoffice.gov.lk](http://www.presidentsoffice.gov.lk) and [www.piru.gov.lk](http://www.piru.gov.lk) in all three languages. Some of the key/immediate recommendations issued by LLRC and the present progress are given in Table 13.7.

*The end to the 26 years long terrorist insurgency in the North in May 2009 provided a long awaited opportunity for Sri Lanka to enjoy peace.*

*With the peaceful situation in the country, there is an unprecedented surge in tourist arrivals boosting the post conflict economic activities all over the country.*

Table 13.6 > **Some of the Key/Immediate Recommendations Issued by LLRC and the Progress as of Early 2013**

Recommendation No.	Recommendation	Implementing Progress
<b>International Humanitarian Law Issue</b>		
9.9, 9.37a	Ascertain more fully the circumstances under which specific instances of death or injury to civilians could have occurred, and if such investigations disclose wrongful conduct, prosecute and punish the wrongdoers.	<p>A Court of Inquiry (Col) was established in January 2012 by the Commander of the Sri Lanka Army to inquire into observations made by the LLRC on alleged civilian casualties during the final phase of the Humanitarian Operation and probe as regards Channel-4 video footage irrespective of its authenticity or otherwise. The five-member Col is headed by a Major General.</p> <p>The first part of the Col has been concluded and the report was handed over to the Commander of the Army. The Col will now proceed to investigate the 2nd part of their mandate to examine the Channel 4 allegations.</p>

9.37b	Conduct a professionally designed household survey covering all affected families in all parts of the island to ascertain firsthand the scale and circumstances of death and injury to civilians, as well as damage to property during the period of the conflict.	<p>A steering committee was formed comprising of senior level officers of relevant Ministries and Agencies. The committee met fortnightly to discuss activities related to the census on death/ injuries to persons and property Damages due to conflict - 2013</p> <p>The methodology suitable to conduct the census was devised and data collection forms were designed. Both were pre-tested in selected GN divisions in Vavuniya, Polonnaruwa and Mulativu districts in order to cover different conflict situations since 1982.</p> <p>The outcome of the pre-test was evaluated by DCS working group. The second draft of the forms has been prepared.</p> <p>The estimate for the census has been submitted to the Department of National Budget.</p>
<b>Human Rights</b>		
9.48	Direct law enforcement authorities to take immediate steps to ensure that allegations [of abductions, enforced or involuntary disappearances, and arbitrary detention] are properly investigated into, and perpetrators brought to justice.	2729 complaints regarding disappearance of persons have been reported to Terrorist Investigation Division (TID). Inquiries into 1,616 complaints have been completed. Inquiries into 1,113 complaints are to be completed.
9.115d	Ensure the freedom of movement of media personnel in the North and East	There are no restrictions on any person, including foreigners, travelling to North and East.
9.119	Allow visitors from overseas to visit their friends and relatives in recently resettled areas without any undue restrictions	Restrictions have been removed in entering to the North and the East. During the two years from 2010 to 2012, more than 77,000 foreign pass port holders have visited Sri Lanka and travelled to the North.
<b>Reconciliation</b>		
9.1719.227	Phase out the involvement of the Security Forces in civilian activities and use of private lands by the Security Forces with reasonable time lines being given	Civilian Administration is fully functional with the government officials at District, divisional and grassroots level.
9.201	Ensure that post conflict development agenda and programmes for reconciliation take account of the essential needs of the Tamils of Indian origin. Improve the health and educational facilities and also provide better living conditions in the estate areas	<p>An Inter-Ministerial Committee comprising Ministries of Child Development &amp; Women's Affairs; Health; Plantation Industries; Education and Livestock &amp; Rural Community Development has been established to discuss and devise suitable programmes to address this recommendation.</p> <p>A Task Team has been appointed to identify educational gaps that require further improvement in the plantation sector. This Task team is currently conducting its functions.</p> <p>Action will be taken under Ministry of Defence to create awareness through special TV programmes.</p>
5	Encourage free movement of persons on A9 to ensure greater participation in the economic, social and cultural activities.	No restriction to move along A -9 road.

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**Land Return and Resettlement**


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9.141	Actively seek the cooperation of a development partner to support the land policy and the associated Programme, based on the understanding that Government of Sri Lanka will be responsible for Programme policy, decision making, and implementation.	<p>The Government is working very closely with the donor community to develop the affected regions. Already many development projects have been implemented and some are in progress. With regard to land development, the government adopts an integrated approach to develop related infrastructure in the region including, roads and transport, electricity, water supply, education and other needs to improve land management.</p> <p>During 2005 - 2012, the government, with development partners, invested US\$ 3189 million in various projects in this region.</p> <p>In addition, Rs. 400 million has been provided for implementation of land related LLRC recommendations and Rs. 800 million for 2013 to improve land title and ownership.</p>
9.142	Review the 2 existing HSZs in Palaly and Trincomalee-Sampur, as well as small extents of private land currently utilized for security purposes, with a view to release more land while keeping national security needs in perspective. Complete the provision of alternate lands and or payment of compensation within a specific time frame	<p>Security situation is re-evaluated periodically. Based on such assessment, more lands will be released to the public. 90 percent of the land presently used by the military belongs to the State.</p> <p><b>Details of HSZ Dismantled;</b></p> <ul style="list-style-type: none"> <li>- Previous HSZ area - 4098.36 ha</li> <li>- Area Released - 1515.9 ha</li> <li>- Present Cantonments/ Bases - 2582.45 ha</li> </ul> <p><b>Details of Land Blocks Released;</b></p> <ul style="list-style-type: none"> <li>- Jaffna - 238 ha (35 ha yet to be released)</li> <li>- Wanni - 27ha (25 ha yet to be released)</li> <li>- East - 39 ha (36 ha yet to be released)</li> <li>- Kilinochchi - 13 ha (08 ha yet to be released)</li> <li>- Mullaitivu - 07 ha</li> </ul> <p>Government has taken measures to pay compensation to owners of properties within such areas or provide them with alternative land.</p> <p>Acquisition of private lands has been proposed for various development activities. Accordingly, a cadre of 35 is being recruited to complete these activities during the 2 years from 2013 - 2015. This recruitment will be completed within March 2013. Treasury approved expenditure of Rs 460.26M for this entire programme.</p> <p>23 acquisition proposals received to acquire 564 acres and 43 perches out of 8,680.34 acres under this project. At present, Section 2 has been issued for 60 acres.</p>

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**Restitution/Compensatory Relief**


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9.155	<p>Review the role and capacity of Rehabilitation of Persons, Properties and Industries Authority (REPPIA) with a view to streamlining and augmenting its role and resources in undertaking post-conflict requirements [for compensatory relief].</p> <p>Procure funding to clear the backlog of cases as well as to prevent lack of funds being the reason for delays and no-payment in the future.</p> <p>Set a time limit for completion of payments</p>	<p>The capacity of REPPIA has been reviewed and strengthened. REPPIA has paid/granted Compensations for affected families.</p> <ul style="list-style-type: none"> <li>- Rs. 57 million has been granted/paid for 677 persons under compensation schemes.</li> <li>- Rs. 3.5 million has been paid for 31 religious places under compensation.</li> <li>- Rs. 238 million has been granted for 1,853 persons under loan schemes.</li> </ul>
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# FINANCIAL STATEMENTS

## Financial Statements 2012

Financial Performance Statement of the Democratic Socialist Republic of Sri Lanka for the year 2012, Cash Flow Statement, Financial Position as at 31st December 2012, Change in Net Assets, Financial Statement consisting of accounting policy and the report of Auditor General's opinion are forwarded herewith.

By these financial statements, financial resources allocated by the Appropriation Act No. 52 of 31st December 2011 for the year 2012 have been described as utilization process of recurrent expenditure and capital expenditure of twenty two (22) Special Spending Units , fifty four (54) Government Ministries , ninety two (92) Government Departments and twenty five (25) District Secretariats / Kachcheries. In addition, the actual position regarding the process of collection of revenue approved by the said Act has also been explained. Further, the Financial Statements reveal the information relating to capital contribution or shareholdings in the, thirty three (33) Commercial Public Corporations, hundred and eight (108) Government Owned Companies/ Other Companies/Plantation Companies and Development Banks and also information relating to allocation of financial resources to nine (09) Provincial Councils by the Central Government.

These Financial Statements are prepared under historic cost convention in conformity with Generally Accepted Accounting Principles. Historical cost is applied as the measurement base. The cash based accounting is adopted. In addition, information regarding movable assets required for accounting process on accrual basis have been included as a Note from the year 2004. The Department of Valuation has commenced the assessing of government owned lands and buildings in the year 2012 and the process is to be completed in 2013 and as such, action has been taken to implement the preparation of accounting on accrual basis as a pilot programme from the year 2013.

The Comoputerized Integrated Government Accounting System (CIGAS) used to report public accounts has been modernized. So that it could be implemented with new technological accessories and the new programme will be implemented w.e.f. 2013.

Similarly, according to the instruction given in the Handbook on Government Finance Statistics in the year 2001, preparation of public accounts figures has been commenced and which will enable Republic Account information to be rated with other countries.

# Statement of Financial Performance

for the year ended 31<sup>st</sup> December, 2012

Budget Estimates (Revised) 2012 Rs		Note	2012 Rs.	Actual 2011 Rs.
<b>REVENUE</b>				
896,599,000,000	<b>Tax Revenue</b>		<b>845,296,533,956</b>	<b>812,647,344,688</b>
177,303,000,000	Income Tax	1	172,593,144,170	157,308,604,799
497,740,000,000	Taxes on Domestic Goods & Services	2	462,164,109,919	467,560,957,884
221,556,000,000	Taxes on International Trade	3	210,539,279,866	187,777,782,005
141,732,000,000	<b>Non Tax Revenue &amp; Others</b>	4	<b>151,520,394,790</b>	<b>130,295,690,314</b>
1,038,331,000,000	<b>TOTAL REVENUE (a)</b>		<b>996,816,928,746</b>	<b>942,943,035,002</b>
<b>Less : EXPENDITURE</b>				
273,982,480,155	Wages, Salaries and Other Employment Benefits	5	272,620,034,131	251,128,858,679
114,307,984,794	Other Goods & Services	6	110,014,410,382	112,186,124,259
334,403,493,850	Subsidies, Grants and Transfers	7	326,576,268,727	303,839,501,876
410,850,643,934	Interest Payments	8	408,986,710,093	353,008,964,120
640,581,569	Other Recurrent Expenditure	9	133,266,321	33,768,120
1,134,185,184,302	<b>TOTAL RECURRENT EXPENDITURE (b)</b>		<b>1,118,330,689,656</b>	<b>1,020,197,217,054</b>
95,854,184,302	<b>REVENUE DEFICIT (a) - (b)</b>		<b>121,513,760,909</b>	<b>77,254,182,052</b>
554,156,623,698	Public Investments	10	471,088,878,311	398,518,995,838
650,010,808,000	<b>BUDGET DEFICIT</b>		<b>592,602,639,220</b>	<b>475,773,177,890</b>
<b>FINANCING THE BUDGET DEFICIT</b>				
241,555,343,000	Foreign Borrowings	11	365,698,416,536	287,012,381,370
(153,320,000,000)	Foreign Debt Repayments		(152,898,693,427)	(72,262,198,510)
88,235,343,000	<b>NET FOREIGN BORROWINGS</b>		<b>212,799,723,109</b>	<b>214,750,182,860</b>
20,000,000,000	Foreign Grants	12	16,070,771,882	15,961,635,355
108,235,343,000	<b>TOTAL FOREIGN FINANCE</b>		<b>228,870,494,992</b>	<b>230,711,818,215</b>
946,952,232,000	Domestic Non-Bank Borrowings	13	725,869,311,452	695,393,866,280
(451,809,000,000)	Domestic Debt Repayments	14	(449,915,078,355)	(470,075,014,039)
495,143,232,000	<b>NET DOMESTIC BORROWINGS</b>		<b>275,954,233,097</b>	<b>225,318,852,241</b>
16,470,000,000	Recoveries from On-lending	15	16,409,105,273	14,877,712,658
500,000,000	Sale of Capital assets		831,151,867	514,298,415
-	Net Change in Deposit Accounts and Liabilities		22,160,865,071	6,527,187,288
-	(Increase)/ Decrease in Cash & Cash Equivalents		48,376,788,920	(2,176,690,927)
620,348,575,000	<b>TOTAL FINANCING</b>		<b>592,602,639,220</b>	<b>475,773,177,890</b>

# Statement of Cash Flows

for the year ended 31<sup>st</sup> December, 2012

	2012 Rs.	Actual 2011 Rs.
<b>Cash Flows from Operating Activities</b>		
Total Tax Receipts	845,296,533,956	812,647,344,688
Fees, Fines, Penalties and Licenses	19,530,529,686	17,680,190,119
Profit	85,214,108,456	51,938,962,000
Other Receipts	32,740,572,417	46,417,543,209
<b>Total Cash provided from Operations (a)</b>	<b>982,781,744,515</b>	<b>928,684,040,016</b>
<b>Less - Cash was disbursed to:</b>		
Personal Emoluments & Operating Payments	382,634,444,514	363,314,982,938
Subsidies & Transfer Payments	326,576,268,727	303,839,501,876
Finance Costs	409,119,976,415	353,042,732,240
<b>Total Cash disbursed to Operations (b)</b>	<b>1,118,330,689,656</b>	<b>1,020,197,217,054</b>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES (C)=(a)-( b)</b>	<b>(135,548,945,141)</b>	<b>(91,513,177,038)</b>
<b>Cash Flows from Investing Activities</b>		
Interest	9,488,226,529	9,846,503,634
Dividends	4,546,957,702	4,412,491,352
Divestiture Proceeds & Sale of Physical Assets	831,151,867	514,298,415
Recoveries from On Lending	16,409,105,273	14,877,712,658
<b>Total Cash provided from Investing Activities (d)</b>	<b>31,275,441,372</b>	<b>29,651,006,059</b>
<b>Less - Cash was disbursed to:</b>		
Purchase or Construction of Physical Assets & Acquisition of		
Other Investment	471,088,878,311	398,518,995,838
<b>Total Cash disbursed to Investing Activities (e)</b>	<b>471,088,878,311</b>	<b>398,518,995,838</b>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES (F)=(d)-(e)</b>	<b>(439,813,436,939)</b>	<b>(368,867,989,779)</b>
<b>NET CASH FLOWS FROM OPERATING &amp; INVESTMENT ACTIVITIES (G)=( C) + (F)</b>	<b>(575,362,382,079)</b>	<b>(460,381,166,817)</b>
<b>Cash Flows from Fianacing Activities</b>		
Local Borrowings	725,869,311,452	695,393,866,280
Foreign Borrowings	365,698,416,536	287,012,381,370
Grants Received	16,070,771,882	15,961,635,355
<b>Total Cash provided from Financing Activities (h)</b>	<b>1,107,638,499,870</b>	<b>998,367,883,005</b>
<b>Less - Cash was disbursed to:</b>		
Repayment of Local Borrowings	449,915,078,355	470,075,014,039
Repayment of Foreign Borrowings	152,898,693,427	72,262,198,510
Change in Deposit Accounts and Other Liabilities	(22,160,865,071)	(6,527,187,288)
<b>Total Cash disbursed to Financing Activities (i)</b>	<b>580,652,906,711</b>	<b>535,810,025,261</b>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES (J)=(h)-(i)</b>	<b>526,985,593,160</b>	<b>462,557,857,744</b>
<b>Net Movement in Cash (K) = (G)-(J)</b>	<b>(48,376,788,920)</b>	<b>2,176,690,927</b>
<b>Opening Cash Balance as at 01st January</b>	<b>(56,102,223,310)</b>	<b>(58,278,914,237)</b>
<b>Closing Cash Balance as at 31st December</b>	<b>(104,479,012,230)</b>	<b>(56,102,223,310)</b>

# Statement of Financial Position

as at 31<sup>st</sup> December, 2012

	Notes	Actual 2012 Rs.	2011 Rs.
<b>Financial Assets</b>			
Loans to Public Officers	16	24,034,416,486	26,121,780,267
Advances to Govt. Departments	17	9,052,234,339	8,530,774,206
Membership Fees Paid	18	3,517,179,875	3,517,179,875
On Lending	19	323,121,622,747	298,967,281,948
Capital Contribution in State Owned Enterprises	20	176,600,792,938	124,010,414,438
Stamp Stock Account		1,010,292,555	906,812,955
<b>Total Financial Assets</b>		<b>537,336,538,940</b>	<b>462,054,243,689</b>
<b>Liabilities</b>			
Bank Overdrafts	21	104,479,012,230	56,102,223,310
Advance from the Central Bank	22	111,291,842,800	94,743,012,800
Foreign Loan Revolving Funds	23	22,183,403,507	19,846,433,388
Miscellaneous Funds	24	1,456,659,602	1,610,755,327
Government Borrowings	25	5,408,759,844,784	4,634,972,660,483
Deposits and Other Liabilities	26	75,755,984,478	64,271,839,126
Operating Accounts with Government Departments	27	(3,963,124,577)	3,439,966,496
Sundry Accounts	28	(2,107,679,936)	5,808,499
<b>Total Liabilities</b>		<b>5,717,855,942,888</b>	<b>4,874,992,699,429</b>
Contingency Fund		140,000,000	140,000,000
<b>Total Liabilities &amp; Contingency Fund Balance</b>		<b>5,717,995,942,888</b>	<b>4,875,132,699,429</b>
<b>Total Liabilities and Contingency Fund</b>			
<b>Balance over Financial Assets</b>		<b>5,180,659,403,948</b>	<b>4,413,078,455,740</b>
Consolidated Fund- Accumulated Deficit	29	272,239,697,812	201,700,214,610
Total Investments in Physical Assets and			
Accumulated Net Revenue Deficit	30	4,908,419,706,136	4,211,378,241,130
		<b>5,180,659,403,948</b>	<b>4,413,078,455,740</b>
Contingencies & Commitments	31	401,411,000,000	291,448,980,000

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.



N.G. DAYARATNE,  
Director General,  
Department of State Accounts.

General Treasury  
Colombo-01.  
25th March, 2013



P.B. JAYASUNDERA,  
Secretary, Ministry of Finance & Planning,  
and Secretary to the Treasury.

## Statement of Changes in Net Assets / Equity

Year ended 31st December 2012

Rs.

Description	Atributable to Government Entity				Total Net Assets / Equity
	Consolidated Fund	Contingency Fund	Foreign Loan Revolving Funds	Miscellaneous Funds	
Balance as at December 31st 2010	(196,423,775,459)	140,000,000	21,455,287,347	2,098,246,350	(172,730,241,762)
Change in accounting policy and prior year adjustment	(925,942,790)	-	-	-	(925,942,790)
<b>Restated Balance</b>	<b>(197,349,718,249)</b>	<b>140,000,000</b>	<b>21,455,287,347</b>	<b>2,098,246,350</b>	<b>(173,656,184,552)</b>
<b>Changes in Net Assets/Equity for 2011</b>					
Net change in Consolidated Fund	(4,350,496,361)	-	-	-	(4,350,496,361)
Net change in Contingency Funds	-	-	-	-	-
Net change in Foreign loan Revolving Funds	-	-	(1,608,853,959)	-	(1,608,853,959)
Net change in Miscellaneous Funds	-	-	-	(487,491,023)	(487,491,023)
<b>Balance as at December 31st 2011</b>	<b>(201,700,214,610)</b>	<b>140,000,000</b>	<b>19,846,433,388</b>	<b>1,610,755,327</b>	<b>(180,103,025,895)</b>
<b>Carried Forward</b>					
Change in Accounting policy and prior year adjustment	(1,829,211)	-	-	-	(1,829,211)
<b>Restated Balance</b>	<b>(201,702,043,821)</b>	<b>140,000,000</b>	<b>19,846,433,388</b>	<b>1,610,755,327</b>	<b>(180,104,855,106)</b>
<b>Changes in Net Assets/Equity for 2012</b>					
Net change in Consolidated Fund	(70,537,653,991)	-	-	-	(70,537,653,991)
Net change in Contingency Fund	-	-	-	-	-
Net change in Foreign Loan Revolving Funds	-	-	2,336,970,119	-	2,336,970,119
Net change in Miscellaneous Funds	-	-	-	(154,095,725)	(154,095,725)
<b>Balance as at December 31st 2012</b>	<b>(272,239,697,812)</b>	<b>140,000,000</b>	<b>22,183,403,507</b>	<b>1,456,659,602</b>	<b>(248,459,634,703)</b>

# Analysis of Total Expenses of the Statement of Financial Performance

for the year ended 31<sup>st</sup> December, 2012

By Functional Classification	Actual (Rs.Mn.)									
	2012					2011				
	Recurrent	%	Capital	%	Total	% By Functional Classification	Recurrent	%	Capital	% Total
						Defence	213,533	20.93	28,027	2.98
										241,560
Law Enforcement and Security	228,206	20.41	19,171	1.79	247,377	11.28 Law Enforcement	7,040	0.69	1,661	0.18
										8,701
Public Services	251,306	22.47	32,017	2.98	283,323	12.92 Public Services	603,473	59.15	589,345	62.64
										1,192,818
Finance	420,065	37.56	616,083	57.37	1,036,148	47.26				
Social Security	2,389	0.21	649	0.06	3,038	0.14 Social Services	1,948	0.19	1,445	0.19
										3,393
Real Economy	75,875	6.78	113,692	10.59	189,567	8.65 Real Economy	64,964	6.37	84,415	8.97
										149,379
Environment	1,884	0.17	1,513	0.14	3,397	0.15 Environment	2,302	0.23	2,106	0.22
										4,408
Human Resources	112,518	10.06	31,477	2.93	143,995	6.57 Human Resources	101,871	9.99	27,770	2.95
										129,641
						Research and Technology	954	0.09	1,221	0.13
										2,175
Infrastructure	26,088	2.33	259,301	24.15	285,389	13.02 Infrastructure	24,112	2.36	204,866	21.77
										228,978
<b>Total</b>	<b>1,118,331</b>	<b>100</b>	<b>1,073,903</b>	<b>100</b>	<b>2,192,234</b>	<b>100 Total</b>	<b>1,020,197</b>	<b>100</b>	<b>940,856</b>	<b>100</b>
										<b>1,961,053</b>

Note :

These figures are presented in the expenditure estimate for line Ministries are based on resources ceiling available for each sector under which Ministry votes are presented.



## Statement of Accounting Policies

### Reporting Entity

These Financial Statements are of the Government of the Democratic Socialist Republic of Sri Lanka and encompass the Reporting Entity of the Central Government comprised of Government Ministries, Departments, Special Spending Units and District Secretariats/ Kachcheris. Public Enterprises which comprised of Commercial Public Corporations, State Owned Enterprises and Government Owned Companies or other companies and 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 Government's total interest in the Commercial Public Corporations and State Owned Enterprises and Government owned companies or other companies held in the form of capital contribution and loans granted are accounted in these Financial Statements.

### Basis of Preparation

These Financial Statements are prepared under historic cost convention in conformity with Generally Accepted Accounting Principles. Historical cost is applied as the measurement base. The cash based accounting is adopted.

### Reporting Period

The reporting period of these Financial Statements is from 1st of January to 31st December 2012.

### Basis of Consolidation

Expenditure incurred and revenue collected by respective Ministries & Departments in the form of financial assets, liabilities, revenues and expenses are consolidated using the same classification codes used for accounting those revenues and expenditures.

### Revenue

The Central Government provides many goods, services and benefits that do not generate revenue, to the general public. The revenue is raised by way of taxes, levies, fees and charges imposed under various statutes approved by the Parliament to finance the expenditure incurred in provision of such goods, services and benefits. All such revenue collected through the relevant Ministries & Departments are identified and accounted at the time of collection. Investment Income is accounted for the period during which such income is actually collected.

### Premiums and Discounts

Premiums and discounts on the issue of a debt instrument are treated as an adjustment against the cost of borrowings.

### Gains

Gains arising from the sale of assets are accounted during the period in which the transaction occurs. Foreign exchange gains realized on monetary assets and liabilities are duly accounted in the Statements of Financial Position as at the end of the Reporting Period.

### Expenses

All expenses are accounted in the period in which it is paid.

### Foreign Currency Transactions

Transactions in Foreign currencies are converted into Sri Lankan Rupee using the exchange rate prevailed on the date of transaction. Exchange differences arising at the point of settlement of these transactions are duly accounted and presented in the Statement of Financial Performance.

### Investment

Value of the Government's equity investments in State Owned Enterprises is recorded at cost and shown separately in the financial statements. However, investments in Statutory Boards are not uniquely identified and disclosed since such entities operate like other Government Departments relying on the Government for their recurrent and capital expenditure requirements.

### Borrowings

In the Statement of Financial Position, all local borrowings are recorded at cost. Since foreign borrowings are subject to variations in exchange rates such foreign monetary liabilities are converted in to Sri Lankan Rupees on the exchange rate prevailed at the end of the Reporting Period.

### Employee Entitlements

Employee entitlements to salaries and wages, annual leave, pre-retirement leave and other similar benefits are recorded when they actually accrue to or utilized by the employees. Retired Government employee entitlements for their pension payments are also recorded on the same basis.

## Statement of Accounting Policies

### Contingent Liabilities

Contingent liabilities are recorded in the Statement of Contingent Liabilities at which point the contingency is evident.

### Comparatives

To ensure consistency with the current period and classification method adopted in making a fair presentation of financial information, comparative figures have been restated where appropriate.

### Bank Overdraft

The Bank Overdraft is comprised of all favourable and unfavourable cash book balances in the name of the

Deputy Secretary to the Treasury, sum of unsettled imprest balances of Ministries and Departments which is treated as cash in transit and converted Rupee value of all foreign currency bank accounts as at the balance sheet date.

### Compilation of Government Finance Statistics

The Budget Outturn presented in Economic Classification under Government Finance Statistics (GFS) varies from the information presented in these Financial Statements due to the different classification methods adopted for economic analysis.

## Notes to Financial Statements

Budget Estimates 2012	Revenue Code	Revenue Title	Actual	
			2012 Rs.	2011 Rs.
NOTE 1 - INCOME TAX				
75,790,000,000	1004.01.01	Income Tax	68,285,005,102	70,176,680,423
7,409,210,000	1004.01.02	Dividend Tax	8,712,982,193	7,157,344,654
12,000,000	1004.01.03	Remittance Tax	56,028,959	78,781,882
83,211,210,000	1004.01.00	Total Corporate Tax (a)	77,054,016,253	77,412,806,959
17,411,000,000	1004.02.01	PAYE Tax	14,763,457,967	14,797,523,554
6,388,790,000	1004.02.99	Other	6,305,109,016	5,603,130,008
52,974,000,000	1004.03.00	Withholding Tax	59,606,319,667	38,160,053,008
52,574,000,000	1004.03.01	on Interest	59,262,107,756	33,775,884,745
400,000,000	1004.03.99	on Fees & Other	344,211,910	4,384,168,264
17,318,000,000	1004.04.00	Economic Service Charge	14,864,241,267	21,335,091,270
94,091,790,000	1004.02.00	Total Non -Corporate Tax (b)	95,539,127,917	79,895,797,840
177,303,000,000		Total Income Tax (a+b)	172,593,144,170	157,308,604,799
NOTE 2 - TAXES ON DOMESTIC GOODS & SERVICES				
223,961,000,000	1002.01.00	Value Added Tax	204,656,032,805	215,419,828,725
22,208,300,000	1002.01.01	Financial Services	21,090,795,631	21,721,757,148
56,925,200,000	1002.01.02	Other Services	45,609,087,661	48,563,220,719
35,340,500,000	1002.01.03	Manufacturing	38,487,278,292	32,824,883,451
109,487,000,000	1002.01.04	Imports	99,468,871,221	112,309,967,407
18,000,000	1002.02.00	Goods and Services Tax	11,994,674	25,543,710
12,000,000	1002.02.01	Services	8,012,275	17,091,140
6,000,000	1002.02.02	Manufacturing	3,982,398	8,452,570
4,000,000	1002.03.00	National Security Levy	3,930,354	14,743,435
2,000,000	1002.03.01	Services	2,008,516	13,254,423
2,000,000	1002.03.02	Manufacturing	1,921,838	1,489,012
60,971,000,000	1002.04.00	Excise (Ordinance) Duty	60,046,840,535	55,285,644,294
60,971,000,000	1002.04.01	Liquor	60,046,840,535	55,285,644,294
140,566,000,000	1002.05.00	Excise (Special Provisions) Duty	131,865,714,879	130,691,648,967
54,924,000,000	1002.05.01	Cigarettes	53,528,703,599	49,589,458,250
-	1002.05.02	Liquor	39,070,605	146,369
23,000,000,000	1002.05.03	Petroleum Products	28,466,074,809	22,469,769,500
57,510,000,000	1002.05.04	Motor Vehicles	46,495,735,189	52,834,802,242
5,132,000,000	1002.05.99	Other	3,336,130,676	5,797,472,606
25,000,000	1002.06.00	Tobacco Tax	34,344,008	33,082,337
-	1002.08.00	Debit Tax	(481,999)	4,232,322,781
25,000,000	1002.09.00	Turnover Tax	138,260,169	130,615,686
200,000,000	1002.10.00	Social Responsibility Levy	128,505,342	1,331,272,262
22,900,000,000	1002.11.00	Telecommunication Subscribers Levy	22,289,140,870	18,650,864,238
43,753,190,000	1002.12.00	Nation Building Tax	38,736,152,364	35,667,343,636
17,441,000,000	1002.12.01	Services	13,534,045,176	12,316,470,577
7,489,190,000	1002.12.02	Manufacturing	9,542,448,857	6,723,646,893
18,823,000,000	1002.12.03	Imports	15,659,658,331	16,627,226,166
4,689,000,000	1003	Licence Taxes and others	3,630,095,855	5,504,405,143
1,150,000,000	1003.01.00	Luxary Motor Vehicle Tax	1,253,220,848	717,112,194
77,000,000	1003.02.00	Transfer Tax	92,306,547	130,782,025
312,000,000	1003.03.00	Betting & Gaming Levy	289,175,098	286,881,858
2,200,000,000	1003.04.00	Share Transaction Levy	1,285,744,429	3,263,518,189
950,000,000	1003.05.00	Construction Industry Guarantee Fund Levv	709,648,933	1,106,035,867

## Notes to Financial Statements *contd...*

Budget Estimates 2012	Revenue Code	Revenue Title	Actual	
			2012 Rs.	2011 Rs.
-	1003.06.00	Environment Conservation Levy	-	75,010
<b>627,810,000</b>	<b>1003.07.00</b>	<b>Other Licences</b>	<b>623,580,064</b>	<b>573,642,670</b>
150,600,000	1003.07.01	Fees for registration of Nursing Homes	167,740,221	151,993,399
168,000,000	1003.07.02	Registration fees relevant to the Dept. of Registrar General's	217,795,350	182,280,954
150,000,000	1003.07.03	Private Timber Transport	59,386,598	60,903,544
34,000,000	1003.07.04	Tax on sale of Motor Vehicles	39,382,100	41,862,975
12,250,000	1003.07.05	Licence Taxes relevant to the Min. of Public Security, Law & Order	11,611,124	10,088,778
4,200,000	1003.07.06	Licence fees relevant to the Dept. of Fisheries & Aquatic Resources	4,504,500	4,951,420
108,760,000	1003.07.99	Other	123,160,170	121,561,600
<b>497,740,000,000</b>		<b>Total Taxes on Domestic Goods &amp; Services</b>	<b>462,164,109,919</b>	<b>467,560,957,884</b>
<b>NOTE 3 - TAXES ON INTERNATIONAL TRADE</b>				
76,830,000,000	1001.01.00	Import Duties	73,488,797,447	76,010,380,173
20,000,000	1001.02.00	Export Duties	20,869,945	16,754,804
480,000,000	1001.03.00	Import & Export Licences Fees	512,671,434	432,482,867
75,211,000,000	1001.04.00	Ports & Airports Development Levy	70,110,728,468	66,027,567,856
32,407,000,000	1001.05.00	Cess Levy	32,740,389,467	29,661,584,149
29,287,000,000	1001.05.01	Import Cess Levy	29,603,817,902	26,876,465,113
3,120,000,000	1001.05.02	Export Cess Levy	3,136,571,565	2,785,119,036
-	1001.06.00	Motor Vehicle Concessionary Levy	-	738,499
-	1001.07.00	Regional Infrastructure Development Levy	-	6,147,207
36,608,000,000	1001.08.00	Special Commodity Levy	33,665,823,105	15,622,126,449
<b>221,556,000,000</b>		<b>Total Revenue from Taxes on International Trade</b>	<b>210,539,279,866</b>	<b>187,777,782,005</b>
<b>NOTE 4 - NON-TAX REVENUE AND OTHERS</b>				
4,497,000,000	2001.01.00	Railways	4,852,421,717	4,235,379,004
4,900,000,000	2001.02.00	Postal	4,952,411,855	4,408,928,158
100,000,000	2001.03.00	Advance Accounts (Trading )	289,427,871	4,640
<b>9,497,000,000</b>		<b>Revenue From Other Sources (a)</b>	<b>10,094,261,442</b>	<b>8,644,311,801</b>
<b>2,539,825,000</b>	<b>2002.01.00</b>	<b>Rent</b>	<b>2,196,826,327</b>	<b>3,579,631,848</b>
650,000,000	2002.01.01	Rent on Government Building & Housing	582,263,523	663,386,711
875,000,000	2002.01.02	Rent on Crown Forests	758,415,568	1,399,283,630
25,000,000	2002.01.03	Rent from Land and Other	34,690,642	28,854,746
927,825,000	2002.01.04	Lease Rental from Regional Plantation Companies	771,317,447	825,946,852
62,000,000	2002.01.99	Other Rental	50,139,146	662,159,909
<b>9,029,000,000</b>	<b>2002.02.00</b>	<b>Interest</b>	<b>9,488,226,529</b>	<b>9,846,503,634</b>
7,704,000,000	2002.02.01	On-Lending	8,100,515,778	7,293,475,234
1,325,000,000	2002.02.99	Other	1,387,710,751	2,553,028,400
<b>36,459,060,000</b>	<b>2002.03.00</b>	<b>Profits</b>	<b>42,214,108,456</b>	<b>29,938,962,000</b>
<b>5,096,800,000</b>	<b>2002.04.00</b>	<b>Dividends</b>	<b>4,546,957,702</b>	<b>4,412,491,352</b>
<b>130,000,000</b>	<b>2003.01.00</b>	<b>Departmental Sales</b>	<b>143,436,379</b>	<b>137,491,014</b>
<b>20,883,315,000</b>	<b>2003.02.00</b>	<b>Administrative Fees &amp; Charges</b>	<b>17,499,785,908</b>	<b>18,180,024,744</b>
45,000,000	2003.02.01	Audit Fees	60,202,899	101,845,564
69,200,000	2003.02.03	Fees under Registration of Persons Act No. 32 of 1968	83,760,894	90,640,027
90,000,000	2003.02.04	Fees of Department of Survey	131,620,213	100,929,696
345,757,000	2003.02.05	Service Charges of Government press	308,218,041	209,976,686
17,000,000	2003.02.06	Fees under the Fauna & Flora Protection Ordinance	17,268,785	15,591,721

## Notes to Financial Statements *contd...*

Budget Estimates 2012	Revenue Code	Revenue Title	Actual	
			2012 Rs.	2011 Rs.
5,675,376,000	2003.02.07	Fees of Passports, Visas & Dual Citizenship	6,197,728,729	3,764,250,049
30,000,000	2003.02.09	Fees of Valuation Department	32,585,761	22,981,498
70,000,000	2003.02.10	Fees of Registrar of Companies	64,652,655	68,096,713
32,000,000	2003.02.11	Legal Fees from Corporations & Statutory Bodies	34,359,965	40,842,270
2,000,000	2003.02.12	Fees recovered under the Public Contract Act	2,997,500	1,909,000
200,000,000	2003.02.13	Examinations & Other Fees	263,015,516	166,029,564
6,518,400,000	2003.02.14	Fees under the Motor Traffic Act & Other receipts	6,577,719,673	6,271,998,065
112,000,000	2003.02.16	Air Craft Rentals	164,876,444	261,957,147
100,000,000	2003.02.17	Fees on Local Sale of Garments	104,693,242	93,818,076
120,000,000	2003.02.18	Fees relevant to the Department of Agriculture	140,235,667	124,825,145
342,000,000	2003.02.19	Fees relevant to Botanical Gardens	374,352,735	342,239,368
7,114,582,000	2003.02.99	Sundries	2,941,497,189	6,502,094,155
<b>3,000,000,000</b>	<b>2003.03.00</b>	<b>Fines &amp; Forfeits</b>	<b>5,137,117,410</b>	<b>6,264,216,677</b>
<b>9,042,000,000</b>	<b>2003.99.00</b>	<b>Other Receipts</b>	<b>3,238,910,549</b>	<b>12,711,007,905</b>
<b>12,255,000,000</b>	<b>2004</b>	<b>Social Security Contribution</b>	<b>11,738,026,931</b>	<b>12,627,965,092</b>
8,105,000,000	2004.01.00	Central Govt.	8,333,779,290	8,213,389,165
4,150,000,000	2004.02.00	Provincial Councils	3,404,247,641	4,414,575,927
<b>33,800,000,000</b>	<b>2005</b>	<b>Current Transfers</b>	<b>45,222,737,157</b>	<b>23,953,084,247</b>
32,000,000,000	2005.01.00	Central Bank Profits	43,000,000,000	22,000,000,000
-	2005.01.99	Other Transfers	-	1,953,084,247
1,800,000,000	2005.99.00	National Lotteries Board and Other transfers	2,222,737,157	-
<b>132,235,000,000</b>		<b>Revenue From Other Sources (b)</b>	<b>141,426,133,348</b>	<b>121,651,378,512</b>
<b>141,732,000,000</b>		<b>Total Non - Tax Revenue &amp; Others (a) + (b)</b>	<b>151,520,394,790</b>	<b>130,295,690,313</b>
<b>1,038,331,000,000</b>		<b>Grand Total (Note 1 - 4) Total Revenue</b>	<b>996,816,928,746</b>	<b>942,943,035,001</b>

## Notes to Financial Statements *contd...*

Budget Estimates 2012	Object Code	Object Title	Actual	
			2012 Rs.	2011 Rs.

### NOTE 5 - OBJECT CODE WISE CLASSIFICATION OF WAGES, SALARIES & OTHER

#### EMPLOYMENT BENEFITS

<b>Personal Emoluments</b>				
139,507,369,034	1001	Salaries & Wages	138,637,089,834	136,800,079,458
10,163,760,256	1002	Overtime and Holiday Payments	9,969,645,924	8,902,603,285
124,311,350,865	1003	Other Allowances	124,013,298,372	105,426,175,936
<b>273,982,480,155</b>		<b>Total</b>	<b>272,620,034,131</b>	<b>251,128,858,679</b>

### NOTE 6 - OBJECT CODE WISE CLASSIFICATION OF OTHER GOODS AND SERVICES

<b>Travelling Expenditure</b>				
9,459,887,867	1101	Domestic	9,371,544,451	9,409,622,539
2,304,865,352	1102	Foreign	2,173,594,880	2,621,430,431
<b>11,764,753,219</b>		<b>Total (a)</b>	<b>11,545,139,331</b>	<b>12,031,052,969</b>
<b>Supplies</b>				
1,959,068,472	1201	Stationery and Office Requisites	1,832,268,037	1,746,225,052
10,631,283,328	1202	Fuel	10,419,752,052	9,063,391,025
29,037,037,371	1203	Diets & Uniforms	28,407,136,877	30,047,627,355
18,331,863,386	1204	Medical Supplies	18,117,290,549	17,611,112,345
4,588,846,997	1205	Other	4,487,387,653	3,692,132,087
<b>64,548,099,554</b>		<b>Total (b)</b>	<b>63,263,835,169</b>	<b>62,160,487,864</b>
<b>Maintenance Expenditure</b>				
2,202,122,920	1301	Vehicles	2,128,161,096	2,004,767,889
1,367,253,862	1302	Plant and Machinery	1,282,874,743	1,408,579,581
633,149,612	1303	Buildings and Structures	576,237,199	606,965,816
<b>4,202,526,394</b>		<b>Total (c)</b>	<b>3,987,273,038</b>	<b>4,020,313,286</b>
<b>Services</b>				
3,333,750,920	1401	Transport	3,265,732,254	3,038,744,588
2,283,822,529	1402	Postal & Communication	2,168,682,161	1,876,117,818
8,839,050,197	1403	Electricity & Water	8,572,368,238	7,945,672,891
3,180,994,513	1404	Rents and Local Taxes	3,017,075,439	2,742,197,912
16,154,987,468	1405	Other	14,194,304,753	18,371,536,931
<b>33,792,605,627</b>		<b>Total (d)</b>	<b>31,218,162,845</b>	<b>33,974,270,140</b>
<b>114,307,984,794</b>		<b>TOTAL EXPENDITURE ON OTHER GOODS AND SERVICES (a+b+c+d)</b>	<b>110,014,410,382</b>	<b>112,186,124,259</b>

### NOTE 7 - OBJECT CODE WISE CLASSIFICATION OF TRANSFERS, GRANTS & SUBSIDIES

<b>Transfers</b>				
36,427,536,684	1501	Welfare Programmes	35,868,758,836	32,351,988,558
111,886,677,786	1502	Retirement Benefits	111,859,143,456	100,276,852,787
43,711,215,964	1503	Public Institutions	42,272,165,226	37,732,986,365
38,020,259,636	1504	Development Subsidies	37,599,483,028	31,172,961,869
1,830,080,659	1505	Subscriptions and Contributions Fees	758,217,299	1,793,724,968
1,951,989,038	1506	Property Loan Interest to Public Servants	1,919,266,510	1,548,136,242
96,072,381,000	1507	Contribution to Provincial Councils	91,934,204,666	94,645,097,539
4,503,353,084	1508	Other	4,365,029,707	4,317,330,764
-	1509	Losses and write off	-	422,784
<b>334,403,493,850</b>		<b>Total</b>	<b>326,576,268,727</b>	<b>303,839,501,876</b>

## Notes to Financial Statements *contd...*

Budget Estimates 2012	Object Code	Object Title	Actual	
			2012 Rs.	2011 Rs.
NOTE 8 - OBJECT CODE WISE CLASSIFICATION OF INTEREST PAYMENTS				
350,651,643,934	1601	Domestic Debt	350,651,642,737	312,284,706,748
60,199,000,000	1602	Foreign Debt	58,335,067,357	40,724,257,372
410,850,643,934		Total	408,986,710,093	353,008,964,120
NOTE 9 - OBJECT CODE WISE CLASSIFICATION OF OTHER RECURRENT EXPENDITURE				
137,270,341	1701	Losses and Write off	133,266,321	33,768,120
503,311,228	1702	Contingency Services	-	-
640,581,569		Total	133,266,321	33,768,120
1,134,185,184,302		Grand Total (Notes 5 to 9) Total Recurrent Expenditure	1,118,330,689,656	1,020,197,217,054
NOTE 10 - OBJECT CODE WISE CLASSIFICATION OF PUBLIC INVESTMENT				
		Rehabilitation & Improvements of Capital Assets		
30,891,591,543	2001	Buildings & Structures	27,591,465,204	29,200,901,810
4,464,582,664	2002	Plant, Machinery and Equipment	4,229,745,941	4,168,992,801
3,472,025,542	2003	Vehicles	3,100,940,476	2,937,539,749
38,828,199,749		Total (a)	34,922,151,621	36,307,434,360
		Acquisition of Capital Assets		
10,636,399,123	2101	Vehicles	9,631,992,696	11,169,110,826
2,772,575,167	2102	Furniture & Office Equipment	2,271,813,978	2,657,615,048
15,388,339,118	2103	Plant, Machinery and Equipment	12,541,573,316	11,513,256,133
137,367,025,945	2104	Buildings and Structures	125,227,455,729	85,206,063,464
57,956,527,221	2105	Lands and Land Improvements	51,819,516,111	51,383,955,969
224,120,866,573		Total (b)	201,492,351,831	161,930,001,440
		Capital Transfers		
57,648,248,440	2201	Public Institutions	44,327,333,676	45,025,884,858
1,368,358,000	2202	Development Assistance	1,101,164,208	1,791,425,676
17,514,391,000	2203	Contribution to Provincial Councils	8,762,840,000	13,580,860,000
1,547,476,000	2204	Transfers Abroad	1,459,113,440	584,926,623
78,078,473,440		Total (c)	55,650,451,323	60,983,097,157
		Acquisition of Financial Assets		
-	2301	Equity Contribution	-	100,000,000
53,318,394,006	2302	On-Lending	51,591,429,758	49,515,040,768
53,318,394,006		Total (d)	51,591,429,758	49,615,040,768
		Human Resource Development		
4,789,555,403	2401	Knowledge Enhancement & Institutional Development	3,229,346,926	3,822,321,888
4,789,555,403		Total (e)	3,229,346,926	3,822,321,888
		Other Capital Expenditure		
82,450,000	2501	Restructuring	1,835,063	581,751,049
138,006,623,210	2502	Investments	111,363,491,367	74,200,514,802
940,712,316	2503	Contingency Services	-	-
15,991,349,000	2504	Investments in Provincial Councils	12,837,820,421	11,078,834,375
155,021,134,526		Total (f)	124,203,146,851	85,861,100,226
554,156,623,698		TOTAL EXPENDITURE ON PUBLIC INVESTMENTS	471,088,878,311	398,518,995,838
		(a+b+c+d+e+f)		
1,688,341,808,000		Grand Total (Notes 5 to 10) - Total Expenditure	1,589,419,567,966	1,418,716,212,893



## Notes to Financial Statements *contd...*

S No	Funding Agency / Name of the Project		Actual	
			2012 Rs	2011 Rs
Note 11 - FOREIGN BORROWINGS - 2012				
	AB SVENSK EXPORT CREDIT		1,600,519,010	1,761,910,511
1	Fourth Rural Electrification Project	2004076	463,547,532	79,559,250
2	Ratmalana & Ja-Ela Waste Water Treatment Facilities Project	2007029	1,136,971,478	1,682,351,261
	ASIAN DEVELOPMENT BANK (ADB)		37,898,049,201	29,898,266,987
3	Southern Transport Development Project	1711	-	130,629,070
4	Secondary Towns and Rural Community Water/Sanitation	1993	-	754,147,262
5	North East Coastal Community Development Project	2027	-	93,151,117
6	Conflict Affected Areas Rehabilitation	2043	-	222,700,664
7	Conflict Affected Areas Rehabilitation	2044	-	412,748,848
8	TA Loan - Road Project Preparatory Facility	2004006	210,214,653	231,989,246
9	Secondary Education Modernization (ii)	2004008	143,123,264	-
10	Modernization of Revenue Administration	2132	949,573,664	200,292,487
11	Tsunami Affected Areas Rebuilding Project	2167	-	90,551,175
12	North East Community Restore and Development	2168	23,492,550	29,120,243
13	Technical Education Development	2197	-	693,186,322
14	Local Government Infrastructure Improvement Project	2201	1,032,352,604	1,421,794,578
15	National Highways Sector Project	2217	3,400,348,048	4,702,325,580
16	Secondary Towns & Rural Community Water Sanitation (OCR)	2275	169,357,034	163,020,155
17	Secondary Towns & Rural Community Water Sanitation Supply I	2276	332,643,724	291,850,169
18	Colombo Port Expansion Project	2319	6,831,316,076	8,543,029,315
19	Education for Knowledge Society Project	2371	1,369,396,938	1,452,796,959
20	SME Regional Development Project	2381	208,262,399	1,345,278,798
21	Southern Transport Development Project - Supplementary	2413	1,126,773,147	910,689,633
22	Dry Zone Urban Water and Sanitation Project	2477	278,177,441	105,709
23	Clean Energy and Access Improvement Project	2518	4,362,846,765	804,270,267
24	Clean Energy and Access Improvement Project	2519	1,195,014,171	265,884,424
25	Eastern & North Central Provincial Road Project	2546	1,630,332,830	2,297,784,764
26	Greater Colombo Waste Water Management Project (OCR)	2557	199,021,848	35,298,366
27	Greater Colombo Waste Water Management Project (ADF)	2558	153,101,820	164,377,859
28	North-East Community Restoration & Development Project II Supplementary	2618	981,559,476	295,486,211
29	Fiscal Management Efficiency Project	2624	14,611,371	39,211,291
30	Conflict Affected Region Emergency Project	2626	4,705,942,470	957,499,529
31	Northern Road Connectivity Project (OCR)	2639	4,960,174,477	2,271,750,238
32	Northern Road Connectivity Project (ADF)	2640	618,534,518	507,265,047
33	Jaffna & Kilinochchi Water Supply & Sanitation Project OCR	2710	80,569,891	158,594,155
34	Jaffna & Kilinochchi Water Supply & Sanitation Project ADF	2711	144,151,498	250,960,370
35	Sustainable Power Sector Support Project	2733	1,226,266,601	-
36	Sustainable Power Sector Support Project	2734	129,462,503	-
37	Secondary Towns & Rural Community Based Water Supply Add.	2757	270,163,208	12,210,189
38	Secondary Towns & Rural Community Based Water Supply (XDR)	2758	467,890,240	148,266,944
39	Local Government Enhancement Project	2011028	67,050,587	-
40	National Highways Sector Project (AF)	2011035	616,323,385	

## Notes to Financial Statements *contd...*

S No	Funding Agency / Name of the Project		Actual	
			2012 Rs	2011 Rs
	<b>BANK AUSTRIA CREDITANSTALT AG</b>		<b>61,315,543</b>	<b>359,182,493</b>
41	Greater Colombo Sewerage Rehabilitation System II	2007003	-	144,766,002
42	Rehabilitation & Augmentation of Kirindi Oya Water Supply Project	2008021	61,315,543	214,416,491
	<b>BOERENLEEN BANK</b>		<b>3,456,532,249</b>	<b>1,501,178,363</b>
43	Disaster Management Communication & Response Project	2007032	-	51,300,680
44	Extension of a Disaster Management & Emergency Response System	2009031	661,367,682	1,390,545,695
45	Impotation Dairy Animals (Netherlands & Australia)	2011026/2011025	822,450,117	59,331,988
46	Development of Hambantota Hospital	2012010	1,072,415,204	-
47	Development of Nuwara Eliya Hospital	2012009	900,299,246	-
	<b>DANSKE BANK A/S</b>		<b>3,994,667,063</b>	<b>91,633,610</b>
48	DFCC Global Loan ii	2006093	3,994,667,063	-
49	Towns South of Kandy Water Supply Project	200	-	91,633,610
	<b>FORTIS EXPORT NV/FORTIS BANQUE SA</b>		<b>711,723,117</b>	<b>-</b>
50	Kolonna Balangoda Water Supply Project	2011029	711,723,117	-
	<b>HSBC BANK Plc (UK)</b>		<b>61,987,295</b>	<b>812,730,903</b>
51	Regional Bridge Project HSBC Bank Plc UK	2007027	61,523,250	667,930,600
52	Supply & Installation of 5000 Solar Powered Drip Irrigation & Fertilising Systems	2008024	-	141,824,408
53	The Development of the Dikkowita Fisheries Harbour (Netherlands)	2008037	464,045	2,975,895
	<b>INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)</b>		<b>21,285,547,674</b>	<b>23,110,583,689</b>
54	Renewable Energy for Rural Economic Development Project	3673	74,944,066	331,982,195
55	Second North East Irrigated Agriculture Project	3935	697,766,076	1,899,472,520
56	E - Sri Lanka Development Project	3986	518,627,258	488,845,892
57	North East Housing Reconstruction Project	4014	-	294,625,268
58	Road Sector Assistance Project	4138	131,719,557	688,833,108
59	Puttalam Housing Project	4261	153,075,201	552,267,894
60	Renewable Energy for Rural Economic Development Project	3673-1	-	1,812,351,316
61	Dam Safety & Water Resources Planning	4406	1,706,491,149	900,653,908
62	Public Sector Capacity Building Project	4412	513,798,685	507,885,684
63	Additional Financing for North - East Housing Reconstruction Project	4428	-	1,961,654,860
64	Additional Financing for Education Sector Development Project	4423	-	240,244,939
65	Additional Financing for Road Sector Assisting Project	4429	2,998,286,055	306,371,551
66	Additional Financing for Health Sector Development Project	4575	-	28,209,092
67	Second Community Development & Livelihood Improvement Project	4613	1,114,535,361	2,069,044,066
68	Provincial Roads Project	4630	2,051,554,421	1,681,489,770
69	Emergency Additional Financing for Community	4671	157,736,050	971,738,280
70	Emergency Northern Recovery Project	4676	2,570,263,721	2,582,523,415
71	Higher Education for the 21st Century	4686	766,723,719	304,768,594
72	Sustainable Tourism Development Project	4702	-	10,199,874
73	North East Local Services Improvement Project	4728	2,373,419,050	2,163,876,704
74	Small & Medium Enterprise Development Facility Project	4804	-	3,280,902,541
75	2nd & 3rd Additional Financing for Community Livelihood in Conflict Affected Areas	4956	3,358,366,844	-
76	Second Additional Financing for Road Sector Assistance Project	2010010	482,618,888	32,642,218
77	Additional Financing for E-Sri Lanka Development Project	5051/2012004	307,992,096	-
78	Transforming the School Education System as the Foundation of a Knowledge Hub	5037/2012012	1,307,629,477	-
	<b>INTERNATIONAL BANK FOR RECONSTRUCTION &amp; DEVELOPMENT (IBRD)</b>		<b>334,928,588</b>	<b>-</b>
79	Metro Colombo Urban Development Project	2012011	334,928,588	-

## Notes to Financial Statements *contd...*

S No	Funding Agency / Name of the Project		Actual	
			2012 Rs	2011 Rs
	<b>ING BANK N.V. - NETHERLAND</b>		<b>259,814,130</b>	<b>489,193,416</b>
80	Negombo Water Supply Project	2008032	259,814,130	489,193,416
	<b>INTERNATIONAL FUND FOR AGRICULTURE DEVELOPMENT (IFAD)</b>		<b>1,784,546,339</b>	<b>2,036,071,365</b>
81	Dry Zone Livelihood Support & Partnership Programme	2004022	672,445,921	738,769,802
82	Post Tsunami Coastal Rehabilitation & Resource Management Programme	664	-	193,571,579
83	Smallholder Plantations Entrepreneurship Development Programme	2007011	324,567,201	394,019,467
84	Post Tsunami Coastal Rehabilitation & Resource Management Programme II	2008025	787,533,217	433,728,516
85	National Agribusiness Development Programme	797	-	275,982,000
	<b>NORDEA BANK DENMARK A/S</b>		<b>4,901,412,586</b>	<b>4,401,110,533</b>
86	Kelani Right Bank Water Treatment Plant	2008028	1,159,249,418	2,601,308,676
87	Oluvil Port Development Project	2008029	707,838,094	639,729,987
88	Rural Electrification Project 4 Extension	2011011	3,034,325,074	1,160,071,871
	<b>ORGANISATION OF PETROLEUM EXPORTING COUNTRIES (OPEC)</b>		<b>596,747,080</b>	<b>339,420,166</b>
89	Southern Province Rural Economic Advancement Project	868 P	-	78,473,830
90	National Highway Sector Project	2010037	596,747,080	260,946,337
	<b>RAIFFEISEN ZENTRAL BANK</b>		<b>23,007,412</b>	<b>248,470,851</b>
91	Up-Grading of Technical Education (SLIATE)	2008038	23,007,412	248,470,851
	<b>AUSTRALIAN &amp; NEW ZEALAND INVESTMENT BANK</b>		<b>2,878,438,207</b>	<b>4,067,659,133</b>
92	Integrated Water Supply Scheme for the Unserved Areas of Ampara District - Phase III	2010023	2,878,438,207	4,067,659,133
	<b>UNICREDIT BANK AUSTRIA AG</b>		<b>2,802,985,971</b>	<b>1,309,960,711</b>
93	Rehabilitation Old Laxapana Hydroelectric Power Plant	2010004	2,802,985,971	-
94	Rehabilitation of Eastern Railway Line	2010022	-	1,309,960,711
	<b>CALYON CREDIT AGRICOLE CIB</b>		<b>1,685,097,097</b>	<b>2,104,706,136</b>
95	Rehabilitation of Wimalasurendra and New Laxapana Power Stations	2008042	1,685,097,097	2,104,706,136
	<b>CHINA DEVELOPMENT BANK CORPORATION</b>		<b>31,366,234,777</b>	<b>6,658,002,239</b>
96	Rehabilitation and Improvement of Priority Road Project	2010051	6,899,988,050	3,383,110,799
97	Improvement and Rehabilitation of Priority Roads	2011007	15,954,761,666	3,274,891,440
98	Moragahakanda Development Project	2012017	8,511,485,062	-
	<b>GOVERNMENT OF FRANCE</b>		<b>2,696,199,238</b>	<b>2,106,700,182</b>
99	Trincomalee Integrated Infrastructure Project	2005049	747,609,355	229,587,513
100	Greater Trincomalee Water Supply Project	2005052	735,997,738	515,537,234
101	Trincomalee Integrated Infrastructure Project	2008030	1,000,327,717	397,331,557
102	Provision of Oxygen Concentrators, Operating Theaters & Medical Equipment to Tsunami Affected & Remote Hospitals Project	2010008	212,264,427	964,243,879
	<b>GOVERNMENT OF GERMANY</b>		<b>327,088,068</b>	<b>426,316,729</b>
103	Koggala Water Supply Project	9865080	-	41,855,548
104	Nawalapitiya Water Supply Project	9765835	-	39,972,047
105	DFCC V Credit Line for SME in the North and East	2006040	-	295,243,799
106	Ampara Water Supply Project		-	22,811,274
107	Colombo Grid Substation Project	2001042	48,434,827	4,835,796
108	Reconstruction of Water Supply Galle District - Phase II	2010036	-	21,598,265
109	Rehabilitation Electricity Supply Jaffna Region (Transmission Line)	2005051	278,653,241	-

## Notes to Financial Statements *contd...*

S No	Funding Agency / Name of the Project		Actual	
			2012 Rs	2011 Rs
	<b>GOVERNMENT OF INDIA</b>		<b>26,062,953,437</b>	<b>24,813,307,574</b>
110	Upgrading of Railway Line Colombo Matara	2008011	1,879,907,509	4,580,465,085
111	Upgrading of Railway Line Colombo Matara Phase II	2010010	2,379,125,578	3,139,687,398
112	Railway Line Omanthai - Pallai, Madu - Tallaimannar & Medawachchiya	2010052	6,577,319,129	13,839,341,148
113	India Dollar Credit Line Agreement	2008006	2,315,561,749	3,253,813,944
114	Greater Dambulla Water Supply Project I	2012002	4,295,748,830	-
115	Restoration of Northern Railway Services	2012003	8,615,290,641	-
	<b>GOVERNMENT OF KUWAIT</b>		<b>338,844,721</b>	<b>767,136,520</b>
116	Bridges Reconstruction & Rehabilitation Project	1995013	57,895,838	7,467,822
117	Strengthening of Tertiary Education & Administrative Infrastructure in Tsunami Affected Areas	2005048	70,293,556	198,543,677
118	South Eastern University of Sri Lanka Development Project Phase I "A"	2007041	186,677,339	172,723,050
119	Kalu Ganga Development Project	2009002	23,977,987	388,401,970
	<b>GOVERNMENT OF SAUDI ARABIA</b>		<b>34,880,931</b>	<b>369,830,506</b>
120	Development Health Facilities - Colombo Hospital	4/390	-	294,092,243
121	Baticolao - Trincomalee Road Project	5/416	-	53,943,982
122	Epilepsy Hospital & Health Centers Project	2008001	34,880,931	19,557,217
123	Development Health Facilities - Colombo Hospital Addl. Loan	6/476	-	2,237,064
	<b>JAPAN / SRI LANKA</b>		<b>46,633,016,713</b>	<b>39,834,893,258</b>
124	Colombo City Electricity Distribution Development Project	2001051	561,381,550	983,306,740
125	Upper Kotmale Hydro Power Project	2002040	8,588,493,929	8,799,178,071
126	Provincial Road Improvement Project	76	-	382,662,036
127	Pro-poor Economic Advancement & Community Enhancement	2003044	951,759,164	1,298,508,783
128	Vavuniya Kilinochchi Transmission Line Project	2005040	343,777,773	641,083,392
129	Tourism Resources Improvement Project	2006043	241,972,058	564,692,646
130	Pro - poor Eastern Infrastructure Development Project	2006042	1,415,048,375	431,463,208
131	Greater Colombo Transport Development Project.	2007004	5,565,654,804	4,833,388,410
132	Water Sector Development Project	2007006	3,052,449,957	3,233,772,621
133	Greater Colombo Urban Transport Development Project.	2008012	8,647,582,136	7,902,237
134	Southern Highway Construction Project (II)	2008013	6,232,799,005	7,346,553,690
135	Water Sector Development Project (II)	2008014	1,754,348,440	1,453,719,620
136	Poverty Alleviation Micro Finance Project -II	2008015	526,854,829	885,000,621
137	Ukuwela Power Station Rehabilitation Project		-	738,611,965
138	Energy Diversification Enhancement Project	2008016	1,232,356	1,072,029
139	Provincial Rural Road Development Project	2010013	2,195,495,955	1,219,152,203
140	Provincial Rural Road Development Project	2010014	1,928,611,981	1,269,087,087
141	Eastern Province Water Supply Development Project	2010015	1,172,226,410	461,183,417
142	Kandy City Waste Water Management Project	2010016	99,379,484	19,380,992
143	Upper Kotmale Hydro Power Project II	2010017	29,978,847	6,274,906
144	Greater Colombo Urban Transport Development Project. - Phase II	2011003	1,066,721,021	7,686,080
145	Vavuniya Kilinochchi Transmission Line Project - Phase II	2011004	610,695,849	417,545,055
146	Emergency Natural Disaster Rehabilitation Project	2011027	1,643,201,945	4,833,667,450
147	Habarana Veyangoda Transmission Line	2012006	2,374,818	-
148	Improvement of Basic Social Services Targeting Emerging Region	2012007	976,030	-

## Notes to Financial Statements *contd...*

S No	Funding Agency / Name of the Project		Actual	
			2012 Rs	2011 Rs
	<b>GOVERNMENT OF SPAIN</b>		<b>517,565,545</b>	<b>-</b>
149	Veyangoda Railway Crossing Flyover Project	2012015	68,737,342	-
150	Veyangoda Railway Crossing Flyover Project	2012016	448,828,203	-
	<b>SRI LANKA - KOREA</b>		<b>6,471,008,667</b>	<b>3,004,737,753</b>
151	Upgrading of Niyagama National Vocational Training Centre Project	16	-	11,847,973
152	Lanka Government Network Stage II Project	2008040	134,693,646	66,117,529
153	Improvement of Padeniya - Anuradhapura Road Project	2008041	2,897,507,322	2,664,846,837
154	Ruhunupura Water Supply Development Project	2009004	2,249,859,031	10,399,812
155	Hatton - Nuwara Eliya Road Improvement Project	2010041	1,188,948,667	251,525,603
	<b>THE EXPORT - IMPORT BANK OF CHINA</b>		<b>30,794,508,396</b>	<b>24,845,730,320</b>
156	Hambantota Port Development Project	2007044	-	323,888,923
157	Colombo - Katunayake Expressway (CKE) Section A1	2009011	1,845,832,747	1,644,933,911
158	Colombo - Katunayake Expressway (CKE) Section A2	2009010	1,697,029,746	1,510,613,455
159	Colombo - Katunayake Expressway (CKE) Section A3	2009012	1,289,917,688	1,137,881,118
160	Colombo - Katunayake Expressway (CKE) Section A4	2009013	1,691,387,589	1,594,037,075
161	Supply of 13 Nos. Diesel Multiple Units to Sri Lanka Railway Project	2010007	3,678,278,808	-
162	Supply of 2 Nos. MA 60 Aircraft Project	2010029	-	4,519,953,571
163	Bunkering Facility & Tank Farm Project at Hambantota	2009009	409,142,518	3,213,218,190
164	Northern Province Power Sector Development Project	2010030	1,663,182,352	-
165	Northern Road Rehabilitation Project	2010031	2,017,304,156	3,404,502,748
166	Northern Road Rehabilitation Project	2010032	2,194,053,261	800,152,864
167	Northern Road Rehabilitation Project	2010033	919,215,013	1,440,176,372
168	Northern Road Rehabilitation Project	2010034	2,811,056,059	1,917,827,636
169	Northern Road Rehabilitation Project	2010035	4,167,036,848	2,428,602,994
170	Highway Section Pinnaduwa to Kodagoda	2011005	1,179,284,434	494,884,073
171	Highway Section Kodagoda to Godagama	2011006	2,094,262,261	415,057,390
172	Rehabilitation & Improvement of 67 km Length of Navatkuli, Karaitivu, Mannar Road	2011008	1,656,311,424	-
173	Rehabilitation & Improvement of 113 km Length of Puttalam Marichchikade, Mannar Road	2011009	427,642,100	-
174	Lighting Eastern Province Project	2012001	249,838,049	-
175	Lighting Uva Province Project	2011014	803,733,341	-
	<b>EXPORT IMPORT BANK OF MALAYSIA</b>		<b>455,598,400</b>	<b>-</b>
176	Purchase of 50 Units of Terberg Terminal Tractors	2011018	455,598,400	-
	<b>EXPORT DEVELOPMENT BANK OF IRAN</b>		<b>6,219,268,503</b>	<b>1,949,926,810</b>
177	Uma Oya Hydro Electric & Irrigation Project	2008027	3,520,831,209	-
178	Implementation of Rural Electrification Project 8	2010005	2,698,437,295	1,949,926,810
	<b>OTHERS</b>		<b>129,443,930,580</b>	<b>109,703,720,611</b>
179	International Sovereign Bond Issue	2012018	129,443,930,580	109,703,720,611
	<b>TOTAL</b>		<b>365,698,416,536</b>	<b>287,012,381,370</b>

## Notes to Financial Statements *contd...*

	Actual	
	2012	2011
	Rs	Rs
<b>Note 12 - FOREIGN GRANTS</b>		
<b><u>Grants Received in the Form of Cash for Projects</u></b>		
Asian Development Bank (ADB)	1,125,744	-
Government of Japan	260,724,143	2,686,933
International Labour Organization (ILO)	2,443,200	403,197
Government of Netherlands	9,000,000	49,882,074
United Nations High Commission for Refugees (UNHCR)	42,170,000	68,447,245
United Kingdom (UK)	36,521,806	271,337,461
United Nations Development Programme (UNDP)	180,556,379	168,157,510
United Nations Educational, Scientific and Cultural Organization (UNESCO)	6,732,484	28,612,899
United Nations Fund for Population (UNFPA)	54,272,126	61,417,371
United Nations Children's Education Fund (UNICEF)	1,002,202,546	752,989,457
United States of America (USA)	18,726,237	32,420,261
World Health Organization (WHO)	55,225,896	71,996,093
World Bank (WB)	426,416,661	636,329,762
United Nations Environment Programme (UNEP)	20,566,300	6,119,816
International Development Association (IDA)	-	3,369,390,010
The Government of India	-	53,282,003
Global Alliance Vaccination Immunization (GAVI)	-	118,703,180
South Asian Association for Regional Cooperation (SAARC)	27,140,823	20,000,000
Ministry of Education	575,493	4,000,000
Others	14,518,252	78,452,081
Others (Pakistan & World Meteorology Organization)	21,743,739	-
<b>Sub Total (a)</b>	<b>2,180,661,830</b>	<b>5,794,627,351</b>
<b><u>Grants Received through Special Foreign Currency Accounts</u></b>		
International Development Association (IDA)	247,392,652	513,088,132
Asian Development Bank (ADB)	938,764,761	810,585,853
United Nations Development Programme (UNDP)	19,995,069	36,019,528
International Fund for Agricultural Development (IFAD)	45,181,413	28,888,225
<b>Sub Total (b)</b>	<b>1,251,333,894</b>	<b>1,388,581,737</b>

## Notes to Financial Statements *contd...*

	2012 Rs	Actual 2011 Rs
<b>Grants Received and Reported in the Form of Materials &amp; Equipments</b>		
World Food Programme (WFP)	1,525,924,781	3,413,188,850
Korea International Cooperation Agency (KOICA)	116,168,627	-
The Government of India	603,856,876	-
The Government of Japan	-	1,906,170,882
The Government of China	1,392,011	-
The Government of Norway	1,505,529	-
Japan International Cooperation Agency (JICA)	750,000,000	513,466,180
Asian Development Bank (ADB)	-	1,053,903,973
World Meteorological Organization (WMO)	-	3,936,100
United Nations Development Programme (UNDP)	34,601,747	470,045,275
The Government of Sweden	-	2,897,980
Food and Agriculture Organization (FAO)	4,550,000	90,637,890
European Union (EU)	-	184,314,941
Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)	-	396,504,361
The Government of Rome	-	21,000,000
The Government of Canada	-	55,970,000
The Government of Spain	20,994,217	21,392,110
The Government of Iran	-	100,000,000
The Government of Netherland	-	110,192,653
<b>Sub Total (c)</b>	<b>3,058,993,787</b>	<b>8,343,621,195</b>
<b>Direct Payment</b>		
United Nations Development Programme (UNDP)	1,164,311,334	10,714,157
United Nations Children's Education Fund (UNICEF)	-	1,000,000
Food and Agriculture Organization (FAO)	-	3,567,725
The Government of Japan	2,232,988,886	-
European Commission	19,209,397	-
The Government of India	4,618,746,248	-
International Fund for Agricultural Development (IFAD)	14,391,547	-
International Federation of Red Cross (IFRC)	136,181,168	-
United States of America (USA)	826,623,790	-
Java Agent Development Framework (JADF)	21,820,000	-
Gesellschaft for International Zusammenarbeit (GIZ)	545,510,000	-
<b>Sub Total (d)</b>	<b>9,579,782,371</b>	<b>15,281,882</b>
<b>Non Project</b>		
The Government of Japan	-	419,523,194
<b>Grand Total - (a)+(b)+( c)+(d)</b>	<b>16,070,771,882</b>	<b>15,961,635,355</b>



## Notes to Financial Statements *contd...*

	2012 Rs.	Actual 2011 Rs.
<b>Note 13 - DOMESTIC NON-BANK BORROWINGS</b>		
Net Borrowings through Treasury Bills - 8085	22,808,073,041	92,063,836,890
Treasury Bonds - 9093	639,713,357,433	537,673,800,390
Foreign Currency Banking Units - 9107	2,910,492,274	5,464,504,500
Sri Lanka Development Bonds 9105	60,437,388,704	60,191,724,500
	<b>725,869,311,452</b>	<b>695,393,866,280</b>
<b>Net Borrowings through Treasury Bills</b>	1,552,719,528,082	1,115,723,923,483
<b>Less:</b> Total Repayments	1,529,911,455,041	1,023,660,086,593
Net Amount of Repayment/Borrowings	<b>22,808,073,041</b>	<b>92,063,836,890</b>
<b>Note 14 - DOMESTIC DEBT REPAYMENTS</b>		
Treasury Bonds 9093	386,154,787,750	356,651,912,740
Rupee Loans 8249	3,575,006,483	25,748,259,742
Sri Lanka Development Bonds 9105	42,078,511,440	57,319,133,450
Local Loans in Foreign Currency 9107	-	5,992,268,100
Deferred Loan Re-Payment	18,106,772,682	24,363,440,007
	<b>449,915,078,355</b>	<b>470,075,014,039</b>
<b>Note :</b> - Net borrowings through Treasury Bills reflects the difference between borrowings through Treasury Bills and their settlements on maturity, taken place during the year.		
<b>Note 15 - RECOVERIES FROM ON-LENDING</b>		
<b>Foreign Funded Lending</b>		
National Development Bank	977,347,272	935,173,346
Sri Lanka Ports Authority	6,135,091,714	4,668,488,136
Development Finance Corporation of Ceylon	2,227,077,542	1,908,314,375
Hatton National Bank	489,777,817	437,981,418
Lanka Electricity Company Ltd.	77,422,406	77,422,406
National Water Supply & Drainage Board	100,000,000	764,550,000
Sampath Bank	364,259,693	335,988,761
Commercial Bank	405,140,181	392,394,866
Seylan Bank	48,479,704	118,619,385
Ceylon Petroleum Corporation	647,368,644	647,368,644
National Development Trust Fund	-	16,032,023
Lanka Orix Leasing Company	162,344,771	162,344,771
Local Loan Development Fund	92,068,955	57,440,926
Revolving Funds of Central Bank with Regional Development Banks	1,708,995,473	1,912,234,528
Lankaputhra Development Bank	8,878,643	8,878,643
Other Institutions	2,493,533,785	2,110,735,248
<b>Sub Total (a)</b>	<b>15,937,786,600</b>	<b>14,553,967,478</b>
<b>Treasury Funded Lending</b>		
AHF Loan Scheme	298,929,369	296,487,652
Other Loans	172,389,305	27,257,528
<b>Sub Total (b)</b>	<b>471,318,674</b>	<b>323,745,180</b>
<b>Grand Total (a+b)</b>	<b>16,409,105,273</b>	<b>14,877,712,658</b>

## Notes to Financial Statements *contd...*

	2012 Rs.	Actual 2011 Rs.
<b>Note 16 - LOANS TO PUBLIC OFFICERS</b>		
Advances to Public Officers Transferred to Provincial Councils (7004)	193,040,033	193,040,033
Advances to Public Officers of the Central Government (8493)	23,841,376,453	25,928,740,234
	<b>24,034,416,486</b>	<b>26,121,780,267</b>
<b>Note 17 - ADVANCES TO GOVERNMENT DEPARTMENTS</b>		
Treasury Authorised Advance Accounts (7000)	9,052,234,339	8,530,774,206
	<b>9,052,234,339</b>	<b>8,530,774,206</b>
<b>Note 18 - MEMBERSHIP FEES PAID</b>		
International Monetary Institutions Membership Fees Paid (8234) and (8339)	1,885,484,942	1,885,484,941
Foreign Aids Counterpart Fund - Grants (8317)	1,631,694,933	1,631,694,933
	<b>3,517,179,875</b>	<b>3,517,179,874</b>

## Notes to Financial Statements *contd...*

### Note 19 - ON LENDING

S.No	Name of the Institution	Balance as at 01.01.2012 Rs.	New Loan During 2012 Rs.	Amount Settled During 2012 Rs.	Balance as at 31.12.2012 Rs.
1	Sri Lanka Ports Authority	69,006,542,619	10,810,728,576	6,135,091,714	77,738,055,754
	Add : Parity Variance	4,055,876,273	-	-	4,541,608,985
	<b>Balance</b>	<b>73,062,418,892</b>	<b>10,810,728,576</b>	<b>6,135,091,714</b>	<b>82,279,664,739</b>
2	Ceylon Electricity Board	<b>80,321,190,713</b>	<b>21,774,748,622</b>	-	<b>102,095,939,335</b>
3	Development Finance Corporation of Ceylon	20,152,899,763	4,331,110,539	2,227,077,542	21,882,516,802
	Less : Parity Variance/Adjustment	(374,415,958)	-	-	(120,491,697)
	<b>Balance</b>	<b>19,778,483,805</b>	<b>4,331,110,539</b>	<b>2,227,077,542</b>	<b>21,762,025,105</b>
4	Lankaputhra Development Bank	2,129,649,910	-	8,878,643	2,120,771,267
	Add: Parity Variance	-	-	-	285,435,708
	<b>Balance</b>	<b>2,129,649,910</b>	<b>-</b>	<b>8,878,643</b>	<b>2,406,206,976</b>
	<b>Indian Line of Credits</b>				
5	Aliance Finance Co. Ltd.	-	-	-	-
6	Bank of Ceylon	210,955	-	210,955	-
7	Ceylease Financial Service Ltd.	0	-	-	0
8	Ceylinco Leasing Company Ltd.	-	-	-	-
9	Commercial Bank of Ceylon Ltd.	193,837	12	193,849	-
10	Hatton National Bank Ltd.	-	-	-	-
11	People's Bank	289,547	-	193,028	96,519
	<b>Sub Total</b>	<b>694,339</b>	<b>12</b>	<b>597,832.00</b>	<b>96,519</b>
12	People's Bank	<b>132,597,844</b>	<b>114,770,000</b>	<b>19,490,754</b>	<b>227,877,089</b>
13	National Development Bank	9,075,633,322	178,816,574	977,347,272	7,417,471,190
	Less: Parity Variance/ Adjustment	(859,631,433)			(859,631,433)
	<b>Balance</b>	<b>8,216,001,889</b>	<b>178,816,574</b>	<b>977,347,272</b>	<b>6,557,839,757</b>
14	Lanka Electricity Company	<b>210,013,871</b>	-	<b>77,422,406</b>	<b>132,591,465</b>
15	Sampath Bank Ltd.	4,088,995,818	431,702,521	364,259,693	3,908,674,142
	Less: Parity Variance/ Adjustment	(247,764,504)	-	-	(237,431,333)
	<b>Balance</b>	<b>3,841,231,314</b>	<b>431,702,521</b>	<b>364,259,693</b>	<b>3,671,242,809</b>
16	Hatton National Bank Ceylon Ltd.	4,864,793,157	397,440,802	489,777,817	4,706,850,022
	Less: Parity Variance/ Adjustment	(65,606,120)			(65,606,120)
	<b>Balance</b>	<b>4,799,187,037</b>	<b>397,440,802</b>	<b>489,777,817</b>	<b>4,641,243,902</b>
17	Commercial Bank	6,749,554,072	482,293,146	405,140,181	6,119,153,851
	Less: Parity Variance/ Adjustment	(707,553,186)	-	-	(707,553,186)
	<b>Balance</b>	<b>6,042,000,886</b>	<b>482,293,146</b>	<b>405,140,181</b>	<b>5,411,600,665</b>
18	Seylan Bank	336,371,989	39	48,479,704	287,892,323
19	Ceylon Petroleum Corporation	3,292,955,848	-	647,368,644	2,645,587,203
20	Sri Lanka Savings Bank	1,423,083,296	-	16,032,023	1,407,051,273
21	Sarvodaya Economic & Enterprises Development Service	928,541,362	-	154,390,990	774,150,373
22	Local Loan Development Fund	4,749,502,699	792,555,489	92,068,955	5,449,989,233
	<b>Sub Total</b>	<b>10,730,455,194</b>	<b>792,555,527</b>	<b>958,340,316</b>	<b>10,564,670,405</b>
23	Lanka Orix Leasing Co. Ltd.	1,485,926,317	(22,678,606)	162,344,771	1,291,430,129
	Less: Parity Variance/ Adjustment	(9,472,812)	-	-	(35,344,116)
	<b>Balance</b>	<b>1,476,453,505</b>	<b>(22,678,606)</b>	<b>162,344,771</b>	<b>1,256,086,012</b>

## Notes to Financial Statements *contd...*

S.No	Name of the Institution	Balance as at 01.01.2012 Rs.	New Loan During 2012 Rs.	Amount Settled During 2012 Rs.	Balance as at 31.12.2012 Rs.
24	National Water Supply & Drainage Board	26,797,270,740	1,827,383,579	100,000,000	28,524,654,319
25	Bank of Ceylon	2,498,969,768	271,591,383	151,824,330	2,342,348,323
	Less: Parity Variance/ Adjustment	(276,388,498)	-	-	(276,425,304)
	<b>Balance</b>	<b>2,222,581,270</b>	<b>271,591,383</b>	<b>151,824,330</b>	<b>2,065,923,019</b>
26	Colombo Dockyard	59,049,900		27,624,180	31,871,520
	Add: Parity Variance	445,800			8,692,020
	<b>Balance</b>	<b>59,495,700</b>	<b>-</b>	<b>27,624,180</b>	<b>40,563,540</b>
27	Urban Development Authority	276,749,960	-	-	276,749,960
28	Commercial Leasing Company Ltd.	(0)	0	-	0
29	Ceylinco Leasing Company Ltd.	102,547,740	-	14,649,677	87,898,063
	<b>Sub Total</b>	<b>379,297,700</b>	<b>0</b>	<b>14,649,677</b>	<b>364,648,023</b>
30	People's Leasing Company Ltd.	233,070,857	(10,000,000)	-	205,498,038
	Less: Parity Variance/ Adjustment	(17,572,818)	-	-	(28,221,964)
	<b>Balance</b>	<b>215,498,038</b>	<b>(10,000,000)</b>	<b>-</b>	<b>177,276,074</b>
31	Kandurata Development Bank	65,679,710	(4,879,618)	-	60,800,092
	Less: Parity Variance/ Adjustment	-	-	-	(8,930,398)
	<b>Balance</b>	<b>65,679,710</b>	<b>(4,879,618)</b>	<b>-</b>	<b>51,869,694</b>
32	Distance Learning Centre Ltd	25,649,282	-	3,206,160	22,443,121
33	Central Bank of Sri Lanka	1,361,184,386	(0)	285,429,032	1,075,755,354
34	Prajashakthi District Organization-Badulla	5,820,000	-	-	5,820,000
35	Sanasa Development Bank	12,056,479	-	-	12,056,479
36	Sanasa Development Bank	30,835,936	-	3,854,492	26,981,444
37	Regional Development Bank	-	168,693,000	9,770,648	158,922,352
38	Ministry of Agricultural Dev. Agrarian Services	1,504,859,359	-	4,260,008	1,500,599,352
39	Alliance Finance Company Ltd.	155,099,089	(3)	-	155,099,086
	<b>Sub Total</b>	<b>3,095,504,531</b>	<b>168,692,997</b>	<b>306,520,340</b>	<b>2,957,677,188</b>
40	Revolving Funds with Central Bank of Sri Lanka	14,520,567,929	3,842,057,427	1,708,995,473	19,265,343,616
	Add: Parity Variance/ Adjustment	2,611,713,733	-	-	2,641,450,697
	<b>Balance</b>	<b>17,132,281,662</b>	<b>3,842,057,427</b>	<b>1,708,995,473</b>	<b>21,906,794,313</b>
41	Wayamaba Development Bank	57,503,246	4,879,741	-	46,002,695
	Less: Parity Variance/ Adjustment	(16,380,292)	-	-	(11,500,674)
	<b>Balance</b>	<b>41,122,954</b>	<b>4,879,741</b>	<b>-</b>	<b>34,502,022</b>
42	Housing Development Finance Corporation (HDFC / NHDA)	346,212,263	-	20,669,729	325,542,535
43	Airport & Aviation Services (Sri Lanka) Ltd.	16,015,179,787	-	1,751,658,240	15,463,062,062
	Add: Parity Variance/ Adjustment	1,199,540,515	-	-	322,100,833
	<b>Balance</b>	<b>17,214,720,302</b>	<b>-</b>	<b>1,751,658,240</b>	<b>15,785,162,896</b>
	<b>On Lending Based on Foreign Aids (a)</b>	<b>278,310,044,067</b>	<b>45,391,213,223</b>	<b>15,907,710,909</b>	<b>313,241,698,399</b>
44	Local Loans & Development Fund	305,733,035	-	22,963,290	282,769,745
45	Sri Lanka Rubber Manufacture & Development Corporation	773,340,000	-	-	773,340,000
46	Sri Lanka Handicraft Development Board	9,761,000	-	908,000	8,853,000
47	Lankaputhra Development Bank - Small and Medium Grant Project	21,818,400	-	5,454,400	16,364,000
	<b>Sub Total</b>	<b>1,110,652,435</b>	<b>-</b>	<b>29,325,690</b>	<b>1,081,326,745</b>
48	Hotel Developers Lanka Ltd.	13,329,869,729	346,576,613	-	13,676,446,341
	Less: Parity Variance/ Adjustment	-	-	-	(10,663,895,784)
	<b>Balance</b>	<b>13,329,869,729</b>	<b>346,576,613</b>	<b>-</b>	<b>3,012,550,558</b>

## Notes to Financial Statements *contd...*

S.No	Name of the Institution	Balance as at 01.01.2012 Rs.	New Loan During 2012 Rs.	Amount Settled During 2012 Rs.	Balance as at 31.12.2012 Rs.
49	Other Local Loans	54,500,000	-	750,000	53,750,000
50	AHF Loan Scheme 2004/2005	2,072,187,273	-	298,929,369	1,773,257,904
51	Real Estate Exchange Pvt Ltd	250,000,000	-	-	250,000,000
52	Ministry of Petroleum & Pet.Resos. Dev.	591,152,900	-	129,021,650	462,131,250
53	Department of Treasury Operations - (RFPDFP)	1,999,025,150	-	-	1,999,025,150
54	Department of Treasury Operations - (PLGF)	916,231,000	-	-	916,231,000
55	Ceylon Hotel Corporations	19,000,000	-	-	19,000,000
56	Ceylon Ceramic Corporations	8,676,923	-	-	8,676,923
57	Ceylon Fisheries Corporations	50,000,000	-	-	50,000,000
58	Ceylon Fisheries Corporations	11,600,000	-	-	11,600,000
59	Ceylon Fisheries Corporations	50,000,000	-	-	50,000,000
60	National Paper Company Ltd	50,000,000	-	-	50,000,000
61	Central Bank - (SPIRDP)	62,041,756	-	22,913,125	39,128,631
62	Selacine Rupavahini	9,300,000	-	-	9,300,000
63	Central Bank - SEPI Loan Scheme	73,000,716	41,400,000	20,454,530	93,946,186
	<b>Sub Total</b>	<b>6,216,715,718</b>	<b>41,400,000</b>	<b>472,068,674</b>	<b>5,786,047,044</b>
	<b>On Lending Based on Domestic Funds (b)</b>	<b>20,657,237,882</b>	<b>387,976,613</b>	<b>501,394,364</b>	<b>9,879,924,347</b>
	<b>Total Parity Variance</b>	<b>5,292,790,699</b>	<b>-</b>	<b>-</b>	<b>(5,215,743,765)</b>
	<b>Total (Before Parity Variance) (a) + (b)</b>	<b>293,674,491,250</b>	<b>45,779,189,836</b>	<b>16,409,105,273</b>	<b>328,337,366,512</b>
	<b>Total (After Parity Variance) (a) + (b)</b>	<b>298,967,281,949</b>	<b>-</b>	<b>16,409,105,273</b>	<b>323,121,622,747</b>

## Notes to Financial Statements *contd...*

### Note 20 - CAPITAL CONTRIBUTION OR SHAREHOLDINGS IN THE COMMERCIAL PUBLIC CORPORATIONS / STATE OWNED COMPANIES / OTHER COMPANIES / PLANTATION COMPANIES / DEVELOPMENT BANKS (8468 / 8548)

	Balance as at 01.01.2012	Additions in 2012	Adjustments */ Reductions in 2012	Balance as at 31.12.2012
	Rs.	Rs.	Rs.	Rs.
Note - 20.1 (a) Capital Contribution in Commercial Public Corporations	83,659,272,851	46,401,727,938	-	130,061,000,789
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	33,876,582,286	7,673,513,751	1,510,000,000	40,040,096,037
Note - 20.3 Shareholdings in Plantation Companies	1,677,234,640	10	-	1,677,234,650
Note - 20.4 Shareholdings in Companies in US Dollar Denomination	233,087,095	24,956,045	-	258,043,140
Note - 20.5 Shareholdings in Development Banks	4,549,237,566	180,756	-	4,549,418,322
<b>Total</b>	<b>124,010,414,438</b>	<b>54,100,378,500</b>	<b>1,510,000,000</b>	<b>176,600,792,938</b>

#### Note 20.1 (a) - CAPITAL CONTRIBUTION IN COMMERCIAL PUBLIC CORPORATIONS

S. No.	Name	Balance as at 01.01.2012	Additions in 2012	Reduction in 2012	Balance as at 31.12.2012
		Rs.	Rs.	Rs.	Rs.
1	Bank of Ceylon	5,000,000,000			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	44,891,727,938		96,090,404,058
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	346,490,000			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	1,500,000,000		3,200,000,000
14	National Water Supply & Drainage Board	185,480,000			185,480,000
15	People's Bank	7,198,133,000			7,198,133,000
16	Sri Lanka Ayurvedic Drugs Corporation	5,000,000			5,000,000
17	Sri Lanka Broadcasting Corporation	307,386,085			307,386,085
18	Sri Lanka Cashew Corporation	427,287,074			427,287,074
19	Sri Lanka Cement Corporation	966,971,844			966,971,844
20	Sri Lanka Transport Board	3,944,890,550			3,944,890,550
21	Sri Lanka Export Credit Insurance Corporation	30,000,000	10,000,000		40,000,000
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

## Notes to Financial Statements *contd...*

S. No.	Name	Balance as at 01.01.2012 Rs.	Additions in 2012 Rs.	Reduction in 2012 Rs.	Balance as at 31.12.2012 Rs.
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
	<b>Total (20.1)</b>	<b>83,659,272,851</b>	<b>46,401,727,938</b>	<b>-</b>	<b>130,061,000,789</b>

### Note 20.1 (b) - CENTRAL BANK OF SRI LANKA

1	Centrtal Bank of Sri Lanka	15,000,000	-	-	15,000,000
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## Notes to Financial Statements *contd...*

### Note 20.2 - SHAREHOLDINGS IN GOVERNMENT OWNED OR OTHER COMPANIES

Se. No.	Name	Number of Shares			Nominal Value Per Share	Value of the Investment at Cost as at 01.01.2012	Value of the Investment at Cost as at 31.12.2012	Percentage of Share holdings by the Treasury
		As at 01.01.2012	Additions	Deductions				
				As at 31.12.2012	(Rs.)	(Rs.)	(Rs.)	
1	Airport & Aviation Services (Sri Lanka) Ltd	200,000		200,000	100.00	20,000,000	20,000,000	98.00%
2	BCC Lanka Ltd	10,000,000		10,000,000	10.00	100,000,000	100,000,000	100.00%
3	Bogala Graphite Lanka Ltd	254,500		254,500	10.00	2,545,000	2,545,000	0.91%
4	Borwood Ltd	200,000		200,000	10.00	2,000,000	2,000,000	-
5	Building Materials Coporation	1,000,000		1,000,000	10.00	10,000,000	10,000,000	100.00%
6	Ceylon Agro Ltd	5,951,701		5,951,701	10.00	59,517,010	59,517,010	8.50%
7	Ceylon Fertilizer Co. Ltd	50,245,608	-	50,245,608	10.00	502,456,080	502,456,080	100.00%
8	Ceylon Hotel Corporation	1,200,000		1,200,000	10.00	12,000,000	12,000,000	100.00%
9	Ceylon Oxygen Ltd	8,453		8,453	10.00	84,530	84,530	-
10	Ceylon Shipping Corporation Ltd	5,000,000		5,000,000	10.00	50,000,000	50,000,000	100.00%
11	Ceylon Shipping Lines Ltd	156,493		156,493	10.00	1,564,930	1,564,930	39.00%
12	Ceylon Petroleum Storage Terminals Ltd	250,000,000		250,000,000	10.00	2,500,000,000	2,500,000,000	33.00%
13	Ceynor Foundation Ltd	4,000,000		4,000,000	10.00	40,000,000	40,000,000	100.00%
14	Colombo Commercial Company (Engineers) Ltd	2,960,000		2,960,000	10.00	29,600,000	29,600,000	-
15	Colombo Commercial Fertilizer Ltd	1,000,000		1,000,000	10.00	10,000,000	10,000,000	100.00%
16	Colombo Sack Makers Ltd	2,499,996		2,499,996	10.00	24,999,960	24,999,960	-
17	Commercial Bank of Ceylon Ltd	14,418	15,117	29,535	5.00	144,180	147,675	0.00418%
18	Comsec Management Services	2,499,996		2,499,996	10.00	24,999,960	24,999,960	-
19	Cultural Publication Company Ltd	600		600	100.00	60,000	60,000	-
20	Distance Learning Center Ltd	14,206,509		14,206,509	10.00	142,065,090	142,065,090	99.99%
21	Laxapana Batteries Ltd - (Elephant Lite Corporation Ltd) (Preference)	1,000		1,000	10.00	10,000	10,000	5.00%
22	Galadari Hotels Lanka Ltd	292,200		292,200	10.00	2,922,000	2,922,000	-
23	Glaxo Welcome Ceylon Ltd	450		450	10.00	4,500	4,500	0.00%
24	Hotel Developers (Lanka) Ltd	29,388,463		29,388,463	10.00	293,884,630	293,884,630	64.98%
25	Hotel Services Ltd	2,263		2,263	10.00	22,630	22,630	0.0128%
26	Hunas Falls Ltd	1		1	10.00	10	10	-
27	Independent Television Network Ltd	9,500,000		9,500,000	10.00	95,000,000	95,000,000	100.00%
28	Kahatagaha Grafite Lanka Ltd	130,000	1,170,000	1,300,000	10.00	1,300,000	13,000,000	100.00%
29	Kalubowitiyana Tea Factory Ltd	4,637,500		4,637,500	10.00	46,375,000	46,375,000	99.90%
30	Kantale Sugar Industries Ltd	268,993		268,993	100.00	26,899,300	26,899,300	100.00%
31	Lafarge Mahaweli Cement (Pvt) Ltd	480,000		480,000	10.00	4,800,000	4,800,000	10.00%
32	Lanka Canneries Ltd	40,002		40,002	100.00	4,000,200	4,000,200	9.09%
33	Lanka Cement Ltd	22,246,000		22,246,000	10.00	222,460,000	222,460,000	13.00%
34	Lanka Coal Company (Pvt) Ltd	400,000		400,000	10.00	4,000,000	4,000,000	-
35	Lanka Electricity Company (Pvt) Ltd	49,880,000		49,880,000	10.00	498,800,000	498,800,000	43.56%
36	Lanka Fabrics Ltd	210,000		210,000	10.00	2,100,000	2,100,000	93.30%
37	Lanka Hydraulic Institute Ltd	50,000		50,000	10.00	500,000	500,000	4.54%
38	Lanka Industrial Estates Ltd	7,800,000		7,800,000	10.00	78,000,000	78,000,000	48.84%
39	Lanka Leyland Ltd	1,289,900		1,289,900	6.94	8,951,906	8,951,906	100.00%
40	Lanka Leyland Ltd	430,000		430,000	0.01	4,300	4,300	100.00%

## Notes to Financial Statements *contd...*

Se. No.	Name	Number of Shares			Nominal Value Per Share	Value of the Investment at Cost as at 01.01.2012	Value of the Invesment at Cost as at 31.12.2012	Per-centage of Share holdings by the Treasury	
		As at 01.01.2012	Additions	Deduc-tions					As at 31.12.2012
					(Rs.)	(Rs.)	(Rs.)		
41	Lanka Machine Leasers (Pvt) Ltd	588,884			588,884	100.00	58,888,400	58,888,400	-
42	Lanka Mineral Sands Ltd	80,000,000			80,000,000	10.00	800,000,000	800,000,000	100.00%
43	Lanka Phosphate Ltd	7,251,000			7,251,000	10.00	72,510,000	72,510,000	100.00%
44	Lanka STC General Trading Co. Ltd	10,000,000			10,000,000	10.00	100,000,000	100,000,000	100.00%
45	Lanka Synthetic Fiber Company	956,256			956,256	10.00	9,562,560	9,562,560	-
46	Lanka Textile Mills Emporium Ltd	700,000			700,000	10.00	7,000,000	7,000,000	-
47	Lanka Tractors Ltd	5,250,000			5,250,000	10.00	52,500,000	52,500,000	30.00%
48	Mantai Salt Ltd	300,000			300,000	100.00	30,000,000	30,000,000	100.00%
49	Mihin Lanka (Private) Ltd	51,406,108			51,406,108	100.00	5,140,610,800	5,140,610,800	100.00%
50	MILCO (Pvt) Ltd - Kiriya Milk Industries	31,945,403			31,945,403	10.00	319,454,030	319,454,030	99.99%
51	National Development Bank	265,950			265,950	10.00	2,659,500	2,659,500	0.32%
52	National Paper Company Ltd	32,300,000			32,300,000	10.00	323,000,000	323,000,000	100.00%
53	National Savings Bank	150,000,000		150,000,000	-	10.00	1,500,000,000	-	-
54	National Insurance Corporation Ltd	6,848			6,848	10.00	68,480	68,480	-
55	Orient Lanka Ltd	1,048			1,048	10.00	10,480	10,480	0.035%
56	Paranthan Chemicals Company Ltd	4,000,000			4,000,000	10.00	40,000,000	40,000,000	100.00%
57	Rajarata Food Grain Ltd	386,249			386,249	10.00	3,862,490	3,862,490	-
58	Puttalam Cement Company Ltd	97,071			97,071	10.00	970,710	970,710	-
59	Ruhunu Cement Co. Ltd	10,175,000			10,175,000	10.00	101,750,000	101,750,000	-
60	Shell Gas Lanka Ltd	17,616,853			17,616,853	10.00	176,168,530	176,168,530	49.00%
61	Skills Development Fund Ltd	10,200,152			10,200,152	10.00	102,001,520	102,001,520	98.00%
62	Sri Lanka Export Credit Insurance Corporation	1,000,000		1,000,000	-	10.00	10,000,000	-	100.00%
63	Sri Lanka Insurance Corporation Ltd		600,000,000		600,000,000	11.19	-	6,715,864,246	100.00%
64	Sri Lanka Rubber Manufacturing & Export Corporation Ltd	7,798,000			7,798,000	10.00	77,980,000	77,980,000	100.00%
65	Sri Lanka Savings Bank Ltd		4,584,460		4,584,460	100.00	-	458,446,000	100.00%
66	Sri Lanka Telecom Ltd	893,405,709			893,405,709	10.00	8,934,057,090	8,934,057,090	49.50%
67	Sri Lankan Airlines Ltd	48,726,952			48,726,952	100.00	4,872,695,200	4,872,695,200	94.68%
68	Statcon Rubber Company Ltd	74,830			74,830	10.00	748,300	748,300	9.00%
69	Tea Smallholder Factories Ltd	49,000,000			49,000,000	10.00	490,000,000	490,000,000	100.00%
70	The Selinsing Company Ltd	615			615	10.00	6,150	6,150	1.00%
71	Thomas De La Rue Lanka Currency & Se- curity Print (Pvt) Ltd	2,800,000			2,800,000	10.00	28,000,000	28,000,000	40.00%
72	United Motors Lanka Ltd	13			13	10.00	130	130	-
73	Vayangoda Textile Ltd	7,500,000			7,500,000	10.00	75,000,000	75,000,000	-
74	Wakers & Greig Ltd	2,850			2,850	2.00	5,700	5,700	-
75	Wakers & Greig Ltd	100			100	10.00	1,000	1,000	-
76	West Coast Power (Pvt) Ltd (Ordinary)	49,750,000	5,250,000		55,000,000	112.95	4,975,000,000	6,212,500,000	50.00%
77	West Coast Power (Pvt) Ltd (Preference)	7,500,000		7,500,000	-	100.00	750,000,000	-	-
78	Lakdiwa Engineering Company (Pvt) Ltd		1		1	10.00		10	100.00%
Total		1,959,450,937	611,019,578	158,500,000	2,411,970,515		33,876,582,286	40,040,096,037	

## Notes to Financial Statements *contd...*

### Note 20.3 - SHAREHOLDING IN PLANTATION COMPANIES

Se. No.	Name	Number of Shares			Nominal Value per Share (Rs.)	Value of the Investment at Cost as at 01.01.2012	Value of the Investment at Cost as at 31.12.2012	Percentage of Share Holdings by the Treasury
		As at 01.01.2012	Additions	Deductions	As at 31.12.2012			
		Nos.	Nos.	Nos.	Nos.	Rs.	Rs.	Rs.
1	Agaraptana Plantation Ltd	23,284,644			23,284,644	10.00	232,846,440	232,846,440
2	Agalawatta Plantation Ltd	741			741	10.00	7,410	7,410
3	Bagawantalawa Plantation Ltd	14,443	7,221		21,664	6.67	144,430	144,430
4	Balangoda Plantation Ltd	4,760	1		4,761	10.00	47,600	47,610
5	Chilaw Plantation Ltd	20,000,001			20,000,001	10.00	200,000,010	200,000,010
6	Elkaduwa Plantation Ltd	18,000,001			18,000,001	10.00	180,000,010	180,000,010
7	Elpitiya Plantation Ltd	7,806,546			7,806,546	10.00	78,065,460	78,065,460
8	Gal oya Plantation Ltd	51,600,000			51,600,000	10.00	516,000,000	516,000,000
9	Hapugastenne Plantation Ltd	1			1	10.00	10	10
10	Horana Plantation Ltd	5,889			5,889	10.00	58,890	58,890
11	Kahawatte Plantation Ltd	1			1	10.00	10	10
12	Kegalle Plantation Ltd	4,387			4,387	10.00	43,870	43,870
13	Kelani Valley Plantation Ltd	1			1	10.00	10	10
14	Kotagala Plantation Ltd	3,800,557			3,800,557	10.00	38,005,570	38,005,570
15	Kurunegala Plantation Ltd	20,000,001			20,000,001	10.00	200,000,010	200,000,010
16	Madulsima Plantation Ltd	3,805,653			3,805,653	10.00	38,056,530	38,056,530
17	Malwattha Valley Plantation Ltd.	1			1	10.00	10	10
18	Maskeliya Plantation Ltd.	9,007			9,007	10.00	90,070	90,070
19	Maturata Plantation Ltd.	7,806,021			7,806,021	10.00	78,060,210	78,060,210
20	Namunukula Plantation Ltd.	3,763,301			3,763,301	10.00	37,633,010	37,633,010
21	Pussellawa Plantation Ltd.	7,817,123			7,817,123	10.00	78,171,230	78,171,230
22	Talawakelle Plantations Ltd	368			368	10.00	3,680	3,680
23	Udapussellawa Plantation Ltd	1			1	10.00	10	10
24	Watawala Plantation Ltd.	16			16	10.00	160	160
	Total	167,723,464	7,222		167,730,686		1,677,234,640	1,677,234,650

### Note 20.4 - SHAREHOLDINGS IN COMPANIES DENOMINATED IN US DOLLARS

1	Asian Reinsurance Corporation	980	980	US\$1000	112,582,400	126,243,600	
2	Ceylon Shipping Agency	24,500	24,500	1(Singapore)	2,178,295	2,593,080	99.00%
3	International Finance Corporation	1,003	1,003	US\$1000	118,326,400	129,206,460	
	<b>Total</b>	<b>26,483</b>	<b>26,483</b>		<b>233,087,095</b>	<b>258,043,140</b>	

Exchange Rate as at 01.01.2012/ 31.12.2012

Currency	01.01.2012 Rate (Rs.)	31.12.2012 Rate (Rs.)
US Dollar	114.88	128.82
Singapore Dollar	88.91	105.84

## Notes to Financial Statements *contd...*

### Note 20.5 - SHAREHOLDINGS IN DEVELOPMENT BANKS

Se. No.	Name	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment at Cost as at 01.01.2012	Value of the Investment at Cost as at 31.12.2012	Percentage of Share Holdings by the Treasury
		As at 01.01.2012	Additions	Deductions	As at 31.12.2012				
		Nos.	Nos.	Nos.	Nos.	Rs.	Rs.	Rs.	
1	Pradeshia Sanvardhana Bank	87,744,671			87,744,671	10.00	877,446,710	877,446,710	79.81%
2	Lankaputhra Development Bank	15,000,000			15,000,000	100.00	1,500,000,000	1,500,000,000	99.99%
3	Lankaputhra Development Bank	21,071,028		6	21,071,022	103.07	2,171,790,856	2,171,971,612	
	<b>Total</b>	<b>123,815,699</b>		<b>6</b>	<b>123,815,693</b>		<b>4,549,237,566</b>	<b>4,549,418,322</b>	

#### Summary

31.12.2012

Se. No.	Sector wise Categorization	Numbers of Shares	Nominal Value of Shares (Rs.)
1	General	2,411,970,515	40,040,096,037
2	Plantation	167,730,686	1,677,234,650
3	Share Value in US Dollars	26,483	258,043,140
4	Development Banks	123,815,693	4,549,418,322
	<b>Number of Shares</b>	<b>2,703,543,377</b>	<b>46,524,792,149</b>

# Notes to Financial Statements *contd...*

	2012 Rs.	Actual 2011 Rs.
<b>Note 21 - BANK OVERDRAFTS</b>		
Treasury Authorised Imprest Account (7002)	35,781,103,281	35,844,337,488
Treasury Authorised Imprest Account- (RFA) (7003)	72,535,695	134,201,532
DST Cash Account (8020) <b>Note 21(1)</b>	(137,294,414,307)	(94,478,177,173)
Crown Agent Current Account (8030)	12,454,607	26,050,520
Temporary Employed Balances of CBSL (8192)	(24,335,883,590)	(18,729,744,118)
Central Bank of Sri Lanka - IDA Special Dollar Accounts (8813)	10,943,583,099	8,136,395,648
ADB Loan SLCB Special Dollar Account (8918)	4,713,016,729	3,710,852,212
International Fund for Agriculture Development Special Dollar Account (8973)	548,034,234	535,468,053
CB Special Yen Account (9094)	20,802,320,484	24,353,780,755
CBSL Special Deutsche Mark Account (9101)	5,367,687	57,969,682
Central Bank Nordic Special Account (9110)	2,485,513	2,226,340
Special Rupee Account (9114)	(15,735,820,464)	(15,735,820,464)
Special Foreign Currency French Development Agency Account (9125)	6,204,802	40,236,215
	<b>(104,479,012,230)</b>	<b>(56,102,223,310)</b>
<b>Note 21(1) - DEPUTY SECRETARY TO THE TREASURY ACCOUNT (8020) IS COMPRISED WITH THE FOLLOWING ACCOUNTS</b>		
Bank of Ceylon (BOC)	(97,539,972,370)	(70,946,726,140)
Bank of Ceylon (BOC) - 7040003	20,156,958	20,156,958
Bank of Ceylon Special Revolving Fund (BOC)	-	718,539
Bank of Ceylon (BOC) - 7041557	(37,736,060,259)	-
Peoples Bank (PB)	(14,910,363,309)	(30,449,250,976)
Central Bank of Sri Lanka (CBSL) - 4201	163,632,474	71,591,081
Central Bank of Sri Lanka (CBSL) - 4237	116,779,395	116,779,395
Bank of Ceylon (BOC) - 0007041635	606,235,940	-
Bank of Ceylon (BOC) - 0007041634	-	1,126,235,940
Bank of Ceylon (BOC) - 0071213619	154,638,880	154,638,880
Bank of Ceylon (BOC) - 7040004	4,151,679,150	5,427,679,150
Bank of Ceylon (BOC) - 73206830	2,435,059,000	-
Bank of Ceylon (BOC) - 7040501	5,143,799,835	-
Bank of Ceylon (BOC) - 7040035	100,000,000	-
	<b>(137,294,414,307)</b>	<b>(94,478,177,173)</b>
<b>Note 22 - ADVANCES FROM CENTRAL BANK OF SRI LANKA</b>		
Advance From CBSL - Monetary Law Act (8176)	111,291,842,800	94,743,012,800
	<b>111,291,842,800</b>	<b>94,743,012,800</b>
<b>Note 23 - FOREIGN LOAN REVOLVING FUNDS</b>		
Reimbursable Foreign Aid Revolving Fund ( 8760 )	2,403,784,783	1,756,432,502
IDA Revolving Fund (8814)	10,579,868,116	9,231,156,962
ADB Special Dollor Revolving Fund Account (8919)	2,020,775,375	1,888,757,596
CBSL Special Dollar Account (International Fund for Agriculture Development Revolving Fund) (8974)	1,056,662,568	707,383,839
IBRD Revolving Fund Account (8982)	1,570,884,206	1,570,884,206
CBSL Revolving Fund Account ( Yen ) - (9095)	1,518,770,900	1,775,326,194
CBSL Special Deutsche Mark Revolving Fund Account (9102)	304,685,393	302,971,637
Central Bank Special Nordic Revolving Fund (9111)	101,512,546	101,253,373
Special Foreign Currency Account Italy (9119)	(35,268,199)	-
Special Rupee Revolving Fund Account (9120)	(476,985)	(476,985)
Special Foreign Currency Revolving Fund Account (Euro-Italy) (9121)	2,019,811,099	1,868,496,395
Special Rupee Revolving Fund Account (9122)	498,950,000	498,950,000
Special Foreign Currency Revolving Fund Account (9126)	144,443,705	140,297,669
Netherland & Sri Lanka Culture Assistant Programme Revolving Fund (9131)	(1,000,000)	-
Revolving Fund for Purchase and Disposal of Farmer Product (9132)	-	5,000,000
	<b>22,183,403,507</b>	<b>19,846,433,388</b>
<b>Note 24 - MISCELLANEOUS FUNDS</b>		
Public Service Provident Fund Account (8098)	1,019,142,163	1,249,873,094
Teachers' Widows & Orphans Pension Fund (8186)	437,517,439	360,882,233
	<b>1,456,659,602</b>	<b>1,610,755,327</b>

## Notes to Financial Statements *contd...*

		Actual	
		2012	2011
		Rs.	Rs.
<b>Note 25 - GOVERNMENT BORROWINGS</b>			
Treasury Bills (8085)		648,332,437,246	625,524,364,205
Treasury Bonds (9093)		1,999,254,335,775	1,745,695,766,079
<b>Sub Total</b>		<b>2,647,586,773,021</b>	<b>2,371,220,130,284</b>
Rupee Loans (8249)		58,385,766,290	61,960,766,290
Sri Lanka Development Bonds (9105)		200,362,003,954	175,935,031,249
Local Loans in Foreign Currency (9107)		19,740,919,774	16,830,427,500
Sri Lanka Nations Building Bonds (9128)		-	-
Ceylon Petroleum Corporation Treasury Bond (9137)		59,999,999,509	-
		<b>338,488,689,527</b>	<b>254,726,225,039</b>
<b>Total Borrowings - Domestic</b>		<b>2,986,075,462,548</b>	<b>2,625,946,355,323</b>
Foreign Loans (8343) - (Adverse Parity Variance Recognised in 2011)		2,422,684,382,236	2,009,026,305,160
		<b>5,408,759,844,784</b>	<b>4,634,972,660,483</b>
<b>Note 26 - DEPOSITS &amp; OTHER LIABILITIES</b>			
Treasury General Deposit Account (6000)		70,610,616,072	60,486,516,530
Treasury Deposit Account for District Secretaries (6003)		4,827,833,351	3,470,337,628
Public Service Mutual Guarantee Association (8013)		17,535,055	14,984,968
Director General of Customs - Cess Recovery Account (8105)		300,000,000	300,000,000
		<b>75,755,984,478</b>	<b>64,271,839,126</b>
<b>Note 27 - OPERATING ACCOUNTS WITH GOVERNMENT DEPARTMENTS [DR./ (CR.)]</b>			
General Manager - Railway Department (8003)		739,654,041	466,955,531
Director General - Department of Customs (8005)		30,122,547	45,852,526
Post Master General - Department of Posts (8037)		(6,602,795)	(6,602,795)
Treasury Operations Department (8233) and (8583)		3,227,674,919	(3,944,339,495)
Treasury Operations Department (9092)		(89,366,497)	(68,874,890)
Provincial Councils (8657)		2,916,336	8,316,602
Collection of GST (9098)		38,940,420	38,940,420
GST Refund Account (9099)		(986,855)	(986,855)
Non Operating Accounts (9100)		20,772,460	20,772,460
		<b>3,963,124,577</b>	<b>(3,439,966,496)</b>
<b>Note 28 - SUNDRY ACCOUNTS [DR./(CR.)]</b>			
Cheque Returned Account (8315)		-	5,939,216
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)		(48,578,945)	(39,556,141)
Foreign Aid Expenditure Account (8301)		2,154,974,682	26,524,228
Investment Account for National Housing Bonds (8859)		1,284,200	1,284,200
		<b>2,107,679,936</b>	<b>(5,808,497)</b>
<b>Note 29 - CONSOLIDATED FUND - ACCUMULATED DEFICIT</b>			
<b>Opening Balance of the Consolidated Fund as at 1st January</b>		<b>(201,700,214,610)</b>	<b>(196,423,775,459)</b>
Add - Prior Year Adjustments		(1,829,211)	(925,942,790)
<b>Add Receipts to the Consolidated Fund</b>			
Total Cash Provided from Operations		982,781,744,515	928,684,040,016
Total Cash Provided from Investing Activities		31,275,441,372	29,651,006,059
Total Cash Provided from Financing Activities		1,107,638,499,870	998,367,883,005
<b>Total Cash Receipts (a)</b>		<b>2,121,695,685,757</b>	<b>1,956,702,929,080</b>
<b>Less Total Payments of the Consolidated Fund</b>			
Total Cash Disbursement to Operations		1,118,330,689,656	1,020,197,217,054
Total Cash Disbursement to Investing Activities		471,088,878,311	398,518,995,838
Total Cash Disbursement to Repayment of Debt		602,813,771,782	542,337,212,549
<b>Total Cash Payments (b)</b>		<b>2,192,233,339,748</b>	<b>1,961,053,425,441</b>
<b>Net Cash Receipts (a) - (b)</b>		<b>(70,537,653,991)</b>	<b>(4,350,496,361)</b>
<b>Closing Balance of the Consolidated Fund as at 31st December (Dr.)</b>		<b>(272,239,697,811)</b>	<b>(201,700,214,610)</b>
<b>Note 30 - TOTAL INVESTMENT IN PHYSICAL ASSETS AND ACCUMULATED NET REVENUE DEFICIT</b>			
Accumulated Revenue Deficit (2005-2012)		775,215,186,208	653,701,425,299
Total Accumulated Value of Physical Assets at cost, with Accumulated Net Revenue Deficit Prior to 2004		4,133,204,519,928	3,557,676,815,831
		<b>4,908,419,706,136</b>	<b>4,211,378,241,130</b>

# Notes to Financial Statements *contd...*

## Note 30.1 - MOVABLE ASSETS ACQUIRED SINCE 01.01.2004

2101 - Vehicles

Rs '000'

Name of Institution	2004	2005	2006	2007	2008	2009	2010	2011		2012	
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Additions	Disposal	Balance	Additions
H.E the President	...	30,910	1,321,809	1,332,904	2,236,847	2,410,346	2,612,435	472,899	-	3,085,334	-
Office of the Prime Minister	335	17,172	56,615	56,615	60,615	62,918	89,102	32,281	-	121,383	9,537
Office of the Cabinet of Ministers	...	4,764	8,254	8,254	14,513	14,513	18,653	-	-	18,653	767
Secretariat for Special Functions (Senior Ministers)											
Parliament	6,800	27,735	27,735	27,735	61,770	68,870	76,370	35,443	-	111,813	48,040
Office of the Leader of the House of Parliament	78	78	7,536	13,036	13,036	15,304	11,566	5,050	-	16,616	-
Office of the Chief Government whip of Parliament	...	7,150	7,413	12,913	12,913	12,913	15,835	702	1,713	14,824	6,209
Office of the Leader of the Opposition of Parliament	80	7,512	7,512	8,012	8,012	8,267	16,209	-	-	16,209	-
Office of the Former President (Hon D.B. Wijethunge)	...	...	...	12,000	12,000	12,000	12,000	-	-	12,000	-
Public Service Commission	...	...	8,990	8,990	16,160	18,932	18,932	-	-	18,932	11,112
Judicial Service Commission	...	100	100	1,088	8,879	8,879	8,879	-	-	8,879	-
National Police Commission	...	...	249	5,560	6,117	6,117	6,117	-	-	6,117	17
Commission to Investigate Allegations of Bribery or Corruption	-	-	-	-	-	-	3,319	6,476	-	9,795	9,030
Department of Elections	...	...	-	15,715	25,626	25,626	30,467	10,853	-	41,320	600
Auditor General	...	2,151	2,151	2,543	2,543	6,498	6,498	9,736	-	16,234	1,397
Office of the Parliamentary Commissioner for Administration	-	-	-	-	-	-	4,000	1,798	-	5,798	-
Office of the Finance Commission	...	4,850	4,850	7,700	7,700	7,795	12,835	-	-	12,835	-
National Education Commission	-	-	-	-	-	-	-	6,125	-	6,125	-
Human Rights Commission of Sri Lanka	-	-	-	-	-	-	8,071	-	-	8,071	-
Ministry of Buddhasana and Religious Affairs	-	...	5,500	24,545	24,545	24,545	32,717	6,259	-	38,976	6,383
Ministry of Finance & Planning	4,100	42,251	54,217	113,815	128,922	129,769	136,406	9,091	30,492	115,005	-
Ministry of Defence and Urban Development	495	10,152	57,907	459,119	2,545,912	2,563,739	2,563,780	54,204	-	2,617,984	30,651
Ministry of Plan Implementation & Monitoring	...	...	48,815	50,980	37,330	39,074	39,074	-	-	39,074	-
Ministry of Economic Development	...	...	-	47,035	47,035	51,353	157,676	182,879	-	340,555	174,113
Ministry of Disaster Management	...	...	18,595	20,172	20,172	20,172	26,172	29,722	15,195	40,699	29,089
Ministry of Tourism	1,545	4,495	14,451	53,448	53,537	53,087	53,087	-	-	53,087	-
Ministry of Post & Telecommunications	...	5,800	19,825	52,725	52,725	52,725	72,728	4,357	-	77,085	-
Ministry of Justice	16,717	16,717	33,465	34,663	58,314	59,481	58,181	19,156	-	77,337	7,889
Ministry of Health	...	...	-	18,296	18,296	51,713	75,510	54,345	-	129,855	70,866
Ministry of External Affairs	...	25,986	151,191	273,957	345,547	386,696	405,674	104,154	-	509,828	120,372
Ministry of Ports & Aviation	...	...	9,446	9,446	22,259	26,109	38,809	-	-	38,809	-
Ministry of Transport	-	-	4,500	20,213	37,213	37,213	42,253	28,664	57	70,860	-
Ministry of Petroleum Industries	-	...	10,553	23,303	34,180	34,180	43,469	8,743	-	52,212	-
Ministry of Co-operative and Internal Trade	...	8,450	17,411	30,351	30,351	30,351	40,095	43,300	-	83,395	3,996
Ministry of Highways	-	-	5,432	67,087	83,787	83,787	125,414	-	-	125,414	-



# Notes to Financial Statements contd...

2101-Vehicles												Rs '000
Name of Institution	2004	2005	2006	2007	2008	2009	2010	2011		2012		
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Additions	Disposal	Balance	Balance	
Ministry of Agriculture	15,047	18,274	37,096	123,672	125,089	192,710	228,062	-	-	228,062	-	
Ministry of Power & Energy	1,682	16,727	16,727	16,727	16,727	16,727	21,324	8,751	-	30,075	181	
Ministry of Child Development & Women's Affairs	...	3,475	16,325	26,175	26,175	26,175	44,628	6,883	-	51,511	22,732	
Ministry of Public Administration & Home Affairs	7,923	569,755	1,031,387	1,031,387	1,035,497	1,047,422	1,066,404	45,053	-	1,111,457	9,426	
Ministry of Mass Media & information	...	3,428	13,707	52,662	57,218	61,928	35,929	-	-	35,929	6,500	
Ministry of Construction,Engineering Services,Housing and Common Amenities	...	...	-	24,333	24,333	24,333	24,333	26,960	3,221	48,072	8,231	
Ministry of Social Service	...	...	28,149	33,040	33,040	33,040	45,240	21,079	-	66,319	1,066	
Ministry of Housing and Common Amenities	...	174,206	174,206	193,196	193,391	193,391	193,391	-	0	193,391	-	
Ministry of Education	4,386	94,114	110,654	177,597	177,597	180,729	186,755	25,452	-	212,207	2,157	
Ministry of Labour Relations & Productivity Improvement	...	19,050	30,410	47,090	47,090	47,776	47,724	16,500	-	64,224	1,401	
Ministry of Traditional Industries & Small Enterprises Development	...	...	-	26,036	36,785	39,049	39,049	-	-	39,049	12,505	
Ministry of Vocational & Technical Training	241	241	7,731	39,431	32,031	32,031	32,031	-	0	32,031	-	
Ministry of Local Government & Provincial Councils	...	...	8,131	8,131	81,036	(109,079)	(65,054)	48,877	-	(16,177)	1,127	
Ministry of Enterprise Development & Investment Promotion	...	...	-	25,700	25,700	25,700	25,700	-	-	25,700	-	
Ministry of Technology and Research	-	...	5,500	34,706	31,832	31,832	41,755	33,276	-	75,031	7,698	
Ministry of National Languages & Social Integration	...	9,000	9,000	42,434	42,434	42,434	46,622	10,702	-	57,324	8	
Ministry of Plantation Industries	...	...	35,579	115,151	115,151	134,674	146,950	40,237	0	187,187	9,555	
Ministry of Sports	...	...	-	-	4,350	18,828	22,678	5,774	-	28,452	-	
Ministry of Indigenous Medicine	...	9,242	20,217	35,217	35,217	35,217	35,217	20,874	-	56,091	13,934	
Ministry of Fisheries & Aquatic Resources Development	2,625	2,625	10,776	21,864	48,225	138,562	164,564	16,961	-	181,525	-	
Ministry of Livestock and Rural Community Development	...	...	3,390	46,160	58,221	68,044	76,655	13,946	-	90,601	1,229	
Ministry of National Heritage & Cultural Affairs	...	20,795	33,619	59,035	68,035	83,035	83,035	13,118	-	96,153	3,091	
Ministry of Parliamentary Affairs	13,425	13,425	13,425	30,927	30,927	30,927	35,831	10,677	-	46,508	-	
Ministry of Re-Settlement	...	...	16,638	39,363	48,863	56,068	56,068	30,849	3,972	82,945	9,433	
Ministry of Industry and Commerce	2,667	2,667	15,538	37,338	50,928	65,327	71,627	1,634	-	73,261	15,537	
Ministry of Foreign Employment Promotion & Welfare	...	...	14,515	14,515	19,890	19,890	19,890	36,850	-	56,740	-	
Ministry of Irrigation & Water Resources Management	4,758	4,758	4,758	12,293	12,293	17,793	25,095	8,629	-	33,724	-	
Ministry of Lands and Land Development	...	...	-	-	72,094	72,094	87,594	6,437	-	94,031	8,034	
Ministry of Youth Affairs & Skills Development	...	1,912	14,902	22,402	20,861	20,861	71,342	24,500	-	95,842	2,951	
Ministry of Environment	6,550	24,226	31,726	51,685	51,680	53,143	66,393	7,271	523	73,141	10,774	
Ministry of Youth Empowerment & Socio Economic Development	...	...	-	51	3,180	5,433	5,433	-	-	5,433	-	
Ministry of Community Development & Social Inequity Eradication	...	...	-	13,950	13,950	13,950	13,950	-	-	13,950	-	
Ministry of Water Supply & Drainage	...	...	-	25,986	25,986	34,216	50,216	10,061	-	60,277	6,735	
Ministry Of Export Development and International Trade	...	...	-	-	67	67	67	-	0	67	-	
Ministry of Construction & Engineering Services	-	...	-	13,300	22,800	22,300	22,300	-	0	22,300	-	

# Notes to Financial Statements *contd...*

2101-Vehicles												Rs '000
Name of Institution	2004	2005	2006	2007	2008	2009	2010	2011		2012		
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Urban development and sacred area	-	-	-	-	-	-	32,115	-	-	32,115	-	32,115
Ministry of Higher Education	-	...	-	14,795	14,795	14,795	31,855	13,434	-	45,289	21,044	66,333
Ministry of Public Management Reforms				-	-	-	-	20,753	-	20,753	-	20,753
Ministry of State Resources and Enterprise Development				-	-	-	-	20,692	-	20,692	3,604	24,296
Ministry of Civil Aviation				-	-	-	-	34,441	10,106	24,335	3,830	28,165
Ministry of Coconut Development & Janatha Estate Development				-	-	-	-	17,197	-	17,197	5,078	22,275
Ministry of Agrarian Services and Wild Life				-	-	-	-	28,554	-	28,554	-	28,554
Ministry of Rehabilitation and Prison Reforms	-	-	-	-	-	-	34,623	-	-	34,623	12,877	47,500
Ministry of Minor Export Crop Promotion				-	-	-	-	42,303	-	42,303	-	42,303
Ministry of Productivity Promotion				-	-	-	-	39,292	-	39,292	7,229	46,521
Ministry of Public Relation and Public Affairs				-	-	-	-	6,159	-	6,159	180	6,339
Ministry of Private Transport Services				-	-	-	-	19,162	-	19,162	16,638	35,800
Ministry of Telecommunication and Information Technology				-	-	-	-	16,000	-	16,000	-	16,000
Department of Buddhist Affairs	-	-	-	-	-	-	1,176	431	-	1,607	-	1,607
Department of Muslim Religious & Cultural Affairs	...	2,775	2,864	2,864	2,864	2,864	2,864	-	-	2,864	-	2,864
Department of Christian Religious Affairs	-	-	-	-	-	595	595	-	-	595	-	595
Department of Public Trustee				-	-	...	2,016	7,056	-	7,056	-	7,056
Department of Archaeology	5,573	5,573	9,773	10,538	10,538	14,802	14,802	-	-	14,802	-	14,802
Department of National Museums	...	3,475	3,475	3,475	3,475	3,475	3,475	-	-	3,475	-	3,475
Department of National Archives	2,275	2,275	2,275	2,275	2,275	2,275	2,612	-	-	2,612	-	2,612
Department of Information	...	...	79	9,379	9,379	9,379	9,379	-	253	9,126	-	9,126
Department of Government Printer	...	...	-	20,518	20,518	20,518	20,518	-	-	20,518	-	20,518
Department of Examinations	...	2,875	2,875	8,797	8,797	8,797	7,402	-	-	7,402	-	7,402
Department of Technical Education & Training	...	...	75,205	78,705	78,705	78,705	78,705	-	-	78,705	-	78,705
Department of Social Services			-	-	-	345	345	-	-	345	-	345
Department of Probation & Child Care Services	...	...	-	3,877	3,877	3,877	3,877	-	-	3,877	-	3,877
Department of Sports Development				-	-	3,098	3,098	-	-	3,098	-	3,098
Department of Ayurveda	...	...	789	6,584	6,584	6,584	6,584	-	-	6,584	-	6,584
Department of Labour	...	48	48	20,788	20,788	20,788	20,788	-	-	20,788	-	20,788
Sri Lanka Army	...	409,651	973,124	1,468,196	2,453,745	3,752,398	3,964,911	1,764,300	25,600	5,703,611	74,859	5,779,470
Sri Lanka Navy	38,152	38,152	251,852	761,052	1,266,602	1,466,230	1,623,572	747,781	10,691	2,360,662	31,430	2,392,092
Sri Lanka Air Force	...	201,940	401,595	523,506	686,680	780,672	787,112	417,503	-	1,204,615	25,954	1,230,569
Department of Police	...	...	479,644	680,084	2,192,626	2,365,837	2,522,492	2,656,426	435	5,178,483	29,484	5,207,967
Department of Immigration & Emigration	...	...	10,410	10,410	10,410	10,410	10,410	-	-	10,410	520	10,930
Department of Registration of Persons	123	123	12,223	14,158	24,158	24,158	24,158	108	-	24,266	-	24,266

# Notes to Financial Statements contd...

2101-Vehicles																		Rs '000
Name of Institution	2004	2005	2006	2007	2008	2009	2010	2011			2012		Balance					
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Additions	Disposal	Balance	Additions							
Courts Administration	...	...	1,321	17,176	186,796	202,237	217,678	14,154	-	231,832	-	231,832	-					
Department of Attorney General	...	...	-	90,400	215,126	219,221	225,340	-	-	225,340	-	225,340	-					
Department of Legal Draftsman	...	13,770	13,770	27,620	27,620	27,620	27,620	360	-	27,980	-	27,980	-					
Department of Prisons	17,813	19,905	45,497	58,804	79,926	84,901	107,970	-	-	107,970	-	107,970	-					
Department of Government Analyst	...	...	3,441	13,137	13,137	18,177	18,177	-	-	18,177	-	18,177	-					
Registrar of Supreme Court	...	...	18,475	219,907	219,907	219,907	224,821	5,900	-	230,721	-	230,721	-					
Department of Law Commission	...	...	1,575	2,699	8,747	10,027	10,416	-	-	10,416	-	10,416	-					
Department of National Planning	...	2,506	2,506	7,856	7,856	10,081	10,081	-	-	10,081	-	10,081	-					
Department of Fiscal Policy	...	...	-	11,400	11,400	13,668	13,668	-	-	13,668	-	13,668	-					
Department of External Resources	...	...	7,973	7,973	7,973	10,241	15,155	-	-	15,155	-	15,155	-					
Department of National Budget	...	...	3,475	7,100	7,100	7,100	7,100	275,866	-	282,966	1,403,221	1,686,187	-					
Department of Public Enterprise	...	...	-	12,200	12,200	12,200	12,200	-	-	12,200	-	12,200	-					
Department of Management Services	...	...	-	2,600	2,600	2,600	2,600	-	-	2,600	-	2,600	-					
Department of Development Finance	...	...	-	2,800	2,800	2,800	2,800	-	-	2,800	-	2,800	-					
Department of Trade Tariff & Investment Policy	...	...	-	8,400	8,400	8,400	8,400	-	-	8,400	-	8,400	-					
Department of Public Finance	...	...	3,500	3,500	9,365	9,365	9,365	-	-	9,365	-	9,365	-					
Department of Inland Revenue	4,999	50,608	60,508	90,675	90,675	90,675	90,675	-	-	90,675	-	90,675	-					
Department of Customs	...	18,562	18,562	3,923,342	3,923,342	3,929,768	3,944,699	1,930	-	3,946,629	-	3,946,629	-					
Department of Excise	...	...	14,407	31,744	31,744	34,298	34,298	-	-	34,298	-	34,298	-					
Department of Treasury Operations	...	...	-	12,818	12,818	12,818	12,818	-	7,182	5,636	-	5,636	-					
Department of State Accounts	...	...	-	6,500	6,500	6,500	6,500	-	-	6,500	-	6,500	-					
Department of Valuation	-	-	-	7,955	7,955	7,605	7,605	-	-	7,605	-	7,605	-					
Department of Census & Statistics	3,446	6,874	29,132	48,643	48,643	48,643	77,501	2,454	-	79,955	-	79,955	-					
Department of Pensions	...	...	3,360	14,205	14,205	14,205	14,205	-	-	14,205	-	14,205	-					
Department of Registrar General	...	...	-	-	-	-	-	105	-	105	-	105	-					
District Secretariat - Colombo	6	6	6	6	6	81	81	-	-	81	-	81	-					
District Secretariat - Gampaha	...	...	-	-	(1,932)	(1,932)	(1,932)	-	-	(1,932)	-	(1,932)	-					
District Secretariat -Matara	...	17,070	17,070	17,070	17,070	17,070	17,070	-	-	17,070	-	17,070	-					
District Secretariat -Jaffna	...	5,390	5,390	5,390	5,390	5,390	5,390	-	-	5,390	-	5,390	-					
District Secretariat -Trincomalee	-	-	-	-	-	-	-	-	-	-	-	-	-					
Department of Agrarian Development	...	6,500	6,500	6,500	7,033	7,033	7,033	-	-	7,033	-	7,033	-					
Department of Irrigation	494	494	181,243	249,450	372,179	482,062	509,670	-	-	509,670	-	509,670	-					
Department of Forests	3,350	3,350	3,350	3,350	3,350	14,620	14,620	-	-	14,620	-	14,620	-					
Department of Wildlife Conservation	...	...	-	2,643	23,508	23,508	23,508	-	-	23,508	-	23,508	-					
Department of Agriculture	...	...	-	18,850	18,850	18,850	18,850	724	55	19,519	-	19,519	-					
Department of Land Commissioner	...	7,150	7,150	7,150	7,150	7,150	7,150	-	-	7,150	-	7,150	-					

# Notes to Financial Statements *contd...*

Name of Institution	Rs '000'											
	2004		2005		2006		2007		2008		2009	
	Balance		Balance		Balance		Balance		Balance		Balance	
Department of Survey General	...		...		...		11,400		11,400		11,400	
Department of Fisheries and Aquatic Resources	...		...		...		1,521		11,617		11,899	
Department of Coast Conservation	181		181		12,054		12,054		23,954		38,524	
Department of Animal Production & Health	...		...		7,500		7,500		10,520		10,520	
Department of Rubber Development	...		...		...		1,266		5,341		33,114	
Department of National Zoological Garden	...		359		359		6,854		14,879		25,575	
Department of Commerce	...		...		...		3,410		3,410		3,410	
Department of Import and Export Control	...		...		89		4,689		8,584		8,584	
Department of Measurement Units, Standards & Services	...		2,256		2,256		2,256		2,256		2,256	
Department of Food Commissioner	...		...		...		...		2,760		2,760	
Co-operative Employees Commission	...		7		2,502		2,502		2,502		2,501	
Department of Meteorology	...		3,970		3,970		3,970		3,970		3,970	
Department of Sri Lanka Railways	...		5,285		5,285		3,624,645		8,573,784		10,526,170	
Department of Motor Traffic	...		3,227		5,227		5,529		5,529		4,976	
Department of Posts	2,095		33,225		123,212		123,274		151,812		178,418	
Department of Buildings	...		4,950		5,300		5,300		9,008		7,885	
Government Factory	...		...		4,000		4,000		4,000		4,000	
Department of National Physical Planning	...		...		3,630		3,630		8,630		8,630	
Central Provincial Council	-		-		-		-		-		-	
Southern Provincial Council	-		-		-		-		-		-	
Sabaramuwa Provincial Council	...		...		...		7,500		7,500		7,500	
Department of Civil Security	...		...		...		34,065		81,960		87,086	
Department of National Botanical Gardens	...		...		...		...		3,700		3,700	
Department of Legal Affairs	-		-		-		-		2,520		2,520	
Department of Coast Guard of Sri Lanka	-		-		-		-		8,872		8,872	
Ministry of Reconstruction & Development	...		...		22,500		22,500		22,500		22,500	
Ministry of Mahaweli & River Basin Development & Rajarata Development	...		9,998		9,998		9,998		9,998		9,998	
Ministry of Eastern Development & Muslim Religious Affairs	3,275		3,275		3,275		3,275		3,275		3,275	
Ministry of Home Affairs Provincial Councils & Local Government	...		3,107		3,107		3,107		3,107		3,107	
Ministry of Interior	226		226		226		226		226		226	
Ministry of Regional Development	...		706		706		8,606		8,606		8,606	
Ministry of Coconut Development	...		...		12,975		17,725		17,725		17,725	
Ministry of Small & Rural Industries	...		4,753		7,852		7,852		7,852		7,852	
Ministry of Rural Economic Development	...		...		18,368		18,368		18,368		18,368	
Ministry of New Railroad Development	...		...		10,900		11,449		11,449		11,449	

## Notes to Financial Statements *contd...*

2101-Vehicles																Rs '000				
Name of Institution		2004		2005		2006		2007		2008		2009		2010		2011		2012		
		Balance		Balance		Balance		Balance		Balance		Balance		Balance		Additions	Disposal	Balance	Additions	Balance
Ministry of Skills Development & Public Enterprise Reforms		-		....		17,590		17,590		17,590		17,590		17,590		-	-	17,590	-	17,590
Ministry of Relief , Rehabilitation & Reconciliation		24,675		146,769		146,769		146,769		146,769		146,769		146,769		-	-	146,769	-	146,769
Ministry of Promotion of Botanical & Zoological Gardens		....		....		16,592		20,084		20,084		20,084		20,084		-	-	20,084	-	20,084
Ministry of Textile Industrial Development		....		....		7,487		7,487		7,487		7,487		7,487		-	-	7,487	-	7,487
Department of Community Based Correction		....		....		....		....		....		....		-		-	-	-	-	-
Ministry of Ports & Highways		....		....		....		....		....		....		-		-	-	473,417	-	473,417
Ministry of Cultural and the Arts																-	-	-	12,083	12,083
Total		196,137		2,245,559		6,736,799		17,993,839		30,164,946		34,505,564		40,021,050		11,169,110		51,076,539	9,631,993	60,708,532

# Notes to Financial Statements *contd...*

Rs '000'													
Note 30.1 - MOVABLE ASSETS ACQUIRED SINCE 01.01.2004													
2102-Office Equipment													
Name of Institution	2004	2005	2006	2007	2008	2009	2010	2011		2012			
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Disposal	Balance	Additions	Balance	Additions	Balance
H.E.the President	1,723	10,526	138,511	1,328,118	1,426,035	1,481,452	1,511,430	29,985	-	1,541,415	29,727	1,571,142	
Office of the Prime Minister	1,807	6,850	7,750	12,570	17,494	22,602	28,374	4,979	-	33,353	4,725	38,078	
Secretariat for Special Functions (Senior Ministers)			-	-	-	-	-	4,910	-	4,910	988	5,898	
Office of the Cabinet of Ministers	45	77	307	784	5,264	13,081	14,245	3,366	-	17,611	5,269	22,880	
Parliament	3,313	6,831	11,826	17,564	27,390	34,703	43,511	14,151	-	57,662	7,229	64,891	
Office of the Leader of the House of Parliament	117	316	516	623	747	1,071	1,406	467	-	1,873	92	1,965	
Office of the Chief Government whip of Parliament	234	625	738	1,098	1,098	1,355	2,103	844	-	2,947	298	3,245	
Office of the Leader of the Opposition of Parliament	...	392	492	572	627	689	889	219	-	1,108	182	1,290	
Office of the Former President (Hon D.B.Wijethunge)	98,976	99,014	98,995	98,995	98,995	98,995	98,995	-	-	98,995	-	98,995	
Office of the Former Prime Minister (Hon.C.B.Kumaratunge)	...	...	1,400	1,448	1,448	1,448	1,448	-	-	1,448	-	1,448	
The Constitutional Council	42	42	521	569	586	640	555	-	-	555	-	555	
Public Service Commission	11,394	11,988	12,402	12,862	14,767	15,489	15,520	87	-	15,607	488	16,095	
Judicial Service Commission	476	578	1,451	1,787	1,810	1,838	1,856	146	-	2,002	49	2,051	
National Police Commission	500	3,968	4,917	6,999	8,390	8,574	8,574	4	-	8,578	24	8,601	
Administration Appeals Tribunal	144	144	205	250	295	335	347	12	-	359	19	378	
Commission to Investigate Allegations of Bribery or Corruption	497	1,196	1,892	2,386	2,572	3,455	4,329	887	-	5,216	208	5,424	
Department of Elections	...	...	985	2,702	4,583	8,265	10,730	9,608	427	19,911	2,967	22,878	
Auditor General	1,966	5,352	7,841	9,035	13,677	16,418	22,643	1,265	-	23,908	2,773	26,681	
Office of the Parliamentary Commissioner for Administration	87	160	160	227	349	501	1,015	170	-	1,185	81	1,266	
Office of the Finance Commission	194	759	814	994	978	993	2,654	2,253	-	4,907	61	4,968	
National Education Commission	424	875	1,361	1,432	1,745	2,533	3,005	597	-	3,602	227	3,829	
Human Rights Commission of Sri Lanka			-	-	-	905	2,210	997	-	3,207	1,184	4,391	
Ministry of Buddhasana and Religious Affairs	50	220	2,614	3,578	4,178	5,312	6,064	900	-	6,964	444	7,408	
Ministry of Finance & Planning	2,225	7,366	16,088	21,072	24,719	28,983	34,033	717	1,229	33,521	7,051	40,572	
Ministry of Defence and Urban Development	1,876	13,307	39,173	76,086	150,733	174,680	230,703	29,122	-	259,825	25,598	285,423	
Ministry of Plan Implementation & Monitoring	...	...	9,056	11,661	13,071	12,425	12,425	-	-	12,425	-	12,425	
Ministry of Economic Development	...	...	-	424	2,793	5,400	8,137	11,782	11,132	8,787	13,006	21,793	
Ministry of Disaster Management	...	...	7,628	8,969	10,268	10,904	12,702	906	15	13,593	2,472	16,065	
Ministry of Tourism	271	929	1,368	2,661	3,257	3,316	3,316	-	-	3,316	-	3,316	
Ministry of Post & Telecommunications	...	754	1,837	3,741	7,133	9,052	11,559	1,095	-	12,654	1,444	14,098	
Ministry of Justice	4,937	125,085	321,411	392,157	395,422	404,158	403,710	8,433	-	412,143	4,663	416,806	
Ministry of Health	-	...	-	67,930	67,930	215,245	352,808	157,609	1,058	509,359	156,404	665,763	
Ministry of External Affairs	1,921	14,645	77,465	154,033	219,778	268,413	341,930	67,293	-	409,223	83,950	493,173	
Ministry of Ports & Aviation	1,627	3,767	5,300	5,739	7,158	8,062	8,865	2,527	86	11,306	-	11,306	
Ministry of Transport	23,001	23,001	24,498	25,375	26,711	27,299	28,116	693	83	28,726	993	29,719	

# Notes to Financial Statements *contd...*

2102-Furniture & Office Equipment													Rs '000
Name of Institution	2004	2005	2006	2007	2008	2009	2010	2011		2012			
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Additions	Disposal	Balance	Additions	Balance	
Ministry of Petroleum Industries	....	....	3,012	6,597	8,641	9,554	10,668	993	37	11,624	2,869	14,493	
Ministry of Co-operative and Internal Trade	161	432	2,281	2,725	3,502	4,753	6,849	816	-	7,665	119	7,784	
Ministry of Highways	690	1,840	4,264	4,983	7,044	8,456	16,995	-	-	16,995	-	16,995	
Ministry of Agriculture	2,466	8,616	15,544	20,563	23,184	24,662	28,664	1,210	1,711	28,163	1,784	29,947	
Ministry of Power & Energy	227	355	2,291	4,494	4,494	6,348	7,899	8,130	-	16,029	1,662	17,691	
Ministry of Child Development & Women's Affairs	62	5,318	9,474	15,468	15,518	16,753	19,595	237	155	19,677	5,545	25,222	
Ministry of Public Administration & Home Affairs	3,659	16,823	24,142	36,401	41,783	45,339	61,533	22,137	86	83,584	41,238	124,822	
Ministry of Mass Media & Information	....	1,783	4,783	6,765	7,308	9,497	10,517	612	-	11,129	1,908	13,037	
Ministry of Construction, Engineering Services, Housing and Common Amenities	279	1,050	2,585	3,442	4,224	4,791	6,084	2,646	120	8,610	582	9,192	
Ministry of Social Service	....	....	3,414	5,141	5,812	6,662	8,309	1,617	-	9,926	1,092	11,018	
Ministry of Housing & Common Amenities	1,177	5,587	6,220	8,431	10,134	10,539	10,539	-	-	10,539	-	10,539	
Ministry of Education	20,709	1,505,227	2,907,513	4,342,564	4,366,124	4,413,179	5,604,857	1,129,731	73	6,734,515	645,029	7,379,544	
Ministry of Labour Relations & Productivity Improvement	....	3,069	7,035	9,618	11,373	13,419	14,645	543	-	15,188	278	15,466	
Ministry of Traditional Industries & Small Enterprises Development	....	....	-	765	1,595	2,161	3,194	1,462	-	4,656	250	4,906	
Ministry of Vocational & Technical Training	5,057	354,300	354,600	356,217	356,880	360,131	360,131	-	-	360,131	-	360,131	
Ministry of Local Government & Provincial Councils	357	357	2,134	4,219	6,248	7,774	10,362	5,790	-	16,152	4,644	20,796	
Ministry of Enterprise Development & Investment Promotion	....	2,276	7,637	10,602	10,602	10,602	10,602	-	-	10,602	-	10,602	
Ministry of Technology and Research	3,265	7,530	13,746	25,372	36,497	50,468	70,627	10,516	-	81,143	10,373	91,516	
Ministry of National Languages & Social Integration	724	1,478	1,542	8,188	9,376	16,551	12,715	12,663	890	24,488	1,044	25,532	
Ministry of Plantation Industries	2,455	4,126	5,621	7,576	14,379	17,669	20,849	7,812	-	28,661	6,220	34,881	
Ministry of Sports	....	-	-	-	2,375	3,566	7,008	5,172	-	12,180	1,238	13,418	
Ministry of Indigenous Medicine	....	719	1,290	2,876	3,834	5,040	11,298	4,683	-	15,981	2,883	18,864	
Ministry of Fisheries & Aquatic Resources Development	1,523	7,206	12,773	58,003	85,145	89,968	95,460	4,812	-	100,272	2,812	103,084	
Ministry of Livestock and Rural Community Development	....	....	1,016	3,198	4,070	4,231	5,340	2,268	-	7,608	1,864	9,472	
Ministry of National Heritage & Cultural Affairs	....	19,745	40,466	42,464	62,816	84,708	105,443	4,201	-	109,644	1,294	110,938	
Ministry of Cultural Affairs	-	-	-	-	-	-	-	-	-	-	-	-	
Ministry of Parliamentary Affairs	532	532	707	1,834	2,228	2,991	3,729	996	-	4,725	912	5,637	
Ministry of Re-Settlement	....	....	2,217	5,767	7,211	9,061	10,651	1,385	16	12,020	882	12,902	
Ministry of Industry and Commerce	446	446	2,051	4,000	6,302	7,311	8,913	4,300	-	13,213	3,620	16,833	
Ministry of Foreign Employment Promotion & Welfare	....	....	2,076	2,628	4,518	4,960	4,960	7,091	29	12,022	1,791	13,813	
Ministry of Irrigation & Water Resources Management	....	....	3,652	5,212	6,653	7,196	10,604	2,600	-	13,204	3,276	16,480	
Ministry of Lands and Land Development	1,943	1,943	1,943	1,943	5,482	8,630	11,942	2,306	126	14,122	2,687	16,809	
Ministry of Youth Affairs & Skills Development	....	2,525	3,920	8,720	9,597	9,660	14,516	10,947	-	25,463	8,511	33,974	
Ministry of Environment	146	11,320	12,267	16,580	18,257	19,169	20,222	309	-	20,531	782	21,313	



# Notes to Financial Statements *contd...*

Rs '000'

## 2102-Furniture & Office Equipment

Name of Institution	2004	2005	2006	2007	2008	2009	2010	2011			2012	
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Internal Administration	-	...	-	524	903	1,335	1,335	-	-	1,335	-	1,335
Ministry of Youth Empowerment & Socio Economic Development	-	...	-	4,749	5,749	10,340	10,340	-	-	10,340	-	10,340
Ministry of Community Development & Social Inequality Eradication	675	675	675	4,196	4,651	4,840	4,840	-	-	4,840	-	4,840
Ministry of National Heritage	-	...	-	-	3,499	3,499	3,499	-	-	3,499	-	3,499
Ministry of Water Supply & Drainage	-	-	-	3,277	4,814	6,312	7,014	424	-	7,438	103	7,541
Ministry of Export Development & International Trade	-	-	-	1,236	1,402	1,558	1,558	-	-	1,558	-	1,558
Ministry of Public Estate Management & Development	-	-	-	6,922	8,113	9,318	9,318	-	-	9,318	-	9,318
Ministry of Construction & Engineering Services	-	-	-	12,282	14,325	15,819	15,819	-	-	15,819	-	15,819
Ministry of Special Projects	-	-	-	4,070	-	-	-	-	-	-	-	-
Ministry of Higher Education	-	-	-	1,252	3,187	3,445	157,334	23,498	-	180,832	70,047	250,879
Ministry of Public Management Reforms	-	-	-	-	-	-	5,148	2,445	-	7,593	632	8,225
Ministry of Rehabilitation and Prison Reforms	-	-	-	-	-	-	2,610	978	-	3,588	358	3,946
Ministry of State Resources & Enterprise Development	-	-	-	8,654	9,900	10,947	11,596	364	-	11,960	1,402	13,362
Ministry of Civil Aviation	-	-	-	-	-	-	-	3,294	-	3,294	337	3,631
Ministry of Culture and the Arts	-	-	-	-	-	-	-	29,924	-	29,924	24,753	54,677
Ministry of Coconut Development and Janatha Estate Development	-	-	-	-	-	-	-	5,041	-	5,041	539	5,580
Ministry of Agrarian Services and Wild Life	-	-	-	-	-	-	-	3,388	-	3,388	4,386	7,774
Ministry of Minor Export Crop Promotion	-	-	-	-	-	-	-	3,041	-	3,041	4,978	8,019
Ministry of Productivity Promotion	-	-	-	-	-	-	-	2,195	-	2,195	2,645	4,840
Ministry of Public Relations and Public Affairs	-	-	-	-	-	-	-	1,202	-	1,202	1,476	2,678
Ministry of Private Transport Services	-	-	-	-	-	-	-	2,560	-	2,560	2,460	5,020
Ministry of Telecommunication and Information Technology	-	-	-	-	-	-	-	1,984	-	1,984	375	2,359
Department of Buddhist Affairs	3,795	7,344	8,308	9,288	9,992	10,228	10,685	1,443	-	12,128	995	13,123
Department of Muslim Religious & Cultural Affairs	616	635	883	1,411	1,505	1,546	1,696	90	-	1,786	30	1,816
Department of Christian Religious Affairs	...	-	-	173	427	1,246	1,532	268	-	1,800	21	1,821
Department of Hindu Religious & Cultural Affairs	739	781	1,534	2,705	3,733	4,026	4,516	1,429	-	5,945	517	6,462
Department of Public Trustee	...	515	593	1,255	1,503	1,714	2,040	146	-	2,186	194	2,380
Department of Cultural Affairs	...	3,059	4,665	5,983	7,896	8,655	9,561	2,154	-	11,715	1,966	13,681
Department of Archaeology	1,279	3,196	4,600	10,262	15,362	18,179	21,124	3,199	-	24,323	3,200	27,523
Department of National Museums	500	5,217	9,678	11,226	15,586	17,296	19,725	1,982	-	21,707	1,589	23,296
Department of National Archives	3,281	6,445	9,999	17,512	19,417	20,483	22,353	2,424	-	24,777	2,214	26,991
Department of Information	...	785	3,177	3,822	9,221	11,823	13,128	25,792	-	38,920	3,562	42,482
Department of Government Printer	...	1,684	5,464	8,272	9,855	11,407	13,071	1,928	-	14,999	2,236	17,235
Department of Examinations	...	499	1,992	3,020	3,800	4,714	98,987	997	-	99,984	1,075	101,059

# Notes to Financial Statements *contd...*

2102-Furniture & Office Equipment													Rs '000
Name of Institution	2004	2005	2006	2007	2008	2009	2010	2011			2012		
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Additions	Disposal	Balance	Additions	Balance	
Department of Educational Publications	349	693	693	1,335	1,803	2,397	3,323	537	-	3,860	596	4,456	
Department of Technical Education & Training	7,444	14,940	24,940	36,987	39,843	42,954	49,942	12,374	-	62,316	23,671	85,987	
Department of Social Services	1,257	5,650	9,204	16,950	17,942	18,494	21,367	855	-	22,222	393	22,615	
Department of Probation & Child Care Services	300	1,154	2,309	3,148	3,372	3,682	4,006	411	-	4,417	445	4,862	
Department of Commissioner General of Samurdhi	....	703	2,485	3,532	3,712	3,997	6,399	499	-	6,898	596	7,494	
Department of Sports Development	2,185,223	2,187,994	2,189,215	2,190,155	2,190,954	2,191,174	2,191,652	266	-	2,191,918	300	2,192,218	
Department of Ayurveda	3,316	5,879	9,811	14,027	19,304	22,474	29,243	8,790	-	38,033	15,325	53,358	
Department of Labour	10,682	63,348	76,166	79,077	80,205	81,035	81,742	2,312	-	84,054	9,426	93,480	
Sri Lanka Army	....	32,916	104,997	172,004	301,299	389,296	499,073	72,319	93	571,299	212,392	783,691	
Sri Lanka Navy	34,298	34,298	34,298	69,570	69,570	69,570	99,130	92,628	38,061	153,697	130,913	284,610	
Sri Lanka Air Force	2,810	32,689	50,689	69,091	77,542	171,488	202,572	73,862	7,763	268,671	67,282	335,953	
Department of Police	....	....	-	146,389	146,389	146,389	266,702	100,000	-	366,702	120,045	486,747	
Department of Immigration & Emigration	573	28,520	36,813	39,383	41,307	41,727	43,281	8,288	-	51,569	2,075	53,644	
Department of Registration of Persons	1,312	2,034	3,040	3,884	4,543	6,154	7,018	889	253	7,654	533	8,187	
Courts Administration	17,204	33,866	59,486	94,758	134,790	186,194	216,167	53,285	-	269,452	30,795	300,247	
Department of Attorney General	3,615	6,362	8,894	14,330	17,039	21,923	31,152	4,743	-	35,895	3,200	39,095	
Department of Legal Draftsman	501	1,212	1,765	2,251	6,346	16,748	32,198	10,987	2,441	40,744	2,914	43,658	
Department of Debt Conciliation Board	....	-	-	231	318	416	515	104	-	619	333	952	
Department of Prisons	1,463	3,721	6,545	19,546	29,080	44,613	56,427	9,991	-	66,418	13,766	80,184	
Department of Government Analyst	995	2,456	3,452	21,449	39,021	59,840	109,821	29,550	-	139,371	11,575	150,946	
Registrar of Supreme Court	2,415	2,574	5,310	8,303	11,311	18,883	19,565	1,459	-	21,024	-	21,024	
Department of Law Commission	352	352	952	2,182	3,112	4,082	4,301	400	-	4,701	150	4,851	
Department of Official Languages	15	115	392	648	648	826	887	151	-	1,038	493	1,531	
Department of National Planning	1,151	6,196	6,428	10,038	13,258	14,785	14,876	574	701	14,749	1,110	15,859	
Department of Fiscal Policy	....	4,163	4,497	4,497	4,562	4,641	5,459	526	-	5,985	571	6,556	
Department of External Resources	1,192	10,433	16,409	27,297	27,297	27,875	29,793	110	-	29,903	3,785	33,688	
Department of National Budget	138	646	729	957	1,207	5,883	5,908	397	17	6,288	5,585	11,873	
Department of Public Enterprise	782	1,305	1,480	2,609	4,286	5,821	6,324	86	40	6,370	1,942	8,312	
Department of Management Services	1,945	3,161	4,482	5,894	5,910	6,362	6,684	3,281	3	9,962	97	10,059	
Department of Development Finance	....	187	359	502	502	548	620	52	-	672	255	927	
Department of Trade Tariff & Investment Policy	....	-	-	736	1,446	1,444	1,464	595	2	2,057	12	2,069	
Department of Public Finance	1,518	1,772	2,329	5,361	5,361	5,389	5,678	354	-	6,032	532	6,564	
Department of Inland Revenue	986	8,245	40,917	49,083	54,406	64,155	73,383	14,953	-	88,336	7,915	96,251	
Department of Customs	....	722	722	18,478	18,478	44,397	144,397	936	-	145,333	873	146,206	
Department of Excise	697	1,744	8,646	13,992	17,606	21,668	25,798	3,153	-	28,951	4,979	33,930	

# Notes to Financial Statements *contd...*

Rs '000'

## 2102-Furniture &amp; Office Equipment

Name of Institution	2004	2005	2006	2007	2008	2009	2010	2011			2012	
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Additions	Disposal	Balance	Additions	Balance
Department of Treasury Operations	....	....	277	417	531	2,112	2,988	94	24	3,058	571	3,629
Department of State Accounts	846	1,703	2,077	3,172	3,172	3,857	4,789	274	337	4,726	3,078	7,804
Department of Valuation	396	984	1,778	3,611	8,386	10,085	20,085	736	-	20,821	472	21,293
Department of Census & Statistics	1,016	3,010	4,639	6,128	7,559	12,239	38,468	98,901	453	136,916	3,471	140,387
Department of Pensions	767	4,542	8,201	11,429	14,312	16,815	21,556	3,496	-	25,052	3,058	28,110
Department of Registrar General	....	2,812	6,052	18,226	27,657	29,489	37,522	8,344	-	45,866	7,909	53,775
District Secretariat - Colombo	3,131	14,978	17,425	51,313	55,005	67,579	82,799	22,501	75	105,225	11,056	116,281
District Secretariat - Gampaha	1,499	2,178	4,126	20,102	22,867	24,762	26,709	2,925	-	29,634	2,472	32,106
District Secretariat - Kalutara	920	2,418	5,379	27,961	33,908	34,996	36,578	4,125	-	40,703	3,637	44,340
District Secretariat - Kandy	746	2,242	4,793	44,617	51,427	55,653	63,036	4,975	10	68,001	3,450	71,451
District Secretariat - Matale	1,691	3,688	5,538	25,040	28,403	32,476	35,779	4,434	22	40,191	3,637	43,828
District Secretariat - Nuwara Eliya	475	2,488	3,926	19,193	26,077	31,171	36,632	5,991	480	42,143	4,974	47,117
District Secretariat - Galle	3,918	7,177	9,161	39,153	46,565	52,432	59,249	4,993	141	64,101	3,987	68,088
District Secretariat - Matara	1,375	10,146	12,695	33,522	38,153	44,524	56,508	6,994	-	63,502	5,585	69,087
District Secretariat - Hambantota	2,135	4,403	7,403	22,384	26,102	31,048	37,497	12,800	45	50,252	35,137	85,389
District Secretariat - Jaffna	....	3,797	7,493	27,487	31,206	39,406	45,155	7,277	19	52,413	5,737	58,150
District Secretariat - Mannar	....	499	3,247	8,661	13,227	18,206	24,155	6,563	-	30,718	4,989	35,707
District Secretariat - Vavuniya	....	899	2,139	8,013	11,268	12,265	16,221	3,999	-	20,220	4,993	25,213
District Secretariat - Mullativu	500	894	3,373	7,792	7,792	9,905	12,874	5,495	-	18,369	5,366	23,735
District Secretariat - Kilinochchi	365	1,365	2,864	11,849	13,999	21,998	30,493	7,585	-	38,078	4,997	43,075
District Secretariat - Batticaloa	998	6,194	7,892	19,476	23,806	28,783	33,236	3,993	5,860	31,369	3,638	35,007
District Secretariat - Ampara	850	2,321	3,779	20,970	23,331	29,510	49,583	8,000	-	57,583	5,000	62,583
District Secretariat - Trincomalee	2,993	3,992	6,930	14,731	15,829	18,512	22,354	3,999	-	26,353	3,043	29,396
District Secretariat - Kurunegala	4,583	7,730	10,533	61,954	66,799	66,799	71,629	3,953	-	75,582	4,329	79,911
District Secretariat - Puttalam	999	2,729	5,228	20,227	24,621	28,471	31,265	2,009	-	33,274	1,667	34,941
District Secretariat - Anuradhapura	1,186	2,983	5,735	25,295	29,006	33,409	38,200	4,960	4	43,156	4,464	47,620
District Secretariat - Polonnaruwa	....	2,000	3,991	10,963	16,387	21,452	26,605	5,962	-	34,567	4,627	39,194
District Secretariat - Badulla	988	3,584	6,571	28,777	34,940	36,904	39,368	3,865	-	43,233	2,277	45,510
District Secretariat - Monaragala	989	2,994	5,111	12,981	15,304	18,801	24,793	6,000	170	30,623	1,000	31,623
District Secretariat - Ratnapura	1,009	2,928	5,154	7,918	10,789	19,183	26,817	8,977	242	35,552	4,896	40,448
District Secretariat - Kegalle	782	3,274	5,751	25,762	29,750	32,486	36,458	4,975	18	41,415	3,909	45,324
Department of Project Management and Monitoring	....	1,840	4,399	4,997	4,796	5,024	5,024	19	-	5,043	-	45
Department of Foreign Aid & Budget Monitoring	....	3,470	8,148	17,400	22,096	31,136	52,955	14,076	-	67,031	39,867	106,898
Department of Agrarian Development	15,177	29,400	51,505	70,491	85,553	109,254	115,730	19,538	5	135,263	4,794	140,057
Department of Irrigation	490	988	1,530	6,488	11,720	15,577	19,575	4,493	-	24,068	4,535	28,603

# Notes to Financial Statements *contd...*

Rs '000'

## 2102-Furniture & Office Equipment

Name of Institution	2004		2005		2006		2007		2008		2009		2010		2011			2012	
	Balance		Balance		Balance		Balance		Balance		Balance		Balance		Additions	Disposal	Balance	Additions	Balance
Department of Wildlife Conservation	63	2,030	3,019	4,141	40,553	43,316	62,155	2,948	-	65,103	3,975	69,078							
Department of Agriculture	10,921	15,778	19,734	31,255	44,228	56,324	69,534	24,295	133	93,696	23,415	117,111							
Department of Land Commissioner	1,798	3,796	6,784	9,278	11,116	12,516	14,516	4,993	-	19,509	4,550	24,059							
Department of Land Settlement	198	1,571	2,848	3,351	4,151	5,580	6,854	999	-	7,853	746	8,599							
Department of Survey General	3,386	125,364	127,493	132,310	133,456	133,322	134,889	2,287	-	137,176	1,893	139,069							
Department of Export Agriculture	2,929	2,929	2,929	2,961	5,257	7,648	10,538	3,399	193	13,744	3,169	16,913							
Department of Fisheries and Aquatic Resources	298	2,093	3,406	4,936	7,809	8,942	10,434	3,479	-	13,913	2,138	16,051							
Department of Coast Conservation	692	2,586	3,282	4,018	4,316	4,384	4,577	479	-	5,056	1,185	6,241							
Department of Animal Production and Health	2,296	2,296	7,441	12,226	19,318	21,792	26,790	9,501	69	36,222	5,662	41,884							
Department of Rubber Development	...	759	946	4,008	5,112	7,576	8,558	1,485	-	10,043	709	10,752							
Department of National Zoological Garden	211	511	895	1,537	2,036	2,737	3,089	751	-	3,840	798	4,638							
Department of Commerce	...	1,681	2,317	3,106	3,175	3,674	4,110	373	-	4,483	780	5,263							
Department of Import and Export Control	327	506	833	2,098	1,826	2,813	2,907	96	1	3,002	10,097	13,099							
Department of the Registrar of Companies	2	215	215	215	215	215	215	-	-	215	-	215							
Department of Measurement Units, Standards & Services	301	630	1,005	1,907	2,370	2,370	2,859	497	-	3,356	487	3,843							
National Intellectual property Office of Sri Lanka	44	44	44	44	44	44	44	-	-	44	-	44							
Department of Food Commissioner	44	89	650	1,500	1,915	2,128	3,496	1,314	-	4,810	794	5,604							
Department of Co-operative Development	...	629	1,809	2,302	2,391	2,467	2,567	98	-	2,665	74	2,739							
Co-operative Employees Commission	...	295	1,369	1,540	1,535	1,596	1,660	21	7	1,674	323	1,997							
Department of Textile Industries	494	919	1,117	1,708	1,769	1,913	2,403	900	-	3,303	446	3,749							
Department of Meteorology	2,218	7,019	7,679	9,621	10,726	11,919	13,009	1,349	-	14,358	2,750	17,108							
Department of Upcountry Peasantry Rehabilitation	49	298	741	741	1,089	1,344	1,544	244	-	1,788	228	2,016							
Department of Sri Lanka Railways	...	5,839	9,751	10,185	22,307	26,950	31,824	10,771	18	42,577	18,245	60,822							
Department of Motor Traffic	...	1,998	7,658	12,317	18,886	22,139	22,713	4,377	3,272	23,818	9,233	33,051							
Department of Posts	26,557	45,544	52,744	55,100	89,712	98,470	106,286	11,944	-	120,230	10,292	130,522							
Department of Buildings	...	1,244	4,035	13,216	22,450	26,072	30,979	1,508	55	32,432	2,020	34,452							
Government Factory	240	1,010	1,872	2,843	3,305	3,942	4,439	489	-	4,928	998	5,926							
Department of National Physical Planning	1,524	2,398	3,615	5,088	5,988	6,093	6,194	298	-	6,492	49	6,541							
Department of Civil Security	...	...	-	26,075	44,651	63,110	70,594	7,499	-	78,093	6,999	85,092							
Department of National Botanical Garden	...	-	-	-	462	462	759	442	-	1,201	436	1,637							
Department of Legal Affairs	-	-	-	-	-	225	685	182	-	867	58	925							
Department of Management Audit	-	-	-	-	-	179	310	347	-	657	5	662							
Department of Coast Guard of Sri Lanka	-	-	-	-	-	875	6,085	4,964	-	11,049	3,231	14,280							
Department of Community Based Correction	-	-	-	-	-	-	3,433	156	20	3,569	2,065	5,634							
Department of Land Use Policy Planning	-	-	-	-	-	-	-	1,512	-	1,512	1,648	3,160							
Department of Man Power and Employment	-	-	-	-	-	-	-	377	2,810	(2,433)	1,686	(747)							

# Notes to Financial Statements *contd...*

Rs '000'

## 2102-Furniture & Office Equipment

Name of Institution	2004		2005		2006		2007		2008		2009		2010		2011			2012	
	Balance		Balance		Balance		Balance		Balance		Balance		Balance		Additions	Disposal	Balance	Additions	Balance
Office of the Former Prime Minister (Hon.R.Wickramanayake)	10		10		10		10		10		10		10		-	-	10	-	10
Ministry of Policy Development & Implementation	....		....		....		555		555		555		555		-	-	555	-	555
Ministry of Reconstruction & Development	....		....		25,238		25,238		25,238		25,238		25,238		-	-	25,238	-	25,238
Ministry of Infrastructure Development in the Eastern Province	....		1,954		1,954		1,954		1,954		1,954		1,954		-	-	1,954	-	1,954
Ministry of Mahaweli & River Basin Development & Rajarata Development	....		2,445		2,445		2,445		2,445		2,445		2,445		-	-	2,445	-	2,445
Ministry of Eastern Development & Muslim Religious Affairs	996		996		996		996		996		996		996		-	-	996	-	996
Ministry of Home Affairs Provincial Councils & Local Government	1,467		3,374		3,374		3,374		3,374		3,374		3,374		-	-	3,374	-	3,374
Ministry of Interior	1,130		1,130		1,130		1,130		1,130		1,130		1,130		-	-	1,130	-	1,130
Ministry of Regional Development	....		2,000		4,397		5,490		5,490		5,490		5,490		-	-	5,490	-	5,490
Ministry of Infrastructure Development & Fisheries Housing	....		....		548		548		548		548		548		-	-	548	-	548
Ministry of Coconut Development	....		....		3,790		4,066		4,066		4,066		4,066		-	-	4,066	-	4,066
Ministry of Small & Rural Industries	....		1,496		2,459		2,459		2,459		2,459		2,459		-	-	2,459	-	2,459
Ministry of Small Holder Development	298		298		298		298		298		298		298		-	-	298	-	298
Ministry of Southern Region Development	4,262		4,262		4,262		4,262		4,262		4,262		4,262		-	-	4,262	-	4,262
Ministry of Western Region Development	458		458		458		458		458		458		458		-	-	458	-	458
Ministry of Central Region Development	1,013		1,013		1,013		1,013		1,013		1,013		1,013		-	-	1,013	-	1,013
Ministry of Rural Economic & Development	1,217		1,217		2,919		3,206		3,206		3,206		3,206		-	-	3,206	-	3,206
Ministry of Samurdhi & Poverty Alleviation	....		....		....		899		899		899		899		-	-	899	-	899
Ministry of Skills Development & Public Enterprise Reforms	....		....		4,669		5,389		5,389		5,389		5,389		-	-	5,389	-	5,389
Ministry of New Railroad Development	....		....		1,415		1,479		1,479		1,479		1,479		-	-	1,479	-	1,479
Ministry of Christian & Parliamentary Affairs	....		155		155		155		155		155		155		-	-	155	-	155
Ministry of North West Region Development	1,080		1,080		1,080		1,080		1,080		1,080		1,080		-	-	1,080	-	1,080
Ministry of Relief , Rehabilitation & Reconciliation	1,203		10,616		10,616		10,616		10,616		10,616		10,616		-	-	10,616	-	10,616
Ministry of Assisting Vanni Rehabilitation	398		398		398		398		398		398		398		-	-	398	-	398
Ministry of Promotion of Botanical & Zoological Gardens	....		....		4,031		5,348		5,348		5,348		5,348		-	-	5,348	-	5,348
Ministry of Textile Industry Development	....		....		947		984		984		984		984		-	-	984	-	984
Ministry of Rural Livelihood Development	....		....		6,721		7,461		7,461		7,461		7,461		-	-	7,461	-	7,461
Ministry of Ports & Highways	....		....		....		....		....		....		....		-	-	....	-	....
Judges of the Superior Courts	....		....		....		....		....		....		....		-	-	....	-	....
<b>Total</b>	<b>2,616,091</b>		<b>5,243,858</b>		<b>7,638,157</b>		<b>11,770,941</b>		<b>12,759,638</b>		<b>13,833,211</b>		<b>16,630,568</b>		<b>2,657,615</b>		<b>81,130</b>	<b>19,207,053</b>	<b>21,478,866</b>

# Notes to Financial Statements contd...

## Note 30.1 - MOVABLE ASSETS ACQUIRED SINCE 01.01.2004

2103-Plant, Machinery & Equipment

Rs '000'

Name of Institution	2004	2005	2006	2007	2008	2009	2010	2011			2012	
	Balance	Balance	Balance	Balance	Balance	Balance	Balance	Disposal	Additions	Balance	Additions	Balance
H.E the President	3,000	9,582	420,875	452,978	516,455	667,404	867,280	82,313	-	949,593	93,115	1,042,708
Office of the Prime Minister	2,880	59,564	63,902	68,949	77,634	80,633	81,876	4,958	-	86,834	238	87,072
Secretariat for Special Functions (Senior Ministers)			-	-	-	-	-	2,163	-	2,163	1,822	3,985
Office of the Cabinet of Ministers	2,084	2,517	3,638	4,347	4,347	4,347	5,294	620	-	5,914	-	5,914
Parliament	6,900	7,425	9,492	10,992	21,399	28,672	79,909	26,054	-	105,963	24,119	130,082
Office of the Leader of the Opposition of Parliament	-	-	-	-	461	1,131	1,131	-	-	1,131	-	1,131
The Constitutional Council	25	133	133	133	133	133	133	-	-	133	-	133
Public Service Commission	400	981	1,618	2,069	2,208	2,930	3,293	6,250	-	9,543	3,147	12,690
Judicial Service Commission	....	....	98	134	177	609	792	974	-	1,766	184	1,950
National Police Commission	152	1,006	1,534	1,534	1,557	1,596	1,621	-	-	1,621	88	1,709
Administration Appeals Tribunal	165	165	165	165	165	165	165	-	-	165	-	165
Commission to Investigate Allegations of Bribery or Corruption	1,656	2,521	4,001	4,545	4,683	4,683	4,683	-	-	4,683	-	4,683
Department of Elections	....	....	5,006	51,198	58,055	63,339	67,404	9,912	2,232	75,084	3,997	79,081
Office of the Finance Commission	69	177	397	477	506	506	1,202	458	-	1,660	450	2,110
National Education Commission	....	....	25	29	38	533	533	58	110	481	24	505
Human Rights Commission of Sri Lanka	-	-	-	-	-	421	439	143	-	582	50	632
Ministry of Buddhasasana and Religious Affairs	3,673	4,970	5,432	7,630	8,204	8,673	9,292	609	-	9,901	1,257	11,158
Ministry of Finance & Planning	14	312	562	4,618	5,075	5,124	9,356	134	282	9,208	303	9,511
Ministry of Defence and Urban Development	5,311	14,579	19,476	119,084	664,468	674,558	689,933	37,260	-	727,193	64,609	791,802
Ministry of Plan Implementation			-	-	1,626	1,626	1,626	-	-	1,626	-	1,626
Ministry of Economic Development	....	....	-	1,216	2,318	3,486	5,281	1,915	110	7,086	2,578,116	2,585,202
Ministry of Disaster Management	....	....	2,431	19,108	20,402	20,934	22,104	570	24	22,650	992	23,642
Ministry of Tourism	624	1,113	1,809	2,301	2,967	4,723	4,723	-	-	4,723	-	4,723
Ministry of Post & Telecommunications	....	1,234	5,168	5,333	5,333	5,333	6,440	1,774	-	8,214	1,973	10,187
Ministry of Justice	....	75	311	791	1,012	1,012	1,012	-	-	1,012	-	1,012
Ministry of Health	....	....	-	311,773	311,773	985,166	2,555,472	2,437,644	24,886	4,968,230	2,060,822	7,029,052
Ministry of External Affairs	....	5,242	13,743	17,307	28,261	40,019	60,690	11,755	-	72,445	13,596	86,041
Ministry of Port & Aviation	1,583	1,583	2,633	4,891	6,469	8,349	9,434	25,779	28	35,185	-	35,185
Ministry of Transport	76,900	78,900	80,878	82,936	84,845	86,175	87,364	4,465	8	91,821	2,668	94,489
Ministry of Petroleum Industries	....	....	1,606	3,558	4,669	4,876	4,937	-	-	4,937	-	4,937
Ministry of Co-operative and Internal Trade	....	1,160	3,379	4,209	6,337	7,771	12,874	2,046	434	14,486	371	14,857
Ministry of Highways	543	1,597	3,680	45,280	46,353	48,112	83,402	-	-	83,402	-	83,402
Ministry of Agriculture	38	1,217	2,289	76,072	1,021,632	1,663,408	1,970,654	212,814	2,402	2,181,066	497,514	2,678,580
Ministry of Power & Energy	-	-	-	-	-	135	1,825	1,601	-	3,426	574	4,000
Ministry of Child Development & Women's Affairs	57	2,429	2,499	3,402	3,787	4,033	4,837	199	-	5,036	298	5,334
Ministry of Public Administration & Home Affairs	270	1,685	4,353	11,206	18,089	19,078	23,835	2,033	22	25,846	79,891	105,737
Ministry of Mass Media & Information	....	3,186	5,386	11,000	13,302	15,241	17,127	1,633	-	18,760	4,786	23,546

# Notes to Financial Statements *contd...*

Rs '000'													
Name of Institution	2004	2005	2006	2007	2008	2009	2010	2011			2012		
								Balance	Disposal	Additions	Balance	Additions	
Ministry of Construction, Engineering Services, Housing and Common Amenities	214	654	1,653	2,756	4,120	5,190	6,338	436	21	6,753	3,059	9,812	
Ministry of Social Service	....	....	5,517	9,904	10,183	10,432	12,365	1,173	-	13,538	777	14,315	
Ministry of Housing and Common Amenities	1,553	1,981	2,376	3,388	4,174	4,440	4,440	-	-	4,440	-	4,440	
Ministry of Education	9,837	45,340	90,051	146,540	155,213	161,110	174,649	15,641	-	190,290	7,006	197,296	
Ministry of Labour Relations & Productivity Improvement	....	5,707	14,407	30,388	32,706	36,649	40,145	2,131	-	42,276	995	43,271	
Ministry of Traditional Industries & Small Enterprises Development	-	-	-	-	-	3,010	3,993	2,110	-	6,103	1,131	7,234	
Ministry of Vocational & Technical Training	2,663	26,408	26,608	26,816	29,658	29,658	29,658	-	-	29,658	-	29,658	
Ministry of Local Government & Provincial Councils	495	495	2,337	3,474	5,281	6,726	10,279	3,953	-	14,232	518	14,750	
Ministry of Enterprise development & Investment Promotion	....	1,411	1,411	1,411	1,411	1,411	1,411	-	-	1,411	-	1,411	
Ministry of Technology and Research	....	....	-	4,583	10,479	15,783	21,667	6,122	-	27,789	4,300	32,089	
Ministry of National Languages & Social Integration	....	203	1,090	1,436	1,705	2,035	5,483	603	-	6,086	6,743	12,829	
Ministry of Plantation Industry	-	-	-	-	-	-	-	-	-	-	-	-	
Ministry of Sports	-	-	-	-	331	1,022	4,759	4,446	-	9,205	1,878	11,083	
Ministry of Indigenous Medicine	....	221	368	563	1,798	2,452	9,488	2,536	-	12,024	1,695	13,719	
Ministry of Fisheries & Aquatic Resources Development	3,454	4,042	4,976	10,156	34,873	68,560	129,589	4,670	-	134,259	399	134,658	
Ministry of Livestock and Rural Community Development	-	-	1,914	3,117	4,078	6,328	8,540	1,439	-	9,979	2,557	12,536	
Ministry of National Heritage & Cultural Affairs (National Heritage)	....	1,291	2,875	5,264	6,384	10,198	11,980	3,210	-	15,190	2,725	17,915	
Ministry of Parliamentary Affairs	150	150	186	322	399	453	1,312	47	-	1,359	195	1,554	
Ministry of Re-Settlement	....	....	529	17,210	19,506	25,642	27,040	1,658	-	28,698	1,397	30,095	
Ministry of Industry and Commerce	434	434	2,334	4,689	7,313	10,047	12,907	2,369	-	15,276	41	15,317	
Ministry of Foreign Employment Promotion & Welfare	....	....	3,027	4,372	6,070	6,205	6,205	1,139	-	7,344	9	7,353	
Ministry of Irrigation & Water Resources Management	....	....	-	591	812	935	1,024	118	-	1,142	170	1,312	
Ministry of Lands and Land Development	-	-	-	-	12,922	15,907	15,907	-	-	15,907	-	15,907	
Ministry of Youth Affairs & Skills Development	....	6,803	10,929	14,745	15,628	15,866	16,135	1,024	-	17,159	200	17,359	
Ministry of Environment	438	7,715	9,311	10,881	12,844	14,782	17,481	15,820	-	33,301	6,659	39,960	
Ministry of Internal Administration	....	....	-	4,703	9,624	9,938	9,938	-	-	9,938	-	9,938	
Ministry of Youth Empowerment & Socio Economic Development	....	....	-	3,249	4,178	4,178	4,178	-	-	4,178	-	4,178	
Ministry of Community Development & Social Inequality Eradication	1,437	1,437	1,437	4,762	5,769	5,769	5,769	-	-	5,769	-	5,769	
Ministry of Water Supply & Drainage	....	....	-	3,256	4,244	5,251	7,264	573	-	7,837	586	8,423	
Ministry of Export Development & International Trade	....	....	-	2,252	2,808	3,829	3,829	-	-	3,829	-	3,829	
Ministry of Public Estate Management Reforms	....	....	-	462	1,771	2,444	2,444	-	-	2,444	-	2,444	
Ministry of Construction & Engineering Services	....	....	-	3,579	4,265	5,001	5,001	-	-	5,001	-	5,001	
Ministry of Special Projects	....	....	-	226	-	-	-	-	-	-	-	-	
Ministry of Higher Education	....	....	-	3,667	5,212	5,338	5,893	666	-	6,559	523	7,082	
Ministry of State Resources & Enterprise Development	....	....	-	3,349	3,618	3,962	4,040	775	-	4,815	905	5,720	



# Notes to Financial Statements contd...

Rs '000'

## 2103-Plant, Machinery &amp; Equipment

Name of Institution	2004		2005		2006		2007		2008		2009		2010		2011			2012	
	Balance		Balance		Balance		Balance		Balance		Balance		Balance		Additions	Disposal	Balance	Additions	Balance
Ministry of Civil Aviation							-	-	-	-	-	-	-	-	3,074	-	3,074	840	3,914
Ministry of Culture and Arts							-	-	-	-	-	-	-	-	6,174	-	6,174	4,849	11,023
Ministry of Coconut Development and Janatha Estate Development							-	-	-	-	-	-	-	-	5,653	-	5,653	398	6,051
Ministry of Agrarian Services and Wild Life							-	-	-	-	-	-	-	-	11,921	-	11,921	5,108	17,029
Ministry of Minor Export Crop Promotion							-	-	-	-	-	-	-	-	2,412	-	2,412	3	2,415
Ministry of Productivity Promotion							-	-	-	-	-	-	-	-	2,099	-	2,099	4,688	6,787
Ministry of Public Relations and Public Affairs							-	-	-	-	-	-	-	-	1,366	-	1,366	2,229	3,595
Ministry of Private Transport Services							-	-	-	-	-	-	-	-	404	-	404	1,216	1,620
Ministry of Telecommunication and Information Technology							-	-	-	-	-	-	-	-	5,983	-	5,983	3,226	9,209
Ministry of Public Management Reforms	-	-	-	-	-	-	-	-	-	-	-	-	3,135	-	2,926	-	6,061	2,468	8,529
Ministry of Rehabilitation and Prison Reforms	-	-	-	-	-	-	-	-	-	-	-	-	4,173	-	1,342	-	5,515	646	6,161
Department of Muslim Religious & Cultural Affairs	867	1,648	1,648	1,648	1,648	1,901	1,901	1,908	1,993	2,121	125	-	2,246	51	-	-	2,246	51	2,297
Department of Christian Religious & Cultural Affairs	-	-	-	-	-	-	-	180	395	397	-	-	397	-	-	-	397	-	397
Department of Hindu Religious & Cultural Affairs	-	-	-	-	-	-	-	103	175	460	2,048	-	2,508	99	-	-	2,508	99	2,607
Department of Public Trustee	-	-	-	-	-	-	797	1,348	1,415	1,447	317	-	1,764	170	-	-	1,764	170	1,934
Department of Cultural Affairs	....	504	1,435	1,435	1,435	3,349	3,349	6,820	7,625	15,983	2,799	-	18,782	2,718	-	-	18,782	2,718	21,500
Department of Archaeology	2,976	4,195	4,534	4,534	4,534	5,290	5,290	5,672	5,817	8,148	2,856	-	11,004	3,120	-	-	11,004	3,120	14,124
Department of National Museums	5,982	7,038	7,437	7,437	7,437	7,998	7,998	8,351	8,555	8,814	356	-	9,170	313	-	-	9,170	313	9,483
Department of National Archives	4,846	6,705	6,958	6,958	6,958	13,414	13,414	17,639	19,810	29,258	5,305	-	34,563	1,876	-	-	34,563	1,876	36,439
Department of Information	....	10,860	20,057	20,057	20,057	38,115	38,115	45,933	50,058	53,567	4,666	-	58,233	3,626	-	-	58,233	3,626	61,859
Department of Government Printer	....	17,016	60,077	60,077	60,077	156,533	156,533	263,018	288,300	377,749	73,530	-	451,279	29,638	-	-	451,279	29,638	480,917
Department of Examinations	....	5,096	10,097	10,097	10,097	11,860	11,860	14,001	16,462	17,871	1,567	-	19,438	1,595	-	-	19,438	1,595	21,033
Department of Educational Publications	8	8	8	8	8	8	8	391	803	899	954	-	1,853	780	-	-	1,853	780	2,633
Department of Technical Education & Training	41,559	64,575	95,602	95,602	95,602	103,292	103,292	123,825	124,666	126,626	12,973	-	139,599	48,616	-	-	139,599	48,616	188,215
Department of Social Services	....	....	....	44	823	1,737	1,737	2,072	2,387	2,387	349	-	2,736	376	-	-	2,736	376	3,112
Department of Probation & Child Care	600	886	890	890	890	1,117	1,117	1,246	1,489	1,926	80	-	2,006	-	-	-	2,006	-	2,006
Department of Sports Development	2,188	2,835	21,873	21,873	39,890	39,890	39,890	45,413	70,323	12,537	-	-	82,860	16,974	-	-	82,860	16,974	99,834
Department of Ayurveda	413	3,054	7,862	7,862	11,475	15,246	15,246	15,623	24,894	9,737	-	-	34,631	4,978	-	-	34,631	4,978	39,609
Department of Labour	15,663	29,885	43,561	43,561	185,489	205,913	230,310	290,114	54,907	-	-	-	345,021	101,994	-	-	345,021	101,994	447,015
Sri Lanka Army	....	28,065	74,013	74,013	386,758	870,410	1,550,750	2,517,378	567,862	-	-	-	3,085,240	917,070	-	-	3,085,240	917,070	4,002,310
Sri Lanka Navy	323,588	323,588	666,588	666,588	894,077	928,750	982,547	1,484,745	774,566	5,101	-	-	2,254,210	532,569	-	-	2,254,210	532,569	2,786,779
Sri Lanka Air Force	8,999	35,148	46,166	46,166	2,551,815	7,191,248	8,478,456	8,657,764	6,168,646	83,467	-	-	14,742,943	1,043,742	-	-	14,742,943	1,043,742	15,786,685
Department of Police	....	....	....	....	442,799	442,799	442,799	442,799	442,799	743,900	130,157	-	874,057	126,508	-	-	874,057	126,508	1,000,565
Department of Immigration & Emigration	23,720	24,915	112,550	112,550	158,583	197,979	217,589	226,947	6,165	-	-	-	233,112	18,129	-	-	233,112	18,129	251,241
Department of Registration of Persons	667	3,237	4,995	4,995	12,451	13,136	14,570	16,070	1,499	41	-	-	17,528	3,018	-	-	17,528	3,018	20,546
Department of Attorney General	....	....	....	....	5,799	5,799	5,799	5,799	5,799	5,799	9,500	-	15,299	2,374	-	-	15,299	2,374	17,673
Department of Legal Draftsman	562	562	562	562	562	562	562	562	562	562	-	-	562	-	-	-	562	-	562

# Notes to Financial Statements *contd...*

Name of Institution	2004		2005		2006		2007		2008		2009		2010		2011			2012	
	Balance		Balance		Balance		Balance		Balance		Balance		Balance		Disposal	Additions	Balance	Additions	Balance
Department of Prisons	5,666		10,092		16,537		22,808		27,781		39,448		48,265		4,664	98	-	52,929	6,715
Registrar of Supreme Court	-		-		-		-		-		-		1,159		98		-	1,257	-
Department of Official Languages	676		1,876		2,475		2,475		2,509		2,678		2,678		194		-	2,872	177
Department of National Planning	...		...		3,334		3,334		3,334		3,334		3,334		-		-	3,334	-
Department of Fiscal Policy	...		...		1,555		2,351		2,464		3,815		3,815		-		-	3,815	146
Department of National Budget	3,293		6,339		11,764		13,934		14,389		14,389		14,389		-		16	14,373	-
Department of Public Enterprises	-		-		-		-		922		916		916		-		-	916	-
Department of Management Service	-		-		-		-		-		110		110		-		-	110	-
Department of Development Finance	...		...		...		33		33		33		33		-		-	33	-
Department of Trade Tariff & Investment Policy	...		...		-		1,964		2,958		2,967		2,967		26		-	2,993	441
Department of Public Finance	...		178		178		178		178		178		178		-		-	178	-
Department of Inland Revenue	3,381		7,913		31,922		64,312		77,899		93,098		101,998		-		-	101,998	5,960
Sri Lanka Customs	...		14,983		14,983		2,046,228		2,046,228		2,046,228		2,131,293		9,305		-	2,140,598	1,781
Department of Excise	293		680		2,615		6,485		10,447		12,353		12,743		5		-	12,748	494
Department of Treasury Operations	...		-		...		1,318		2,457		2,457		2,457		38		60	2,435	-
Department of State Accounts	500		1,501		1,648		1,648		1,648		1,648		1,648		-		-	1,648	-
Department of Valuation	653		1,390		2,182		4,670		16,711		50,711		51,207		52		-	51,259	763
Department of Census & Statistics	1,002		4,415		6,212		16,230		22,958		33,569		33,569		-		-	33,569	-
Department of Pensions	237		299		299		1,978		4,363		6,883		12,580		3,168		-	15,748	705
Department of Registrar General	...		...		357		1,091		3,488		5,390		9,023		3,206		-	12,229	1,773
District Secretariat - Colombo	...		...		172		30,169		32,622		36,695		41,092		2,995		-	44,087	18,461
District Secretariat - Gampaha	...		1,298		4,841		7,278		9,127		10,984		14,681		5,332		-	20,013	1,858
District Secretariat - Kalutara	...		...		2,354		13,293		14,951		15,911		18,400		1,970		-	20,370	873
District Secretariat - Kandy	47		47		1,472		2,345		4,181		5,006		7,000		1,453		-	8,453	980
District Secretariat - Matale	380		380		1,879		2,756		3,496		4,512		5,902		1,991		10	7,883	887
District Secretariat - Nuwara Eliya	1,526		2,510		4,106		4,106		5,077		7,235		9,424		2,283		-	11,707	853
District Secretariat - Galle	274		1,088		3,939		8,785		10,610		11,759		17,186		999		-	18,185	545
District Secretariat - Matara	14		372		1,846		2,644		4,479		6,121		8,533		1,973		-	10,506	1,569
District Secretariat - Hambantota	400		400		2,434		2,879		3,530		5,029		5,254		442		-	5,696	966
District Secretariat - Jaffna	...		96		2,091		3,862		5,205		5,803		6,671		1,377		-	8,048	187
District Secretariat - Mannar	...		...		...		1,678		2,051		4,000		5,698		496		-	6,194	359
District Secretariat - Vavuniya	...		172		1,087		2,085		3,009		4,561		5,559		1,198		-	6,757	997
District Secretariat - Mullativu	...		...		1,258		3,369		3,369		4,142		6,980		3,484		-	10,464	1,422
District Secretariat - Kilinochchi	...		...		825		2,823		4,322		6,929		8,414		3,400		-	11,814	1,498
District Secretariat - Batticaloa	...		...		1,277		1,277		2,167		3,133		4,123		954		1	5,076	910
District Secretariat - Ampara	499		2,384		4,263		9,236		10,415		15,200		24,624		4,800		-	29,424	2,000
District Secretariat - Trincomalee	...		...		604		604		604		604		604		2,000		-	4,604	87

# Notes to Financial Statements contd...

Rs '000'

## 2103-Plant, Machinery &amp; Equipment

Name of Institution	2004		2005		2006		2007		2008		2009		2010		2011			2012	
	Balance		Balance		Balance		Balance		Balance		Balance		Balance		Additions	Disposal	Balance	Additions	Balance
District Secretariat - Kurunegala	48	97	6,152	6,552	6,568	6,568	6,568	9,548	1,991	-	11,539	1,962	13,501						
District Secretariat - Puttalam	184	314	3,082	4,830	6,478	8,098	10,474	772	3,000	-	7,449	287	7,736						
District Secretariat - Anuradhapura	101	1,637	2,133	3,828	5,521	2,054	-	7,575	1,843										
District Secretariat - Polonnaruwa	400	1,664	2,164	6,161	8,661	1,000	7	9,654	500	10,154									
District Secretariat - Badulla	101	176	1,444	1,559	1,879	1,879	1,879	1,879	529	-	3,143	159	3,302						
District Secretariat - Monaragala	500	998	1,847	2,330	3,452	131,457	132,120	132,404	718	-	133,122	808	133,930						
District Secretariat - Rathnapura	4,536	5,504	17,034	52,774	56,918	65,519	87,419	23,449	72	110,796	24,762	135,558							
District Secretariat - Kegalle	327	327	327	707	707	707	707	2,675	2,440	-	5,115	1,498	6,613						
Department of Foreign Aid & Budget Monitoring	22,333	22,333	61,516	75,507	87,314	89,226	109,781	46,241	-	156,022	14,706	170,728							
Department of Agrarian Development	1,130	1,130	1,130	1,130	4,011	10,633	16,098	8,732	110	24,720	5,982	30,702							
Department of Irrigation	603	8,540	16,799	20,179	25,891	29,603	33,530	2,778	-	36,308	3,540	39,848							
Department of Forests	....	1,055	2,502	11,427	11,720	12,133	12,633	498	-	13,131	489	13,620							
Department of Wildlife Conservation	2,254	2,254	41,823	82,701	94,440	103,089	109,405	1,658	51	111,012	7,212	118,224							
Department of Export Agriculture	5,262	9,345	14,269	19,867	24,419	28,595	32,998	2,260	-	35,258	4,458	39,716							
Department of Fisheries and Aquatic Resources	....	1,330	2,122	2,921	3,392	3,883	4,343	237	-	4,580	48	4,628							
Department of Coast Conservation	10,496	41,874	78,899	119,061	140,299	142,027	176,454	28,598	-	205,052	3,091	208,143							
Department of Animal Production and Health	....	....	45	916	916	1,151	5,664	-	-	5,664	541	6,205							
Department of Rubber Development	-	-	-	-	-	-	193	-	-	193	66	259							
Department of National Zoological Garden	....	258	298	298	298	365	447	-	-	447	410	857							
Department of Commerce	....	....	165	165	165	165	165	165	-	165	-	165							
Department of Measurement Units, Standards & Services	4,492	6,048	9,841	186,547	349,911	357,872	400,320	37,750	-	438,070	144,073	582,143							
Department of Food Commissioner	-	....	-	923	55,409	166,749	283,056	148,254	-	431,310	3,591,497	4,022,807							
Department of Co-operative Development	....	4,799	26,928	55,100	78,634	90,748	148,593	8,260	28,510	128,343	14,854	143,197							
Co-operative Employees Commission	48	416	70,630	76,413	93,357	97,509	104,908	6,937	-	111,845	11,449	123,294							
Department of Textile Industries	....	....	2,650	2,650	2,650	2,650	3,164	449	-	3,613	315	3,928							
Department of Meteorology	600	2,816	14,249	18,090	27,152	29,914	32,354	4,039	-	36,393	3,362	39,755							
Department of Motor Traffic	225	1,710	3,631	5,576	5,637	5,736	5,814	49	-	5,863	-	5,863							
Department of Posts	-	-	....	42,887	165,112	337,354	427,334	39,982	-	467,316	19,624	486,940							
Department of Buildings	....	....	....	....	....	....	....	....	-	....	....	....							
Government Factory	....	....	....	....	....	....	....	....	-	....	....	....							
Department of National Physical Planning	....	....	....	....	....	....	....	....	-	....	....	....							
Department of Civil Security	....	....	....	....	....	....	....	....	-	....	....	....							
Department of National Botanical Gardens	....	....	....	....	....	....	....	....	-	....	....	....							

# Notes to Financial Statements *contd...*

2103-Plant, Machinery &amp; Equipment

Rs '000'

Name of Institution	2004 Balance	2005 Balance	2006 Balance	2007 Balance	2008 Balance	2009 Balance	2010 Balance	2011			2012	
								Additions	Disposal	Balance	Additions	Balance
Department of Management Audit	-	-	-	-	-	-	233	233	189	-	422	613
Department of Coast Guard of Sri Lanka	-	-	-	-	-	-	23,075	26,082	-	49,157	11,240	60,397
Department of Land use Policy Planning	-	-	-	-	-	-	-	1,598	-	1,598	1,737	3,335
Department of Man Power and Employment	-	-	-	-	-	-	-	420	-	420	1,352	1,772
Office of the Former Prime Minister (Hon.R.Wickramanayake)	43	43	43	43	43	43	43	-	-	43	-	43
Ministry of Policy Development & Implementation	3,339	3,339	3,339	3,339	3,339	3,339	3,339	-	-	3,339	-	3,339
Ministry of Reconstruction & Development	...	...	2,468	2,468	2,468	2,468	2,468	-	-	2,468	-	2,468
Ministry of Infrastructure Development in the Eastern Province	...	1,374	1,374	1,374	1,374	1,374	1,374	-	-	1,374	-	1,374
Ministry of Mahaweli & River Basin Development & Rajarata Development	...	606	606	606	606	606	606	-	-	606	-	606
Ministry of Eastern Development & Muslim Religious Affairs	947	947	947	947	947	947	947	-	-	947	-	947
Ministry of Home Affairs, Provincial Councils & Local Government	889	2,082	2,082	2,082	2,082	2,082	2,082	-	-	2,082	-	2,082
Ministry of Interior	1,356	1,356	1,356	1,356	1,356	1,356	1,356	-	-	1,356	-	1,356
Ministry of Regional Development	...	...	522	1,110	1,110	1,110	1,110	-	-	1,110	-	1,110
Ministry of Infrastructure Development & Fisheries Housing	...	...	276	276	276	276	276	-	-	276	-	276
Ministry of Small & Rural Industries	...	559	590	590	590	590	590	-	-	590	-	590
Ministry of Southern Region Development	328	328	328	328	328	328	328	-	-	328	-	328
Ministry of Western Region Development	328	328	328	328	328	328	328	-	-	328	-	328
Ministry of Rural Economic Development	...	...	4,570	4,945	4,945	4,945	4,945	-	-	4,945	-	4,945
Ministry of Samurdhi & Poverty Alleviation	...	...	...	398	398	398	398	-	-	398	-	398
Ministry of Skills Development & Public Enterprise Reforms	...	...	1,103	3,164	3,164	3,164	3,164	-	-	3,164	-	3,164
Ministry of New Railroad Development	...	...	3,991	5,020	5,020	5,020	5,020	-	-	5,020	-	5,020
Ministry of Christian & Parliamentary Affairs	...	147	147	147	147	147	147	-	-	147	-	147
Ministry of North West Region Development	1,032	1,032	1,032	1,032	1,032	1,032	1,032	-	-	1,032	-	1,032
Ministry of Relief, Rehabilitation & Reconciliation	692	12,377	12,377	12,377	12,377	12,377	12,377	-	-	12,377	-	12,377
Ministry of Assisting Vanni Rehabilitation	155	155	155	155	155	155	155	-	-	155	-	155
Ministry of Promotion of Botanical & Zoological Gardens	...	...	181	512	512	512	512	-	-	512	-	512
Ministry of Textile Industry Development	...	...	1,279	1,279	1,279	1,279	1,279	-	-	1,279	-	1,279
Ministry of Rural Livelihood Development	...	...	3,918	4,521	4,521	4,521	4,521	-	-	4,521	-	4,521
Department of Community Based Correction	...	...	...	...	...	...	...	-	-	-	494	494
Ministry of Ports & Highways	-	-	-	-	-	-	-	-	-	-	49,045	49,045
Judges of the Superior Courts	-	-	-	-	-	-	-	-	-	-	-	-
Department of Buddhist Affairs	-	-	-	-	-	-	-	-	-	-	1,418	1,418
Department of the Commissioner General of Samurdhi	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>658,439</b>	<b>1,112,848</b>	<b>2,644,984</b>	<b>9,912,915</b>	<b>17,774,269</b>	<b>22,121,043</b>	<b>27,501,033</b>	<b>11,513,256</b>	<b>148,006</b>	<b>38,866,283</b>	<b>12,541,573</b>	<b>51,407,856</b>

## Notes to Financial Statements *contd...*

### Note - 31 STATEMENT OF CONTINGENT LIABILITIES

#### (A) STATEMENT OF BANK GUARANTEES ISSUED BY THE GENERAL TREASURY UP TO 31.12.2012

No:	Name of Institution	Name of The Bank or Institution	Guaranteed Amount (Rs. Mn.)	Date of Issue	Date of Expiry	Capital Outstanding (Rs. Mn.)
1	Co-operative Whole Sale Establishment	People's Bank	207.10	2-Feb-05	31-May-13	207.00
2	Sri Lanka Consumer Co-operative Societies Federation Ltd.	People's Bank	50.00	21-Jul-06	31-May-13	45.43
3	Lakdanavi Ltd.	National Savings Bank	2,992.00	22-Feb-07	31-Mar-22	2,992.00
4	Lakdanavi Ltd.	Employee's Trust Fund Board	2,992.00	1-Mar-07	31-Mar-22	2,992.00
5	West Coast Power (Pvt) Ltd.	Hongkong & Shanghai Banking Co.Ltd.	23,051.71	28-Jun-07	28-Jun-22	19,433.31
6	Ceylon Electricity Board	People's Bank	1,837.37	11-Jun-08	9-Oct-23	1,837.37
7	Ceylon Petroleum Corporation	Bank of Ceylon	89,078.00	9-Sep-08	31-Dec-12	227,710.09
8	Ceylon Petroleum Corporation	Bank of Ceylon	25,451.00	27-Jun-12	31-Dec-12	
9	Ceylon Electricity Board	People's Bank	493.36	29-Sep-08	31-Dec-12	241.35
10	People's Bank Pension Trust Fund	People's Bank	2,500.00	17-Dec-08	16-Dec-16	2,500.00
11	State Trading (Co-operative Wholesale) Company Ltd.	People's Bank	32.00	8-Jun-09	30-Jun-13	31.48
12	Ceylon Electricity Board	People's Bank	7,000.00	7-Sep-09	11-Mar-13	418.00
13	Ceylon Petroleum Storage Terminals Ltd.	People's Bank	4,634.50	9-Oct-09	6-Oct-19	3,011.00
14	People's Bank Pension Trust Fund	People's Bank	2,500.00	23-Oct-09	22-Oct-17	2,500.00
15	Urban Development Authority	National Savings Bank	2,770.00	6-Nov-09	18-Nov-24	2,755.00
16	STC General Trading Company Ltd.	Bank of Ceylon	1,100.00	22-Dec-09	31-Dec-12	803.15
17	Ceylon Electricity Board	People's Bank	5,000.00	17-Aug-10	31-Jul-16	2,915.00
18	Urban Development Authority	Bank of Ceylon	10,000.00	8-Jul-10	08-Jul-15	10,000.00
19	Lanka Coal Company (Pvt) Ltd	People's Bank	1,000.00	27-Sep-10	27-Sep-13	705.80
20	Road Development Authority	Commercial Bank	1,534.00	1-Sep-11	28-Feb-26	1,057.44
21	General Sir Jhone Kotelawala Defence University	Bank of Ceylon	85.00	29-Aug-11	31-Dec-26	47.80
22	Road Development Authority	Bank of Ceylon	2328.36	14-Mar-12	31-Dec-26	535.17
23	Road Development Authority	Bank of Ceylon	2,472.36	12-Mar-12	31-Dec-26	508.44
24	Road Development Authority	Bank of Ceylon	2,750.00	12-Mar-12	31-Dec-26	918.44
25	Road Development Authority	People's Bank	1,400.00	21-Mar-12	31-Dec-26	580.21
26	Road Development Authority	People's Bank	7,995.68	21-Mar-12	31-Dec-26	1,599.48
27	Road Development Authority	People's Bank	2,861.81	21-Mar-12	31-Dec-26	654.46
28	Ceylon Petroleum Corporation	People's Bank	25,764.00	10-Apr-12	30-Apr-13	64,720.00
29	Ministry of Defence and Urban Development	Hatton National Bank	3,550.00	24-Apr-12	31-Dec-30	434.59
30	Ministry of Defence and Urban Development	Commercial bank	2,000.00	24-Apr-12	31-Dec-30	244.99
31	Ministry of Defence and Urban Development	People's Bank	1,000.00	24-Apr-12	31-Dec-30	122.53
32	Ministry of Defence and Urban Development	DFCC Bank	1,000.00	24-Apr-12	31-Dec-30	122.49
33	Sri Lankan Air Line	Mashreqbank Psc - Dubai	22,543.50	1-Jun-12	01-Jun-16	22,543.50
34	Road Development Authority	Bank of Ceylon	2,647.63	6-Jun-12	31-Dec-26	549.92
35	Road Development Authority	Bank of Ceylon	315.56	15-Oct-12	30-Apr-27	315.56
36	Road Development Authority	Bank of Ceylon	354.58	15-Oct-12	30-Apr-27	354.58
37	Road Development Authority	National Savings Bank	384.25	25-Oct-12	30-Apr-27	384.25
38	Road Development Authority	Commercial Bank	209.04	15-Nov-12	31-May-27	209.04
39	Road Development Authority	Bank of Ceylon	670.75	15-Nov-12	31-May-27	670.75
40	Road Development Authority	Bank of Ceylon	385.64	15-Nov-12	31-May-27	385.64
41	Road Development Authority	Commercial Bank	209.06	26-Dec-12	30-Jun-27	209.06
42	Road Development Authority	Bank of Ceylon	299.25	26-Dec-12	30-Jun-27	299.25
43	Road Development Authority	Hatton National Bank	309.12	28-Dec-12	30-Jun-27	309.12
44	Road Development Authority	National Savings Bank	225.54	31-Dec-12	30-Jun-27	225.54
45	Road Development Authority	DFCC Bank	89.60	31-Dec-12	30-Jun-27	89.60
<b>Total</b>			<b>266,073.76</b>			<b>379,189.82</b>

## Notes to Financial Statements *contd...*

### (B) STATEMENT OF LETTERS OF COMFORT ISSUED TO LOCAL BANKS AND THE LIABILITIES AS AT 31.12.2012

SNo	Name of Institution	Bank	Date of Issue	Value (Rs. in Million)	Liabilities as at 31.12.2012 (Rs. in Million)
1	Sri Lanka Air Force	People's Bank	21.12.2004	2,227.20	214.57
2	Sri Lanka Air Force		29.06.2012	798.24	517.38
3	Sri Lanka Air Force		29.12.2008	973.21	918.56
4	Sri Lanka Air Force		14.09.2011	3,228.14	54.17
5	Ceylon Fertilizer Company Ltd		15.04.2010	518.90	519.22
6	Colombo Commercial Fertilizers Co. Ltd		15.04.2010	342.50	342.43
7	Commander Police Special	Bank of Ceylon		1,278.84	1,278.84
8	Dept. of Government Printing		31.12.2012	70.95	70.95
9	Inspector General of Police		31.12.2012	154.90	154.90
10	Ministry of Coconut Development		31.12.2012	10.20	10.20
11	Ministry of Construction		31.12.2012	0.04	0.04
12	Ministry of Cultural Affairs		31.12.2012	4.50	4.50
13	Ministry of Defence		31.12.2012	9.20	9.20
14	Ministry of Disaster Management		31.12.2012	0.05	0.05
15	Ministry of Economic Development		31.12.2012	9,990.45	9,990.45
16	Ministry of Fisheries		31.12.2012	289.50	289.50
17	Ministry of Higher Education		31.12.2012	2.40	2.40
18	Ministry of Local Affairs		31.12.2012	27.90	27.90
19	Ministry of National languages		31.12.2012	2.80	2.80
20	Ministry of Plantation		31.12.2012	0.05	0.05
21	Ministry of Ports and Highways		31.12.2012	81.64	81.64
22	Ministry of Resettlement		31.12.2012	12.00	12.00
23	Ministry of Sports and Public Affairs		31.12.2012	3.40	3.40
24	Ministry of Technological & Research		31.12.2012	123.00	123.00
25	Ministry of Youth Affairs		31.12.2012	5.28	5.28
26	National Police Commission		31.12.2012	2.90	2.90
27	Secretary to President			3,619.29	3,619.29
28	Secretary for Special Function		31.12.2012	10.70	10.70
29	Sri Lanka Army			3,461.80	3,461.80
30	Sri Lanka Navy			492.92	492.92
Total				27,742.90	22,221.04

## Explanatory Notes

### Note 09 - Lease of Vehicles

According to the budget circular No 150 Department of National Budget has been procured 670 numbers of vehicles on Leased basis in 2011 and paid Rs. 275,866,391 as a lease installment during the year. This amount included in the Object code No 2101-Acquisition of Vehicles.

### Note 26 - Deposits and other Liabilities

Rs. 19,817,306,000 received from Sangri- La Hotels Lanka (Pvt) Ltd and Avic International Hotels Lanka Limited for the land allocated to hotel development has been deposited in Treasury General Deposit Account (6000).

### Note 30 - Accumulated Total Investment and Accumulated Revenue Deficit

The presentation of composition of the accumulated revenue deficit, which has been derived in the newly introduced reporting formats, has not been possible for periods prior to 2004 as the information required for ascertaining the same has not been compiled during pre-2004 periods. Total investments in physical assets are comprised of 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 with 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 such assets in the Cash Based Accounting System adopted. Similarly, 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, especially 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.

### Note 34 - Expenditure committed in 2010/2011 and paid in 2012

The total recurrent and capital expenditure incurred during the year 2012 includes recurrent expenditure of Rs.23,227 million and capital expenditure of Rs.32,021 million incurred for the years 2010 and 2011. Accordingly, total recurrent and capital expenditure for the year 2012 activities was Rs.1,095,104 million and Rs.1,041,882 million respectively. The relevant details are included in Note 34.

### Note 35 - Excluded Revenue

The VAT on specified projects under the sections c (xxiii) and f(ii) of the exemption schedule of the Value Added Tax Act No. 14 of 2002 and respective amendments thereto and the relevant taxes on vehicles procured by public servants under the Trade and Investment Policy Circular No. 01/2010 dated 10.12.2010 are not included. However, these have been captured under the economic classification of revenue and expenditure.

### Note 36 - Bond Issued to Bank of Ceylon

Bond Issued to BOC for capitalized the CPC dues has been accounted under the Government domestic borrowings.



## Statement of Capital Investments on Development Projects-2012

Note 32

Head No.	Name of the Ministry/ Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
1	His Excellency the President	E-Sri Lanka Development Project	925,000,000.00	862,655,474.88	93%
		Lanka Government Net Work	220,000,000.00	209,200,000.00	95%
		Information & Communications Technology Regulator Capacity Building Project	24,000,000.00	6,383,932.44	27%
		Special Development Initiatives	1,000,000,000.00	25,000,000.00	3%
13	Human Rights Commission of Sri Lanka	Gender Programme	1,000,000.00	535,254.00	54%
101	Ministry of Buddha Sasana and Religious Affairs	1. Sambuddha Jayanthiya 2600 , 2. Restoration of "Makuththaramaya" 3. Project for Promotion Other Languages, 4. Hindu Buddhist Programme for Religious Harmony 5. Other Programme	12,030,000.00	4,454,401.21	37%
		Re Development of 2600 Underdevelopment Dhamma Schools	100,000,000.00	94,663,837.51	95%
		Rehabilitation of Under-Developed Buddhist Temples, Churches, Mosques & Tamil Temples in Anuradhapura	60,000,000.00	48,711,602.95	81%
		Capital Grants for Buddhist Temples in Remote Areas	23,500,000.00	23,227,400.27	99%
		Mathata Thitha Programme & Protection of Milking Cows	21,000,000.00	10,228,887.58	49%
		Sacred Area Development	150,000,000.00	130,412,205.71	87%
		Vidyalankara International Buddhist Centre-Kelaniya	100,000,000.00	30,000,000.00	30%
		Mirisawetiya Buddhist Monk Training Center	18,000,000.00	12,420,406.40	69%
		Pilgrims Rest in Polonnaruwa	17,470,000.00	3,000.00	0%
		Asgiriya Temple Restoration Programme- 700 Years Anniversary	100,000,000.00	62,335,088.96	62%
102	Ministry of Finance and Planning	Fiscal Management Reforms Project (GOSL/ADB)	1,216,973,663.95	1,215,918,003.51	100%
		Fiscal Management Efficiency Project (GOSL/ADB)	389,126,336.05	48,877,005.55	13%
		Conducting a Study on Developing a Comprehensive Social Protection Scheme Through IPS	10,113,270.00	10,113,270.00	100%
103	Ministry of Defence & Urban Development	1 & 2. Ranaviru Gammana Programme, 3. Defence Head quarters, 4. A Secretariat for Personal Identification at Batramulla, 5. Prefabricated Buildings Project	889,300,000.00	725,229,519.51	82%
		Other Capital Expenditure	10,400,000.00	10,400,000.00	100%
		National Secretariat for NGOs	1,500,000.00	1,496,456.65	100%
		Administrative Complex Hambantota (GOSL/Korea)	55,000,000.00	55,000,000.00	100%
		International Conventional Center-Hambantota (GOSL/Korea)	520,000,000.00	520,000,000.00	100%
		Metro Colombo Urban Development Project (GOSL/ World Bank)	700,000,000.00	385,448,328.29	55%
		e-NIC Project	970,500,000.00	65,282,112.08	7%
		Greater Colombo Urban Transport Development Project (Township Development)	430,000,000.00	242,167,332.80	56%
		Hataraliyadda Town Development Project	100,000,000.00	20,000,000.00	20%
		Deyata Kirula Development programme	180,000,000.00	166,110,603.79	92%
		Flood Protection in Urban and Sub-Urban Areas	210,000,000.00	210,000,000.00	100%
105	Ministry of Economic Development	Decentralized Budget Project	1,125,000,000.00	1,015,686,369.24	90%
		Community Development & Livelihood Improvement Project (Second)(GOSL-WB)	2,205,360,000.00	2,048,471,461.90	93%
		Food Relief Programme (GOSL-WFP)	2,590,000,000.00	2,447,411,725.15	94%
		Construction of Houses(Indian Grant)	1,650,000,000.00	1,645,098,725.60	100%
		Pura Neguma	25,000,000.00	750,000.00	3%
		North East Local Services Improvement Project (GOSL-WB)	2,594,450,000.00	1,351,537,371.19	52%

## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/ Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
		Monitoring & Evaluation of Samurdhi Safety Net Programme (GOSL-WB)	52,500,000.00	36,610,537.75	70%
		Programme of Upgrading 5000 Primary and 1000 Secondary Schools	804,000,000.00	803,004,913.03	100%
		Reintegration of Internally Displaced Persons in the Vanni Region, Northern Province(GIZ-DETA)	230,000,000.00	229,510,000.00	100%
		Performance Improvement Project(GIZ PIP)	316,000,000.00	316,000,000.00	100%
		Sri Lanka Returnees' Skills Development Programme to Capacity of Rehabilitation and Reconstruction in the War Affected Region (JICA)	22,000,000.00	21,820,000.00	99%
		Reintegration and Stabilization of the East and North RISEN(USAID)	478,000,000.00	477,969,707.00	100%
		VEGA/BIZ+ Implemented by the Volunteers for Economic Growth Alliance	349,000,000.00	348,654,082.98	100%
		Uthuru Wasanthaya	532,000,000.00	302,899,830.46	57%
		Development of Infrastructure (Conflict Affected Region Emergency Project) (GOSL-ADB)	5,333,050,000.00	5,091,305,313.13	95%
		Development of Infrastructure Emergency (Emergency Northern Recovery Project) (GOSL-WB)	2,566,350,000.00	2,407,985,950.58	94%
		Livelihood Restoration of Resettled IDP in the North (GOSL-ADB)	149,500,000.00	134,033,783.13	90%
		Mine Risk Education Programme (GOSL-UNICEF)	5,000,000.00	1,956,039.43	39%
		Transition Programme (GOSL-UNDP)	1,165,000,000.00	1,164,311,334.21	100%
		Negenahira Navodaya	472,000,000.00	171,094,985.18	36%
		North East Community Restoration & Development Project (GOSL-ADB Loan)	1,192,130,000.00	1,186,412,578.88	100%
		Sabaragamuwa Arunalokaya	2,048,000,000.00	1,841,068,646.38	90%
		Rajarata Nawodaya	2,110,000,000.00	1,986,657,983.44	94%
		Kandurata Udanaya	1,567,000,000.00	969,725,516.42	62%
		Wayamba Pubuduwa	1,693,000,000.00	1,643,669,644.72	97%
		Pubudamu Wellassa	2,100,000,000.00	1,984,508,681.43	95%
		Batahira Ran Aruna	2,952,000,000.00	2,831,084,183.46	96%
		Ruhunu Udanaya	2,309,000,000.00	2,007,913,229.77	87%
		Regional Interfacing Initiatives	14,996,667,395.00	12,657,972,221.04	84%
		Intra Regional Common Facilities	414,000,000.00	156,831,376.43	38%
		Economic Development for Tourism Promotion	752,000,000.00	1,826,617.00	0%
		Tourism Resources Improvement Project (GOSL-JICA)	544,000,000.00	444,142,783.64	82%
106	Ministry of Disaster Management	Deyata Kirula	4,000,000.00	3,632,265.25	91%
		Other Capital Expenditure	2,000,000.00	1,820,000.00	91%
		Flood & Drought Relief	57,080,000.00	36,939,952.81	65%
108	Ministry of Postal Services	Other Capital Expenditure	196,000,000.00	90,667,679.25	46%
110	Ministry of Justice	Other Capital Expenditure	11,184,550.00	11,168,479.36	100%
111	Ministry of Health	Anti Leprosy Campaign	10,000,000.00	9,100,000.00	91%
		Health Sector Training-FA Grant (WHO) (UNICEF) (UNFPA)	20,000,000.00	308,339.65	2%
		Islandwide Hospital Development Programme	81,058,766.00	81,058,765.37	100%
		Infrastructure and Human Resource Development of National Drug Quality Assurance Laboratory	126,120.00	126,120.00	100%
		Improvement of Health Facilities in Anuradhapura District	50,000,000.00	14,575,304.88	29%
		Special Emergency Provision for crisis management	200,000,000.00	46,504,877.09	23%

## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
		Epilepsy Unit at National Hospital	125,000,000.00	16,445,036.77	13%
		Improving Efficiency of Operation Theaters and Provision of Oxygen Concentrators	253,000,000.00	242,785,927.66	96%
		Epidemiology Unit	50,344,000.00	28,833,256.53	57%
		Family Health Bureau-Investment	110,869,000.00	65,099,197.04	59%
		Other Community Health Services	15,000,000.00	12,670,297.77	84%
		Dengue Control Activities	300,000,000.00	92,848,921.06	31%
		Rabies Control Programme	110,694,673.00	110,694,672.10	100%
		Kidney Disease Programme	10,000,000.00	9,128,401.32	91%
		Anti-Leprosy and Filariasis Campaign	10,000,000.00	5,835,279.10	58%
		GAVI-HSS	215,000,000.00	92,700,495.65	43%
		Investment-Health Issue Communication	9,000,000.00	4,038,498.00	45%
		School Health Programme	1,500,000.00	1,084,270.00	72%
		Research on Elimination of LF in Sri Lanka	11,600,000.00	6,722,441.59	58%
		Leptospirosis Controlling	5,000,000.00	1,178,577.00	24%
		Children's Action Plan	15,000,000.00	13,314,700.71	89%
		Disaster Preparedness & Response Programme	6,000,000.00	3,113,439.81	52%
		National Cancer Control Center	10,000,000.00	6,424,281.10	64%
		GAVI-NVS Co Financing	121,875,000.00	121,750,559.40	100%
		Global Fund to Fight Against AIDS, Tuberculosis and Malaria	775,857,960.00	671,138,283.47	87%
		Health sector Development Project	12,811,595.00	862,427.00	7%
		Programme for Strengthening Primary Level Healthcare	280,000,000.00	210,765,906.70	75%
		Improvement of Preventive Health Services in the Estate Sector	25,000,000.00	13,950,000.00	56%
		Control of Non Communicable Diseases	44,000,000.00	26,911,629.90	61%
		National STD/AIDS Control	10,054,000.00	2,939,593.95	29%
		Triplosa Programme	7,500,000.00	1,757,126.84	23%
		Research Activities	41,000,000.00	13,349,990.22	33%
115	Ministry of Petroleum Industries	Deyata Kirula	3,000,000.00	1,776,053.43	59%
116	Ministry of Co-operative and Internal Trade	Establishment of Economic Centers	75,000,000.00	2,382,948.75	3%
		Strengthening Co-operative Societies	15,000,000.00	12,361,776.00	82%
		Expansion of Laksathosa Outlet upto 50	112,500,000.00	18,592,226.08	17%
		Co-operative Supermarkets	10,000,000.00	4,000,000.00	40%
		Computerising of Lanka Sathosa Retail Outlet Network with Head Office	30,500,000.00	10,000,000.00	33%
117	Ministry of Ports and Highways	Alternate Kandy -Colombo Highway (ACKH)	15,777,000.00	15,776,824.43	100%
		Northern Expressway	52,613,225.00	52,613,219.85	100%
		Expressway Management Unit	242,220,210.00	242,220,200.64	100%
		Road Sector Assistance Project (RSAP)-(GOSL-World Bank)	26,000,000.00	25,518,124.45	98%
		National Highway Sector Project (NHSP)-(GOSL-ADB)	485,913,000.00	485,912,073.47	100%
		Tax Component	1,300,304,300.00	1,300,304,240.98	100%
		Deyata Kirula	3,965,636,460.00	3,965,636,451.88	100%
		Road Project Preparatory Facility (Including Provincial Roads) (GOSL-ADB)	283,500,000.00	243,714,652.55	86%
		Surveys, Investigations and Feasibility Studies	67,351,770.00	67,351,764.56	100%
		Deyata Kirula- Connecting Villages	146,564,450.00	146,564,430.28	100%

## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
118	Ministry of Agriculture	Crop Forecasting Programme	4,000,000.00	2,126,257.90	53%
		Implementation of Tree felling Act & Soil Conservation Act	20,000,000.00	9,427,457.21	47%
		Micro Irrigation Development Programme & Rain Water Harvesting	20,000,000.00	6,160,605.51	31%
		Implementation of Dry Zone Livelihood Support and Partnership Programme	613,000,000.00	530,391,547.43	87%
		Special Programmes Under Api Wawamu- Rata Neguma	460,000,000.00	313,106,119.80	68%
		Production & Use of Organic Fertilizer	125,000,000.00	92,741,778.15	74%
		Reactivation of Government Seeds Farm at Murukan & Paranthan	84,847,000.00	52,600,000.00	62%
		Implementation of National Agricultural Research Plan	20,000,000.00	5,056,261.40	25%
		Big Onion Seed Production Programme	25,000,000.00	7,472,107.44	30%
		Deyata Kirula	60,000,000.00	38,315,099.80	64%
		Providing Livelihood Support for Food Security for Returning IDPs in Mannar District	58,640,000.00	44,594,302.82	76%
		Promotion of Rice Exports by Establishing Four Rice Export Zone	940,240.00	940,238.21	100%
119	Ministry of Power & Energy	Power Sector Reforms	1,533,053.00	2,053.00	0%
		Accelerated Rural Electrification Project	300,000,000.00	14,993,065.40	5%
		Shipment of Two Decayed Cabolt -60 Radioactive Sources of Atomic Energy Authority to India (USA/ GOSL)	7,000,000.00	3,458,876.63	49%
120	Ministry of Child Development and Women's Affairs	Diriya Kantha Programme (GOSL/UNFPA)	48,053,085.00	26,161,097.15	54%
		Lama Saviya Programme	10,000,000.00	9,995,172.03	100%
		Deyata Kirula	42,000,000.00	30,653,407.31	73%
		Kekulu Udana(GOSL/UNICEF)	48,500,000.00	35,907,692.60	74%
		Kantha Saviya	30,000,000.00	26,250,472.71	88%
		Women Development Programme	4,500,000.00	2,695,983.25	60%
		Early Childhood Care Development	20,000,000.00	18,850,325.21	94%
121	Ministry of Public Administration	Local Governance Project (LOGO Pro) (UNDP)	20,170,000.00	20,154,845.68	100%
		Deyata Kirula	1,500,000.00	569,249.50	38%
		Providing Sanitary Facilities for National Heritage Sites	4,400,000.00	1,517,342.85	34%
123	Ministry of Construction , Engineering Services, Housing and Common Amenities	Vocational Training Programme for the Youth in Tsunami Affected area in Eastern Province	960,973.00	675,798.83	70%
		Converting ICTAD in to Construction Development Authority	5,000,000.00	4,500,000.00	90%
		Establishment of Construction Technology Theme Park	5,000,000.00	3,000,000.00	60%
		Acquisition of New Equipment to Update Construction Equipment Operator Training at ICTAD	15,000,000.00	9,500,000.00	63%
		Upgrading of Technical Training Infrastructure at CETRAC	20,000,000.00	12,100,000.00	61%
		Implementation of UN Habitat Programme	5,000,000.00	4,418,775.00	88%
		Janasevana Participatory Environment and Sanitation Improvement Project	36,000,000.00	32,000,000.00	89%
		Completion of Already Initiated Urban Housing Schemes-Angulana Stage II	573,000,000.00	372,400,000.00	65%
		Housing Development Programme	100,000,000.00	90,917,485.60	91%
		Janapura Housing Development Loan Programme	25,000,000.00	10,000,000.00	40%
		Moratuwa Lunawa Urban Housing Scheme	250,000,000.00	160,000,000.00	64%

## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
		Housing Development Programme	100,000,000.00	100,000,000.00	100%
124	Ministry of Social Services	National Council and Secretariat for Persons with Disabilities	32,452,000.00	32,452,000.00	100%
		Community Based Rehabilitation Programme	8,450,000.00	7,689,032.87	91%
		Social Development Management Information System	500,000.00	447,017.20	89%
		Social Development Programme	2,000,000.00	1,806,142.45	90%
		Self Employment Opportunities for single parent families	3,500,000.00	3,177,136.50	91%
		National Counselling Programme	8,550,000.00	7,737,182.69	90%
		Social Care Centers	3,000,000.00	2,723,974.71	91%
		UNICEF GOSL Country Programme	22,400,000.00	11,183,115.19	50%
		Deyata Kirula	3,000,000.00	2,729,314.34	91%
126	Ministry of Education	Mitigation of Disparities in the Provision of Water and Sanitary Facilities to Unserved Schools	48,366,533.25	48,366,533.25	100%
		Assistance from Save the Children Fund	2,800,000.00	2,224,507.36	79%
		Transforming the School Education System as the Foundation of a Knowledge Hub Project	95,000,000.00	11,880,725.11	13%
		Water Sanitation & Hygienic Programme (UNICEF)	295,000,000.00	153,214,421.47	52%
127	Ministry of Labour and Labour Relations	Deyata Kirula	2,000,000.00	1,670,000.00	84%
		Implementation of the National Policy for Decent Work	20,000,000.00	15,611,498.26	78%
128	Ministry of Traditional Industries and Small Enterprises Development	Exhibition and Award Ceremony	28,000,000.00	10,002,641.00	36%
		Kithul Development Project	19,000,000.00	10,730,309.37	56%
		Atchchuvely Industrial Estate Rehabilitation Project (GOSL-India)	5,740,000.00	2,068,864.68	36%
		Re-establishment of the Research of Palmyrah Development Board (GOSL-India)	89,410,000.00	89,410,000.00	100%
		North Sea Ltd- Development & Expansion of Fishing Net Factory (GOSL-India)	127,000,000.00	107,574,913.00	85%
		Industrial Production Village Promotion	13,500,000.00	9,496,187.03	70%
		Development of Elephant Pass Salt Pan	8,000,000.00	7,237,065.85	90%
		Development of Traditional Handicraft Villages	15,000,000.00	4,120,692.31	27%
130	Ministry of Local Government and Provincial Councils	Greater Colombo Waste Water Management Project (GOSL-ADB)	878,760,000.00	387,454,877.65	44%
		Upgrading the Disaster Response Network Project Phase II -GOSL & Netherland	1,555,000,000.00	673,004,323.25	43%
		Emergency Natural Reconstruction Project (GOSL & JICA)	1,995,000,000.00	1,990,116,372.94	100%
		1. Development Assistance for Backward Local Authorities, 2. Financial Assistance for Repair of Vehicles of Backward Local Authorities	14,000,000.00	2,638,938.70	19%
133	Ministry of Technology and Research	Anuradhapura Development Programme- Deyata Kirula	8,900,000.00	7,070,281.70	79%
		Knowledge Transfer Programmes and Other Development Activities	25,000,000.00	19,635,210.20	79%
		Scientific Development Programme	16,200,000.00	5,561,715.45	34%
		Multipurpose Gamma Irradiator Project	130,000,000.00	126,187,781.65	97%
		Nanotechnology Initiative	450,000,000.00	165,603,503.00	37%
		Negenahira Navodaya	12,000,000.00	1,454,313.29	12%

## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
		Implementation of Science, Technology Innovations Strategy	11,000,000.00	2,196,179.95	20%
		Develop a Regulatory Framework for Nanotechnology Related Activities in Sri Lanka	1,000,000.00	1,000,000.00	100%
		Installation of a 4D Digital Projectors	90,300,000.00	31,721,248.00	35%
134	Ministry of National Languages and Social Integration	Other Capital Expenditure	83,000,000.00	69,679,561.39	84%
		National Languages Development Programme	6,950,000.00	3,145,910.43	45%
		Social Integration Development Programme	9,000,000.00	7,034,978.52	78%
		Trilingual Programme	13,000,000.00	7,200,449.87	55%
		Deyata Kirula	800,000.00	798,416.07	100%
135	Ministry of Plantation Industries	Cadastral Surveys in the Plantation Sector	6,000,000.00	1,714,753.80	29%
		Small Holders Outgrowers Estate Development Programme	56,275,900.00	40,316,662.20	72%
		Tea and Rubber Land (Fragmentation) Board	2,000,000.00	602,910.35	30%
		Deyata Kirula	3,000,000.00	2,223,613.87	74%
138	Ministry of Indigenous Medicine	1. Poshana Programme, 2. Development of Homeopathic System, 3. Project to Provide Community Health Facilities Through Indigenous System of Medicine, 4. Osu Govi Gammana Programme, 5. New Village Level Osu Govi Programme for Youth	111,900,000.00	95,035,435.77	85%
139	Ministry of Fisheries and Aquatic Resources Development	Fisheries Community Strengthening	40,000,000.00	34,006,275.57	85%
		Purchase of Two Mother Vessels	82,367,962.00	125,000.00	0%
		Delimitation of Continental Shelf	8,000,000.00	4,891,831.23	61%
		Dickowita Fishery Harbour	540,000,000.00	224,504,999.36	42%
		Post Tsunami Coastal Rehabilitation & Resources Management Programme and Post Tsunami Livelihood Support & Partnership Programme	1,075,200,000.00	1,075,168,937.53	100%
		Rehabilitation Post Tsunami Areas	23,432,038.00	23,432,037.73	100%
		Stocking of Fish Fingerlings in Fresh Water Bodies to Develop Inland Fisheries	30,000,000.00	27,300,000.00	91%
		Sustainable Management of the Bay of Bengal Large Marine Ecosystem	200,000,000.00	1,505,528.51	1%
		Regional Fisheries Livelihood Programme	50,000,000.00	20,994,216.53	42%
		Deyata Kirula	25,000,000.00	24,926,544.74	100%
		Improving Post Harvest Practices & Sustainable Market Development for Long-Line Fisheries for Tuna & Other Large Pelagic Fish Species	5,000,000.00	4,550,000.00	91%
		Development of Ornamental Fish Industry	44,000,000.00	29,997,210.06	68%
140	Ministry of Livestock and Rural Community Development	Facilitation and Promotion of Liquid Milk Consumption	47,500,000.00	30,737,110.40	65%
		Establishment of Animal Breeder Farms	40,810,000.00	32,525,833.46	80%
		Kirigammana Programme	60,000,000.00	54,645,992.42	91%
		Importation of 1000 Dairy Dual Purpose Goats	10,400,000.00	210,487.20	2%
		Medium Term Livestock Development Programme	142,000,000.00	46,496,116.53	33%
		Importation of Dairy Animals	862,600,000.00	856,663,441.74	99%
		East Housing Programme	102,000,000.00	91,221,265.54	89%
		Increase of Fresh Milk Buying Price	160,000,000.00	160,000,000.00	100%
		Development of Small and Medium Scale Poultry Farming System	17,000,000.00	7,508,430.46	44%
		Deyata Kirula Development Programme	15,000,000.00	14,603,801.21	97%
		Importation of 30,000 Doses of Sexed Semen	25,000,000.00	14,059,917.55	56%

## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
		Livelihood and Basic Facility Improvement in Rural Areas	150,000,000.00	146,471,854.51	98%
142	Ministry of National Heritage	Lagging Area Socio- Economic Development Projects	218,000,000.00	191,638,550.02	88%
		Mahamevna Uyana Development Project	10,000,000.00	9,865,771.30	99%
		Preservation Native Habits	25,000,000.00	4,417,533.00	18%
		Deye Urumaya Daruwantai Awareness Programme	1,000,000.00	992,964.80	99%
		Sri Lanka Netherland Cooperation Programme	39,711,958.00	18,403,217.48	46%
		Folk Art Center	10,000,000.00	4,538,878.44	45%
		Establishment of Heritage Information & Activity Center	75,000,000.00	15,478,041.10	21%
		Improving Existing Web Site	615,000.00	533,942.42	87%
		Construction & Restoration of Old Dutch Naval Commissioner's House in Trincomalee	10,288,042.00	7,800,000.00	76%
		Deyata Kirula National Development Exhibition (Preserving National Heritage in Mihinthale)	35,000,000.00	15,755,884.63	45%
145	Ministry of Resettlement	Other Capital Expenditure	5,200,000.00	4,218,737.52	81%
		Deyata Kirula	10,000,000.00	9,092,349.03	91%
		Conflict Affected People Resettlement Project	41,990,000.00	41,959,991.00	100%
		Puttalam Housing Project (GOSL-WB)	191,000,000.00	135,000,000.00	71%
		Support for Resettlement Activities-UNHCR	31,170,000.00	26,761,310.77	86%
		Support for Resettlement Activities-INDIA	10,656,400.00	10,656,400.00	100%
		Welioya Resettlement Programme	102,646,000.00	102,645,835.00	100%
149	Ministry of Industry and Commerce	Industrial Estates	275,000,000.00	144,224,737.39	52%
		Thrust Area Development	225,000,000.00	22,370,752.38	10%
		Handloom and Textile Industries	104,000,000.00	41,276,541.92	40%
		Mannar Saltern Project	5,000,000.00	4,956,620.17	99%
		Environmentally Friendly Solution Fund II and Small & Micro Industries Leader & Entrepreneur Promotion III Projects	5,200,000.00	4,053,037.81	78%
152	Ministry of Irrigation and Water Resources Management	Pro-Poor Economic Advancement & Community Enhancement (PEACE) Project (GOSL-JBIC)	696,577,718.52	631,084,309.78	91%
		Rehabilitation of Major and Medium Irrigation Schemes including Emergency Infrastructure Rehabilitation Work	1,471,339,658.00	1,471,339,657.86	100%
		Feasibility Studies 1.NCP/Moragahakanda/Kaluganga Down Stream Development, 2. Kaluganga Basin, 3.Updating Malwathu Oya Feasibility Study, 4. Gin Niwala Master Plan Study, 5. Maduru Oya Right Bank Feasibility Updates , 6. Welioya, 7. Basnagoda, 8. Malwathu Oya and Other, 9. System Development & Other	193,000,000.00	192,591,396.82	100%
		Dam Safety and Water Resources Planning Project	1,853,500,000.00	1,685,667,738.18	91%
		Moragahakanda & Kaluganga Reservoir Project	13,180,000,000.00	11,285,972,210.16	86%
		Emergency Natural Disaster Rehabilitation Project	680,465,849.00	653,565,848.56	96%
		Prefabricated Buildings for Government Agencies from Peoples Republic of China	1,100,000,000.00	1,070,321,447.68	97%
156	Ministry of Youth Affairs and Skills Development	Deyata Kirula Programme	2,000,000.00	1,656,879.81	83%
		Other Capital Expenditure	88,000,000.00	34,774,585.00	40%
		Improvement of Vocational Training Activities (Yovun Diriya Programme)	104,892,000.00	78,647,978.22	75%
		Child Protection Programme	28,000,000.00	12,701,143.33	45%
		Youth Development Programme	696,000,000.00	505,729,003.20	73%



## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/ Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
160	Ministry of Environment	Strengthen the National Co-Ordination Activities of the GEF Local Points	1,100,000.00	973,724.41	89%
		Pilisaru Programme	600,000,000.00	220,960,000.00	37%
		Plastic Waste Management Programme	130,000,000.00	53,100,000.00	41%
		Establishment of Waste Management System in High Level Road Region in Colombo District	80,000,000.00	69,908,829.94	87%
		Strengthening of Air MAC, Implementation of Vehicular Emmission Testing Programme and Indoor Air Quality Management in Sri Lanka	3,000,000.00	397,973.40	13%
		Establishment of MEA's Coordination Secretariat & Preparation of Awareness Materials on Multilateral Environment Agreements	5,000,000.00	751,212.36	15%
		School Environmental Pioneer Programme(Haritha Niyamu)	9,800,000.00	8,000,000.00	82%
		Establishment of Clean Development Mechanism Secretariat	250,000.00	35,606.00	14%
		World Environment Day Programme	5,500,000.00	3,675,236.10	67%
		Establishment of Climate Change Secretariat & Research Studies Under Climate Change	2,000,000.00	622,769.00	31%
		Formulation of National Climate Policy	81,500.00	81,416.00	100%
		Updating of National Environmental Policy	8,000,000.00	3,980,597.22	50%
		Paleo Bio Diversity Conservation and Sustainable Tourism Programme	5,500,000.00	2,311,167.60	42%
		Safe Disposal of Mobile and Associated Wastes	3,000,000.00	51,000.00	2%
		Technology Needs Assesment Project on Climate Change in Sri Lanka	7,000,000.00	5,857,414.29	84%
		Strengthening of the Laboratory of the CEA and Improvement of Environment Quality	50,000,000.00	4,000,000.00	8%
		Conservation & Sustainable Use of Microbial Diversity	4,500,000.00	448,380.00	10%
		Pricing Biodiversity of the Island	9,500,000.00	1,766,241.85	19%
		Implementation of Provincial Biodiversity Profile	10,000,000.00	4,064,446.75	41%
		Strengthening of National Policy on Traditional Knowledge for Sustainable Livelihood	2,500,000.00	2,000,000.00	80%
		Construction of Solid Waste Disposal Facilities	50,000,000.00	9,774,604.29	20%
		Deyata Kirula Programme	20,000,000.00	16,360,540.80	82%
		Community Forestry Programme (GOSL-Australia)	20,000,000.00	9,563,401.55	48%
		Strengthening National Capacities for Sound Management of Priority Industrial Carcinogens with Special Emphasis on Asbestos and Updating National Chemical Profile in Sri Lanka	2,702,000.00	2,702,000.00	100%
166	Ministry of Water Supply and Drainage	Lunawa Environment and Community Development Project (GOSL-JICA)	138,000,000.00	125,087,493.80	91%
		South Asia Conference on Sanitation, Follow up Action -All Island Sanitation Programme	10,000,000.00	7,120,250.00	71%
		North & East Pilot WASH (Water Sanitation & Hygiene Project (GOSL-WB)	111,000,000.00	66,194,247.83	60%
		Improving Community Based Rural Water Supply and Sanitation in Jaffna & Killinochchi Districts (GOSL-ADB)	9,700,000.00	1,019,777.92	11%
171	Ministry of Higher Education	Sri Lanka Institute of Advanced Technological Education (Mattakkuliya/Labuduwa)-Austria	23,008,000.00	23,007,411.97	100%
		The Development Plan for South Eastern University -GOSL/Kuwait	106,500,000.00	84,995,518.92	80%
		Promoting Rural Income from Sustainable Aquaculture Through Social Learning Project	9,800,000.00	9,800,000.00	100%
		The Development Plan for South Eastern University Phase1*B* -GOSL/Kuwait	224,000,000.00	9,779,359.59	4%

## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/ Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
		Collaborative Research Project on New Mechanism Feasibility Study for Developing a Castor Seed Industry Clusters in Sri Lanka- Researchers of Wayamba University	3,200,000.00	3,200,000.00	100%
175	Ministry of State Resources and Enterprise Development	Other Capital Expenditure	12,000,000.00	8,836,790.38	74%
176	Ministry of Civil Aviation	Capitalisation of Sri Lankan Airlines & Mihin Lanka	14,286,325,000.00	14,286,321,888.60	100%
		Capitalisation of Mihin Lanka (Pvt) Ltd	507,000,000.00	507,000,000.00	100%
177	Ministry of Culture & Art	Public Performance Board	4,000,000.00	566,800.00	14%
		Towerhall Theatre Foundation	40,000,000.00	10,500,000.00	26%
		Improving Existing Web Site	2,000,000.00	204,911.00	10%
		Wayamba Cultural Quandrangle Project	20,000,000.00	15,012,665.00	75%
		Revealing & Preserving of Indigenous Knowledge & Cultural Values	8,450,000.00	2,856,191.85	34%
		Deyata Kirula- Improving facilities of cultural centers in Anuradhapura	40,000,000.00	10,601,848.78	27%
		Renovation Project of Elphinestone Art Center	80,000,000.00	19,000,000.00	24%
		Inservice Training Centers	6,000,000.00	1,080,625.47	18%
		Preservation native habits	15,000,000.00	5,551,399.42	37%
		Construction of Cultural center & the Tsunami Research Center at Peraliya, Telwatta	35,000,000.00	34,999,683.79	100%
		Construction of SAARC Cultural Center	155,000,000.00	110,654,093.38	71%
178	Ministry of Coconut Development and Janatha Estate Development	Weligama Coconut Leaf wilt & Rot Disease	190,000,000.00	134,342,398.00	71%
179	Ministry of Agrarian Services & Wildlife	Deyata Kirula	2,000,000.00	1,729,918.82	86%
		Production & Distribution of Organic Fertilizer	125,000,000.00	74,168,779.82	59%
180	Ministry of Minor Export Crop Promotion	Deyata Kirula Development Programme	5,000,000.00	3,996,115.00	80%
182	Ministry of Foreign Employment Promotion and Welfare	Srenghthening Island Wide Administrative Network for the Development of Foreign Employment Industry	10,000,000.00	8,145,000.00	81%
		Employment of Promotional Road Shows	20,000,000.00	13,777,544.12	69%
		Development of Promotional Materials	10,000,000.00	71,231.60	1%
183	Ministry of Public Relations & Public Affairs	Community Development Projects in most Difficult Villages	46,840,000.00	39,150,580.22	84%
		Facilitating Hundred Less Known Traditional Villages	14,710,000.00	4,079,349.66	28%
		Empowering the Community Through Sramadhana Based Projects	36,430,000.00	32,177,987.36	88%
		Facilitating the Public to Overcome Bottle Necks in Obtaining Services from Government Agencies	3,730,000.00	3,391,436.95	91%
185	Ministry of Telecommunication and Information Technology	IT Centers- Mannar & Jaffna	8,000,000.00	7,958,362.60	99%
		Establishment of Information Technology Park at Hambantota	2,000,000.00	1,714,285.70	86%
201	Department of Buddhist Affairs	Improvement of Dhamma School Facilities in Anuradhapura	30,000,000.00	27,846,464.95	93%

## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
202	Department of Muslim Religious and Cultural Affairs	National Meelad Development Project	12,000,000.00	10,476,909.23	87%
		Construction of Islamic Cultural Centers	18,550,000.00	6,256,256.18	34%
203	Department of Christian Religious Affairs	1. Renovation of Methodist Church of Petiyagoda , 2. Renovation of Church of Velankani, 3.Uthuru Wasanthaya,4.Establishment of Vishramashala at calvary sacred area ,5. Renovation of Fathima church Uruthirathpuram,6. Renovation of St.Anthony's Church Mahagalgamuwa,7. Historical Christian Reparamadu Church -Anuradhapura,8. Deyata Kirula	10,900,000.00	6,046,167.79	55%
		Development of Accommodation for pilgrims who come to St.Annes's Church of Thalawila	5,750,000.00	4,463,700.97	78%
		Development of Accommodation for pilgrims who come to St.Anthony's Shrine of Wahakotte	1,300,000.00	1,144,299.80	88%
		Development of Infrastructure Facilities of Historical Madu Shrine	2,300,000.00	2,091,145.50	91%
206	Department of Cultural Affairs	Construction Project of Kundasale Kala Nikethanaya	100,000,000.00	42,450,019.07	42%
		Deyata Kirula	10,000,000.00	918,366.00	9%
		Project of Accomplishment of the Chapter VI of Mahawansa :1978-2010	15,000,000.00	5,281,738.18	35%
207	Department of Archaeology	Nilagirisaya Conservation & Reservation Project	15,000,000.00	14,204,109.49	95%
		Yudaganawa Conservation & Reservation Project	10,000,000.00	4,449,851.00	44%
		Thivankapilimageya Conservation & Reservation Project	25,000,000.00	896,000.00	4%
		Maduwanwala Walawwa Reservation Project	10,000,000.00	2,887,396.66	29%
		Rajagalathanna Archaeological Sites Conservation & Reservation Project	10,000,000.00	6,644,013.16	66%
		New Rest House in Anuradhapura	15,000,000.00	443,000.00	3%
		Deyata Kirula- Preservation & Conservation of Archaeological Sites in Anuradhapura	10,000,000.00	9,365,878.20	94%
208	Department of National Museums	Other Capital Expenditure	1,000,000.00	998,936.64	100%
		Construction of Hambantota Heritage Museum	20,000,000.00	4,522,409.72	23%
		Ostrology Gallery of Natural Science Museum	14,000,000.00	1,006,699.25	7%
		Paleo Bio Diversity Park at Rathnapura National Museum	10,000,000.00	5,406,444.93	54%
209	Department of National Archives	Other Capital Expenditure	1,500,000.00	1,058,228.36	71%
		Extension of Archives Building Complex	260,000,000.00	222,880,111.27	86%
		Archival Management Project-Investments	10,000,000.00	550,144.00	6%
		Tanap- Nap Project	8,000,000.00	4,284,536.54	54%
217	Department of Probation & Child Care Services	Refurbishment of Children's Home	5,000,000.00	3,463,678.50	69%
219	Department of Sports Development	Exposure of Internationally Accepted Sports Facilities to Rural Sports Men and Women	390,000,000.00	201,174,012.24	52%
		Anuradhapura Development Programme- Deyata Kirula	10,000,000.00	6,019,926.31	60%
220	Department of Ayurveda	Improvement of dedicated wards elderly in national and provincial ayurvedic hospitals	20,000,000.00	2,692,391.97	13%
		Research Activities	8,123,600.00	3,245,893.49	40%
221	Department of Labour	Deyata Kirula Programme	3,000,000.00	2,958,627.32	99%

## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
222	Sri Lanka Army	Other Capital Expenditure	505,000,000.00	504,356,398.91	100%
223	Sri Lanka Navy	Other Capital Expenditure	61,000,000.00	59,703,632.31	98%
224	Sri Lanka Airforce	Prefabricated building project for the security forces	273,516,755.00	273,184,165.26	100%
		Other Capital Expenditure	11,000,000.00	8,872,057.38	81%
225	Department of Police	Prefabricated building project	50,000,000.00	49,900,942.12	100%
		Other Capital Expenditure	170,530,000.00	150,098,033.66	88%
226	Department of Immigration & Emigration	Other Capital Expenditure	49,400,000.00	49,313,665.07	100%
227	Department of Registration of Persons	Other Capital Expenditure	35,000,000.00	34,678,668.73	99%
232	Department of Prisons	Deyata Kirula (Relocation Anuradhapura Prison)	10,000,000.00	9,891,719.84	99%
236	Department of Official Language Policy	Other Capital Expenditure	12,200,000.00	11,021,037.27	90%
237	Department of National Planning	Other Capital Expenditure	200,000.00	194,643.95	97%
		National Council for Economic Development	229,500.00	229,500.00	100%
		Project Management of Eastern Province Water Supply Project (GOSL-JICA)	63,645,000.00	63,521,959.13	100%
		Project Management of Eastern Province Rural Road Project (GOSL-JICA)	53,779,000.00	53,761,809.00	100%
		Emergency Natural Disaster Rehabilitation Project	3,250,000.00	2,685,035.38	83%
239	Department of External Resources	Other Capital Expenditure	5,000,000.00	3,715,315.97	74%
243	Department of Development Finance	Small and Medium Enterprise Regional Development Project (GOSL/ADB)	625,400.00	625,393.28	100%
		National Agri Business Development Programme (GOSL/IFAD)	351,000,000.00	11,806,952.45	3%
251	Department of Valuation	Assessment of Government Properties	10,000,000.00	8,499,720.57	85%
252	Department of Census and Statistics	Child Activity Programme (ILO)	480,000.00	476,000.00	99%
		Improving Price Collection of Non Household Expenditure Component & Upgrading of Purchasing Power (ADB)	920,000.00	917,821.00	100%
		Census of Population and Housing -2011	845,000,000.00	804,339,121.62	95%
		Annual Census	90,520,000.00	2,381,862.66	3%
		Strengthening National Capacities for National and Local Information Collection, Planning, Budgeting and Monitoring for the Attainment of the MDGs	2,033,000.00	2,033,000.00	100%
269	District Secretariat-Batticaloa	Deyata Kirula	25,000,000.00	14,036,673.40	56%
270	District Secretariat- Ampara	Deyata Kirula	25,000,000.00	25,000,000.00	100%
271	District Secretariat- Trincomalee	Deyata Kirula	25,000,000.00	9,315,483.06	37%
274	District Secretariat- Anuradhapura	Deyata Kirula	476,600,000.00	465,186,151.89	98%
275	District Secretariat-Polonnaruwa	Deyata Kirula	25,000,000.00	500,000.00	2%

## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
280	Department of Project Management & Monitoring	Project Evaluation & Web Based Monitoring System	3,500,000.00	2,959,210.06	85%
281	Department of Agrarian Development	Additional Allocation of Minor Tanks and Agro Wells in the Drought affected Districts of Anuradhapura, Polonnaruwa, Kurunegala, and Puttalam	250,000,000.00	195,157,500.58	78%
		Re-Cultivation of Abandoned Paddy Lands	280,000,000.00	157,824,868.17	56%
		Deyata Kirula	15,000,000.00	1,312,891.19	9%
282	Department of Irrigation	1. Pre feasibility Studies-(Surveys & Investigation),2. Training ,3. Specialised Studies, 4. Ancillary services, 5. Enhancing and Upgrading the Irrigation Department IT & Other Capabilities	100,000,000.00	78,308,745.50	78%
283	Department of Forests	Eco Tourism Capital Expenditure Project	10,000,000.00	9,094,274.92	91%
		Jeewa Jawaya Establishment of Bio Fuel Plantation in Sri Lanka	500,000.00	184,716.00	37%
		Conservation of Hill Tops in the Central Highlands in Sri Lanka	23,000,000.00	22,999,991.86	100%
284	Department of Wildlife Conservation	Deyata Kirula Development Programme (Development of Wilpaththu National Park)	185,000,000.00	67,125,682.17	36%
285	Department of Agriculture	Infrastructure Development to Improve Rice Research & Development Institutes (RRDI)	81,122,000.00	65,407,770.32	81%
		Development of Hybrid Rice, Maize, Fruit & Vegetables	10,000,000.00	8,175,699.13	82%
		Small Scale Agricultural Research Project (US)	15,000,000.00	14,999,492.52	100%
		Implementation of National Agricultural Research Plan (NARP)	80,000,000.00	53,579,573.68	67%
		Production of Quality Planting Materials and Crops with Higher Economic Value Through Application of Tissue Culture Technology	28,000,000.00	25,277,580.05	90%
		Media Programme	26,200,000.00	26,198,798.93	100%
		Bataatha and Gannoruwa Agro Technology Parks	4,500,000.00	3,458,467.05	77%
		National Seed Production and Purchasing Programme	432,162,427.00	431,661,021.28	100%
		Quality Assurance of Seeds and Planting Materials through the Implementation of Seed Act.	17,000,000.00	13,968,731.75	82%
		Accelerated Seed Farms Development Programme	291,000,000.00	216,392,130.26	74%
286	Department of Land Commissioner	High Land Development Project	5,000,000.00	3,576,726.90	72%
288	Department of Surveyor General	1. Aerial Photography & Satalite Images,2. National Atlas-Translation 3. Utilization of Field Data Gathering and Updating	15,000,000.00	5,988,349.65	40%
289	Department of Export Agriculture	Implementation of National Agricultural Research Plan	7,500,000.00	6,808,075.04	91%
290	Department of Fisheries and Aquatic Resources	Fisheries Society Activities	7,000,000.00	3,090,266.96	44%
291	Department of Coast Conservation	Other Capital Expenditure	43,000,000.00	40,656,069.82	95%
		Participatory Costal Zone Restoration & Sustainable Management Project	43,000,000.00	26,732,523.76	62%
292	Department of Animal Production and Health	1.Social Economic Studies in Livestock Sector,2. Quality Control and Quarantine Activities, 3. Implementation of Livestock Statues ,4. Strengthen to Animal Quarantine and Inspection Services, 5. Livestock Promotion,6. Books and Periodicals	14,696,900.00	13,974,795.29	95%

## Statement of Capital Investments on Development Projects-2012 contd...

Head No.	Name of the Ministry/Department	Project Description	Provision (Rs.)	Expenditure (Rs.)	Expenditure as % of Provision
		Control of Contagious Diseases	26,000,000.00	16,940,000.00	65%
		Livestock Health Improvement Programme	5,075,000.00	5,074,023.14	100%
		Implementation of Livestock Research	13,775,000.00	11,197,364.51	81%
		Production of Vaccine Against Foot and Mouth Disease Locally	29,564,000.00	29,563,223.05	100%
		Establishment of Laboratory for VRI	28,436,000.00	10,815,113.88	38%
		Increase the High Quality Heifer Calves	63,398,700.00	62,837,981.57	99%
		Improvement of Services Delivery System of Field Veterinary Office	50,000,000.00	42,278,468.26	85%
		Small Scale Dairy Farming Improvement Through Genetic and Feeding Management Improvement	2,296,150.00	2,296,147.56	100%
		Animal Identification and Traceability systems	17,000,000.00	4,161,206.64	24%
		Expansion and Modernization of Animal Quarantine Units	24,000,000.00	12,760,801.75	53%
		Livestock Breeding Project	108,305,150.00	99,486,982.78	92%
		Establishment of Livestock Technology Park	7,500,000.00	6,764,059.52	90%
		Strengthening of Field level Goat Breeders	4,750,000.00	1,966,293.25	41%
		Goat Development Project	8,000,000.00	6,830,513.22	85%
		Entrepreneurship Development	4,000,000.00	2,862,075.89	72%
293	Department of Rubber Development	1. Nursery Development , 2. Inter Cropping, 3. Fertilizer Distribution, 4. Factory Modernization subsidy, 5. Others	100,000,000.00	35,611,353.42	36%
294	Department of National Zoological Gardens	Other Capital Expenditure	1,500,000.00	61,066.02	4%
295	Department of Commerce	Trade Promotional Activities	7,000,000.00	5,420,292.23	77%
301	Department of Co-operative Development	1. Publicity on Co-operative Movement, 2.Establishment of Co-operative Societies in Universities, 3. Printing Statistical Report, 4. Promoting and Strengthening of School Co-op Societies	15,000,000.00	6,274,687.00	42%
304	Department of Meteorology	Other Capital Expenditure	600,000.00	477,193.66	80%
		Quality Management System Workshop	620,000.00	408,670.40	66%
307	Department of Motor Traffic	Printing of Driving License	935,000,000.00	934,999,067.52	100%
308	Department of Posts	Uthuru Wasanthaya	500,000.00	455,000.00	91%
311	Department of National Physical Planning	Physical Planning	200,000.00	200,000.00	100%
		1.Physical Structure Plan, 2. Local Level Development Plan	3,100,000.00	3,095,464.80	100%
326	Department of community Based Corrections	Other Capital Expenditure	2,500,000.00	429,604.00	17%
328	Department of Man Power and Employment	1.Promotion of Employment in the Informal Sector , 2.Deyata Kirula	8,000,000.00	7,728,794.29	97%
		Jobs Net Programme	5,000,000.00	4,425,409.02	89%
		Strengthening Peoples' Services	4,000,000.00	269,827.25	7%
		Upgrading Online Employment System, Web Based IT System and Server Infrastructure	5,000,000.00	18,144.00	0%
<b>Total</b>			<b>133,671,498,235.77</b>	<b>111,363,491,367.74</b>	<b>83%</b>

# Head - wise Summary of Expenditure Account with Budgetary Provision - 2012

Note 33

Head No.	Ministry / Department	Total			Recurrent			Capital			Rs. 000		
		Expenditure (Rs.)	Provision (Rs.)	Savings (Rs.)	%	Expenditure (Rs.)	Provision (Rs.)	Savings (Rs.)	%	Expenditure (Rs.)		Provision (Rs.)	Savings (Rs.)
1	HIS EXCELLENCY THE PRESIDENT	5,936,078	7,658,165	1,722,087	78	3,888,694	4,010,410	121,716	97	2,047,384	3,647,755	1,600,371	56
2	OFFICE OF THE PRIME MINISTER	226,939	269,125	42,186	84	178,226	187,725	9,499	95	48,713	81,400	32,687	60
3	SECRETARIAT FOR SPECIAL FUNCTIONS	375,164	413,736	38,572	91	271,921	277,236	5,315	98	103,243	136,500	33,257	76
4	JUDGES OF THE SUPREME COURTS	193,884	217,020	23,136	89	170,418	182,520	12,102	93	23,466	34,500	11,034	68
5	OFFICE OF THE CABINET MINISTERS	61,427	83,650	22,223	73	54,446	62,720	8,274	87	6,981	20,930	13,949	33
6	PUBLIC SERVICE COMMISSION	123,301	128,710	5,409	96	107,851	110,110	2,259	98	15,451	18,600	3,149	83
7	JUDICIAL SERVICE COMMISSION	35,862	87,867	52,005	41	35,584	37,367	1,783	95	277	50,500	50,223	1
8	NATIONAL POLICE COMMISSION	36,258	42,549	6,291	85	36,042	38,297	2,255	94	216	4,252	4,036	5
9	ADMINISTRATIVE APPEALS TRIBUNAL	11,756	12,705	949	93	11,705	12,555	850	93	52	150	98	35
10	COMMISSION TO INVESTIGATE ALLEGATIONS OF BRIBERY OR CORRUPTION	201,231	234,993	33,762	86	131,842	135,993	4,151	97	69,389	99,000	29,611	70
11	OFFICE OF THE FINANCE COMMISSION	35,548	69,957	34,409	51	34,740	37,557	2,817	92	808	32,400	31,592	2
12	NATIONAL EDUCATION COMMISSION	21,237	25,581	4,344	83	20,958	25,196	4,238	83	279	385	106	72
13	HUMAN RIGHTS COMMISSION OF SRI LANKA	139,931	147,025	7,094	95	137,746	144,075	6,329	96	2,184	2,950	766	74
14	DEPARTMENT OF ATTORNEY GENERAL	443,877	464,825	20,948	95	428,620	444,425	15,805	96	15,257	20,400	5,143	75
15	DEPARTMENT OF LEGAL DRAFTSMAN	56,102	134,077	77,975	42	48,533	51,477	2,944	94	7,570	82,600	75,030	9
16	PARLIAMENT	1,685,403	1,798,890	113,487	94	1,570,244	1,621,850	51,606	97	115,158	177,040	61,882	65
17	OFFICE OF THE LEADER OF THE HOUSE OF PARLIAMENT	23,501	25,500	1,999	92	22,581	24,300	1,719	93	920	1,200	280	77
18	OFFICE OF THE CHIEF GOVT. WHIP OF PARLIAMENT	40,512	41,851	1,339	97	33,491	34,430	938	97	7,020	7,421	401	95
19	OFFICE OF THE LEADER OF THE OPPOSITION OF PARLIAMENT	62,193	68,115	5,922	91	52,802	57,415	4,613	92	9,391	10,700	1,309	88
20	DEPARTMENT OF ELECTIONS	953,886	966,441	12,555	99	930,113	939,841	9,728	99	23,773	26,600	2,827	89
21	AUDITOR GENERAL	918,419	1,088,239	169,821	84	694,444	710,092	15,648	98	223,975	378,147	154,172	59
22	OFFICE OF THE PARLIAMENTARY COMMISSIONER FOR ADMINISTRATION	8,028	8,137	108	99	7,948	8,037	89	99	81	100	19	81
101	MINISTRY OF BUDDHA SASANA AND RELIGIOUS AFFAIRS	589,000	786,065	197,065	75	97,226	97,365	139	100	491,773	688,700	196,927	71
102	MINISTRY OF FINANCE AND PLANNING	1,900,259	2,490,913	590,655	76	601,799	635,718	33,919	95	1,298,459	1,855,195	556,736	70
103	MINISTRY OF DEFENCE	10,822,501	15,297,675	4,475,174	71	6,658,403	6,968,085	309,682	96	4,164,098	8,329,590	4,165,492	50
105	MINISTRY OF ECONOMIC DEVELOPMENT	82,045,286	94,911,740	12,866,454	86	9,846,613	9,906,377	59,764	99	72,198,673	85,005,363	12,806,690	85
106	MINISTRY OF DISASTER MANAGEMENT	778,275	975,460	197,185	80	378,079	420,160	42,081	90	400,196	555,300	155,104	72
108	MINISTRY OF POSTAL SERVICES	180,831	295,430	114,599	61	75,582	82,359	6,777	92	105,248	213,071	107,823	49
110	MINISTRY OF JUSTICE,	345,378	414,800	69,422	83	308,449	337,269	28,820	91	36,928	77,531	40,603	48
111	MINISTRY OF HEALTH	71,506,022	78,879,359	7,373,337	91	57,858,938	59,258,300	1,399,362	98	13,647,084	19,621,059	5,973,975	70



# Head-wise Summary of Expenditure Account with Budgetary Provision - 2012 *contd...*

Head No.	Ministry / Department	Total			Recurrent			Capital		
		Expenditure (Rs.)	Provision (Rs.)	Savings (Rs.)	%	Expenditure (Rs.)	Provision (Rs.)	Savings (Rs.)	%	Savings (Rs.)
112	MINISTRY OF EXTERNAL AFFAIRS	8,300,821	8,534,820	233,799	97	7,305,400	7,330,095	24,695	100	995,421
114	MINISTRY OF TRANSPORT	6,398,023	12,111,910	5,713,887	53	5,667,471	5,705,810	38,339	99	730,552
115	MINISTRY OF PETROLEUM INDUSTRIES	100,166	111,450	11,284	90	94,476	100,600	6,124	94	5,689
116	MINISTRY OF CO-OPERATIVES AND INTERNAL TRADE	963,207	1,339,596	376,389	72	787,497	825,137	37,639	95	175,709
117	MINISTRY OF PORTS AND HIGHWAYS	146,878,011	147,963,330	1,085,319	99	195,978	197,641	1,663	99	146,682,032
118	MINISTRY OF AGRICULTURE	2,081,376	2,634,181	552,805	79	408,079	431,623	23,543	95	1,673,296
119	MINISTRY OF POWER & ENERGY	32,665,105	34,290,340	1,625,235	95	458,561	1,074,240	615,679	43	32,206,544
120	MINISTRY OF CHILD DEVELOPMENT AND WOMEN'S AFFAIRS	746,476	857,957	111,481	87	551,881	602,571	50,690	92	194,595
121	MINISTRY OF PUBLIC ADMINISTRATION & HOME AFFAIRS	802,281	978,868	176,587	82	527,731	582,368	54,637	91	274,551
122	MINISTRY OF MASS MEDIA AND INFORMATION	510,591	633,570	122,979	81	345,067	352,870	7,803	98	165,524
123	MINISTRY OF CONSTRUCTION, ENGINEERING SERVICES, HOUSING AND COMMON AMENITIES	1,998,168	2,530,185	532,018	79	300,134	317,210	17,076	95	1,698,034
124	MINISTRY OF SOCIAL SERVICES	1,257,322	1,374,864	117,542	91	1,175,354	1,199,046	23,692	98	81,969
126	MINISTRY OF EDUCATION	31,799,120	33,728,235	1,929,115	94	27,211,819	27,216,756	4,937	100	4,587,301
127	MINISTRY OF LABOUR & LABOUR RELATIONS	164,433	212,000	47,567	78	135,056	161,535	26,479	84	29,376
128	MINISTRY OF TRADITIONAL INDUSTRIES AND SMALL ENTERPRISE DEVELOPMENT	834,707	949,865	115,158	88	507,490	526,490	19,000	96	327,218
130	MINISTRY OF LOCAL GOVERNMENT AND PROVINCIAL COUNCILS	5,517,508	8,069,660	2,552,152	68	166,863	183,620	16,757	91	5,350,645
133	MINISTRY OF TECHNOLOGY AND RESEARCH	2,182,739	3,189,301	1,006,562	68	1,057,765	1,149,000	91,235	92	1,124,974
134	MINISTRY OF NATIONAL LANGUAGES AND SOCIAL INTEGRATION	303,269	393,900	90,631	77	179,581	221,400	41,819	81	123,688
135	MINISTRY OF PLANTATION INDUSTRIES	1,630,862	2,042,287	411,425	80	906,654	955,732	49,078	95	724,208
136	MINISTRY OF SPORTS	405,150	549,795	144,645	74	220,475	270,465	49,990	82	184,675
138	MINISTRY OF INDIGENOUS MEDICINE	382,895	471,252	88,357	81	154,053	190,627	36,574	81	228,842
139	MINISTRY OF FISHERIES AND AQUATIC RESOURCES DEVELOPMENT	2,506,532	3,343,973	837,442	75	576,025	597,024	20,999	96	1,930,507
140	MINISTRY OF LIVESTOCK AND RURAL COMMUNITY DEVELOPMENT	1,855,373	2,065,660	210,287	90	143,569	147,805	4,236	97	1,711,805
142	MINISTRY OF NATIONAL HERITAGE	196,521	368,806	172,284	53	97,860	120,570	22,710	81	98,661
143	MINISTRY OF PARLIAMENTARY AFFAIRS	361,308	383,800	22,492	94	340,559	347,000	6,441	98	20,749
145	MINISTRY OF RE-SETTLEMENT	545,902	635,498	89,595	86	200,131	225,905	25,774	89	345,771
149	MINISTRY OF INDUSTRY AND COMMERCE	945,142	1,783,270	838,128	53	477,184	552,500	75,316	86	467,958
										1,230,770
										762,812
										38
										68
										55
										72
										67
										66
										82
										70
										89
										84
										38
										206,050
										89
										40
										56
										84
										38

## Head-wise Summary of Expenditure Account with Budgetary Provision - 2012 *contd...*

Head No.	Ministry / Department	Total				Recurrent				Capital			
		Expenditure (Rs.)	Provision (Rs.)	Savings (Rs.)	%	Expenditure (Rs.)	Provision (Rs.)	Savings (Rs.)	%	Expenditure (Rs.)	Provision (Rs.)	Savings (Rs.)	%
152	MINISTRY OF IRRIGATION AND WATER RESOURCES MANAGEMENT	24,805,411	28,379,635	3,574,224	87	1,958,752	2,032,665	73,913	96	22,846,659	26,346,970	3,500,311	87
153	MINISTRY OF LANDS AND LAND DEVELOPMENT	2,170,874	2,870,878	700,004	76	124,896	127,847	2,951	98	2,045,978	2,743,031	697,053	75
156	MINISTRY OF YOUTH AFFAIRS AND SKILLS DEVELOPMENT	5,758,224	7,221,810	1,463,586	80	2,684,781	2,814,247	129,466	95	3,073,443	4,407,563	1,334,120	70
160	MINISTRY OF ENVIRONMENT	1,095,272	2,206,156	1,110,884	50	514,999	566,091	51,092	91	580,273	1,640,065	1,059,792	35
166	MINISTRY OF WATER SUPPLY AND DRAINAGE	31,279,098	35,652,065	4,372,967	88	168,720	172,175	3,455	98	31,110,379	35,479,890	4,369,511	88
171	MINISTRY OF HIGHER EDUCATION	1,934,463	3,347,200	1,412,737	58	721,973	922,000	200,027	78	1,212,490	2,425,200	1,212,710	50
173	MINISTRY OF PUBLIC MANAGEMENT REFORMS	99,887	186,050	86,163	54	63,718	86,050	22,332	74	36,169	100,000	63,831	36
174	MINISTRY OF REHABILITATION AND PRISON	307,250	325,115	17,865	95	158,458	170,785	12,327	93	148,792	154,330	5,538	96
175	MINISTRY OF STATE RESOURCES AND ENTERPRISE DEVELOPMENT	128,387	218,608	90,221	59	96,806	101,050	4,244	96	31,582	117,558	85,976	27
176	MINISTRY OF CIVIL AVIATION	14,879,067	14,915,440	36,373	100	77,885	86,140	8,255	90	14,801,183	14,829,300	28,117	100
177	MINISTRY OF CULTURE AND THE ARTS	870,003	1,136,830	266,827	77	490,790	536,730	45,940	91	379,213	600,100	220,887	63
178	MINISTRY OF COCONUT DEVELOPMENT AND JANATHA ESTATE DEVELOPMENT	1,090,966	1,785,792	694,826	61	536,461	567,606	31,145	95	554,505	1,218,186	663,681	46
179	MINISTRY OF AGRARIAN SERVICES AND WILDLIFE	36,662,903	36,722,734	59,831	100	36,575,583	36,576,704	1,121	100	87,320	146,030	58,710	60
180	MINISTRY OF MINOR EXPORT CROP PROMOTION	154,807	195,560	40,753	79	113,919	125,160	11,241	91	40,888	70,400	29,512	58
181	MINISTRY OF PRODUCTIVITY PROMOTION	672,563	703,745	31,182	96	620,140	632,450	12,310	98	52,423	71,295	18,872	74
182	MINISTRY OF FOREIGN EMPLOYMENT PROMOTION AND WELFARE	99,047	394,175	295,128	25	70,071	84,175	14,104	83	28,977	310,000	281,023	9
183	MINISTRY OF PUBLIC RELATIONS AND PUBLIC AFFAIRS	134,333	160,028	25,695	84	48,721	49,000	279	99	85,612	111,028	25,416	77
184	MINISTRY OF PRIVATE TRANSPORT SERVICES	301,382	729,050	427,668	41	235,181	481,275	246,094	49	66,201	247,775	181,574	27
185	MINISTRY OF TELECOMMUNICATION AND INFORMATION TECHNOLOGY	520,880	525,839	4,959	99	65,842	66,739	896	99	455,037	459,100	4,063	99
201	DEPARTMENT OF BUDDHIST AFFAIRS	602,469	804,710	202,241	75	511,717	675,310	163,593	76	90,753	129,400	38,647	70
202	DEPARTMENT OF MUSLIM RELIGIOUS AND CULTURAL AFFAIRS	66,011	146,520	80,509	45	44,557	51,520	6,963	86	21,453	95,000	73,547	23
203	DEPARTMENT OF CHRISTIAN RELIGIOUS AND CULTURAL AFFAIRS	85,389	99,300	13,911	86	65,943	70,750	4,807	93	19,446	28,550	9,104	68
204	DEPARTMENT OF HINDU RELIGIOUS AND CULTURAL AFFAIRS	150,142	174,375	24,233	86	65,048	66,205	1,157	98	85,094	108,170	23,076	79
205	DEPARTMENT OF PUBLIC TRUSTEE	30,480	30,773	294	99	29,716	29,851	135	100	764	923	159	83
206	DEPARTMENT OF CULTURAL AFFAIRS	328,870	422,662	93,792	78	270,404	286,162	15,758	94	58,467	136,500	78,033	43
207	DEPARTMENT OF ARCHEOLOGY	586,386	686,550	100,164	85	474,525	501,410	26,885	95	111,861	185,140	73,279	60
208	DEPARTMENT OF NATIONAL MUSEUMS	121,912	177,675	55,763	69	92,129	101,425	9,296	91	29,784	76,250	46,466	39

# Head-wise Summary of Expenditure Account with Budgetary Provision - 2012 *contd...*

Head No.	Ministry / Department	Total			Recurrent			Capital		
		Expenditure (Rs.)	Provision (Rs.)	Savings (Rs.)	%	Expenditure (Rs.)	Provision (Rs.)	Savings (Rs.)	%	Expenditure (Rs.)
209	DEPARTMENT OF NATIONAL ARCHIVES	300,284	377,860	77,576	79	59,785	60,945	1,160	98	240,498
210	DEPARTMENT OF INFORMATION	159,609	183,340	23,731	87	144,860	158,990	14,130	91	14,749
211	DEPARTMENT OF THE GOVERNMENT PRINTER	1,412,437	1,578,490	166,053	89	1,357,881	1,421,740	63,859	96	54,556
212	DEPARTMENT OF EXAMINATION	1,752,209	1,787,990	35,781	98	1,743,670	1,767,040	23,370	99	8,540
213	DEPARTMENT OF EDUCATIONAL PUBLICATIONS	66,741	90,845	24,104	73	21,815	30,045	8,230	73	44,926
214	UNIVERSITY GRANTS COMMISSION	18,951,845	21,365,000	2,413,155	89	14,611,003	15,015,000	403,997	97	4,340,842
215	DEPARTMENT OF TECHNICAL EDUCATION AND TRAINING	1,288,690	1,471,835	183,145	88	1,092,990	1,160,543	67,553	94	195,700
216	DEPARTMENT OF SOCIAL SERVICES	317,126	338,188	21,063	94	296,509	307,538	11,029	96	20,617
217	DEPARTMENT OF PROBATION AND CHILD CARE SERVICES	171,420	180,492	9,072	95	165,257	171,942	6,686	96	6,164
218	DEPARTMENT OF THE COMMISSIONER GENERAL OF SAMURDHI	10,981,663	11,131,750	150,087	99	10,978,819	11,093,350	114,531	99	2,844
219	DEPARTMENT OF SPORTS DEVELOPMENT,	958,009	1,550,705	592,696	62	262,377	281,535	19,158	93	695,632
220	DEPARTMENT OF AYURVEDA	680,381	920,522	240,140	74	609,672	624,148	14,476	98	70,710
221	DEPARTMENT OF LABOUR	1,253,408	1,339,772	86,364	94	953,895	967,407	13,512	99	299,513
222	SRI LANKA ARMY	118,103,860	118,117,766	13,906	100	114,286,779	114,298,350	11,571	100	3,817,081
223	SRI LANKA NAVY	37,763,707	38,005,353	241,646	99	33,020,787	33,208,493	187,706	99	4,742,919
224	SRI LANKA AIR FORCE	24,231,019	24,700,679	469,660	98	20,983,577	21,050,975	67,398	100	3,247,442
225	DEPARTMENT OF POLICE	36,617,364	36,835,000	217,636	99	35,609,095	35,768,000	158,905	100	1,008,269
226	DEPARTMENT OF IMMIGRATION AND EMIGRATION	683,886	695,000	11,114	98	598,656	608,050	9,394	98	85,230
227	DEPARTMENT OF REGISTRATION OF PERSONS	217,734	251,590	33,856	87	175,213	204,540	29,327	86	42,521
228	COURTS ADMINISTRATION	4,062,954	4,157,927	94,973	98	3,426,849	3,431,565	4,716	100	636,105
231	DEPARTMENT OF DEBT CONCILIATION BOARD	7,923	9,400	1,477	84	7,516	8,790	1,274	86	408
232	DEPARTMENT OF PRISONS	3,669,954	4,060,555	390,601	90	3,404,072	3,632,555	228,483	94	265,882
233	DEPARTMENT OF GOVERNMENT ANALYST	330,201	341,551	11,351	97	84,607	86,251	1,645	98	245,594
235	LAW COMMISSION OF SRI LANKA	9,640	11,875	2,235	81	8,792	10,875	2,083	81	848
236	DEPARTMENT OF OFFICIAL LANGUAGES	66,273	79,600	13,327	83	54,036	65,200	11,164	83	12,236
237	DEPARTMENT OF NATIONAL PLANNING	176,803	178,944	2,141	99	54,718	55,921	1,203	98	122,085
238	DEPARTMENT OF FISCAL POLICY	128,704	638,400	509,696	20	127,561	636,800	509,239	20	1,143
239	DEPARTMENT OF EXTERNAL RESOURCES	811,940	895,143	83,203	91	176,050	255,967	79,917	69	635,890
240	DEPARTMENT OF NATIONAL BUDGET	1,477,886	3,022,819	1,544,933	49	68,473	574,856	506,183	12	1,409,413
241	DEPARTMENT OF PUBLIC ENTERPRISES	46,536	52,975	6,439	88	44,205	48,375	4,170	91	2,330
242	DEPARTMENT OF MANAGEMENT SERVICES	31,858	34,250	2,392	93	30,995	32,800	1,805	94	862
243	DEPARTMENT OF DEVELOPMENT FINANCE	1,876,592	2,744,925	868,333	68	315,775	366,225	50,450	86	1,560,816
244	DEPARTMENT OF TRADE, TARIFF AND INVESTMENT POLICY	23,624	831,334	807,710	3	23,063	830,434	807,371	3	562
										900
										339
										62

Rs. 000'

# Head-wise Summary of Expenditure Account with Budgetary Provision - 2012 committed....

Head No.	Ministry / Department	Total			Recurrent			Capital		
		Expenditure (Rs.)	Provision (Rs.)	Savings (Rs.)	%	Expenditure (Rs.)	Provision (Rs.)	Savings (Rs.)	%	Savings (Rs.)
245	DEPARTMENT OF PUBLIC FINANCE	114,746	137,875	23,129	83	113,492	136,490	22,998	83	1,385
246	DEPARTMENT OF INLAND REVENUE	1,604,329	1,621,500	17,171	99	1,562,267	1,563,600	1,333	100	42,062
247	SRI LANKA CUSTOMS	2,294,369	2,325,427	31,058	99	1,391,537	1,392,627	1,090	100	902,832
248	DEPARTMENT OF EXCISE	505,854	522,096	16,242	97	445,495	455,096	9,601	98	60,359
249	DEPARTMENT OF TREASURY OPERATIONS	1,023,009,084	1,027,912,642	4,903,558	100	414,147,478	416,478,342	2,330,864	99	608,861,607
250	DEPARTMENT OF STATE ACCOUNTS	45,175	50,350	5,175	90	33,714	34,881	1,167	97	11,461
251	DEPARTMENT OF VALUATION	247,657	256,270	8,613	97	229,100	235,570	6,470	97	18,557
252	DEPARTMENT OF CENSUS & STATISTICS	1,705,780	1,850,353	144,573	92	568,753	578,900	10,147	98	1,137,027
253	DEPARTMENT OF PENSIONS	126,766,000	126,805,439	39,439	100	126,742,151	126,778,439	36,287	100	23,848
254	DEPARTMENT OF REGISTRAR GENERAL	672,750	697,638	24,888	96	645,612	650,888	5,276	99	27,138
255	DISTRICT SECRETARIAT, COLOMBO	686,363	764,043	77,679	90	540,116	549,043	8,927	98	146,248
256	DISTRICT SECRETARIAT, GAMPAHA	790,517	803,534	13,017	98	765,279	775,584	10,305	99	25,238
257	DISTRICT SECRETARIAT, KALUTARA	658,520	666,299	7,779	99	602,960	604,999	2,039	100	55,560
258	DISTRICT SECRETARIAT, KANDY	976,567	1,031,282	54,715	95	903,766	905,082	1,316	100	72,801
259	DISTRICT SECRETARIAT, MATALE	436,955	447,632	10,677	98	413,293	414,282	989	100	23,662
260	DISTRICT SECRETARIAT, NUWARA-ELIYA	383,751	419,869	36,118	91	347,928	361,069	13,141	96	35,823
261	DISTRICT SECRETARIAT, GALLE	915,491	922,426	6,935	99	861,952	862,626	674	100	53,540
262	DISTRICT SECRETARIAT, MATARA	796,846	817,443	20,597	97	720,897	731,414	10,516	99	75,949
263	DISTRICT SECRETARIAT, HAMBANTOTA	736,885	803,799	66,914	92	622,348	665,179	42,831	94	114,537
264	DISTRICT SECRETARIAT/ KACHCHERI - JAFFNA	525,188	530,504	5,316	99	485,908	487,142	1,234	100	39,280
265	DISTRICT SECRETARIAT/ KACHCHERI - MANNAR	146,850	152,304	5,454	96	127,662	129,454	1,792	99	19,188
266	DISTRICT SECRETARIAT/ KACHCHERI - VAVUNIYA	163,216	167,340	4,123	98	130,590	131,340	750	99	32,626
267	DISTRICT SECRETARIAT/ KACHCHERI - MULLAITIVU	147,225	160,677	13,452	92	104,754	113,177	8,423	93	42,470
268	DISTRICT SECRETARIAT/ KACHCHERI - KILLINOCHCHI	148,104	155,606	7,502	95	104,436	106,506	2,070	98	43,668
269	DISTRICT SECRETARIAT/ KACHCHERI - BATTICALOA	432,947	462,255	29,308	94	398,478	404,805	6,327	98	34,469
270	DISTRICT SECRETARIAT, AMPARA	702,522	851,268	148,746	83	602,389	604,668	2,279	100	100,133
271	DISTRICT SECRETARIAT/ KACHCHERI - TRINCOMALEE	329,110	365,087	35,977	90	246,360	253,087	6,727	97	82,750
272	DISTRICT SECRETARIAT, KURUNEGALA	1,360,401	1,384,105	23,704	98	1,326,618	1,339,526	12,907	99	33,782
273	DISTRICT SECRETARIAT, PUTTALAM	501,927	545,935	44,007	92	439,171	443,735	4,564	99	62,756
274	DISTRICT SECRETARIAT, ANURADHAPURA	1,114,467	1,137,523	23,056	98	596,038	599,823	3,785	99	518,429
275	DISTRICT SECRETARIAT, POLONNARUWA	300,973	350,601	49,628	86	263,577	266,901	3,324	99	37,396
276	DISTRICT SECRETARIAT, BADULLA	519,667	540,175	20,509	96	467,266	477,525	10,260	98	52,401
										62,650
										10,249

Rs. 000'

# Head-wise Summary of Expenditure Account with Budgetary Provision - 2012 contd...

Head No.	Ministry / Department	Total			Recurrent			Capital		
		Expenditure (Rs.)	Provision (Rs.)	% Savings (Rs.)	Expenditure (Rs.)	Provision (Rs.)	% Savings (Rs.)	Expenditure (Rs.)	Provision (Rs.)	% Savings (Rs.)
277	DISTRICT SECRETARIAT, MONARAGALA	489,989	499,595	9,607 98	369,085	370,195	1,111 100	120,904	129,400	8,496 93
278	DISTRICT SECRETARIAT, RATNAPURA	650,319	684,104	33,784 95	615,210	618,304	3,094 99	35,109	65,800	30,691 53
279	DISTRICT SECRETARIAT, KEGALLE	602,494	628,772	26,278 96	566,192	581,522	15,330 97	36,303	47,250	10,947 77
280	DEPARTMENT OF PROJECT MANAGEMENT AND MONITORING	62,711	68,830	6,119 91	59,056	64,130	5,074 92	3,655	4,700	1,045 78
281	DEPARTMENT OF AGRARIAN DEVELOPMENT	3,821,991	4,089,180	267,189 93	3,259,933	3,260,080	147 100	562,058	829,100	267,042 68
282	DEPARTMENT OF IRRIGATION	6,648,239	8,530,825	1,882,586 78	1,339,781	1,377,375	37,594 97	5,308,459	7,153,450	1,844,991 74
283	DEPARTMENT OF FORESTS	1,189,325	1,265,950	76,625 94	814,410	852,700	38,290 96	374,915	413,250	38,335 91
284	DEPARTMENT OF WILD LIFE CONSERVATION	904,834	1,220,420	315,586 74	480,681	483,070	2,389 100	424,154	737,350	313,196 58
285	DEPARTMENT OF AGRICULTURE	3,138,130	3,508,290	370,160 89	1,982,833	2,000,290	17,457 99	1,155,297	1,508,000	352,703 77
286	DEPARTMENT OF LAND COMMISSIONER	216,332	232,220	15,888 93	174,121	179,120	4,999 97	42,211	53,100	10,889 79
287	DEPARTMENT OF LAND SETTLEMENT	169,147	170,185	1,038 99	163,141	163,155	14 100	6,006	7,030	1,024 85
288	DEPARTMENT OF SURVEYOR GENERAL	1,891,522	1,951,267	59,745 97	1,792,615	1,798,107	5,492 100	98,907	153,160	54,253 65
289	DEPARTMENT OF EXPORT AGRICULTURE	500,475	559,960	59,485 89	277,469	317,460	39,991 87	223,005	242,500	19,495 92
290	DEPARTMENT OF FISHERIES AND AQUATIC RESOURCES	479,395	531,825	52,430 90	443,145	448,625	5,480 99	36,250	83,200	46,950 44
291	DEPARTMENT OF COAST CONSERVATION	782,614	908,010	125,396 86	137,848	138,010	162 100	644,766	770,000	125,234 84
292	DEPARTMENT OF ANIMAL PRODUCTION AND HEALTH	688,551	837,421	148,870 82	295,288	301,971	6,683 98	393,263	535,450	142,187 73
293	DEPARTMENT OF RUBBER DEVELOPMENT	632,000	1,052,600	420,600 60	579,915	932,300	352,385 62	52,085	120,300	68,215 43
294	DEPARTMENT OF NATIONAL ZOOLOGICAL-GARDENS	295,668	913,535	617,867 32	146,152	150,110	3,958 97	149,516	763,425	613,909 20
295	DEPARTMENT OF COMMERCE	88,317	98,285	9,968 90	81,313	89,305	7,992 91	7,003	8,980	1,977 78
296	DEPARTMENT OF IMPORT & EXPORT CONTROL	47,425	50,790	3,365 93	36,945	39,698	2,753 93	10,480	11,092	611 94
297	DEPARTMENT OF THE REGISTRAR OF COMPANIES	26,393	27,495	1,102 96	26,393	27,495	1,102 96	0	0	0 0
298	DEPARTMENT OF MEASUREMENT UNITS, STANDARDS AND SERVICES	64,556	102,055	37,499 63	60,978	61,555	577 99	3,578	40,500	36,922 9
299	NATIONAL INTELLECTUAL PROPERTY OFFICE	13,616	18,500	4,884 74	13,616	18,500	4,884 74	0	0	0 0
300	DEPARTMENT OF FOOD COMMISSIONER	193,344	222,112	28,768 87	169,188	189,097	19,909 89	24,156	33,015	8,859 73
301	DEPARTMENT OF CO-OPERATIVE DEVELOPMENT	46,265	65,760	19,495 70	39,427	49,615	10,188 79	6,838	16,145	9,307 42
302	CO-OPERATIVE EMPLOYEES COMMISSION	10,498	11,645	1,147 90	9,716	10,795	1,079 90	782	850	68 92
303	DEPARTMENT OF TEXTILE INDUSTRIES	76,300	87,950	11,650 87	57,208	61,850	4,642 92	19,092	26,100	7,008 73
304	DEPARTMENT OF METEOROLOGY	334,298	534,369	200,072 63	176,582	186,250	9,668 95	157,716	348,119	190,403 45

## Head-wise Summary of Expenditure Account with Budgetary Provision - 2012 *contd...*

Head No.	Ministry / Department	Expenditure (Rs.)	Total Provision (Rs.)	Savings (Rs.)	%	Expenditure (Rs.)	Recurrent Provision (Rs.)	Savings (Rs.)	%	Expenditure (Rs.)	Capital Provision (Rs.)	Savings (Rs.)	%
305	DEPARTMENT OF UP-COUNTRY PEASANTRY	14,868	17,340	2,472	86	13,913	16,115	2,202	86	956	1,225	269	78
306	DEPARTMENT OF SRI LANKA RAILWAYS	38,907,539	41,860,590	2,953,051	93	8,647,655	9,012,790	365,135	96	30,259,884	32,847,800	2,587,916	92
307	DEPARTMENT OF MOTOR TRAFFIC	2,548,409	2,686,500	138,091	95	1,528,893	1,553,300	24,407	98	1,019,516	1,133,200	113,684	90
308	DEPARTMENT OF POSTS	8,387,367	8,410,559	23,192	100	8,257,700	8,266,059	8,359	100	129,667	144,500	14,833	90
309	DEPARTMENT OF BUILDING	234,402	254,916	20,514	92	216,569	234,771	18,202	92	17,832	20,145	2,313	89
310	GOVERNMENT FACTORY	66,309	84,511	18,202	78	52,211	53,286	1,075	98	14,098	31,225	17,127	45
311	DEPARTMENT OF NATIONAL PHYSICAL PLANNING	143,560	148,810	5,250	96	139,360	144,335	4,975	97	4,200	4,475	275	94
312	WESTERN PROVINCIAL COUNCIL	9,691,181	12,057,251	2,366,070	80	8,893,771	9,240,251	346,480	96	797,410	2,817,000	2,019,590	28
313	CENTRAL PROVINCIAL COUNCIL	15,188,713	17,311,246	2,122,533	88	13,048,617	13,894,746	846,129	94	2,140,096	3,416,500	1,276,404	63
314	SOUTHERN PROVINCIAL COUNCIL	13,011,900	14,082,989	1,071,089	92	11,906,590	11,917,989	11,399	100	1,105,310	2,165,000	1,059,690	51
315	NORTHERN PROVINCIAL COUNCIL	11,064,121	12,638,785	1,574,664	88	8,500,301	8,776,785	276,484	97	2,563,820	3,862,000	1,298,180	66
316	NORTH WESTERN PROVINCIAL COUNCIL	13,377,672	14,937,070	1,559,399	90	12,261,102	12,770,070	508,969	96	1,116,570	2,167,000	1,050,430	52
317	NORTH CENTRAL PROVINCIAL COUNCIL	10,003,136	11,509,922	1,506,786	87	6,776,017	7,060,422	284,405	96	3,227,119	4,449,500	1,222,381	73
318	UVA PROVINCIAL COUNCIL	11,419,175	12,970,826	1,551,651	88	9,031,702	9,533,826	502,124	95	2,387,473	3,437,000	1,049,527	69
319	SABARAGAMUWA PROVINCIAL COUNCIL	12,585,096	14,360,324	1,775,228	88	10,736,939	11,347,324	610,385	95	1,848,157	3,013,000	1,164,843	61
320	DEPARTMENT OF CIVIL SECURITY	9,299,575	9,318,445	18,870	100	9,245,633	9,258,745	13,112	100	53,942	59,700	5,758	90
321	EASTERN PROVINCIAL COUNCIL	15,766,652	17,313,566	1,546,914	91	10,737,260	11,482,066	744,806	94	5,029,392	5,831,500	802,108	86
322	DEPARTMENT OF NATIONAL BOTANICAL GARDENS	485,780	535,130	49,350	91	174,317	174,880	563	100	311,463	360,250	48,787	86
323	DEPARTMENT OF LEGAL AFFAIRS	10,299	11,262	963	91	10,191	10,612	421	96	108	650	542	17
324	DEPARTMENT OF MANAGEMENT AUDIT	26,160	27,270	1,110	96	23,883	24,620	737	97	2,277	2,650	373	86
325	DEPARTMENT OF COAST GUARD OF SRI LANKA	50,589	76,290	25,701	66	26,731	29,640	2,909	90	23,858	46,650	22,792	51
326	DEPARTMENT OF COMMUNITY BASED CORRECTION	70,499	88,950	18,451	79	64,518	68,250	3,732	95	5,981	20,700	14,719	29
327	DEPARTMENT OF LAND USE POLICY PLANNING	203,607	220,211	16,604	92	161,262	162,184	922	99	42,345	58,028	15,683	73
328	DEPARTMENT OF MAN POWER AND EMPLOYMENT	211,889	228,875	16,986	93	188,092	188,170	78	100	23,797	40,705	16,908	58
<b>Total</b>		<b>2,192,233,340</b>	<b>2,293,470,808</b>	<b>101,237,468</b>		<b>1,118,330,690</b>	<b>1,134,185,184</b>	<b>15,854,495</b>		<b>1,073,902,650</b>	<b>1,159,285,624</b>	<b>85,382,974</b>	

Rs. 000'

# Note 34 Summarize of expenditure for 2012 in comparison with expenditure brought forwarded from 2010 & 2011 activities

Rs.Mn

Total Provision 2012 (1)		Total Expenditure 2012 (2)		Expenditure 2010 & 2011 (3) *		Expenditure for 2012 Activities (4)=(2)-(3)	
Recurrent	Capital	Recurrent	Capital	Recurrent	Capital	Recurrent	Capital
1,134,185	1,159,286	1,118,331	1,073,903	23,227	32,021	1,095,104	1,041,882

\* Details as follows.

Rs.Mn

Head No	Provision 2012 (1)		Expenditure 2012 (2)		Expenditure 2010 & 2011 (3)		Expenditure for 2012 Activities (4)=(2)-(3)	
	Recurrent	Capital	Recurrent	Capital	Recurrent	Capital	Recurrent	Capital
1	4,010	3,648	3,889	2,047	-	105	3,889	1,943
2	188	81	178	49	-	-	178	49
15	51	83	49	8	-	10	49	(2)
101	97	689	97	492	-	39	97	453
102	636	1,855	602	1,298	-	49	602	1,250
105	9,906	85,005	9,847	72,199	-	3,800	9,847	68,399
111	59,258	19,621	57,859	13,647	3,219	800	54,640	12,847
112	7,330	1,205	7,305	995	-	33	7,305	962
114	5,706	6,406	5,667	731	-	245	5,667	485
116	825	514	787	176	-	5	787	171
117	198	147,766	196	146,682	-	8,500	196	138,182
122	353	281	345	166	-	89	345	77
124	1,199	176	1,175	82	-	6	1,175	76
126	27,217	6,511	27,212	4,587	762	1,006	26,450	3,581
127	162	50	135	29	-	17	135	13
128	526	423	507	327	-	14	507	314
133	1,149	2,040	1,058	1,125	-	5	1,058	1,120
134	221	173	180	124	-	11	180	113
138	191	281	154	229	4	-	150	229
139	597	2,747	576	1,931	-	98	576	1,832
152	2,033	26,347	1,959	22,847	-	1,000	1,959	21,847
156	2,814	4,408	2,685	3,073	72	484	2,613	2,589
166	172	35,480	169	31,110	-	6	169	31,105
171	922	2,425	722	1,212	413	50	309	1,162
175	101	118	97	32	-	7	97	25
176	86	14,829	78	14,801	-	14	78	14,788
178	568	1,218	536	555	-	11	536	544
179	36,577	146	36,576	87	5,922	-	30,654	87
210	159	24	145	15	-	20	145	(5)
211	1,422	157	1,358	55	54	-	1,304	55
212	1,767	21	1,744	9	250	-	1,494	9
213	30	61	22	45	418	-	(396)	45
219	282	1,269	262	696	-	266	262	430
222	114,298	3,819	114,287	3,817	8,091	1,615	106,196	2,202
223	33,208	4,797	33,021	4,743	2,008	425	31,013	4,318
224	21,051	3,650	20,984	3,247	1,575	389	19,409	2,858
232	3,633	428	3,404	266	440	-	2,964	266
233	86	255	85	246	-	38	85	208
242	33	1	31	1	-	1	31	-
246	1,564	58	1,562	42	-	9	1,562	33
249	416,478	611,434	414,147	608,862	-	11,781	414,147	597,081
252	579	1,271	569	1,137	-	9	569	1,128
256	776	28	765	25	-	75	765	(50)
258	905	126	904	73	-	56	904	17
261	863	60	862	54	-	45	862	9
262	731	86	721	76	-	20	721	56
265	129	23	128	19	-	8	128	11
266	131	36	131	33	-	14	131	19
270	605	247	602	100	-	150	602	(50)
272	1,340	45	1,327	34	-	70	1,327	(36)
275	267	84	264	37	-	235	264	(197)
278	618	66	615	35	-	30	615	5
286	179	53	174	42	-	48	174	(6)
298	62	41	61	4	-	14	61	(10)
304	186	348	177	158	-	2	177	156
317	7,060	4,450	6,776	3,227	-	300	6,776	2,927
	771,535	997,463	765,765	947,736	23,227	32,021	742,538	915,715





**විගණකාධිපති දෙපාර්තමේන්තුව**  
**கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்**  
**AUDITOR GENERAL'S DEPARTMENT**



මගේ අංකය }  
எனது இல } FB/B/SA/IA/2012/01  
My No }

ඔබේ අංකය }  
உமது இல }  
Your No }

දිනය }  
திகதி } 21 May 2013  
Date }

The Secretary,  
Ministry of Finance and Planning.

**Report of the Auditor General on the Financial Statements of the Government of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2012**

The audit of financial statements of the Government of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2012 comprising the statement of financial position as at 31 December 2012 and the statement of financial performance and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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.

**Management's Responsibility 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 for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**


My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Opinion**

In my opinion, the financial statements give a true and fair view of the financial position of the Government of the Democratic Socialist Republic of Sri Lanka as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

  
H.A.S. Samaraweera  
Auditor General

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இல. 306/72, பொல்துவ வீதி,  
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# STATISTICAL APPENDIX

Table 1

## Sri Lanka: Demographic and Related Trends

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012 (a)
Mid Year Population	'000	16,993	18,136	18,467	18,797	18,921	19,173	19,435	19,688	20,039	20,217	20,450	20,653	20,869	20,263
Mid- Year Population by Age Group	000														
0 -14 Years		5,982	6,384	-	4,942	5,041	5,108	5,107	5,163	5,266	5,315	5,378	5,431	5,488	5,229
15- 64 Years		10,277	10,969	-	12,671	12,668	12,838	13,103	13,243	13,509	13,625	13,784	13,921	14,065	n.a.
65 Years and Over		734	783	-	1,184	1,212	1,227	1,225	1,238	1,264	1,277	1,288	1,301	1,316	n.a.
Growth of Population	%	1.0	1.5	1.4	1.2	1.3	1.2	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.0
Density of Population	Persons per sq. km	271	289	305	300	303	307	310	314	319	332	326	329	333	323
Life Expectancy at Birth	Years														
Male		67.7	69.5	-	-	-	-	-	-	-	-	-	-	70.5	n.a.
Female		72.1	74.2	-	-	-	-	-	-	-	-	-	-	79.8	n.a.
Crude Birth Rate	Per '000	20.8	19.9	18.2	19.1	19.4	19.3	18.8	18.9	19.3	18.8	18.4	17.6	17.4	n.a.
Crude Death Rate	Per '000	6.0	6.0	6.1	6.0	5.9	6.0	5.9	6.7	5.9	5.9	5.9	6.2	5.9	n.a.
Infant Mortality Rate (IMR)	Per '000 Live Births	19.3	16.5	13.4	12.6	11.4	11.3	9.8	11.2	8.5	8.5	9.4	-	-	n.a.
Maternal Mortality Rate (MMR)	Per 100,000 Live Births	n.a.	23.6	22.1	17.8	16.3	19.7	12.1	11.9	-	-	-	-	-	n.a.
Net Migration Rate	Per '000	1.2	-2.9	1.5	-0.9	-0.6	-1.3	-1.2	-1.5	-1.8	-2.2	-1.4	-1.1	-2.2	-2.6
Dependency Ratio	%	65.35	65.34	-	48.35	49.36	49.35	48.32	48.33	48.34	48.38	48.36	48.36	48.38	n.a.
Dependency Ratio - 65 years and Over	%	7.14	7.14	-	9.34	9.57	9.56	9.35	9.35	9.36	9.37	9.34	9.35	9.36	n.a.
Literacy Rate (b)	Overall % of Population	-	-	-	-	-	-	-	-	91.1	91.3	91.4	91.9	92.2**	92.7
Computer Literacy Rate (c)	% of Population	-	-	-	-	-	-	-	-	16.1	-	-	20.3	35.0	n.a.
Average Daily Calorie Intake (d)	Kilocalories	-	-	-	-	-	-	-	-	2,118	-	-	-	2,094	n.a.

Sources: Department of Census and Statistics and Ministry of Education

(a) Provisional

(b) Population 10 years &amp; over

(c) Computer Literacy Survey 2006/07, Computer Literacy Survey 2009

(d) Household Income and Expenditure Survey in 2006/07 and 2009/10

Table 2

## Climate

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012
<b>Annual Rainfall (Average) Total</b>	mm	<b>1,738</b>	<b>1,626</b>	<b>1,296</b>	<b>1,430</b>	<b>1,471</b>	<b>1,419</b>	<b>1,945</b>	<b>1,607</b>	<b>1,640</b>	<b>2,020</b>	<b>1,711</b>	<b>1,992</b>	<b>2,027</b>	<b>1,634</b>
<b>Highest Rainfall</b>															
Cities with Highest Rainfall	mm														
Anuradhapura		113.3	82.5	164.7	110.8	67.9	98.4	66.0	81.0	109.2	127.1	89.3	98.6	114.4	130.8
Badulla		230.6	52.8	90.9	73.1	71.9	73.5	127.4	60.6	65.7	69.8	72.6	90.9	131.6	102.9
Batticaloa		131.6	83.8	97.0	110.8	134.7	102.9	236.7	75.5	95.9	114.1	241.7	145.5	312.2	102.4
Colombo		110.3	126.3	141.7	94.1	132.4	110.5	96.5	270.1	131.6	111.0	207.0	440.2	81.9	114.6
Hambantota		78.6	92.4	81.7	151.1	94.4	96.0	70.5	67.6	139.9	56.0	62.6	82.9	100.6	176.5
Kandy		161.7	90.8	104.3	116.7	87.3	61.1	74.8	90.8	87.0	79.4	93.0	115.6	137.3	181.2
Kurunegala		119.3	140.1	116.4	136.0	111.6	62.1	200.0	97.1	97.0	186.3	123.2	135.4	144.4	315.5
Nuwara Eliya		172.4	76.2	77.0	85.3	64.2	61.1	81.1	73.2	77.6	48.7	62.8	68.2	94.1	109.5
Ratnapura		99.8	124.5	103.8	131.0	99.2	345.2	104.8	113.3	146.6	186.1	126.2	139.9	166.9	99.1
Vavuniya		118.4	64.5	276.9	94.9	58.9	133.4	115.5	77.3	156.5	104.7	104.7	163.9	123.2	225.7
<b>Annual Average Minimum Temperature</b>	°C														
Low Country		24.4	24.4	24.6	24.7	24.7	24.8	24.7	24.8	24.4	24.3	24.7	24.9	24.7	24.2
Hill Country		17.2	17.3	17.2	17.2	17.3	17.4	17.3	17.4	17.2	17.0	16.9	17.5	17.1	16.8
<b>Annual Average Maximum Temperature</b>	°C														
Low Country		31.3	31.5	31.1	31.3	31.5	31.4	31.4	31.5	31.2	31.1	31.4	31.4	31.1	32.0
Hill Country		26.4	26.2	26.1	26.5	26.5	26.6	26.4	26.6	26.0	25.8	26.1	25.9	26.0	26.1

Source: Department of Meteorology

Note: Badulla, Bandarawela, Nuwaraeliya and Katugastota stations have been considered for the calculation of hill country temperature.

Table 3

## Gross Domestic Product (GDP), Inflation and Exchange Rate

Year	GDP										Inflation								Exchange Rate			
	GDP at Current Market Prices (Rs. Mn.)	GDP at Current Market Prices (US\$ Mn.)	Per Capita GDP at Current Market Price	Real GDP Growth (%)	Share of GDP (at Current Factor Cost Prices) (%)			GDP Deflator (%)	Annual Average Price Change of CCPI (%)	End Year			Annual Average									
					Agriculture	Industry	Services			US\$	Yen	Euro	Indian Rs	US\$	Yen	Euro						
1990	321,784	7,936	18,708	473	6.2	26.3	26.0	47.7	20.0	21.5(b)	40.24	0.29	-	2.23	40.06	0.30	-	2.29				
1991	372,345	8,937	21,444	522	4.6	26.8	25.6	47.7	11.0	12.2(b)	42.58	0.34	-	1.63	41.37	0.30	-	1.85				
1992	425,283	9,623	24,233	557	4.3	25.9	25.6	48.5	10.0	11.4(b)	46.00	0.37	-	1.75	43.83	0.30	-	1.69				
1993	499,565	10,357	28,362	588	6.9	24.6	25.6	49.8	9.5	11.7(b)	49.56	0.44	-	1.58	48.25	0.40	-	1.59				
1994	579,084	11,719	32,419	656	5.6	23.8	26.2	50.1	9.3	8.4(b)	49.98	0.50	-	1.59	49.42	0.50	-	1.57				
1995	667,772	12,925	36,571	719	5.5	23.0	26.5	50.5	8.4	7.7(b)	54.04	0.52	-	1.54	51.25	0.50	-	1.58				
1996	768,128	13,957	42,119	759	3.8	22.4	26.4	51.1	12.1	15.9(b)	56.70	0.49	-	1.58	55.27	0.50	-	1.56				
1997	890,272	15,105	48,031	853	6.3	21.9	26.9	51.2	8.6	9.6(b)	61.28	0.47	-	1.56	58.99	0.48	-	1.63				
1998	1,017,986	16,189	55,697	879	4.7	21.1	27.5	51.4	8.4	9.4(b)	67.78	0.59	-	1.60	64.59	0.49	-	1.57				
1999	1,105,963	15,753	60,899	863	4.3	20.7	27.3	52.0	4.4	4.7(b)	72.11	0.70	72.53	1.66	70.39	0.62	75.07	1.63				
2000	1,257,636	16,543	64,750	899	6.0	19.9	27.3	52.8	6.7	6.2(b)	80.06	0.70	71.32	1.71	75.78	0.70	69.93	1.68				
2001	1,407,314	15,626	74,541	837	-1.5	20.1	26.8	53.1	12.4	14.2(b)	93.16	0.71	83.06	1.93	89.36	0.74	79.99	1.89				
2002	1,581,885	17,103	86,076	900	4.0	20.5	26.3	53.2	8.4	9.6(b)	96.72	0.82	101.38	2.01	95.66	0.76	90.43	1.97				
2003	1,822,468	18,882	94,664	981	5.9	13.2	28.4	58.3	5.1	6.3(b)	96.74	0.90	121.60	2.12	96.52	0.83	109.16	2.07				
2004	2,090,841	20,663	107,432	1,062	5.4	12.5	28.6	58.8	8.8	9.0(c)	104.60	1.02	142.32	2.39	101.19	0.93	125.79	2.23				
2005	2,452,782	24,406	124,709	1,241	6.2	11.8	30.2	58.0	10.4	11.0(c)	102.12	0.87	120.96	2.27	100.50	0.91	125.09	2.28				
2006	2,938,680	28,267	147,775	1,421	7.7	11.3	30.6	58.0	11.3	10.0(c)	107.70	0.90	141.58	2.44	103.96	0.89	130.63	2.30				
2007	3,578,688	32,351	178,845	1,634	6.8	11.7	29.9	58.4	14.0	15.8(c)	108.72	0.97	160.27	2.77	110.62	0.94	151.63	2.69				
2008	4,410,682	40,715	218,167	2,014	6.0	13.4	29.4	57.2	16.3	22.6(c)	113.14	1.25	159.45	2.36	108.33	1.05	159.31	2.52				
2009	4,835,293	42,068	236,445	2,057	3.5	12.7	29.7	57.6	5.9	3.5(d)	114.38	1.24	163.72	2.46	114.94	1.23	160.21	2.40				
2010	5,604,104	49,568	271,346	2,400	8.0	12.8	29.4	57.8	7.3	6.2(d)	110.95	1.36	147.56	2.48	113.06	1.30	150.10	2.49				
2011	6,544,009	59,184	313,576	2,836	8.2	12.1	29.9	58.0	7.8	6.7(d)	113.90	1.47	147.42	2.15	110.57	1.39	153.86	2.38				
2012(a)	7,582,376	59,423	373,001	2,923	6.4	11.1	31.5	57.5	8.9	7.6(d)	127.16	1.48	168.12	2.33	127.60	1.60	164.00	2.39				

Source : Department of Census and Statistics and Central Bank of Sri Lanka

(a) Provisional

(b) 1952=100

(c) 2002=100

(d) 2006/07=100

Table 4

**Gross Domestic Product -Sectoral Composition (2002) Constant Prices**

Sector	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
<b>Agriculture, Forestry and Fishing</b>	<b>233,615</b>	<b>237,531</b>	<b>237,536</b>	<b>241,851</b>	<b>257,147</b>	<b>265,870</b>	<b>285,897</b>	<b>295,097</b>	<b>315,610</b>	<b>320,178</b>	<b>338,625</b>
<b>1. Agriculture, Livestock and Forestry</b>	<b>207,923</b>	<b>213,359</b>	<b>213,246</b>	<b>228,006</b>	<b>235,887</b>	<b>241,285</b>	<b>258,881</b>	<b>266,208</b>	<b>283,203</b>	<b>282,748</b>	<b>297,730</b>
1.1 Paddy	32,173	34,566	29,567	36,541	37,608	35,261	43,406	41,179	48,377	44,325	44,887
1.2 Livestock	15,981	16,189	16,270	16,644	17,992	19,415	20,495	21,761	22,397	24,029	25,556
1.3 Other Food Crops	72,532	73,007	75,524	79,587	81,937	85,503	89,536	95,799	99,994	102,378	112,659
1.3.1 Highland Crops	25,340	24,481	23,939	25,745	27,054	28,428	29,439	31,368	33,117	33,507	36,297
1.3.2 Vegetables	45,635	46,910	49,824	52,012	53,138	55,249	58,197	62,436	64,821	66,832	74,313
1.3.3 Fruits	1,557	1,616	1,761	1,830	1,745	1,826	1,900	1,995	2,057	2,039	2,049
1.4 Other Agricultural Crops	7,861	8,244	8,228	8,253	8,689	8,749	8,931	9,390	10,146	10,853	11,589
1.5 Tea	26,918	26,330	26,753	27,544	26,988	26,494	27,601	25,272	28,770	28,432	28,077
1.6 Rubber	4,140	4,208	4,332	4,773	4,993	5,205	5,743	6,198	6,983	7,128	6,647
1.7 Coconut	25,888	27,003	28,012	27,204	28,933	30,403	31,975	33,685	28,855	29,720	31,504
1.8 Minor Export Crops	8,229	8,780	8,569	9,966	10,187	10,706	10,478	11,028	14,955	12,114	11,507
1.9 Plantation Development	4,044	4,282	4,669	5,413	5,679	6,006	6,216	6,540	6,895	7,287	7,926
1.10 Firewood and Forestry	10,157	10,751	11,322	12,081	12,882	13,544	14,499	15,357	15,832	16,481	17,377
<b>2. Fishing</b>	<b>25,692</b>	<b>24,171</b>	<b>24,290</b>	<b>13,846</b>	<b>21,260</b>	<b>24,585</b>	<b>27,016</b>	<b>28,888</b>	<b>32,407</b>	<b>37,431</b>	<b>40,894</b>
2.1 Inland - Fishing	1,206	1,708	2,824	2,787	2,993	3,228	3,763	3,960	4,359	5,054	5,775
2.2 Marine - Fishing	24,486	22,464	21,466	11,059	18,267	21,357	23,253	24,928	28,048	32,377	35,120
<b>Industry</b>	<b>458,264</b>	<b>479,647</b>	<b>505,602</b>	<b>545,981</b>	<b>590,298</b>	<b>635,199</b>	<b>672,791</b>	<b>701,129</b>	<b>760,334</b>	<b>838,932</b>	<b>925,335</b>
<b>3. Mining and Quarrying</b>	<b>19,888</b>	<b>23,156</b>	<b>24,439</b>	<b>28,791</b>	<b>35,769</b>	<b>42,631</b>	<b>48,090</b>	<b>52,031</b>	<b>60,079</b>	<b>71,191</b>	<b>84,672</b>
3.1 Gem Mining	8,367	7,363	7,768	9,842	11,028	12,462	13,548	11,220	12,111	14,211	15,660
3.1 Other Mining	11,521	15,793	16,671	18,949	24,741	30,169	34,542	40,811	47,968	56,980	69,012
<b>4. Manufacturing</b>	<b>302,365</b>	<b>314,204</b>	<b>330,459</b>	<b>350,886</b>	<b>370,355</b>	<b>394,233</b>	<b>413,681</b>	<b>427,334</b>	<b>458,661</b>	<b>494,990</b>	<b>520,938</b>
4.1 Processing (Tea, Rubber and Coconut)	13,560	12,927	13,509	13,703	13,818	14,150	14,897	14,995	15,868	16,006	17,043
4.2 Factory Industry	270,266	281,787	296,349	315,276	333,372	355,611	373,215	385,927	414,925	449,177	472,721
4.2.1 Food Beverages	122,615	130,674	138,148	147,353	155,842	166,101	174,794	185,142	197,731	211,848	222,722
4.2.2 Textile, Wearing Apparel & Leather	72,114	70,447	71,529	75,843	78,870	84,603	87,215	87,762	92,293	102,263	107,242
4.2.3 Chemicals, Petroleum, Coal, Rubber & Plastic	38,914	40,869	44,462	47,899	51,714	55,140	58,650	59,706	66,990	73,203	77,455
4.2.4 Non-Metallic Mineral Products except Petroleum & Coal	9,221	11,050	11,855	12,341	13,687	14,547	15,306	14,794	16,328	17,670	18,826
4.2.5 Fabricated Metal Products, Machinery & Equipments	23,697	24,645	26,089	27,214	28,378	30,011	31,702	32,794	35,482	37,733	39,663
4.2.6 Other Industries	3,705	4,102	4,266	4,626	4,881	5,209	5,548	5,730	6,101	6,459	6,813
4.3 Cottage Industry	18,539	19,490	20,601	21,907	23,166	24,472	25,570	26,412	27,868	29,808	31,174



### Gross Domestic Product -Sectoral Composition (2002) Constant Prices *contd...*

Sector	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
<b>5. Electricity, Gas and Water</b>	<b>35,608</b>	<b>38,151</b>	<b>40,445</b>	<b>46,108</b>	<b>52,926</b>	<b>55,339</b>	<b>56,847</b>	<b>58,974</b>	<b>63,682</b>	<b>69,547</b>	<b>72,634</b>
5.1 Electricity	29,775	32,142	34,189	39,757	46,183	48,303	50,184	52,017	56,291	61,722	64,352
5.2 Gas	3,765	3,904	4,092	4,087	4,399	4,525	4,062	4,280	4,593	4,855	5,100
5.3 Water	2,068	2,105	2,164	2,264	2,344	2,512	2,601	2,677	2,798	2,970	3,181
<b>6. Construction</b>	<b>100,404</b>	<b>104,136</b>	<b>110,259</b>	<b>120,196</b>	<b>131,248</b>	<b>142,996</b>	<b>154,173</b>	<b>162,790</b>	<b>177,912</b>	<b>203,204</b>	<b>247,091</b>
<b>Services</b>	<b>944,158</b>	<b>1,016,045</b>	<b>1,084,459</b>	<b>1,153,839</b>	<b>1,243,119</b>	<b>1,331,587</b>	<b>1,406,813</b>	<b>1,452,988</b>	<b>1,569,598</b>	<b>1,704,605</b>	<b>1,783,318</b>
<b>7. Wholesale and Retail Trade</b>	<b>389,331</b>	<b>420,476</b>	<b>451,632</b>	<b>480,402</b>	<b>514,511</b>	<b>546,146</b>	<b>571,911</b>	<b>570,697</b>	<b>613,358</b>	<b>676,565</b>	<b>701,408</b>
7.1 Import Trade	149,845	163,083	178,024	184,086	196,647	203,105	212,651	195,247	213,477	243,963	246,446
7.2 Export Trade	77,334	80,874	86,736	92,175	95,535	103,926	104,861	102,578	106,279	117,064	117,960
7.3 Domestic Trade	162,153	176,520	186,873	204,142	222,328	239,115	254,400	272,872	293,602	315,538	337,002
<b>8. Hotels and Restaurants</b>	<b>3,460</b>	<b>8,802</b>	<b>10,691</b>	<b>9,186</b>	<b>9,411</b>	<b>9,199</b>	<b>8,741</b>	<b>9,901</b>	<b>13,845</b>	<b>17,501</b>	<b>21,029</b>
<b>9. Transport and Communication</b>	<b>173,745</b>	<b>191,872</b>	<b>210,495</b>	<b>230,596</b>	<b>259,546</b>	<b>286,764</b>	<b>310,029</b>	<b>329,578</b>	<b>368,643</b>	<b>410,402</b>	<b>435,872</b>
9.1 Transport	153,441	170,285	185,130	198,733	220,990	241,648	256,954	272,086	302,983	337,088	357,221
9.1.1 Transport - Railway	2,323	2,394	2,361	2,298	2,384	2,522	2,640	2,754	2,899	2,980	3,126
9.1.2 Transport- Passenger and Goods	151,118	167,891	182,769	196,436	218,606	239,127	254,314	269,332	300,084	334,108	354,095
9.2 Cargo Handling-Ports and Civil Aviation	10,293	9,497	10,262	11,320	13,583	14,773	15,951	16,017	18,706	20,060	21,194
9.3 Post and Telecommunication	10,011	12,090	15,103	20,543	24,973	30,343	37,124	41,475	46,953	53,254	57,457
<b>10. Banking, Insurance and Real Estate and etc.</b>	<b>130,465</b>	<b>144,816</b>	<b>153,143</b>	<b>163,863</b>	<b>177,817</b>	<b>193,375</b>	<b>206,048</b>	<b>217,819</b>	<b>234,255</b>	<b>252,706</b>	<b>269,744</b>
<b>11. Ownership of Dwellings</b>	<b>68,371</b>	<b>69,252</b>	<b>70,008</b>	<b>70,749</b>	<b>71,535</b>	<b>72,345</b>	<b>73,137</b>	<b>74,051</b>	<b>74,692</b>	<b>75,607</b>	<b>76,926</b>
<b>12. Government Services</b>	<b>139,094</b>	<b>140,234</b>	<b>146,030</b>	<b>153,866</b>	<b>161,611</b>	<b>171,259</b>	<b>181,051</b>	<b>191,778</b>	<b>202,187</b>	<b>204,704</b>	<b>207,559</b>
<b>13. Private Services</b>	<b>39,691</b>	<b>40,592</b>	<b>42,460</b>	<b>45,177</b>	<b>48,689</b>	<b>52,500</b>	<b>55,896</b>	<b>59,164</b>	<b>62,617</b>	<b>67,119</b>	<b>70,779</b>
<b>Gross Domestic Product</b>	<b>1,636,037</b>	<b>1,733,222</b>	<b>1,827,597</b>	<b>1,941,671</b>	<b>2,090,564</b>	<b>2,232,656</b>	<b>2,365,501</b>	<b>2,449,214</b>	<b>2,645,542</b>	<b>2,863,715</b>	<b>3,047,277</b>

Source: Department of Census and Statistics

(a) Provisional



Table 05

**Economic Classification of Government Fiscal Operations**

Economic Classification of Government Fiscal Operations															Rs.million
Item	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)	
<b>1. Revenue and Grants</b>	<b>74,661</b>	<b>145,286</b>	<b>216,427</b>	<b>239,796</b>	<b>268,967</b>	<b>284,421</b>	<b>320,154</b>	<b>412,387</b>	<b>595,559</b>	<b>686,483</b>	<b>725,566</b>	<b>834,188</b>	<b>983,003</b>	<b>1,067,532</b>	
1.1 Total Revenue	67,964	136,258	211,282	234,296	261,888	276,465	311,473	379,747	565,051	655,260	699,644	817,279	967,862	1,051,460	
Tax	61,206	118,543	182,392	205,840	221,838	231,597	281,552	336,828	508,947	585,621	618,933	724,747	845,697	908,913	
Non-Tax	6,758	17,715	28,890	28,456	40,050	44,868	29,921	42,919	56,104	69,639	80,711	92,532	122,165	142,547	
1.2 Grants	6,697	9,028	5,145	5,500	7,079	7,956	8,681	32,640	30,508	31222	25,922	16,909	15,141	16,071	
<b>2. Expenditure and Lending minus Repayments</b>	<b>99,814</b>	<b>203,484</b>	<b>335,822</b>	<b>386,517</b>	<b>402,989</b>	<b>417,673</b>	<b>476,906</b>	<b>584,783</b>	<b>841,604</b>	<b>996,126</b>	<b>1,201,928</b>	<b>1,280,206</b>	<b>1,433,182</b>	<b>1,556,499</b>	
2.1 Recurrent	71,771	154,159	254,279	303,361	330,847	334,694	389,679	443,350	622,758	743,710	879,575	937,094	1,024,906	1,131,023	
2.2 Capital and Lending minus Repayment	28,043	49,325	81,543	83,156	72,142	82,979	87,227	141,433	218,846	252,416	322,352	343,112	408,276	425,476	
o/w Public Investment	27,605	52,810	80,955	82,491	72,177	87,409	97,631	148,582	229,273	263,859	330,448	356,519	422,300	443,973	
<b>3. Current Account Surplus(+)/ Deficit (-)</b>	<b>-3,807</b>	<b>-17,901</b>	<b>-42,997</b>	<b>-69,065</b>	<b>-68,960</b>	<b>-58,229</b>	<b>-78,206</b>	<b>-63,603</b>	<b>-57,707</b>	<b>-88,450</b>	<b>-179,931</b>	<b>-119,815</b>	<b>-57,043</b>	<b>-79,563</b>	
<b>4. Budget Deficit</b>	<b>-25,153</b>	<b>-58,198</b>	<b>-119,396</b>	<b>-146,722</b>	<b>-134,022</b>	<b>-133,251</b>	<b>-156,752</b>	<b>-172,396</b>	<b>-246,045</b>	<b>-309,644</b>	<b>-476,361</b>	<b>-446,017</b>	<b>-450,180</b>	<b>-488,967</b>	
<b>5. Financing of Budget Deficit</b>	<b>25,153</b>	<b>58,198</b>	<b>119,396</b>	<b>146,722</b>	<b>134,022</b>	<b>133,251</b>	<b>156,752</b>	<b>172,396</b>	<b>246,045</b>	<b>309,644</b>	<b>476,361</b>	<b>446,017</b>	<b>450,180</b>	<b>488,967</b>	
5.1. Total Foreign Financing (Net)	11,644	21,224	495	14,538	1,979	43,117	37,071	47,773	63,748	12,933	83,885	194,912	193,888	180,760	
Gross Borrowings	16,550	29,701	23,777	42,459	39,036	77,542	70,112	69,133	127,863	67,730	194,171	270,004	287,060	364,593	
Repayments	-4,906	-8,477	-23,282	-27,921	-37,057	-34,425	-33,041	-21,360	-64,115	-54,797	-110,286	-75,092	-93,172	-183,833	
5.2. Total Domestic Financing (Net)	13,508	33,972	118,501	123,595	126,351	79,910	117,243	123,604	182,297	296,711	392,476	251,104	256,291	308,207	
Non- Bank Financing (Net)	12,946	26,359	58,797	74,294	132,003	100,735	69,274	93,109	111,308	114,437	185,247	193,891	44,171	70,984	
Gross Borrowings		140,041	118,368	262,789	285,818	217,014	296,456	363,473	373,157	586,543	583,563	484,065	486,425	486,425	
Repayments		-81,244	-44,074	-130,786	-130,786	-185,083	-147,740	-203,347	-252,165	-258,720	-401,296	-389,672	-439,894	-415,441	
Foreign Investments in Treasury Bills and Bonds (Net)	-	-	-	-	-	-	-	-	37,160	-17,578	146,922	48,875	25,068	105,696	
Bank Financing (Net)	257	7,065	56,528	48,554	-4,836	-20,905	43,289	26,195	15,769	195,233	49,027	-1,892	191,850	131,527	
Other Borrowings (Net)	305	548	3,175	747	-816	80	4,680	4,300	18,060	4,619	11,280	10,230	-4,798	-	
5.3 Privatization Proceeds	-	3,001	401	8,589	5,693	10,223	2,437	1,020	-	-	-	-	-	-	

Sources: Department of Inland Revenue, Sri Lanka Customs, Department of Excise, Telecommunications Regulatory Commission of Sri Lanka, Department of Treasury Operations, Department of State Accounts, Department of Fiscal Policy and Central Bank of Sri Lanka

(a) Provisional

Table 06

Economic Classification of Government Fiscal Operations														As a percentage of GDP			
Item	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)			
1. Revenue and Grants	23.2	21.8	17.2	17.0	17.0	15.6	15.3	16.8	16.6	15.6	15.0	14.9	15.0	14.1			
1.1 Total Revenue	21.1	20.4	16.8	16.6	16.6	15.2	14.9	15.5	15.8	14.9	14.5	14.6	14.8	13.9			
Tax	19.0	17.8	14.5	14.6	14.0	12.7	13.5	13.7	14.2	13.3	12.8	12.9	12.9	12.0			
Non-Tax	2.1	2.7	2.3	2.0	2.5	2.5	1.4	1.7	1.6	1.6	1.7	1.7	1.9	1.9			
1.2 Grants	2.1	1.4	0.4	0.4	0.4	0.4	0.4	1.3	0.9	0.7	0.5	0.3	0.2	0.2			
2. Expenditure and Lending minus Repayments	31.0	30.5	26.7	27.5	25.4	22.9	22.8	23.8	23.5	22.6	24.9	22.8	21.9	20.5			
2.1 Recurrent	22.3	23.1	20.2	21.6	20.9	18.4	18.6	18.1	17.4	16.9	18.2	16.7	15.7	14.9			
2.2 Capital and Lending minus Repayment	8.7	7.4	6.5	5.9	4.6	4.6	4.2	5.8	6.1	5.7	6.7	6.1	6.2	5.6			
o/w Public Investment	8.6	7.9	6.4	5.9	4.6	4.8	4.7	6.1	6.4	6.0	6.8	6.4	6.5	5.9			
3. Current Account Surplus(+)/ deficit (-)	-1.2	-2.7	-3.4	-4.9	-4.3	-3.2	-3.7	-2.6	-1.6	-2.0	-3.7	-2.1	-0.9	-1.0			
4. Budget Deficit	-7.8	-8.7	-9.5	-10.4	-8.5	-7.3	-7.5	-7.0	-6.9	-7.0	-9.9	-8.0	-6.9	-6.4			
5. Financing of Budget Deficit	7.8	8.7	9.5	10.4	8.5	7.3	7.5	7.0	6.9	7.0	9.9	8.0	6.9	6.4			
5.1. Total Foreign Financing (Net)	3.6	3.2	0.0	1.0	0.1	2.4	1.8	1.9	1.8	0.3	1.7	3.5	3.0	2.4			
Gross Borrowings	5.1	4.4	1.9	3.0	2.5	4.3	3.4	2.8	3.6	1.5	4.0	4.8	4.4	4.8			
Repayments	-1.5	-1.3	-1.9	-2.0	-2.3	-1.9	-1.6	-0.9	-1.8	-1.2	-2.3	-1.3	-1.4	-2.4			
5.2. Total Domestic Financing (Net)	4.2	5.1	9.4	8.8	8.0	4.4	5.6	5.0	5.1	6.7	8.1	4.5	3.9	4.1			
Non- Bank Financing (Net)	4.0	3.9	4.7	5.3	8.3	5.5	3.3	3.8	3.1	2.6	3.8	3.5	0.7	0.9			
Foreign Owned Treasury Bills and Bonds (Net)	-	-	-	-	-	-	-	-	1.0	-0.4	3.0	0.9	0.4	1.4			
Bank Financing (Net)	0.1	1.1	4.5	3.4	-0.3	-1.1	2.1	1.1	0.4	4.4	1.0	-0.03	2.9	1.7			
Other Borrowings (Net)	0.1	0.1	0.3	0.1	-0.1	...	0.2	0.2	0.5	0.1	0.2	0.2	-0.1	-			
5.3 Privatization Proceeds	-	0.4	0.03	0.6	0.4	0.6	0.1	0.04	-	-	-	-	-	-			

Sources: Department of Inland Revenue, Sri Lanka Customs, Department of Excise, Telecommunications Regulatory Commission of Sri Lanka, Department of Census and Statistics, Department of Treasury Operations, Department of State Accounts, Department of Fiscal Policy and Central Bank of Sri Lanka

(a) Provisional

Table 07

**Economic Classification of Government Revenue**

Item	Rs. million													
	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012 (a)
<b>I. Tax Revenue</b>	<b>61,206</b>	<b>118,543</b>	<b>182,392</b>	<b>205,840</b>	<b>221,839</b>	<b>231,597</b>	<b>281,552</b>	<b>336,828</b>	<b>508,947</b>	<b>585,621</b>	<b>618,933</b>	<b>724,748</b>	<b>845,697</b>	<b>908,913</b>
Income Tax	7,337	17,161	27,457	34,636	37,437	39,398	41,372	52,535	107,169	126,541	139,558	135,624	157,310	172,563
Personal and Corporate Income Tax	7,337	17,161	27,457	31,903	26,338	25,118	26,046	32,139	59,659	68,235	72,162	78,914	97,814	98,124
Corporate & Non Corporate	6,251	15,004	22,935	21,969	21,190	20,266	19,791	26,478	48,409	53,901	57,716	62,646	83,016	83,360
Pay-As-You-Earn (PAYE)	1,086	2,157	4,522	9,934	5,148	4,852	6,255	5,661	11,250	14,334	14,446	16,268	14,798	14,764
Economic Service Charge (ESC)	-	-	-	-	-	-	4,052	8,067	12,203	14,476	14,207	18,048	21,335	14,864
Tax on Interest Income	-	-	-	2,733	11,099	14,280	11,274	12,329	35,307	43,830	53,188	38,662	38,160	59,606
Value Added Tax (VAT) (b)	20,291	36,429	43,893	45,901	66,692	97,230	120,382	138,660	187,452	203,646	171,510	219,990	225,858	229,604
Domestic (Net)	10,524	16,980	25,021	26,940	34,320	50,949	55,523	65,300	85,490	102,815	103,891	120,412	104,897	109,370
Services	3,726	7,074	14,413	15,157	18,644	41,326	42,688	45,951	62,920	79,116	75,652	88,694	71,447	69,363
Manufacturing	6,798	9,906	10,608	11,782	15,677	9,624	12,835	19,349	22,570	23,699	28,239	31,718	33,450	40,007
Import (net)	9,767	19,449	18,872	18,961	32,372	46,281	64,859	73,360	101,962	100,831	67,619	99,578	120,961	120,234
National Security Levy (NSL) (c)	-	14,408	33,539	43,065	28,859	79	240	35	-	-	-	-	-	-
Excise Tax	8,170	19,436	42,655	44,978	52,114	50,972	65,790	76,978	96,675	100,971	97,604	129,864	204,822	223,960
Liquor	2,657	6,298	9,532	9,795	10,235	10,735	13,512	16,285	23,723	27,434	28,525	36,654	55,286	60,086
Cigarettes/Tobacco	5,461	8,788	19,269	19,475	20,579	20,055	23,457	26,992	31,437	37,288	37,602	40,675	49,623	53,563
Petroleum	-	-	10,700	12,948	16,708	13,251	14,817	17,041	19,124	18,977	23,018	28,038	22,470	28,466
Motor Vehicles	-	-	2,599	2,202	4,261	6,405	12,674	14,220	17,415	11,067	3,192	21,199	71,646	78,509
Other	52	4,350	555	558	332	526	1,330	2,440	4,976	6,205	5,268	3,298	5,798	3,336
Stamp Duties (d)	-	-	8,564	8,415	2,331	69	51	9	4,026	3,751	3,328	4,439	-	-
Ports & Airports Development Levy (PAL)	-	-	-	-	3,497	5,483	7,340	10,969	26,700	31,017	36,286	49,632	66,028	70,111
Debits Tax (e)	-	-	-	1,119	1,315	3,611	4,489	5,700	7,187	8,410	8,036	10,843	4,232	-
Import Duties	16,792	24,365	23,970	26,356	28,345	34,184	41,096	45,391	56,017	63,842	79,560	64,165	79,811	80,155
Cess Levy	-	-	-	-	-	-	-	4,444	17,157	24,472	28,520	29,752	29,662	32,740
Special Commodity Levy (SCL)	-	-	-	-	-	-	-	-	-	14,603	18,965	10,173	15,622	33,666
Nation Building Tax (NBT) (f)	-	-	-	-	-	-	-	-	-	-	27,205	46,022	35,667	38,736
Domestic	-	-	-	-	-	-	-	-	-	-	11,594	19,310	19,040	23,077
Imports	-	-	-	-	-	-	-	-	-	-	15,611	26,712	16,627	15,660
Telecommunications Levy (g)	-	-	-	-	-	-	-	-	-	-	-	8,869	18,651	22,289

### Economic Classification of Government Revenue *contd...*

Item	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012 (a)
License Taxes & Other	8,616	6,744	606	1,371	1,249	572	792	2,108	6,563	8,367	8,361	15,376	8,035	5,058
<b>2. Non Tax Revenue</b>	<b>6,758</b>	<b>17,715</b>	<b>28,890</b>	<b>28,456</b>	<b>40,050</b>	<b>44,868</b>	<b>29,921</b>	<b>42,919</b>	<b>56,104</b>	<b>69,639</b>	<b>80,712</b>	<b>92,532</b>	<b>122,165</b>	<b>142,547</b>
Rent	238	217	1,325	630	620	607	1,163	1,155	1,709	2,050	1,425	2,048	3,580	2,197
Interest	1,143	6,946	7,304	7,626	13,232	7,963	8,673	8,642	9,242	9,305	9,043	8,017	9,847	9,488
Profit and Dividends	76	4,368	6,305	3,507	3,055	5,380	4,357	5,929	7,682	7,365	11,982	31,301	34,351	46,761
Sales and Charges	1,016	2,336	6,177	8,189	4,477	11,806	9,207	16,196	18,437	32,260	25,387	22,925	37,292	26,019
Social Security Contributions	381	825	3,620	2,667	2,930	3,037	3,444	4,910	8,777	9,791	11,165	11,120	12,628	11,738
Central Bank Profit Transfers	500	1,200	3,200	5,000	10,000	10,000	1,000	5,000	4,000	8,000	20,000	15,000	22,000	43,000
Other	3,404	1,822	959	838	5,736	6,075	2,077	1,087	6,257	868	1,710	2,122	2,468	3,343
<b>3. Total Revenue</b>	<b>67,964</b>	<b>136,258</b>	<b>211,282</b>	<b>234,296</b>	<b>261,888</b>	<b>276,465</b>	<b>311,473</b>	<b>379,747</b>	<b>565,051</b>	<b>655,259</b>	<b>699,644</b>	<b>817,279</b>	<b>967,862</b>	<b>1,051,460</b>

Sources: Department of Inland Revenue, Sri Lanka Customs, Department of Excise, Telecommunications Regulatory Commission of Sri Lanka, Department of Treasury Operations, Department of State Accounts, Department of Fiscal Policy and Central Bank of Sri Lanka  
(a) Provisional

(b) VAT was introduced with effect from 01 August 2002 and is in operation since then. It replaced the Goods and Services Tax (GST), an almost similar tax on the consumption of goods and services, which was in effect since April 1998. Prior to that, the data represents the revenue from central government Business Turnover Tax (BTT).

(c) NSL was abolished since April 2002 with the introduction of VAT.

(d) Under the revenue sharing mechanism introduced in 2011 with the Provincial Councils (PCs), 100 percent of the revenue from stamp duties is transferred to PCs. The PTT collected by Provincial Councils was abolished in 2011 and NBT was extended to buying and selling activities.

(e) Debits tax was abolished with effect from April 2011.

(f) Data in 2011 and 2012 represents only two thirds of the total revenue from NBT as the balance one third is transferred to PCs under the revenue sharing mechanism with them.

(g) Data in 2011 and 2012 represents the revenue from Telecommunications Levy, which was introduced as a composite tax to the telecommunications sector by removing VAT, NBT, Regional Infrastructure Development Levy, Environment Conservation Levy and the Mobile Subscribers' Levy on this sector in 2011.

Table 08

**Economic Classification of Government Expenditure and Lending Minus Repayments**

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Rs.million 2012(a)
<b>1 Recurrent Expenditure</b>	<b>254,279</b>	<b>303,361</b>	<b>330,849</b>	<b>334,692</b>	<b>389,679</b>	<b>443,351</b>	<b>547,959</b>	<b>622,758</b>	<b>743,711</b>	<b>879,575</b>	<b>937,094</b>	<b>1,024,906</b>	<b>1,131,023</b>
<b>1.1 Expenditure on Goods &amp; Services</b>	<b>130,765</b>	<b>143,747</b>	<b>139,894</b>	<b>138,659</b>	<b>164,530</b>	<b>194,861</b>	<b>253,025</b>	<b>292,632</b>	<b>360,328</b>	<b>379,731</b>	<b>388,286</b>	<b>451,605</b>	<b>487,833</b>
Salaries and Wages	68,544	78,056	88,806	91,783	106,187	138,604	175,031	214,160	239,078	271,229	300,558	319,601	347,747
Central Government	18,506	22,618	24,383	26,285	30,246	44,950	54,544	61,799	65,315	71,859	75,817	83,072	95,965
Provincial Councils	21,401	25,125	29,213	29,237	34,455	44,620	61,453	69,366	73,791	74,634	81,887	90,818	88,217
Defence	28,636	30,313	25,748	26,604	30,850	38,040	44,960	60,185	73,509	94,189	110,335	112,703	130,588
Police and Public Security			9,462	9,657	10,636	10,993	14,074	22,810	26,463	30,547	32,519	33,008	32,977
Other Purchases of Goods and Services	62,221	65,691	51,088	46,877	58,343	56,257	77,994	78,472	121,250	108,502	87,728	132,004	140,086
Central Government	18,265	26,434	20,784	19,993	24,941	21,466	29,012	25,725	46,950	42,970	38,618	71,741	92,738
Provincial Councils	1,819	1,280	1,377	1,539	1,436	1,859	1,576	1,416	3,075	3,110	3,112	3,784	3,676
Defence	34,825	31,767	23,417	20,401	25,491	23,458	36,283	41,671	61,201	50,695	33,471	43,400	32,631
Police and Public Security	7,312	6,210	5,510	4,944	6,475	9,474	11,123	9,660	10,024	11,727	12,527	13,079	11,040
<b>1.2 Interest Payments</b>	<b>71,200</b>	<b>94,307</b>	<b>116,515</b>	<b>125,126</b>	<b>119,782</b>	<b>120,159</b>	<b>150,777</b>	<b>182,681</b>	<b>212,475</b>	<b>309,676</b>	<b>352,592</b>	<b>356,699</b>	<b>408,498</b>
Foreign	9,015	9,747	10,617	11,586	13,904	6,995	16,990	21,311	30,277	35,698	55,464	68,565	90,839
Domestic	62,185	84,560	105,897	113,540	105,878	113,164	133,787	161,370	182,198	273,978	297,127	288,134	317,659
<b>1.3 Subsidies and Transfers</b>	<b>52,314</b>	<b>65,307</b>	<b>74,441</b>	<b>70,907</b>	<b>105,367</b>	<b>128,331</b>	<b>144,157</b>	<b>147,445</b>	<b>170,908</b>	<b>190,168</b>	<b>196,216</b>	<b>216,601</b>	<b>234,691</b>
Households	41,815	53,319	53,958	52,649	83,585	101,602	104,842	110,910	131,342	148,993	156,194	171,438	187,895
o/w Pensions	21,602	26,493	31,123	31,150	36,444	46,782	58,006	68,822	74,922	85,139	90,995	99,961	111,682
Samurdhi	9,661	12,574	9,910	8,715	8,498	9,161	10,789	9,200	9,995	9,267	9,241	9,043	10,553
Fertilizer Subsidy	1,733	3,650	2,448	2,190	3,572	6,846	11,867	11,000	26,450	26,935	26,028	29,802	36,456
Sub National Governments	1,424	694	392	608	358	233	172	150	217	-	-	-	-
Non Financial Public Enterprises	3,370	4,376	7,998	5,705	8,405	10,412	18,336	10,639	12,942	14,126	12,361	12,999	11,817
Institutions and other	5,705	6,919	12,093	11,945	13,019	16,084	20,807	25,746	26,407	27,049	27,661	32,164	34,979
<b>2 Capital Expenditure</b>	<b>67,769</b>	<b>67,902</b>	<b>58,595</b>	<b>75,089</b>	<b>83,807</b>	<b>140,154</b>	<b>162,214</b>	<b>206,162</b>	<b>232,607</b>	<b>277,416</b>	<b>302,087</b>	<b>377,812</b>	<b>400,082</b>
2.1 Acquisition of Fixed Capital Assets	32,934	36,115	26,501	36,580	40,449	88,141	88,209	111,510	128,605	143,590	158,488	208,963	176,562
2.2 Capital Transfers	34,835	31,787	32,094	38,509	43,359	52,013	74,005	94,652	104,002	133,826	143,599	168,849	223,520

### Economic Classification of Government Expenditure and Lending Minus Repayments *contd...*

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
Institutions	14,522	18,351	15,118	19,894	19,306	20,700	32,371	50,408	59,991	90,291	99,151	105,603	145,935
Non Financial Public Enterprises	12,048	6,973	11,459	14,339	19,068	19,969	21,526	23,737	22,432	19,750	20,345	35,168	50,860
Sub National Governments	8,218	6,251	5,421	4,186	4,812	11,141	19,699	20,346	21,237	23,780	24,101	27,619	25,266
Abroad	47	212	96	90	173	203	409	160	341	5	1	459	1,459
<b>3 Lending Minus Repayments</b>	<b>13,775</b>	<b>15,254</b>	<b>13,547</b>	<b>7,890</b>	<b>3,420</b>	<b>1,279</b>	<b>3,473</b>	<b>12,684</b>	<b>19,809</b>	<b>44,936</b>	<b>41,025</b>	<b>30,464</b>	<b>25,394</b>
3.1 Net Lending through Advance Accounts	2,638	2,044	1,336	1,710	1,950	1,850	83	700	1,457	1,932	2,126	854	(2,088)
3.2 Lending to Public Enterprises	13,187	14,590	13,582	12,320	13,823	8,428	15,230	23,112	31,253	53,032	54,433	44,488	43,891
3.3 Loan Repayments by Public Enterprises	(6,209)	(6,699)	(6,060)	(10,741)	(15,920)	(10,364)	(13,881)	(11,677)	(13,526)	(11,978)	(15,535)	(14,878)	(16,409)
3.4 Restructuring Expenditure	4,159	5,320	4,689	4,601	3,567	1,365	2,041	549	625	1,950	-	-	-
<b>4 Total</b>	<b>335,823</b>	<b>386,518</b>	<b>402,992</b>	<b>417,671</b>	<b>476,907</b>	<b>584,784</b>	<b>713,646</b>	<b>841,604</b>	<b>996,126</b>	<b>1,201,927</b>	<b>1,280,205</b>	<b>1,433,182</b>	<b>1,556,499</b>

Sources: Department of National Budget; Department of Treasury Operations; Department of State Accounts; Department of Fiscal Policy and Central Bank of Sri Lanka  
(a) Provisional

Table 09

## Functional Classification of Government Expenditure

Item	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
<b>1. Current Expenditure</b>	<b>71,770</b>	<b>154,159</b>	<b>254,279</b>	<b>303,362</b>	<b>330,847</b>	<b>334,693</b>	<b>389,678</b>	<b>443,350</b>	<b>622,758</b>	<b>743,710</b>	<b>879,575</b>	<b>937,094</b>	<b>1,008,244</b>	<b>1,093,192</b>
General Public Services	17,943	47,888	82,643	82,149	80,970	86,361	95,443	106,992	165,807	207,348	224,281	228,184	245,266	254,371
Civil Administration	6,622	6,562	13,416	14,944	17,473	24,755	23,196	25,027	31,481	36,150	37,123	37,895	43,076	47,135
Defence	6,736	35,186	56,915	54,242	49,163	47,005	56,341	61,498	101,856	134,710	144,884	145,243	156,103	159,581
Police and Public Security	4,585	6,140	12,312	12,963	14,334	14,601	15,906	20,467	32,470	36,487	42,274	45,046	46,087	47,655
Social Services	24,449	57,647	77,160	87,968	106,096	104,812	138,820	188,652	226,271	240,768	260,072	267,636	315,749	334,935
Education	8,529	15,784	23,794	23,448	31,162	31,673	33,792	50,697	72,592	77,141	82,414	85,195	99,043	107,271
Health	3,685	8,818	15,394	14,785	20,234	22,073	25,919	34,113	51,741	55,874	58,789	60,506	74,443	81,946
Welfare	11,973	32,106	35,686	44,635	47,503	45,849	73,571	92,909	91,747	94,789	105,017	107,690	123,122	128,451
Community Services	262	941	2,286	5,100	7,198	5,217	5,538	10,933	10,191	12,963	13,852	14,245	19,141	17,267
Economic Services	3,927	6,830	9,738	13,882	14,769	11,625	17,548	25,811	45,479	74,489	78,464	78,819	81,646	85,036
Agriculture and Irrigation	982	3,826	5,706	7,967	7,635	7,002	8,876	13,500	22,849	41,579	43,967	44,081	46,290	46,429
Energy and Water Supply	345	990	474	565	385	9	112	1,008	3,647	3,323	3,429	3,492	3,533	3,612
Transport and Communication	2,600	2,014	3,558	5,350	6,749	4,614	8,560	11,303	18,983	29,587	31,068	31,246	31,823	34,995
Other	25,451	41,794	84,738	119,363	129,014	131,894	137,867	121,896	185,201	221,105	316,759	362,455	365,583	418,850
o/w Interest Payments	20,668	38,687	71,200	94,307	116,515	125,126	119,782	120,159	182,681	212,475	309,675	352,592	356,699	408,498
<b>2. Capital Expenditure and Lending</b>	<b>27,605</b>	<b>52,810</b>	<b>80,955</b>	<b>82,491</b>	<b>72,177</b>	<b>87,409</b>	<b>97,631</b>	<b>148,582</b>	<b>229,273</b>	<b>263,859</b>	<b>330,448</b>	<b>356,519</b>	<b>438,962</b>	<b>481,804</b>
General Public Services	3,617	5,776	7,157	6,563	4,713	5,203	7,191	9,901	32,143	34,403	20,095	21,510	32,484	27,510
Civil Administration	1,599	3,962	5,610	5,478	4,075	4,826	5,986	8,537	28,438	29,675	18,686	20,212	28,668	26,565
Police and Public Security	2,018	1,814	1,547	1,085	638	377	1,205	1,364	3,705	4,728	1,409	1,298	3,816	945
Social Services	3,019	9,855	16,471	14,559	15,690	19,190	28,996	35,992	54,986	60,236	53,938	56,205	63,366	71,176
Education	1,042	3,124	7,135	4,838	6,048	7,443	8,548	12,860	19,948	22,942	18,092	19,053	22,326	28,930
Health	1,279	2,134	5,302	3,987	4,713	5,403	8,500	10,738	16,961	18,674	12,664	13,329	14,794	17,155
Housing	538	3,300	2,476	3,722	3,717	4,090	7,250	3,937	4,481	4,826	5,291	5,489	7,105	7,823
Community Services	160	1,297	1,558	2,012	1,212	2,254	4,698	8,457	13,596	13,794	17,891	18,334	19,141	17,267
Economic Services	18,295	36,105	54,647	54,906	51,678	58,740	61,271	77,537	141,244	168,879	256,410	278,803	342,653	381,660
Agriculture and Irrigation	5,215	6,060	6,908	6,034	6,936	8,420	8,207	10,041	14,736	17,681	22,105	24,865	28,617	30,351
Energy and Water Supply	6,500	5,003	13,282	14,758	17,732	23,801	22,283	19,234	47,850	48,783	59,983	66,569	85,186	85,589
Transport and Communication	4,312	18,888	24,911	21,464	18,916	20,238	22,198	31,765	50,995	82,916	139,104	165,505	190,026	204,539
Other	2,268	6,155	9,549	12,650	8,094	6,283	8,583	16,500	27,663	19,499	35,219	21,804	38,825	61,183
Other	2,674	1,074	2,680	6,463	96	4,276	173	704	900	341	5	1	459	1,459
Other	952	-	-	-	-	-	-	24,448	-	-	-	-	-	-
<b>3. Total Expenditure and Lending</b>	<b>99,375</b>	<b>206,969</b>	<b>335,234</b>	<b>385,853</b>	<b>403,024</b>	<b>422,102</b>	<b>487,309</b>	<b>591,932</b>	<b>852,031</b>	<b>1,007,569</b>	<b>1,210,023</b>	<b>1,293,613</b>	<b>1,447,206</b>	<b>1,574,996</b>

Sources: Department of National Budget, Department of Treasury Operations, Department of State Accounts, Department of Fiscal Policy and Central Bank of Sri Lanka

(a) Provisional



Table 10

## Composition of Government Debt

Source	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
Rs. million														
<b>1. Foreign Debt</b>	<b>176,883</b>	<b>346,286</b>	<b>542,040</b>	<b>636,741</b>	<b>721,957</b>	<b>843,882</b>	<b>996,138</b>	<b>956,620</b>	<b>1,326,487</b>	<b>1,448,734</b>	<b>1,760,467</b>	<b>2,024,583</b>	<b>2,329,280</b>	<b>2,767,299</b>
1.1 Project Loans	132,338	286,848	477,845	542,942	640,354	769,559	914,232	865,494	1,087,359	1,261,304	1,362,806	1,461,729	1,640,117	1,846,772
1.2 Non-project Loans	44,545	59,438	64,195	93,799	81,603	74,323	81,906	91,126	239,128	187,430	397,661	562,854	689,163	920,527
Commodity	43,393	57,730	63,009	67,000	68,050	68,892	73,835	69,116	68,665	66,499	62,304	54,653	53,460	56,599
Other	1,152	1,708	1,186	26,799	13,553	5,431	8,071	22,010	170,463	120,931	335,357	508,201	635,703	863,928
<b>2. Domestic Debt</b>	<b>133,896</b>	<b>289,410</b>	<b>676,660</b>	<b>815,965</b>	<b>948,386</b>	<b>1,019,969</b>	<b>1,143,389</b>	<b>1,265,722</b>	<b>1,715,198</b>	<b>2,140,228</b>	<b>2,400,955</b>	<b>2,565,662</b>	<b>2,804,085</b>	<b>3,232,813</b>
2.1 Rupee Loans	54,676	157,928	263,888	292,813	287,701	248,414	164,758	140,563	131,509	130,009	112,292	87,709	61,961	58,386
2.2 Treasury Bills	67,968	113,771	134,996	170,995	210,995	219,295	243,886	234,174	307,012	402,600	441,032	514,442	590,885	629,070
2.3 Treasury Bonds	-	-	204,124	229,174	347,128	483,107	643,349	751,569	1,018,852	1,281,978	1,513,512	1,643,887	1,819,251	2,095,054
2.4 Sri Lanka Development Bonds	-	-	-	14,749	24,177	8,816	26,083	25,519	86,459	158,805	168,079	173,877	183,845	222,994
2.5 Central Bank Provisional Advances	6,408	13,700	27,169	30,127	31,033	31,204	34,791	39,746	60,679	76,308	73,881	77,879	94,743	111,292
2.6 Other	4,844	4,011	46,483	78,107	47,352	29,133	30,522	74,151	110,687	90,528	92,160	67,869	53,400	116,017
<b>3. Total</b>	<b>310,779</b>	<b>635,696</b>	<b>1,218,700</b>	<b>1,452,706</b>	<b>1,670,343</b>	<b>1,863,851</b>	<b>2,139,526</b>	<b>2,222,342</b>	<b>3,041,685</b>	<b>3,588,962</b>	<b>4,161,422</b>	<b>4,590,245</b>	<b>5,133,365</b>	<b>6,000,112</b>
<b>Government Debt to GDP Ratio</b>														
Foreign Debt	55.0	51.9	43.1	45.2	45.6	46.3	47.6	39.0	37.1	32.8	36.4	36.1	35.6	36.5
Domestic Debt	41.6	43.3	53.8	58.0	60.0	56.0	54.7	51.6	47.9	48.5	49.7	45.8	42.8	42.6
Total Debt	96.6	95.2	96.9	103.2	105.6	102.3	102.3	90.6	85.0	81.4	86.1	81.9	78.4	79.1

Sources: Department of Public Debt of the Central Bank of Sri Lanka, Department of External Resources, Department of National Budget, Department of Treasury Operations, Department of State Accounts and Department of

Fiscal Policy

(a) Provisional

Table 11

## Domestic Production of Selected Items

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
<b>Plantation Crops</b>															
Tea	(Kg Mn)	233.2	245.9	305.8	295.1	310.0	303.2	308.1	317.2	305.2	318.7	291.0	331.0	327.5	326.3
Rubber	(Kg Mn)	113.1	105.7	87.6	86.0	90.5	92.0	94.7	104.4	117.6	129.2	136.9	153.0	158.2	152.0
Coconut	(Nuts Mn)	2,532.0	2,755.0	3,096.0	2,769.0	2,392.0	2,562.0	2,591.0	2,515.0	2,869.0	2,909.0	2,853.0	2,584.0	2,808.0	2,939.5
<b>Seasonal Crops</b>															
Paddy	(Mt'000)	2,538.0	2,809.9	2,859.9	2,695.8	2,859.5	3,071.2	2,628.0	3,246.2	3,131.1	3,875.0	3,652.0	4,300.6	3,894.2	3,846.0
Potatoes	(Mt'000)	87.2	81.7	48.4	57.7	88.7	71.7	81.3	79.4	77.4	74.8	61.7	51.9	59.4	72.2
Sweet Potatoes	(Mt'000)	76.9	61.8	51.8	48.5	47.5	44.1	39.7	41.2	49.2	52.5	47.3	46.5	47.3	43.6
Chillies -Green	(Mt'000)	106.6	85.4	55.9	49.0	46.3	46.2	40.5	52.9	48.7	51.0	46.4	49.0	44.4	61.5
Chillies -Dried	(Mt'000)	391	21.3	14.0	12.3	11.7	11.7	10.1	13.2	12.2	12.8	11.6	12.3	10.9	15.3
Big Onions	(Mt'000)	15.3	29.7	36.6	32.0	31.6	32.3	37.5	55.5	92.2	57.4	81.7	58.9	45.7	83.6
Red Onions	(Mt'000)	57.7	48.4	42.5	36.9	35.3	35.5	39.5	53.7	57.0	49.3	46.2	61.8	72.3	74.0
Maize	(Mt'000)	33.2	34.8	31.0	28.8	26.4	29.6	35.2	41.8	56.4	112.3	129.8	161.7	137.8	202.3
Green Gram	(Mt'000)	26.9	16.0	11.7	9.7	10.3	10.6	7.8	9.0	8.5	8.9	9.3	11.7	17.0	18.9
Black Gram	(Mt'000)	4.9	7.9	5.4	5.1	5.1	5.9	5.0	6.9	7.7	9.5	7.1	10.0	5.8	10.2
Kurakkan	(Mt'000)	7.2	4.9	4.8	4.2	4.1	5.3	4.7	6.4	5.4	6.5	6.4	7.3	5.4	6.0
Cowpea	(Mt'000)	22.8	16.1	12.1	9.8	10.4	12.9	9.2	11.2	10.8	11.9	13.5	11.6	10.4	14.8
Soya Beans	(Mt'000)	3.1	2.4	0.6	0.6	1.2	3.0	1.9	5.0	4.8	3.0	3.8	7.5	3.8	1.7
Gingerly	(Mt'000)	4.8	4.5	4.6	4.2	4.1	5.5	4.3	6.2	6.3	6.3	8.5	16.9	11.3	12.4
Ground Nuts	(Mt'000)	6.1	5.9	7.0	6.8	5.8	6.6	7.9	9.0	9.8	10.3	13.1	14.4	16.9	21.9
<b>Other Agricultural Crops</b>															
Sugar	(Mt'000)	57.2	51.7	64.0	48.0	38.0	57.0	58.0	54.0	29.0	39.0	32.0	31.0	35.0	36.7
Coffee	(Mt'000)	7.6	11.5	2.5	2.3	2.4	3.1	3.5	3.5	3.0	3.1	3.1	3.2	5.3	5.3
Cinnamon	(Mt'000)	10.4	11.8	13.5	13.6	13.0	14.0	14.9	14.5	16.5	14.9	15.8	16.4	18.2	17.2
Pepper	(Mt'000)	8.7	16.1	10.6	7.7	12.6	12.6	12.0	14.3	16.6	12.9	15.8	17.3	10.8	18.6
Cloves	(Mt'000)	1.3	3.7	1.7	2.7	4.1	2.4	3.6	6.1	3.0	8.2	3.0	9.6	5.5	4.0
<b>Livestock and Fish</b>															
Milk	(Ltr Mn)	291.7	333.3	181.5	183.0	183.2	186.8	190.3	193.0	202.0	208.1	233.4	247.6	258.3	299.3
Fish	(Mt'000)	184.0	235.8	300.3	284.7	302.9	285.0	286.4	163.2	291.0	319.1	339.7	384.7	444.8	486.2

Sources: Department of Census and Statistics, Ministry of Agriculture, Department of Export Agriculture and Central Bank of Sri Lanka

(a) Provisional

Table 12

## Value of Exports

Category	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (a)
US\$ million													
<b>Agricultural Exports</b>	<b>1,134</b>	<b>1,025</b>	<b>1,016</b>	<b>1,057</b>	<b>1,151</b>	<b>1,250</b>	<b>1,424</b>	<b>1,647</b>	<b>1,976</b>	<b>1,836</b>	<b>2,306</b>	<b>2,528</b>	<b>2,332</b>
<b>Tea</b>	<b>700</b>	<b>689</b>	<b>660</b>	<b>683</b>	<b>739</b>	<b>811</b>	<b>882</b>	<b>1,027</b>	<b>1,272</b>	<b>1,185</b>	<b>1,441</b>	<b>1,491</b>	<b>1,412</b>
Black Tea	637	613	593	601	646	718	769	890	1,111	1,072	1,383	1,430	1,355
Bulk	393	350	360	338	393	407	463	535	643	616	567	534	512
Packets	180	194	160	183	162	213	203	235	321	301	607	667	640
Bags	64	69	73	81	91	98	103	121	147	156	209	229	203
Instant	8	9	9	11	8	7	7	9	11	10	13	15	11
Green Tea	3	5	5	8	11	14	19	22	29	29	44	46	46
Other	52	63	53	63	73	72	86	106	118	74	-	-	-
<b>Rubber</b>	<b>29</b>	<b>24</b>	<b>26</b>	<b>39</b>	<b>51</b>	<b>47</b>	<b>93</b>	<b>109</b>	<b>125</b>	<b>99</b>	<b>173</b>	<b>206</b>	<b>125</b>
Sole Crepe	-	-	-	-	-	-	-	-	-	6	10	16	7
Latex and Other Crepe	-	-	-	-	-	-	-	-	-	25	63	102	58
Sheet Natural	13	11	15	22	28	25	54	59	69	46	67	63	38
Latex Natural	0.2	0.3	1	0.5	2	1	3	10	17	11	15	8	8
Block Rubber	14	11	10	14	15	16	24	25	23	2	1	2	1
Other	1	1	1	2	6	5	12	15	16	10	18	15	14
<b>Coconut</b>	<b>121</b>	<b>82</b>	<b>84</b>	<b>93</b>	<b>113</b>	<b>113</b>	<b>124</b>	<b>141</b>	<b>171</b>	<b>166</b>	<b>166</b>	<b>266</b>	<b>209</b>
Kernal Product	77	41	41	48	59	49	53	60	82	58	56	136	80
Other	44	41	42	45	54	64	71	81	89	108	110	130	129
<b>Other Agricultural Exports</b>	<b>155</b>	<b>136</b>	<b>168</b>	<b>150</b>	<b>162</b>	<b>183</b>	<b>195</b>	<b>208</b>	<b>243</b>	<b>215</b>	<b>335</b>	<b>379</b>	<b>388</b>
Vegetables	8.6	6.7	7.2	7.4	9.9	11.8	10.0	11.5	13.0	11.7	23.4	16.9	13.3
Fruits (Fresh or Dry)	4.5	4.5	4.0	6.3	6.6	6.3	9.6	11.2	13.9	12.1	14.5	17.1	17.4
Arecanut	0.6	0.1	0.3	0.2	0.4	0.7	2.0	0.9	3.4	1.4	2.2	2.5	4.0
Coffee	0.1	...	0.1	0.5	0.2	0.2	0.2	0.1	0.2	0.1	0.3	0.1	0.1
Pepper	20.9	6.0	15.5	12.8	9.2	12.2	17.1	31.7	26.2	20.6	42.7	32.1	70.0
Cinnamon	45.4	42.3	45.0	44.9	46.7	58.3	66.2	75.8	82.6	74.1	82.9	128.9	136.0
Cloves	4.0	13.0	28.3	6.0	14.0	17.5	12.6	9.2	33.0	12.0	37.4	35.4	18.0
Nutmeg and Maize	5.5	3.9	5.7	6.4	4.8	7.4	6.3	7.6	9.0	8.1	16.0	28.2	23.0
Cardamoms	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.3	0.2	0.3	0.6	0.2
Other Oil Seeds	...	...	...	...	...	...	...	0.2	...	0.1	...	0.1	5.2
Betel Leaves	1.7	1.3	2.0	2.9	3.0	2.6	2.6	4.1	6.7	6.0	5.1	6.9	5.0
Cocoa	...	0.1	0.1	...	0.1	...	...	0.1	0.1	0.2	4.1	21.3	12.9
Unmanufactured Tobaccos	37.6	35.2	37.5	37.2	39.7	35.1	35.3	40.2	39.5	33.5	32.6	38.4	42.2

Value of Exports *contd...*

Category	Value of Exports (in US\$ million)											US\$ million		
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (a)	
Sesame Seeds	0.1	...	...	0.4	1.6	0.7	1.3	0.6	0.4	1.6	8.9	0.5	2.5	
Cashew Nuts	0.6	1.0	0.5	0.4	0.8	1.6	1.1	1.0	1.4	1.1	2.2	2.6	1.3	
Essential Oils	0.9	0.9	0.9	1.0	1.3	1.4	1.7	3.5	3.8	2.4	5.0	1.1	0.9	
Cinnamon Bark Oil	2.8	2.7	2.7	2.3	2.4	2.6	3.6	5.2	3.9	2.4	4.4	7.7	5.8	
Clove Oil	0.1	...	0.2	...	0.1	...	0.2	0.3	0.3	0.1	0.4	0.4	0.3	
Other Minor Agricultural Crops	21.7	18.3	18.6	21.2	21.7	24.2	24.7	4.2	5.8	27.6	52.4	38.4	29.9	
Seafood	128.5	94.2	77.9	92.7	86.2	96.0	129.9	162.5	164.6	170.6	192.3	185.3	198.0	
Industrial Exports	4,315	3,713	3,628	3,975	4,508	4,949	5,402	5,937	6,112	5,228	6,097	7,992	7,371	
Food, Beverages and Tobacco	25	27	32	78	75	223	232	323	244	183	245	348	284	
Milling Industry Products	8	7	9	9	13	30	52	48	62	40	71	142	90	
Vegetable, Fruit and Nut Preparations	6	8	9	10	11	10	15	29	49	55	51	61	59	
Cereal Preparations	1	2	2	2	4	4	5	7	11	9	11	19	20	
Fish Preparations	...	...	...	...	1	3	1	1	1	1	1	...	...	
Manufactured Tobacco	2	2	2	8	16	20	16	23	28	24	26	41	47	
Other	9	8	10	48	30	156	142	215	93	54	85	85	67	
Textile and Garments	2,982	2,544	2,425	2,575	2,808	2,890	3,084	3,337	3,478	3,261	3,356	4,191	3,990	
Garments	2,712	2,335	2,246	2,400	2,654	2,748	2,917	3,144	3,284	3,120	3,178	3,986	3,784	
Woven Fabrics	65	46	49	47	43	34	46	61	66	55	70	85	92	
Yarn	32	27	25	23	22	24	24	45	44	42	50	57	58	
Other Made Up Textile Articles	173	137	105	105	89	84	96	86	84	44	57	64	56	
Petroleum Products	97	68	73	65	100	131	188	170	255	134	263	553	463	
Bunkers and Aviation Fuel	75	53	60	65	100	131	181	168	253	133	259	524	457	
Other Petroleum Products	22	14	13	...	-	-	7	2	2	2	4	28	6	
Ceramic Products	47	42	42	40	47	47	47	47	49	36	40	38	36	
Tiles	9	7	8	9	10	9	11	11	12	8	8	6	7	
Tableware, Household Items and Sanitaryware	27	25	26	24	29	31	32	30	30	24	27	28	25	
Other	10	11	9	8	8	7	5	5	7	4	5	5	4	
Rubber Products	196	173	182	231	284	395	450	483	542	385	558	885	860	

Value of Exports *contd...*

Category	US\$ million												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (a)
Rubber Tyres	101	84	84	121	160	259	295	309	337	213	336	569	540
Surgical Gloves and Other Gloves	62	56	61	73	77	86	105	111	117	114	137	181	177
Other Rubber Products	33	32	37	37	47	50	50	64	88	58	85	135	143
Leather, Travel Goods and Footwear	176	150	84	58	121	133	127	60	56	47	60	65	55
Footwear	56	32	19	21	13	13	19	24	22	17	20	17	12
Travel Goods	109	108	55	27	21	19	13	26	23	20	27	31	27
Other	12	10	9	10	87	101	94	10	12	10	13	17	16
Machinery and Mechanical Appliances	244	245	266	290	386	330	396	371	322	187	259	312	297
Gems, Diamonds and Jewellery	334	276	251	346	373	402	414	474	514	402	409	532	559
Gems	143	91	45	113	108	124	86	105	76	69	70	95	118
Diamonds	178	166	192	216	247	265	312	348	418	317	322	414	417
Jewellery	13	19	14	17	19	13	16	22	20	17	17	22	24
Transport Equipment	15	81	100	164	145	105	138	151	108	127	144	225	165
Road Vehicles	5	4	3	5	8	13	20	23	39	50	58	49	86
Ships, Boats and Floating Structures	2	1	1	2	2	9	8	37	22	58	59	149	57
Other	8	76	96	157	135	83	111	91	48	20	28	27	22
Printing Industry Products	2	2	2	2	3	9	15	34	47	48	246	235	42
Other Industrial Exports	197	105	170	126	166	285	311	487	497	418	517	608	621
Chemical Products	31	28	31	35	53	73	65	78	71	74	93	118	117
Mineral Exports	3	4	5	5	11	23	17	22	22	20	24	33	61
Unclassified Exports	69	75	50	94	89	125	42	38	-	-	199	7	10
Total Exports	5,522	4,818	4,699	5,133	5,759	6,347	6,883	7,640	8,111	7,085	8,626	10,559	9,774

Sources: Sri Lanka Customs, Department of Trade, Investment Policy and Central Bank of Sri Lanka  
(a) Provisional

Table 13

## Value of Imports

Category	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012 (a)
Us\$ million												
<b>Consumer Goods</b>	<b>844</b>	<b>815</b>	<b>1,050</b>	<b>1,219</b>	<b>1,282</b>	<b>1,289</b>	<b>1,664</b>	<b>2,007</b>	<b>1,565</b>	<b>2,476</b>	<b>3,654</b>	<b>2,995</b>
<b>Food and Beverages</b>	<b>383</b>	<b>402</b>	<b>513</b>	<b>547</b>	<b>558</b>	<b>573</b>	<b>802</b>	<b>1,089</b>	<b>933</b>	<b>1,322</b>	<b>1,567</b>	<b>1,304</b>
Sugar	141	115	132	116	111	132	151	203	218	363	426	345
Milk and Milk Products	118	115	110	120	122	133	186	288	165	259	345	307
Rice	4	11	18	9	59	16	39	44	23	59	18	24
Flour	8	1	2	2	1	32	2	1	1	1	14	5
Fish	68	69	65	63	56	68	108	115	119	128	147	134
<b>Other Food and Beverages</b>	<b>213</b>	<b>140</b>	<b>186</b>	<b>237</b>	<b>208</b>	<b>192</b>	<b>317</b>	<b>437</b>	<b>407</b>	<b>512</b>	<b>617</b>	<b>489</b>
Potatoes	5.5	9.8	6.3	5.6	4.1	7.6	20.0	23.6	23.0	36.9	35.7	22.7
Chilies	22.2	17.0	17.5	22.5	16.6	16.2	36.9	41.3	42.5	44.2	82.4	46.4
Onions	26.0	26.0	27.0	26.0	27.0	26.0	57.0	53.0	60.0	96.0	86.0	51.9
Lentils	39.5	36.7	35.0	29.9	29.6	31.6	59.6	108.0	113.0	129.0	116.8	68.9
Green Gram	5.3	3.0	2.3	2.5	4.0	3.0	7.4	11.0	10.7	15.6	13.8	7.3
Peas	71	5.4	5.1	5.1	5.3	5.0	10.0	18.8	12.9	14.9	18.5	19.0
Chick Peas	9.8	5.9	6.5	6.5	7.3	4.4	9.8	17.3	17.7	17.8	26.9	25.6
Kurakkan	0.3	0.1	0.2	0.1	0.3	0.2	0.3	0.6	0.6	0.6	0.6	0.4
Oil and Fat	11.0	9.0	35.0	56.0	18.0	15.0	21.0	31.0	14.0	19.0	25.9	20.0
Spices	28.0	27.0	28.0	32.0	26.0	24.0	50.0	64.0	65.0	72.0	111.0	68.0
Other	58.0	72.0	23.2	50.8	69.8	59.0	44.7	68.8	47.4	66.5	99.3	158.7
<b>Non-food Consumables</b>	<b>461</b>	<b>413</b>	<b>537</b>	<b>672</b>	<b>724</b>	<b>716</b>	<b>862</b>	<b>918</b>	<b>632</b>	<b>1,154</b>	<b>2,087</b>	<b>1,691</b>
Vehicles	40	37	138	249	249	235	244	239	93	455	881	495
Home appliances-Radio and Television Sets	56	40	40	49	63	52	59	64	24	45	118	118
Rubber Products	34	26	29	32	37	38	44	51	46	72	83	80
Medical and Pharmaceutical Products	96	92	105	105	117	135	179	212	202	217	348	372
Household and Furniture Items	55	48	48	50	59	63	70	75	61	88	127	117
Other	180	170	177	187	199	193	266	277	206	277	530	509
Garments	131.9	100.0	88.1	89.1	98.7	91.5	85.9	89.1	98.9	94.4	112	131.9
Other Articles of Plastices	34.1	30.0	21.6	23.1	25.5	28.9	32.9	29.8	18.3	20.7	33	35.4
Printed Books	4.2	3.7	10.8	2.9	3.2	4.5	5.0	4.4	21.5	19.8	15	14.1
Fans	7.7	5.0	4.1	5.3	5.7	5.9	7.5	7.1	7.0	12.3	23	23.4
Washing Preparations	6.6	3.9	3.8	5.6	4.9	5.1	7.5	9.7	11.0	10.6	6.0	6.0
Powders, Makeup	4.9	2.3	2.7	3.0	3.6	2.8	4.2	6.2	4.8	5.6	10.7	6.8
Gas Cookers	4.5	2.2	3.6	3.1	3.4	3.7	3.5	3.8	3.7	5.0	9.4	6.3

## Value of Imports contd...

Category	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011 (a)
<b>Intermediate Goods</b>	<b>3,376</b>	<b>3,406</b>	<b>3,667</b>	<b>4,023</b>	<b>4,953</b>	<b>5,607</b>	<b>6,983</b>	<b>9,019</b>	<b>6,159</b>	<b>8,054</b>	<b>12,274</b>	<b>11,570</b>
Fertilizer	79	68	75	87	107	134	192	577	182	240	407	311
Petroleum	902	729	791	837	1,213	1,657	2,516	3,392	2,184	3,041	4,795	5,037
Chemical Products	202	195	218	238	265	312	405	508	432	520	702	670
Paper and Paper Boards	116	108	156	186	210	222	290	328	264	350	427	363
Wheat and Maize	143	131	144	158	209	168	255	402	269	265	429	364
Textile	1,139	1,459	1,414	1,476	1,634	1,659	1,724	1,788	1,529	1,812	2,321	2,266
Diamond and Precious Metals	161	147	179	217	218	244	284	545	277	378	1,076	588
Base Metal	64	55	124	175	253	298	252	275	167	239	354	440
Vehicle and Machinery Parts	79	65	70	82	94	105	127	159	127	176	223	211
Other Intermediate Goods	491	449	496	567	750	808	938	1,045	728	1,033	1,540	1,320
Semi Finished Products of Iron	80	24	36	45	60	71	105	137	72	91	157	256
Polymer of Ethylene	89	39	37	44	67	77	106	103	76	103	109	99
Unmanufactured Tobacco	49	1	30	41	36	46	40	42	39	31	52	71
Palm Oil (Refined')	71	18	34	24	53	131	145	127	35	68	161	67
<b>Investment Goods</b>	<b>1,387</b>	<b>1,065</b>	<b>1,180</b>	<b>1,360</b>	<b>1,714</b>	<b>1,937</b>	<b>2,597</b>	<b>2,852</b>	<b>2,093</b>	<b>2,758</b>	<b>4,286</b>	<b>4,590</b>
Machinery and Equipment	844	683	730	788	998	1,051	1,428	1,467	1,077	1,339	2,141	2,356
Recorders and Primary Batteries	38	13	15	18	29	50	119	124	107	87	124	173
Medical Instrument and Appliance - Used	63	34	48	31	47	56	60	73	54	63	81	87
Wire Cables (Electrical)	26	16	14	11	20	18	5	13	11	38	33	32
Gas Cylinders (For Industries)	6	4	4	3	4	3	7	6	3	6	12	n.a
Transport Equipment	245	127	156	228	269	333	410	481	357	593	1,065	992
Building Material	296	254	292	342	443	548	753	900	656	822	1,076	1,237
Iron Pipe & Tube	84	34	38	45	63	79	93	126	88	108	85	83
Other Investment Goods	2	1	2	2	4	5	6	4	3	4	4	5
<b>Unclassified Imports</b>	<b>1,532</b>	<b>546</b>	<b>207</b>	<b>73</b>	<b>50</b>	<b>31</b>	<b>52</b>	<b>213</b>	<b>390</b>	<b>162</b>	<b>54</b>	<b>28</b>
<b>Total Imports</b>	<b>7,322</b>	<b>5,973</b>	<b>6,104</b>	<b>6,675</b>	<b>7,999</b>	<b>8,863</b>	<b>11,296</b>	<b>14,091</b>	<b>10,207</b>	<b>13,451</b>	<b>20,269</b>	<b>19,183</b>

Sources: Sri Lanka Customs, Department of Trade, Investment Policy and Central Bank of Sri Lanka

(a) Provisional



Table 14

## Import Quantities of Selected Items

Item	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)	MT '000
Sugar	311.9	424.0	570.4	457.4	567.7	526.0	496.5	444.2	470.7	563.1	460.7	539.2	596.6	559.0	
Milk Powder	66.5	50.1	56.9	52.2	61.9	63.8	54.2	52.8	62.1	62.5	62.4	72.4	84.1	79.5	
Potatoes	...	11.9	116.5	62.6	38.0	40.5	28.0	40.8	85.9	99.4	99.6	129.9	130.5	110.8	
Chilies - Red	1.3	10.8	23.4	25.8	25.3	27.7	24.3	27.3	31.2	34.7	36.0	37.7	42.2	40.7	
Big Onions	0.3	1.0	117.5	110.1	130.1	130.5	115.1	110.7	140.7	146.6	143.2	158.1	170.7	145.9	
Red Onions	27.1	77.5	5.9	2.7	1.8	0.2	2.7	10.2	23.8	26.9	16.2	11.9	6.8	7.0	
Dhal	36.0	76.0	80.4	90.7	106.5	90.9	89.6	86.4	103.2	104.9	108.0	134.3	151.3	114.0	
Rice	116.8	9.4	14.9	52.0	95.1	34.5	221.7	51.7	88.0	84.7	51.7	125.8	27.8	36.2	
Maize	1.9	76.6	115.2	157.3	94.6	128.5	148.8	146.8	78.4	82.5	27.2	9.6	7.0	1.0	
Green Gram	-	1.8	6.8	8.7	7.1	8.2	12.7	9.3	12.8	13.7	14.2	11.5	10.5	7.9	
Black Gram	-	4.0	7.3	7.9	6.9	7.6	5.4	4.6	7.1	5.0	3.3	1.5	7.1	3.2	
Peas	1.1	13.9	21.9	21.9	18.1	17.9	20.3	21.3	26.9	27.2	26.7	33.0	36.1	31.9	
Chick Peas	6.6	4.8	14.3	13.4	17.4	19.6	22.6	13.9	14.7	17.2	20.0	19.1	19.9	18.7	
Kurakkan	-	-	0.5	0.8	1.1	0.6	1.8	1.4	2.6	2.9	3.3	2.1	2.2	3.6	
Cowpea	-	-	0.2	0.1	0.1	0.2	0.1	0.2	0.6	0.7	0.4	0.6	0.9	0.7	
Soya Bean	0.3	2.7	2.9	3.2	3.5	1.5	1.6	1.3	...	2.4	1.8	1.6	...	0.1	
Coriander	8.5	10.7	12.8	10.1	11.7	13.1	13.1	9.9	14.8	9.7	10.9	12.1	13.3	10.1	
Turmeric	0.9	2.1	3.6	2.9	3.7	3.8	3.5	3.4	3.3	4.4	3.9	3.9	4.1	3.8	
Turmeric (Powder)	-	-	0.2	0.1	0.1	...	0.3	0.5	0.3	0.3	0.3	0.3	0.2	...	
Tamarind	-	-	0.8	...	0.4	0.7	0.1	1.0	0.1	0.1	0.1	0.9	0.7	...	
Garlic	20.3	8.0	13.7	15.7	19.0	19.5	17.5	18.4	20.9	25.0	21.2	20.4	23.8	23.1	
Apples	0.7	3.9	13.5	14.2	18.5	22.5	17.1	17.5	18.0	17.2	20.1	22.4	21.2	21.1	
Grapes	...	0.8	2.5	2.7	3.4	3.9	3.5	3.0	3.4	3.7	3.4	4.3	6.9	6.6	
Orange	0.3	1.6	10.8	9.4	10.8	11.1	7.6	3.8	3.3	3.6	4.3	4.5	7.0	6.0	
Mandarin	...	...	...	...	...	...	2.7	4.0	3.7	5.3	7.4	10.9	10.5	10.6	
Melon	...	...	...	...	...	...	0.1	0.1	0.1	0.1	0.1	...	-	...	
Canned Fish	6.8	20.1	21.8	20.3	20.1	18.1	18.1	20.2	23.1	18.2	13.6	16.7	20.7	19.6	
Maldiv Fish	2.2	3.4	4.3	5.6	6.2	5.9	5.2	5.5	3.6	3.1	3.2	2.9	2.8	1.4	
Sprats	12.9	14.7	19.1	19.2	17.6	20.9	17.6	21.5	25.4	22.8	25.4	27.3	27.6	25.2	
Other Dry Fish	22.8	30.1	31.4	28.9	27.0	24.8	20.3	23.4	22.7	22.1	20.1	18.5	19.6	14.2	
Palm Oil	31.2	54.3	77.7	60.9	88.0	53.9	118.8	326.2	205.6	126.8	49.7	74.3	135.5	63.7	
Coconut Oil	-	-	4.2	2.8	62.2	108.4	19.2	5.5	5.5	15.6	2.4	3.5	3.6	5.2	

Sources: Sri Lanka Customs and Department of Census and Statistics  
(a) Provisional

## Value of Food Imports

US\$ million

Item	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
Sugar	141.0	115.0	132.0	116.0	111.4	132.3	223.7	151.0	203.0	218.0	363.0	426.0	345.0
Milk Powder and Milk Products	118.0	115.0	110.0	120.0	122.0	133.0	171.0	186.0	288.0	165.0	259.0	345.0	307.0
Flour	8.0	1.0	2.0	2.4	1.0	31.9	3.0	2.0	1.0	1.0	1.0	14.0	4.9
Potatoes	5.5	9.8	6.3	5.6	4.1	7.6	10.4	20.0	23.6	23.0	36.9	35.7	22.7
Chilies - Red	22.2	17.0	17.5	22.5	16.6	16.2	26.3	36.9	41.3	42.5	44.2	82.4	46.4
Big Onions	19.8	19.6	19.9	21.3	21.4	18.2	18.7	39.7	32.1	40.8	58.8	59.3	29.5
Red Onions	1.4	0.7	0.6	0.1	0.7	3.0	3.6	8.6	14.6	9.4	5.7	4.2	3.0
Dhal	39.5	36.7	35.0	29.9	29.6	31.6	37.6	59.6	108.0	113.0	129.0	116.8	68.9
Rice	4.0	11.0	18.0	9.0	59.4	15.6	5.5	38.7	44.3	22.9	59.0	18.4	24.2
Maize	14.4	20.1	12.6	18.6	24.8	25.0	15.7	18.7	22.8	0.6	2.5	2.3	0.4
Green Gram	5.3	3.0	2.3	2.5	4.0	3.0	3.8	7.4	11.0	10.7	15.6	13.8	7.3
Black Gram	2.2	2.5	2.3	2.3	1.5	1.2	1.6	2.2	2.5	2.7	1.7	7.2	3.0
Peas	5.7	5.4	5.1	5.1	5.3	5.0	6.3	10.0	18.8	12.9	14.9	18.5	19.0
Chick Peas	6.3	5.9	6.5	6.5	7.3	4.4	6.3	9.8	17.3	17.7	17.8	26.9	25.6
Kurakkan	0.3	0.1	0.2	0.1	0.3	0.2	0.2	0.3	0.6	0.6	0.6	0.6	0.4
Cowpea	n.a	n.a	n.a	n.a	...	0.1	0.1	0.1	0.4	0.3	...	0.7	0.6
Soya Bean	0.8	0.9	1.0	0.4	0.5	0.4	0.6	...	0.9	0.7	0.8	...	0.1
Coriander	4.0	3.7	4.0	3.9	3.9	2.8	3.2	6.6	10.9	9.5	9.5	9.9	6.5
Turmeric	1.9	1.0	1.6	1.6	1.3	1.1	1.1	1.1	2.7	4.2	8.2	7.0	3.7
Turmeric (Powder)	0.1	...	0.1	...	0.2	0.2	0.1	0.1	0.2	0.5	0.6	0.2	...
Tamarind	0.2	...	0.1	0.1	...	0.2	...	...	...	...	0.2	0.2	-
Garlic	4.2	5.2	5.9	4.0	4.3	4.5	6.0	8.2	6.4	9.9	31.2	22.0	19.1
Apples	6.1	5.9	7.9	9.0	6.1	5.4	5.2	5.7	5.4	7.7	9.6	9.7	14.4
Grapes	4.0	4.0	4.4	4.3	3.9	3.1	3.7	3.7	4.0	4.4	5.6	6.8	10.5
Orange	2.6	2.2	2.8	3.0	2.1	1.5	1.8	1.4	1.6	2.0	2.3	3.7	4.0
Mandarin	...	...	...	0.1	0.6	0.8	1.2	0.8	1.2	2.1	3.2	3.3	3.8
Melon	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	...	-	...
Canned Fish	19.5	16.6	19.5	17.9	17.6	23.3	27.0	34.8	39.4	32.1	38.6	50.7	43.6
Maldiva Fish	8.7	11.2	10.4	9.1	7.8	8.3	8.5	5.9	8.1	14.1	11.5	12.3	7.5
Sprats	16.7	16.5	12.7	14.5	11.7	14.5	25.2	29.1	26.5	31.4	35.1	39.1	40.0
Other Dry Fish	28.7	33.0	28.4	24.4	20.5	23.2	27.8	27.4	31.2	37.0	32.0	36.8	30.0
Palm Oil	28.4	17.7	33.6	24.1	53.5	130.9	131.0	145.3	127.4	35.3	68.1	160.6	67.2
Coconut Oil	2.2	0.9	25.4	46.7	8.0	2.7	3.0	4.9	13.4	1.8	3.6	6.6	4.8

Sources: Sri Lanka Customs and Department of Census and Statistics

(a) Provisional

Table 16

## Motor Vehicles

Item	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
<b>Motor Vehicle Imports</b>														
<b>Total</b>	<b>127,295</b>	<b>99,918</b>	<b>93,417</b>	<b>74,612</b>	<b>130,713</b>	<b>208,930</b>	<b>236,868</b>	<b>295,928</b>	<b>296,290</b>	<b>258,244</b>	<b>169,493</b>	<b>383,099</b>	<b>533,056</b>	<b>374,175</b>
Motor Bicycles	101,964	29,741	37,717	37,546	70,749	117,301	142,445	193,411	177,193	153,191	117,913	221,832	252,036	186,372
Three-Wheelers	4,494	18,030	11,302	9,224	17,377	35,773	41,445	39,154	34,485	44,046	30,356	92,207	137,389	93,284
Tractors	3,433	8,893	14,307	8,592	12,591	16,379	15,288	26,106	23,629	28,181	12,874	18,617	26,870	18,967
Transport Vehicles (goods)	10,010	27,803	14,378	10,608	12,680	19,770	18,291	18,423	36,084	13,742	5,639	20,655	55,786	45,560
Passenger Vans and Buses	1,330	744	1,775	936	1,201	1,358	2,241	2,229	2,094	1,117	649	2,766	3,836	3,245
Motor Cars	6,007	14,621	13,723	7,614	15,989	17,871	16,876	15,944	22,315	17,273	1,852	26,745	56,370	26,312
Other	57	86	215	92	126	478	282	661	490	694	210	277	769	435
<b>New Registration of Motor Vehicles</b>														
<b>Total</b>	<b>106,224</b>	<b>82,401</b>	<b>92,237</b>	<b>72,634</b>	<b>113,351</b>	<b>181,502</b>	<b>223,842</b>	<b>229,669</b>	<b>297,892</b>	<b>265,199</b>	<b>204,075</b>	<b>359,243</b>	<b>525,421</b>	<b>397,295</b>
Motor Cars	5,938	6,206	13,893	8,426	12,003	21,184	19,116	17,283	22,603	20,237	5,762	23,072	57,886	31,546
Three Wheelers	3,893	12,661	11,593	10,274	20,876	36,204	43,789	41,085	43,068	44,804	37,364	85,648	138,426	98,815
Motor Cycles	84,424	34,207	40,080	34,119	54,762	86,877	124,474	130,696	182,508	155,952	135,421	204,811	253,331	192,284
Buses	1,237	1,701	2,291	1,310	1,429	1,949	2,167	2,069	2,637	1,180	739	2,491	4,248	3,095
Dual Purpose Vehicles	5,225	11,179	7,952	5,864	8,591	13,268	10,736	6,851	5,193	2,856	1,280	11,712	33,518	37,397
Goods Transport Vehicles - Lorries	2,835	7,323	8,750	6,095	8,166	11,158	10,703	14,262	18,408	14,038	8,225	11,845	14,818	12,266
Land Vehicles - Tractors	2,430	7,417	7,285	6,063	7,078	10,004	11,535	15,597	21,346	24,357	13,951	17,363	20,073	18,450
Land Vehicles - Trailers	242	1,707	393	483	446	858	1,322	1,826	2,129	1,775	1,333	2,301	3,121	3,442
<b>Total Vehicle Fleet *</b>														
<b>Total</b>	<b>819,943</b>	<b>1,246,750</b>	<b>1,706,382</b>	<b>1,779,016</b>	<b>1,892,367</b>	<b>2,073,869</b>	<b>2,297,711</b>	<b>2,527,380</b>	<b>3,125,794</b>	<b>3,390,993</b>	<b>3,595,068</b>	<b>3,954,311</b>	<b>4,479,732</b>	<b>4,877,027</b>
Motor Cars	163,039	195,204	233,018	241,444	253,447	274,631	293,747	311,030	361,211	381,448	387,210	410,282	468,168	499,714
Three Wheelers	10,480	35,665	101,965	112,239	133,115	169,319	213,108	254,193	361,727	406,531	443,895	529,543	667,969	766,784
Motor Cycles	391,732	641,221	834,586	868,705	923,467	1,010,344	1,134,818	1,265,514	1,604,648	1,760,600	1,896,021	2,100,832	2,354,163	2,546,447
Buses	39,812	53,181	64,963	66,273	67,702	69,651	71,818	73,887	79,870	81,050	81,789	84,280	88,528	91,623
Dual Purpose Vehicles	19,622	68,857	135,632	141,496	150,087	163,355	174,091	180,942	193,380	196,236	197,516	209,228	242,746	280,143
Goods Transport Vehicles - Lorries	106,192	131,136	173,356	179,451	187,617	198,775	209,478	223,740	262,584	276,622	284,847	296,692	311,510	323,776
Land Vehicles - Tractors	66,407	94,122	130,663	136,726	143,804	153,808	165,343	180,940	221,326	245,683	259,634	276,997	297,070	315,520
Land Vehicles - Trailers	22,659	27,364	32,199	32,682	33,128	33,986	35,308	37,134	41,048	42,823	44,156	46,457	49,578	53,020

Sources: Sri Lanka Customs and Department of Motor Traffic

\* Cumulative number of all vehicles registered in Sri Lanka

(a) Provisional

Table 17

## Power Sector

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
<b>Installed Capacity</b>	<b>MW</b>	<b>1,289</b>	<b>1,409</b>	<b>1,838</b>	<b>1,999</b>	<b>2,231</b>	<b>2,483</b>	<b>2,499</b>	<b>2,411</b>	<b>2,444</b>	<b>2,645</b>	<b>2,684</b>	<b>2,818</b>	<b>3,146</b>	<b>3,312</b>
Hydro Power		1,017	1,137	1,150	1,161	1,172	1,247	1,281	1,291	1,324	1,345	1,379	1,383	1,401	1,584
Thermal		272	272	685	835	1,056	1,233	1,215	1,115	1,115	1,285	1,290	1,390	1,396	1,338
Coal		-	-	-	-	-	-	-	-	-	-	-	-	300	300
Wind*		-	-	3	3	3	3	3	3	3	3	3	3	3	3
Other		-	-	-	-	-	-	-	2	2	12	12	42	46	87
Maximum Demand	MW	640	980	1,405	1,445	1,422	1,516	1,563	1,748	1,842	1,922	1,868	1,955	2,163	2,146
Total Sales by CEB	GWh	2,608	3,915	5,258	5,236	5,502	6,209	6,667	7,255	8,276	8,417	8,441	9,268	10,023	10,474
Generation	GWh	3,150	4,783	6,686	6,520	6,810	7,612	8,043	8,769	9,814	9,901	9,882	10,714	11,528	11,800
Average Electricity Price	Rs	2.18	3.70	4.53	5.48	7.25	7.68	7.66	7.71	10.56	13.17	13.10	13.03	13.21	15.65
Average Cost of Electricity	Rs	1.70	2.64	6.28	7.58	9.42	9.17	10.33	10.91	13.48	17.67	14.93	13.03	15.59	22.13
Access to Electricity	000'	n.a.	n.a.	2,752	2,850	2,928	3,131	3,401	3,592	3,811	3,995	4,158	4,327	4,611	4,724
Access to Electricity	%	29.0	45.0	62.6	63.9	64.7	67.9	73.4	76.7	80.0	83.0	85.4	88.0	91.0	93.0

Source: Ceylon Electricity Board

(a) Provisional

Note: Installed capacity of Thermal includes hired plants from 2000-2004

\*Wind capacity installed under CEB only

Table 18

## Roads

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012 (a)
<b>Total Road Length</b>	<b>km</b>	<b>108,931</b>	<b>109,626</b>	<b>109,982</b>	<b>110,046</b>	<b>110,392</b>	<b>110,792</b>	<b>111,001</b>	<b>111,436</b>	<b>113,506</b>	<b>113,573</b>	<b>113,674</b>	<b>114,272</b>	<b>114,768</b>	<b>115,179</b>
National Roads		10,431	11,126	11,482	11,546	11,649	11,649	11,658	11,693	11,874	11,891	11,922	12,019	12,019	12,165
Class A		4,106	4,216	4,216	4,216	4,219	4,219	4,219	4,219	4,219	4,219	4,219	4,219	4,219	4,221
Class B		6,325	6,910	7,266	7,330	7,430	7,430	7,439	7,474	7,655	7,672	7,703	7,800	7,800	7,944
Expressways		-	-	-	-	-	-	-	-	-	-	-	-	-	95
Provincial Roads		15,500	15,500	15,500	15,500	15,743	15,743	15,743	15,743	16,532	16,532	16,532	16,973	17,429	17,614
Rural Roads		83,000	83,000	83,000	83,000	83,000	83,400	83,600	84,000	85,100	85,150	85,220	85,280	85,320	85,400
<b>Total Roads Density</b>	<b>km/km<sup>2</sup></b>	<b>1.66</b>	<b>1.67</b>	<b>1.68</b>	<b>1.68</b>	<b>1.68</b>	<b>1.69</b>	<b>1.69</b>	<b>1.70</b>	<b>1.73</b>	<b>1.73</b>	<b>1.73</b>	<b>1.74</b>	<b>1.75</b>	<b>1.76</b>
National Roads Density		0.16	0.17	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.18	0.19
Provincial Roads Density		0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.25	0.25	0.25	0.26	0.27	0.27
Rural Roads Density		1.27	1.27	1.27	1.27	1.27	1.27	1.27	1.28	1.30	1.30	1.30	1.30	1.30	1.30
<b>Road Condition of National Roads as per IRI*</b>															
Excellent	%	-	-	-	-	-	-	-	-	7	7	11	16	23	24
Good	%	-	-	-	-	-	-	-	-	28	23	24	27	23	25
Fair	%	-	-	-	-	-	-	-	-	19	18	17	13	10	10
Poor	%	-	-	-	-	-	-	-	-	36	41	37	33	26	23
Bad	%	-	-	-	-	-	-	-	-	10	11	11	11	18	18

Source: Road Development Authority

\*IRI = International Roughness Index

(a) Provisional

Table 19

## Port Services

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012 (a)
<b>Vessels Arrived *</b>	<b>No.</b>	<b>3,089</b>	<b>3,612</b>	<b>4,232</b>	<b>4,014</b>	<b>4,062</b>	<b>4,032</b>	<b>3,883</b>	<b>4,139</b>	<b>4,710</b>	<b>4,814</b>	<b>4,592</b>	<b>4,075</b>	<b>4,358</b>	<b>4,178</b>
Colombo		2,847	3,277	3,832	3,570	3,787	3,838	3,688	3,929	4,326	4,424	4,114	3,910	4,124	3,870
Sri Lanka Ports Authority		2,847	3,277	3,026	2,765	2,886	2,899	2,691	2,972	3,114	3,151	2,939	2,928	3,040	2,750
South Asia Gateway Terminal		-	-	806	805	901	939	997	957	1,212	1,273	1,175	982	1,084	1,120
Galle		59	69	97	117	76	73	88	114	87	68	32	48	73	69
Trincomalee		183	266	303	327	199	121	107	96	297	322	310	109	126	161
Magam Ruhunupura Mahinda Rajapaksa Port		-	-	-	-	-	-	-	-	-	-	-	-	9	34
KKS, Mliddy, Point Pedro & Karainagar		-	-	-	-	-	-	-	-	-	-	136	8	26	44
<b>Total Cargo Handled</b>	<b>MT '000</b>	<b>13,052</b>	<b>19,517</b>	<b>27,535</b>	<b>27,062</b>	<b>28,363</b>	<b>30,500</b>	<b>33,959</b>	<b>37,300</b>	<b>46,344</b>	<b>50,582</b>	<b>48,778</b>	<b>61,240</b>	<b>65,097</b>	<b>65,030</b>
Colombo		11,718	17,414	25,222	24,741	26,273	28,198	31,299	34,523	43,502	47,960	46,373	58,768	62,016	61,669
Sri Lanka Ports Authority		11,718	17,414	21,986	21,207	20,298	21,502	21,918	24,885	28,985	30,924	27,281	33,775	36,019	36,867
South Asia Gateway Terminal		-	-	3,236	3,534	5,975	6,696	9,381	9,638	14,517	17,036	19,092	24,993	25,997	24,802
Galle		190	237	597	662	526	482	578	655	627	459	167	318	464	422
Trincomalee		1,144	1,866	1,716	1,659	1,564	1,820	2,082	2,123	2,215	2,163	2,238	2,154	2,574	2,859
Magam Ruhunupura Mahinda Rajapaksa Port		-	-	-	-	-	-	-	-	-	-	-	-	15	20
KKS, Mliddy, Point Pedro & Karainagar		-	-	-	-	-	-	-	-	-	-	246	11	28	60
<b>Total Container Traffic</b>	<b>TEUs '000</b>	<b>595</b>	<b>1,049</b>	<b>1,733</b>	<b>1,727</b>	<b>1,765</b>	<b>1,959</b>	<b>2,221</b>	<b>2,455</b>	<b>3,381</b>	<b>3,687</b>	<b>3,464</b>	<b>4,137</b>	<b>4,263</b>	<b>4,187</b>
Sri Lanka Ports Authority		595	1,049	1,432	1,397	1,207	1,335	1,321	1,524	1,835	1,961	1,714	2,167	2,299	2,317
South Asia Gateway Terminal		-	-	301	330	558	624	900	931	1,546	1,726	1,750	1,970	1,963	1,870
<b>Transshipment Container **</b>	<b>TEUs '000</b>	<b>422</b>	<b>721</b>	<b>1,181</b>	<b>1,195</b>	<b>1,218</b>	<b>1,370</b>	<b>1,531</b>	<b>1,716</b>	<b>2,578</b>	<b>2,874</b>	<b>2,712</b>	<b>3,205</b>	<b>3,216</b>	<b>3,167</b>
Sri Lanka Ports Authority		422	721	959	959	848	964	949	1,106	1,412	1,517	1,301	1,604	1,652	1,652
South Asia Gateway Terminal		-	-	222	236	370	406	582	610	1,166	1,357	1,411	1,601	1,564	1,515
<b>Employment (Sri Lanka Ports Authority)</b>	<b>No.</b>	<b>18,840</b>	<b>16,492</b>	<b>19,344</b>	<b>18,561</b>	<b>17,910</b>	<b>13,936</b>	<b>13,233</b>	<b>13,527</b>	<b>13,667</b>	<b>13,715</b>	<b>13,367</b>	<b>12,828</b>	<b>11,008</b>	<b>10,200</b>
Colombo		16,892	14,851	17,411	16,744	16,157	12,522	11,888	12,217	12,470	12,548	12,263	11,747	10,109	9,373
Galle		758	779	758	737	752	638	634	622	577	553	513	480	433	391
Trincomalee		1,190	862	1,175	1,080	1,001	776	711	688	620	614	591	601	466	436
<b>Revenue (Sri Lanka Ports Authority)</b>	<b>Rs Mn</b>	<b>3,382</b>	<b>6,820</b>	<b>14,717</b>	<b>16,387</b>	<b>15,667</b>	<b>16,356</b>	<b>17,861</b>	<b>20,552</b>	<b>25,913</b>	<b>25,142</b>	<b>23,331</b>	<b>28,279</b>	<b>31,086</b>	<b>38,098</b>

Source: Sri Lanka Ports Authority

\* Excluding of Sailing craft, Naval Vessels, Fishing trawlers, Yatch &amp; Dredgers

\*\*Including Re-Stowing

The South Asia Gateway Terminal commenced its operations in 1999.

(a) Provisional

Table 20

## Water Supply and Sewerage

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012
Access to Pipe Borne Water	% population	7	13	n.a	n.a	n.a	28	n.a	30	32	34	37	40	42.4	43.5
Access to Safe Drinking Water	% population	n.a	n.a	n.a	n.a	n.a	71	n.a	75	77	78	80	81	82.9	84.0
Access to Piped Sewerage	% population	n.a	n.a	n.a	n.a	n.a	n.a	n.a	2.4	2.4	2.4	2.3	2.3	2.3	2.3*
Average Cost (per month)**	Rs.000'	n.a	n.a	n.a	n.a	n.a	406,069	441,030	513,698	741,554	880,770	946,918	1,066,353	1,160,719	1,331,253***
Average Household Bill (per month)	Rs	n.a	n.a	155.0	180.5	194.8	206.3	197.4	285.4	305.7	290.9	412.7	438.2	437.7	473.9
Water Supply Connections	No.	184,019	323,259	581,165	665,166	732,935	782,724	841,505	907,622	1,078,892	1,186,931	1,266,328	1,353,573	1,449,301	1,587,663
Water Production	Mn cum	219	275	332	343	349	357	368	383	425	440	449	470	490	526
Water Consumption	Mn cum	n.a	150*	213	220	230	233	244	253	284	299	309	322	342	368
Water Sales (Bill Revenue)	Rs Mn	555	1,542	3,006	3,498	3,966	4,366	4,460	5,839	7,422	7,875	11,119	12,409	13,343	15,088
Non- Revenue Water															
Colombo City	%	n.a	n.a	54	54	52	52	53	51	53	54	53	52	50	49
Island wide	%	n.a	n.a	36	36	34	35	34	34	33	32	31	32	30	30
Employees	No.	7,355	7,555	7,809	8,334	8,103	8,187	7,806	7,981	8,848	9,006	9,063	9,018	9,199	9,670
Employees	Per 1000 connections	39.9	23.4	13.4	12.5	11.1	10.5	9.3	8.8	8.2	7.6	7.2	6.7	6.4	6.1
Collection Efficiency (Collection/Billing)		n.a.	0.89	0.99	0.96	0.97	1.09	1.10	1.02	1.00	0.99	0.94	1.00	0.99	0.98

Source: National Water Supply and Drainage Board

\*Increase of Piped Sewerage connections is not significant enough to show an increase in Piped sewer coverage, with the increase in population.

\*\*This cost includes total operating expenditure, depreciation and interest of commissioned projects.

\*\*\* Estimated figure.



Table 21

## Communications

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
<b>Telecommunication</b>															
<b>Fixed Access Services</b>	<b>No.</b>	<b>121,388</b>	<b>204,350</b>	<b>767,411</b>	<b>829,282</b>	<b>883,108</b>	<b>933,771</b>	<b>991,239</b>	<b>1,243,993</b>	<b>2,742,059</b>	<b>3,446,411</b>	<b>3,435,958</b>	<b>3,534,575</b>	<b>3,608,392</b>	<b>3,449,391</b>
Wireline in Service		121,388	204,350	653,144	708,200	768,620	817,750	860,468	919,040	931,737	933,536	872,120	896,710	941,780	999,354
Wireless Access		n.a.	n.a.	114,267	121,082	114,488	116,021	130,771	324,953	1,810,322	2,512,875	2,563,838	2,637,865	2,666,612	2,450,037
Cellular Phones	No.	500	51,316	430,202	667,662	931,580	1,393,403	2,211,158	3,361,775	7,983,489	11,082,508	14,264,442	17,246,567	18,319,447	20,324,070
Telephone Density (Including Cellular Phones)	per 100 persons	0.7	1.4	6.3	8.0	9.6	12.1	16.5	23.4	53.6	71.9	86.6	100.8	105.1	116.9
Public Pay Phones	No. of Booths	363*	850	8,222	7,281	6,681	6,440	6,095	6,285	8,526	7,417	7,378	7,054	6,458	6,983
Internet and Email Subscribers	No.	n.a.	n.a.	40,497	61,532	70,082	85,500	93,300	115,000	202,348	234,000	249,756	280,000	359,216	423,194
Mobile Broadband Subscribers	No.	-	-	-	-	-	-	-	-	-	-	91,356	200,000	485,533	942,461
Internet Service Providers	No.	-	-	-	-	-	-	-	1	4	5	8	9	20	19
<b>Postal</b>															
<b>Public Post Offices</b>	<b>No.</b>	<b>3,864</b>	<b>3,966</b>	<b>4,043</b>	<b>4,043</b>	<b>4,038</b>	<b>4,041</b>	<b>4,040</b>	<b>4,043</b>	<b>4,051</b>	<b>4,053</b>	<b>4,057</b>	<b>4,059</b>	<b>4,058</b>	<b>4,062</b>
Main Post Offices		516	563	597	602	614	625	629	633	641	645	647	649	648	651
Sub Post Offices		3,349	3,376	3,446	3,441	3,424	3,416	3,411	3,410	3,410	3,408	3,410	3,410	3,410	3,411
<b>Private Post Offices</b>	<b>No.</b>	<b>80</b>	<b>179</b>	<b>309</b>	<b>339</b>	<b>421</b>	<b>621</b>	<b>650</b>	<b>654</b>	<b>646</b>	<b>654</b>	<b>657</b>	<b>606</b>	<b>675</b>	<b>676</b>
Private Agency Post Offices		80	179	309	339	376	420	436	439	480	488	494	491	512	516
Rural Agency Post Offices		-	-	-	-	-	156	156	157	159	159	159	111	156	156
Estate Agency Post Offices**		-	-	-	-	45	45	58	58	7	7	4	4	7	4

Sources: Department of Posts, Sri Lanka Telecom and Telecommunications Regulatory Commission of Sri Lanka

(a) Provisional

\*year 1991

\*\* In 2002, a three year project was started to establish Estate Agency Post Offices on recommendation made by the Presidential Committee to address the "Social Cultural Problems in the Estate Sector". These offices were ceased to function since 2006, due to the incapability of the Agents to expand the overall business capacity(potential)to earn sufficient income and lack of continued financial remuneration from the Ministry of Estate Infrastructure and Livestock Development to the Agents of the Estate Agency Post Offices

Table 22

## Crude Oil and Petroleum Products

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
<b>International Prices (End Year)</b>															
Crude Oil															
Brent	US\$(bbl)	28.32	17.96	25.28	18.60	28.52	29.88	39.65	56.75	91.45	41.58	74.67	91.80	107.97	109.64
WTI	US\$(bbl)	27.33	19.03	28.40	19.31	29.44	32.12	43.23	59.41	91.36	41.44	74.49	89.22	98.61	88.19
Dubai	US\$(bbl)	24.18	16.81	22.16	17.64	25.71	27.86	34.26	53.13	85.75	41.00	75.49	89.18	106.20	105.67
Oman*	US\$(bbl)	n.a.	n.a.	27.42	23.67	24.41	26.93	34.13	50.42	68.50	94.51	62.02	78.22	106.64	109.36
<b>Refined Products (Singapore Plattes)(Annual Avg)</b>															
Petrol	US\$(bbl)	32.58	20.89	31.26	25.64	27.92	33.64	46.34	62.14	81.73	101.95	68.18	86.23	117.33	120.29
Diesel	US\$(bbl)	29.32	21.54	32.72	27.63	30.09	32.71	46.60	65.86	86.10	122.01	69.77	89.97	125.34	127.37
Kerosene	US\$(bbl)	32.62	22.84	34.48	28.33	29.77	32.90	47.61	67.93	86.77	122.08	70.14	90.18	125.29	126.84
<b>Domestic Prices (End Year)</b>															
Petrol (90 Octane)	Rs/ltr	Super Petrol 30.00	Super Petrol 40.00	50.00	50.00	49.00	53.00	70.00	80.00	117.00	120.00	115.00	115.00	137.00	159.00
Petrol (95 Octane)	Rs/ltr	-	-	53.00	53.00	52.00	56.00	73.00	83.00	120.00	133.00	133.00	133.00	155.00	167.00
Auto Diesel	Rs/ltr	11.00	12.40	24.50	26.50	30.00	32.00	44.00	50.00	75.00	70.00	73.00	73.00	84.00	115.00
Super Diesel	Rs/ltr	13.00	15.20	29.80	31.80	35.30	37.30	49.30	55.30	80.30	85.30	88.30	88.30	106.30	142.00
Kerosene	Rs/ltr	8.80	9.50	18.40	17.40	24.00	25.50	25.50	30.50	68.00	50.00	51.00	51.00	71.00	106.00
Furnace Oil - 800 Sec	Rs/ltr	6.30	6.80	15.10	17.00	21.90	23.70	25.20	32.80	53.90	33.90	32.90	42.20	52.20	92.20
Furnace Oil - 1000 Sec	Rs/ltr	6.00	6.50	14.60	16.50	21.20	23.20	24.70	31.40	44.40	52.70	52.70	48.70	48.70	-
Furnace Oil - 1500 Sec	Rs/ltr	n.a.	n.a.	14.00	15.80	20.70	22.30	24.30	30.30	51.70	25.00	32.70	40.00	50.00	90.00
Furnace Oil - 3500 Sec	Rs/ltr	n.a.	n.a.	12.40	14.10	18.90	20.70	22.00	28.00	41.00	45.00	26.00	40.00	50.00	90.00

Crude Oil and Petroleum Products *contd...*

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
<b>Quantity Imported</b>															
Crude Oil	Mt 000'	1,779	1,872	2,330	1,955	2,300	1,995	2,200	2,008	1,968	1,853	2,066	1,819	2,070	1,486
Refined Products (b)	Mt 000'	126	563	1,266	1,419	1,344	1,168	1,644	1,823	2,411	2,476	2,264	2,991	4,283	4,880
L.P. Gas	Mt 000'	17	66	134	126	137	141	148	149	156	144	146	163	180	199
<b>Domestic Production</b>															
L.P. Gas	Mt 000'	19	14	12	15	20	20	15	13	16	16	24	23	24	17
<b>Local Sales</b>															
Petrol (90 Octane)	Mt 000'	181	190	220	244	277	375	417	526	487	490	518	573	676	729
Petrol (95 Octane)	Mt 000'	n.a.	n.a.	4	5	9	16	20	23	31	29	22	22	35	40
Auto Diesel	Mt 000'	511	789	1,715	1,675	1,728	1,663	1,890	1,862	1,752	1,606	1,681	1,663	1,985	2,086
Super Diesel	Mt 000'	37	107	47	49	47	42	36	17	14	9	9	12	15	25
Kerosene	Mt 000'	167	222	229	228	229	207	204	252	168	151	151	165	169	143
Furnace Oil	Mt 000'	158	241	785	811	758	715	748	1,026	986	999	1,110	1,117	1,222	1,332
L.P. Gas	Mt 000'	34	77	146	141	157	161	166	165	197	174	194	209	228	228
<b>Petroleum Tax Revenue</b>	<b>Rs Mn.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>19,702</b>	<b>22,291</b>	<b>25,876</b>	<b>27,413</b>	<b>23,270</b>	<b>33,072</b>	<b>32,287</b>	<b>39,434</b>	<b>32,725</b>	<b>39,556</b>
o/w Excise Duty	Rs Mn.	n.a.	n.a.	10,700	12,948	16,708	13,251	14,817	17,041	19,124	18,977	23,018	28,038	22,470	28,466

Source: Ceylon Petroleum Corporation and Energy Statistics on Index Mundi ([www.indexmundi.com/commodities](http://www.indexmundi.com/commodities))

(a) Provisional

(b) Including coal imports

\* Annual coverage

Table 23

## Petroleum Products Tax Structure

Item	Unit	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Petrol</b>												
Value Added Tax (VAT)	%	10	10	15	15	15	15	15	5	Ex	Ex	Ex
Import Duty	Rs. per ltr	Free	Free	Free	Free	Free	20	20	16	Rs 35 Duty waived	Rs 35 Duty waived	Rs.35 (Rs.23 duty waived)
Excise Duty	Rs. per ltr	21	21	20	20	20	20	20	25	25	25	25
Ports and Airports Development Levy (PAL)	%	1	1	1	1.5	2.5	3	3	3	3	5	5
Nation Building Tax (NBT)	%	-	-	-	-	-	-	-	Ex	Ex	Ex	Ex
Social Responsibility Levy (SRL)	%						1	1	1.5	1.5	-	-
Surcharge	%						10	10	15	Free	-	-
Provincial Turnover Tax (PTT)	%	1	1	1	1	1	1	1	1	1	-	-
<b>Diesel</b>												
Value Added Tax (VAT)	%	10	10	15	15	Ex	Ex	Ex	Ex	Ex	Ex	Ex
Import Duty	Rs. per ltr	Free	Free	Free	Free	Free	Free	Free	Free	Rs 15 Duty waived	Rs 15 Duty waived	Rs.15(Rs.13 duty waived)
Excise Duty	Rs. per ltr	3	3	2.25	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Ports and Airports Development Levy (PAL)	%	1	1	1	1.5	2.5	3	3	3	3	5	5
Nation Building Tax (NBT)	%	-	-	-	-	-	-	-	Ex	Ex	Ex	Ex
Social Responsibility Levy (SRL)	%	-	-	-	-	-	1	1	1.5	1.5	-	-
Surcharge	%	-	-	-	-	-	10	10	15	Free	-	-
Provincial Turnover Tax (PTT)	%	1	1	1	1	1	1	1	1	1	-	-
<b>Kerosene</b>												
Value Added Tax (VAT)	%	Ex	Ex	Ex	Ex	Ex	Ex	Ex	Ex	Ex	Ex	Ex
Import Duty	Rs. per ltr	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free
Excise Duty	Rs. per ltr	1.25	1.25	1.25	1.25	1.25	Ex	Ex	Ex	Ex	Ex	Ex
Ports and Airports Development Levy (PAL)	%	1	1	1	1.5	2.5	3	3	3	3	5	5
Nation Building Tax (NBT)	%	-	-	-	-	-	-	-	Ex	Ex	Ex	Ex
Social Responsibility Levy (SRL)	%	-	-	-	-	-	1	1	1.5	1.5	-	-
Surcharge	%	-	-	-	-	-	10	10	15	Free	-	-
Provincial Turnover Tax (PTT)	%	1	1	1	1	1	1	1	1	1	-	-
<b>L.P.Gas</b>												
Value Added Tax (VAT)	%	10	10	15	15	Ex	Ex	Ex	Ex	Ex	Ex	Ex
Import Duty	Rs. per ltr	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free	Free
Excise Duty	Rs. per ltr	Ex	Ex	Ex	Ex	Ex	5% or Rs. 8	5% or Rs. 14	5% or Rs. 14	Ex	Ex	Ex
Ports and Airports Development Levy (PAL)	%	1	1	1	1.5	2.5	3	3	3	5	5	5
Nation Building Tax (NBT)	%	-	-	-	-	-	-	-	Ex	Ex	Ex	Ex
Social Responsibility Levy (SRL)	%	-	-	-	-	-	1	1	1.5	1.5	-	-
Surcharge	%	-	-	-	-	-	10	10	15	Free	-	-
Provincial Turnover Tax (PTT)	%	1	1	1	1	1	1	1	1	1	-	-

Source: Ministry of Finance and Planning and Department of Fiscal Policy

Note: EX - Exempted

Table 24

## Health Services

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
<b>Hospitals</b>	<b>No.</b>	<b>502</b>	<b>535</b>	<b>581</b>	<b>594</b>	<b>605</b>	<b>605</b>	<b>605</b>	<b>606</b>	<b>734</b>	<b>747</b>	<b>716</b>	<b>740</b>	<b>778</b>	<b>790</b>
Public		502	535	581	594	605	605	605	606	619	612	555	568	592	593
Private		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	115	135	161	172	186	197
Central Dispensaries	No	278	386	389	389	385	398	397	397	387	417	461	476	475	480
Beds	No	42,079 (b)	47,665 (b)	58,423	58,833	59,781	61,522	61,868	61,937	66,430	66,835	68,905	69,501	69,731	73,437
<b>Doctors</b>	<b>No.</b>	<b>2,440</b>	<b>3,986</b>	<b>10,285</b>	<b>10,975</b>	<b>10,328</b>	<b>11,834</b>	<b>12,210</b>	<b>12,692</b>	<b>14,060</b>	<b>15,185</b>	<b>15,930</b>	<b>16,492</b>	<b>18,299</b>	<b>18,252</b>
Administrative Gr. MOO		n.a.	n.a.	101	97	102	101	106	124	128	131	136	138	240	211
Specialist MOO		n.a.	n.a.	697	683	669*	719	791	848	959	1,006	1,135	1,216	1,264	1,458
Medical Officers		n.a.	n.a.	6,873	7,235	7,459	8,342	8,749	9,070	9,662	10,332	11,684	11,782	12,630	13,329
Intern MOO		n.a.	n.a.	693	676	746	624	514	585	1,218	993	765	989	1,835	1,062
Dental Surgeons		n.a.	n.a.	589	954	726	763	774	805	849	879	1,022	1,209	1,230	1,110
RMO/AMO		n.a.	n.a.	1,332	1,330	1,295	1,285	1,276	1,260	1,244	1,244	1,188	1,158	1,100	1,082
<b>Nurses</b>	<b>No.</b>	<b>8,957</b>	<b>13,310</b>	<b>14,931</b>	<b>15,061</b>	<b>16,139</b>	<b>16,771</b>	<b>17,316</b>	<b>20,332</b>	<b>22,088</b>	<b>22,977</b>	<b>26,351</b>	<b>27,494</b>	<b>29,234</b>	<b>30,217</b>
Pupil Nurses	No.	n.a.	n.a.	3,668	5,277	5,830	5,095	5,704	6,494	8,288	9,922	7,705	7,264	5,934	5,809
Public Health Nursing Sisters (PHNS)	No.	140	174	292	308	303	298	311	308	297	210	328	365	326	364
Public Health Midwives (PHM)	No.	3,321	4,383	5,371	5,189	5,342	7,453	7,407	7,316	7,590	8,722	8,276	8,276	8,385	8,703
Public Health Inspectors (PHI)	No.	886	932	1,448	1,450	1,482	1,517	1,564	1,581	1,662	1,695	1,691	1,689	1,718	1,654
Health Education Officers (HEOO)	No.	n.a.	n.a.	50	54	52	51	51	49	43	43	51	50	56	47
<b>Professions Supplementary to Medicine (PSM)</b>	<b>No.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>2,153</b>	<b>2,313</b>	<b>2,357</b>	<b>2,471</b>	<b>2,456</b>	<b>2,557</b>	<b>2,488</b>	<b>2,756</b>	<b>3,251</b>	<b>3,509</b>	<b>3,553</b>	<b>3,694</b>
Medical Lab Technicians (MLTT)		n.a.	n.a.	733	860	873	910	899	984	910	1,020	1,332	1,422	1,415	1,399
Physiotherapists		n.a.	n.a.	208	199	203	211	209	220	215	241	268	322	328	339
Radiographers		n.a.	n.a.	288	320	338	346	341	345	336	385	464	477	485	534
Occupational Therapists		n.a.	n.a.	45	49	47	49	49	47	47	56	75	92	100	105
Pharmacists		n.a.	n.a.	879	885	896	955	958	961	980	1,054	1,112	1,196	1,225	1,317
<b>Attendants</b>	<b>No.</b>	<b>5,707</b>	<b>5,579</b>	<b>7,309</b>	<b>7,163</b>	<b>6,955</b>	<b>6,880</b>	<b>6,696</b>	<b>6,705</b>	<b>7,129</b>	<b>7,184</b>	<b>8,358</b>	<b>8,189</b>	<b>8,403</b>	<b>8,375</b>

Source: Ministry of Health

\*Excluding Specialist MOO attached to Anti Filaria Campaign, Blood Bank Colombo, Faculty Staff Colombo, Fever HS Colombo, Mental HS Angoda, Rehabilitation HS Ragama, NIHS, STD Clinic Katugastota, BH Kalmunai South, BH Dehiattakandiya, DH Madirigiriya &amp; BH Nikaweratiya

(a) Provisional

(b) Excluding Northern province

## Education

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
<b>General Education</b>															
<b>Schools</b>	<b>No.</b>	<b>10,382</b>	<b>10,832</b>	<b>10,615</b>	<b>10,552</b>	<b>10,508</b>	<b>10,473</b>	<b>10,501</b>	<b>10,461</b>	<b>10,430</b>	<b>10,445</b>	<b>10,205</b>	<b>10,502</b>	<b>10,549</b>	<b>10,763</b>
Government		9,864	10,239	9,976	9,891	9,829	9,790	9,765	9,723	9,678	9,662	9,410	9,685	9,731	9,931
o/w National		28	198	317	320	323	323	324	324	328	330	334	340	342	342
Private		61	79	78	78	80	85	85	85	94	92	98	98	98	98
Pirivenas		457	514	561	583	599	598	651	653	658	691	697	719	720	734
<b>Students</b>	<b>000'</b>	<b>4,232</b>	<b>4,351</b>	<b>4,340</b>	<b>4,337</b>	<b>4,179</b>	<b>4,099</b>	<b>4,029</b>	<b>4,098</b>	<b>4,111</b>	<b>4,101</b>	<b>4,038</b>	<b>4,119</b>	<b>4,159</b>	<b>4,188</b>
Government		4,111	4,216	4,194	4,187	4,027	3,942	3,871	3,937	3,942	3,930	3,865	3,940	3,974	3,997
National		n.a.	391	717	746	706	644	684	723	730	749	759	785	800	793
Provincial		n.a.	3,825	3,477	3,441	3,322	3,298	3,186	3,214	3,212	3,181	3,106	3,155	3,174	3,204
Private		83	88	95	97	97	101	101	106	114	115	115	117	122	126
Pirivenas		38	47	51	53	55	56	57	55	55	56	58	62	63	65
<b>Teachers</b>	<b>No.</b>	<b>184,822</b>	<b>195,388</b>	<b>194,718</b>	<b>198,410</b>	<b>196,407</b>	<b>196,897</b>	<b>197,697</b>	<b>199,715</b>	<b>220,204</b>	<b>223,314</b>	<b>224,672</b>	<b>226,646</b>	<b>231,819</b>	<b>231,988</b>
Government		178,333	187,571	186,097	189,485	186,999	186,695	187,337	189,234	209,197	212,116	213,126	214,562	219,886	219,788
Private		3,069	3,677	4,332	4,343	4,569	4,913	4,846	5,000	5,414	5,454	5,701	5,994	5,804	6,114
Pirivenas		3,420	4,140	4,289	4,582	4,839	5,289	5,514	5,481	5,593	5,744	5,845	6,090	6,129	6,086
<b>University Education</b>															
<b>Universities</b>	<b>No.</b>	<b>9</b>	<b>9</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>15</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>	<b>17</b>
UGC(a)		9	9	13	13	13	13	13	15	15	15	15	15	15	15
MoHE		-	-	2	2	2	2	2	2	2	2	2	2	2	2
<b>Students</b>	<b>No.</b>	<b>35,919</b>	<b>36,669</b>	<b>56,071</b>	<b>57,414</b>	<b>58,382</b>	<b>70,995</b>	<b>73,083</b>	<b>74,458</b>	<b>80,836</b>	<b>80,057</b>	<b>82,822</b>	<b>86,592</b>	<b>92,963</b>	<b>88,937</b>
UGC (b)		31,447	32,004	50,636	51,017	52,253	64,337	64,952	66,386	71,257	69,491	71,471	73,398	77,657	72,937 ***
OUSL		4,472	4,665	5,349	6,260	5,952	6,454	7,908	7,774	9,222	10,153	10,904	12,818	14,915	15,418
MoHE		-	-	86	137	177	204	223	298	357	413	447	376	391	582
New Admissions	No.	6,043	8,015	11,805	11,962	12,144	25,471*	13,396	14,520	17,196	20,069	20,846	21,547	22,267	27,820***
<b>Employees</b>	<b>No.</b>	<b>7,687</b>	<b>8,541</b>	<b>11,486</b>	<b>12,112</b>	<b>12,634</b>	<b>12,390</b>	<b>12,417</b>	<b>13,269</b>	<b>14,119</b>	<b>14,549</b>	<b>15,412</b>	<b>15,670</b>	<b>15,905</b>	<b>16,320</b>
<b>Academic</b>															
Lecturers		2,040	2,808	3,255	3,282	3,425	3,531	3,567	3,814	4,363	4,504	4,790	5,032	5,117	5,266
UGC (a)		2,040	2,808	3,241	3,268	3,390	3,487	3,525	3,770	4,313	4,452	4,735	4,984	5,064	5,200
MoHE		-	-	14	14	35	44	42	44	50	52	55	48	53	66
Non Academic		5,647	5,733	8,231	8,830	9,209	8,859	8,850	9,455	9,756	10,045	10,622	10,638	10,788	11,054
<b>Graduate Output**</b>	<b>No.</b>														
First Degree		4,476	4,206	9,374	8,224	9,027	12,436	15,828	12,545	16,837	19,755	20,931	20,357	23,167	n.a.
Postgraduate		307	1,048	2,169	1,643	1,996	3,796	5,158	4,589	3,852	4,665	6,518	6,330	5,614	n.a.

Source: Ministry of Education and Ministry of Higher Education

OUSL-Open University of Sri Lanka

UGC(a) - Universities under the University Grants Commission, including OUSL

UGC(b) - Universities under the University Grants Commission, excluding OUSL

MoHE - Buddhist and Pali University and Buddhadasaravaka Bhiksu University under Ministry of Higher Education

\* In year 2003, two batches of undergraduates were admitted

\*\* From 2003, Graduate output includes graduates who followed internal and external degree programmes of universities, Open universities and higher educational institutes

\*\*\* Estimated

(a) Provisional

## Access to Banking and Finance

Category	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012 (a)
<b>Domestic Commercial Banks</b>	<b>No.</b>	<b>6</b>	<b>8</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>12</b>
State		2	2	2	2	2	2	2	2	2	2	2	2	2	2
Private		4	6	8	9	9	9	9	9	9	9	9	9	9	10
<b>Branches</b>	<b>640</b>	<b>800</b>	<b>931</b>	<b>952</b>	<b>987</b>	<b>987</b>	<b>1,013</b>	<b>1,056</b>	<b>1,090</b>	<b>1,263</b>	<b>1,289</b>	<b>1,333</b>	<b>1,417</b>	<b>1,567</b>	<b>1,627</b>
State	n.a.	n.a.	603	604	608	608	610	620	624	633	637	640	640	654	675
Private	n.a.	n.a.	328	348	379	379	403	436	466	630	652	693	777	913	952
<b>Other Offices</b>	<b>84</b>	<b>93</b>	<b>480</b>	<b>523</b>	<b>633</b>	<b>633</b>	<b>679</b>	<b>700</b>	<b>742</b>	<b>2,894</b>	<b>3,256</b>	<b>3,452</b>	<b>3,523</b>	<b>3,610</b>	<b>3,727</b>
State	n.a.	n.a.	275	275	325	325	340	348	368	2,566	2,910	3,077	3,101	3,160	3,265
Private	n.a.	n.a.	205	248	308	308	339	352	374	328	346	375	422	450	462
<b>Automated Teller Machines (ATMs)</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>1,256</b>	<b>1,510</b>	<b>1,710</b>	<b>1,815</b>	<b>2,035</b>	<b>2,181</b>
State	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	392	490	625	664	740	787
Private	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	864	1,020	1,085	1,151	1,295	1,394
<b>Foreign Commercial Banks</b>	<b>No.</b>	<b>18</b>	<b>18</b>	<b>16</b>	<b>14</b>	<b>12</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>12</b>	<b>11</b>	<b>11</b>	<b>11</b>	<b>12</b>	<b>12</b>
Branches	23	37	38	37	31	31	32	33	35	43	44	44	46	49	49
Other Offices	n.a.	n.a.	7	9	4	6	6	6	7	133	170	170	170	171	171
Automated Teller Machines (ATMs)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	46	47	47	47	44	45
<b>Specialized Banks</b>	<b>No.</b>	<b>16</b>	<b>21</b>	<b>12</b>	<b>14</b>	<b>13</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>15</b>	<b>14</b>	<b>14</b>	<b>9</b>	<b>9</b>	<b>9</b>
National Level Banks	4	4	6	8	8	7	8	8	8	8	8	8	8	8	8
Regional Development Banks *	12	17	6	6	6	6	6	6	6	6	6	6	1	1	1
<b>Branches</b>	<b>No.</b>	<b>183</b>	<b>274</b>	<b>315</b>	<b>328</b>	<b>332</b>	<b>346</b>	<b>375</b>	<b>369</b>	<b>409</b>	<b>448</b>	<b>465</b>	<b>500</b>	<b>515</b>	<b>527</b>
National Level Banks	82	103	134	140	142	142	156	178	170	191	229	239	270	280	287
Regional Development Banks *	101	171	181	188	190	190	190	197	199	218	219	226	230	235	240
<b>Other Offices</b>	<b>No.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>18</b>	<b>20</b>	<b>32</b>	<b>33</b>	<b>33</b>	<b>36</b>	<b>219</b>	<b>220</b>	<b>233</b>	<b>257</b>	<b>272</b>	<b>273</b>
National Level Banks	n.a.	n.a.	11	13	20	20	21	21	23	202	203	215	236	251	251
Regional Development Banks *	n.a.	n.a.	7	7	12	12	12	12	13	17	17	18	21	21	22
<b>Automated Teller Machines (ATMs)</b>	<b>No.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>n.a.</b>	<b>68</b>	<b>97</b>	<b>119</b>	<b>158</b>	<b>158</b>	<b>158</b>
Insurance Companies	No.	3	5	8	9	11	12	13	14	15	16	18	19	22	22
Registered Finance Companies	No.	20	24	25	25	26	26	26	28	32	34	35	36	39	47
Specialized Leasing Companies	No.	n.a.	n.a.	n.a.	n.a.	13	15	17	18	20	22	21	21	16	13
Credit Cards Issued	No.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	153,186	181,857	200,679	122,033	68,430	90,489	148,481	173,017
Credit Cards In Use	No.	n.a.	n.a.	205,324	255,584	321,145	393,854	491,196	629,740	905,561	929,112	840,905	778,544	862,352	952,256

Sources: Central Bank of Sri Lanka and Insurance Board of Sri Lanka

(a) Provisional

\* During 2010, business of 6 Regional Development Banks was vested with a new level bank, i.e. Pradeshiya Sanwardhana Bank



Table 27

## Labour Force and Unemployment

Item	Unit	1990	1995	2000	2001	2002	2003 (a)	2004 (b)	2005 (c)	2007 (d)	2008 (a)	2009 (a)	2010 (a)	2011 (c)	2012 (c)(e)
<b>Labour Force</b>															
Total Labour Force	000'	6,001	6,106	6,827	6,773	7,145	7,654	8,061	8,141	7,489	8,082	8,074	8,108	8,555	8,465
Labour Force Participation Rate	%	51.9	47.9	50.3	48.8	50.3	48.9	48.6	48.3	49.8	49.5	48.7	48.1	47.8	47.2
<b>Employed Population by Industry</b>															
<b>Agriculture</b>	<b>000'</b>	<b>2,362</b>	<b>1,967</b>	<b>2,274</b>	<b>2,033</b>	<b>2,248</b>	<b>2,394</b>	<b>2,475</b>	<b>2,306</b>	<b>2,202</b>	<b>2,490</b>	<b>2,476</b>	<b>2,520</b>	<b>2,708</b>	<b>2,519</b>
Public	000'	n.a.	36	32	33	24	23	33	27	98	157	145	107	117	127
Private	000'	n.a.	1,931	2,242	2,000	2,223	2,361	2,442	2,279	2,104	2,332	2,331	2,412	2,591	2,392
<b>Industry</b>	<b>000'</b>	<b>979</b>	<b>1,188</b>	<b>1,491</b>	<b>1,491</b>	<b>1,459</b>	<b>1,611</b>	<b>1,781</b>	<b>1,928</b>	<b>1,874</b>	<b>2,005</b>	<b>1,910</b>	<b>1,867</b>	<b>1,977</b>	<b>2,119</b>
Public	000'	n.a.	49	67	59	38	38	40	59	51	51	50	47	43	59
Private	000'	n.a.	1,139	1,424	1,433	1,421	1,573	1,742	1,869	1,823	1,954	1,860	1,820	1,934	2,060
<b>Services</b>	<b>000'</b>	<b>1,706</b>	<b>2,202</b>	<b>2,545</b>	<b>2,711</b>	<b>2,813</b>	<b>3,017</b>	<b>3,138</b>	<b>3,284</b>	<b>2,966</b>	<b>3,154</b>	<b>3,216</b>	<b>3,320</b>	<b>3,512</b>	<b>3,490</b>
Public	000'	n.a.	755	749	777	821	900	900	924	820	956	981	945	1,021	1,044
Private	000'	n.a.	1,447	1,796	1,934	1,992	2,117	2,238	2,360	2,146	2,198	2,235	2,375	2,491	2,446
<b>Unemployment</b>															
Unemployment No.	000'	954	749	517	537	626	641	667	623	447	433	471	401	358	336
<b>By Gender</b>															
Male	000'	n.a.	368	260	280	310	311	323	302	210	194	223	186	153	160
Female	000'	n.a.	381	257	257	316	330	344	322	237	239	248	216	205	176
<b>By Age Group</b>															
15-19 years	000'	54	157	101	114	125	127	121	122	70	68	68	59	46	48
20-29 years	000'	244	436	325	340	398	404	422	381	272	260	277	240	225	200
30-39 years	000'	258	113	62	56	69	74	78	76	59	58	71	59	56	53
Over 40 years	000'	387	41	30	27	34	36	45	44	46	46	55	43	30	n.a.
<b>By Level of Education</b>															
Grade 5 & Below	000'	304	41	16	19	29	31	36	28	20	20	20	11	10	n.a.
Grade 6 - 10	000'	430	352	236	219	255	258	245	232	183	17	188	140	136	126
GCE O/L	000'	153	218	134	147	158	167	175	178	98	101	109	91	71	92
GCE A/L & Above	000'	67	138	131	153	184	185	212	185	146	142	154	159	141	110
Unemployment Rate	%	15.9	12.0	7.6	7.9	8.8	8.4	8.3	7.7	6.0	5.4	5.8	4.9	4.2	4.0

Source: Department of Census and Statistics

(a) Data including Eastern provinces but excluding Northern province

(b) Excluding Mullativu and Killinochchi districts

(c) All the districts are included

(d) Excluding Northern and Eastern provinces

(e) Provisional

Table 28

## Average Daily Wages and Strikes

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
<b>Paddy Cultivation</b>		<b>Rs. per day</b>													
Male	n.a.	n.a.	n.a.	n.a.	n.a.	279.00	304.00	341.00	361.00	456.00	562.00	615.00	658.00	704.00	787.00
Female	n.a.	n.a.	n.a.	n.a.	n.a.	217.00	230.00	258.00	261.00	336.00	395.00	423.00	454.00	530.00	599.00
<b>Tea Cultivation</b>		<b>Rs. per day</b>													
Male		41.08	66.50	95.00	101.00	258.00	276.00	304.00	300.00	375.00	440.00	496.00	543.00	617.00	691.00
Female				95.00	101.00	188.00	201.00	218.00	217.00	263.00	305.00	356.00	391.00	438.00	512.00
<b>Rubber Cultivation</b>		<b>Rs. per day</b>													
Male		38.86	64.01	95.00	95.00	277.00	280.00	304.00	305.00	389.00	500.00	532.00	588.00	658.00	741.00
Female				95.00	95.00	195.00	217.00	229.00	230.00	277.00	377.00	416.00	463.00	490.00	585.00
<b>Coconut Cultivation</b>		<b>Rs. per day</b>													
Male		38.86	64.01	95.00	110.00	330.00	338.00	366.00	387.00	479.00	590.00	652.00	699.00	783.00	887.00
<b>Carpentry</b>		<b>Rs. per day</b>													
Master Carpenter		50.00	90.33	105.00	165.00	439.00	470.00	516.00	556.00	732.00	844.00	932.00	1,002.00	1,115.00	1,248.00
Skilled and Unskilled		45.00	n.a.	92.00	145.00	269.00	289.00	356.00	368.00	479.00	558.00	617.00	657.00	729.00	824.00
<b>Masonry</b>		<b>Rs. per day</b>													
Master Mason		47.50	76.98	105.00	165.00	433.00	466.00	510.00	553.00	727.00	837.00	935.00	995.00	1,093.00	1,216.00
Skilled and Unskilled		44.51	74.00	92.00	145.00	273.00	504.00	354.00	369.00	474.00	561.00	627.00	669.00	729.00	823.00
<b>Strikes</b>															
No. of Strikes		116	183	87	92	104	98	90	57	25	51	8	15	21	34

Sources: Department of Labour and Central Bank of Sri Lanka

(a) Provisional

Table 29

**Poverty and Inequality**

Index	Unit	Survey Period				
		1990/91	1995/96	2002	2006/07	2009/10
Poverty Head Count Index						
Sri Lanka	%	26.10	28.81	22.73	15.25	8.88
Sector						
Urban	%	16.28	13.96	7.93	6.73	5.27
Rural	%	29.48	30.89	24.65	15.70	9.39
Estate	%	20.50	38.40	30.01	32.03	11.41
District						
Colombo	%	16.17	11.98	6.39	5.41	3.61
Gampaha	%	14.69	14.09	10.71	8.72	3.93
Kalutara	%	32.32	29.49	20.00	12.99	6.04
Kandy	%	35.86	36.65	24.91	17.04	10.25
Matale	%	28.72	41.94	29.64	18.90	11.45
Nuwara Eliya	%	20.08	32.10	22.58	33.80	7.56
Galle	%	29.74	31.63	25.80	13.68	10.27
Matara	%	29.18	34.96	27.47	14.67	11.21
Hambantota	%	32.43	30.97	32.16	12.67	6.86
Jaffna	%	-	-	-	-	16.11
Vavunia	%	-	-	-	-	2.34
Batticaloa	%	-	-	-	10.65	20.30
Ampara	%	-	-	-	10.88	11.80
Trincomalee	%	-	-	-	-	11.74
Kurunegala	%	27.22	26.19	25.40	15.42	11.67
Puttlam	%	22.25	31.11	31.33	13.09	10.49
Anuradapura	%	24.37	26.97	20.37	14.88	5.70
Polonnaruwa	%	24.87	20.09	23.73	12.69	5.77
Badulla	%	31.03	41.00	37.30	23.68	13.33
Monaragala	%	33.67	56.16	37.15	33.16	14.50
Rathnapura	%	30.80	46.36	34.39	26.57	10.45
Kegalle	%	31.23	36.34	32.46	21.05	10.78
Poverty Gap	%	5.6	6.6	5.1	3.1	1.7
Squard Poverty Gap	%	1.8	2.2	1.6	0.9	0.5
Poverty Shortfall	Rs./Month	101	191	317	448	587
Gini Coefficient of Per Capita Expenditure		0.32	0.35	0.40	0.40	0.36
Gini Coefficient of Household Expenditure		-	0.36	0.41	0.41	0.37
Gini Coefficient of Household Income		0.43	0.46	0.47	0.49	0.49
Quintile Ratio	%	4.7	5.3	6.9	6.7	5.7

Sources: Department of Census and Statistics

Household Income and Expenditure Survey 1990/91 (excluding Northern and Eastern provinces)

Household Income and Expenditure Survey 1995/96 (excluding Northern and Eastern provinces)

Household Income and Expenditure Survey 2002 (excluding Northern and Eastern provinces)

Household Income and Expenditure Survey 2006/07 (excluding Northern province and Trincomalee district)

Household Income and Expenditure Survey 2009/10 (excluding Mannar, Mullaitivu and Killinochchi districts)

Table 30

## Remittances and Departures for Foreign Employment

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
Total Remittances	US\$ mn	401	727	1,160	1,155	1,287	1,414	1,564	1,918	2,502	2,918	3,330	4,116	5,145	5,985
By Country															
Middle East		217	423	730	703	770	804	868	1,089	1,451	1,745	1,995	2,474	3,030	3,358
European Union		46	108	156	190	220	253	286	355	500	525	603	724	885	1,071
Europe, Other		10	41	63	64	71	113	129	135	135	128	148	177	232	275
East Asia		20	55	68	61	63	69	76	86	135	175	203	247	401	509
North America		79	58	78	81	87	90	105	125	105	114	127	140	154	174
South and Central America		...	7	11	12	13	14	15	19	20	23	28	35	41	48
South East Asia		23	15	22	22	24	27	32	38	75	90	100	144	206	263
South Asia		3	5	8	7	11	12	13	19	25	32	40	58	51	90
Australia and New Zealand		2	7	12	14	14	16	23	29	33	55	57	82	103	132
Other		1	8	12	11	14	16	18	24	23	29	30	35	41	66
Total Departures															
No.		42,625	172,471	182,188	184,007	203,773	209,846	214,709	231,290	218,459	250,499	247,126	267,507	262,961	279,482
Professional		116	878	935	1,218	1,481	1,541	1,827	1,421	1,653	2,835	2,832	3,057	3,844	4,300
Middle Level		381	2,495	3,781	3,776	4,555	7,507	6,561	8,042	3,962	8,667	6,388	6,884	6,134	9,223
Clerical and Related		843	4,594	5,825	6,015	7,239	6,779	6,679	7,742	4,551	6,791	6,719	7,923	9,906	16,016
Skilled		11,171	27,165	36,475	36,763	45,478	47,744	45,926	46,688	50,263	59,718	61,321	71,537	67,726	66,275
Semi Skilled		144	-	-	-	-	-	-	-	3,499	5,326	6,015	4,932	4,180	3,406
Unskilled		9,069	23,479	35,759	33,385	36,485	44,264	43,204	41,904	52,176	59,239	50,173	60,422	63,680	62,027
Housemaids		20,901	113,860	99,413	102,850	108,535	102,011	110,512	125,493	102,355	107,923	113,678	112,752	107,491	118,235

Sources: Foreign Employment Bureau and Central Bank of Sri Lanka

(a) Provisional

Table 31

### Welfare Payments and Development Subsidies

Description	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
<b>Rs. million</b>													
<b>Healthcare</b>													
Pharmaceuticals (free medicine)	4,600	4,482	4,721	4,068	6,796	7,100	11,379	10,804	12,082	12,149	13,544	16,617	16,740
<b>Empowering the Vulnerable and Needy</b>													
Samurdhi	9,638	12,057	9,920	8,756	8,497	9,103	10,789	9,200	9,995	9,267	9,241	9,044	10,553
No. of Beneficiaries (Families Mn)	2.0	2.0	1.9	1.9	1.9	2.0	1.9	1.8	1.6	1.6	1.6	1.5	1.5
Assistance to Elderly	-	-	-	-	-	-	648	326	922	960	650	950	1,032
Allowance for Handicapped Students	-	-	-	-	-	40	50	71	70	74	71	80	80
Allowance for Disable People	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	43	75	74	75	394	403
<b>Empowering Government Security Forces</b>													
Allowance for the Third Child of Soldiers	-	-	-	-	-	-	-	-	-	-	-	297	335
Death and Disabled Soldiers Compensation	-	-	-	-	-	4,749	5,921	7,426	8,694	9,796	10,500	13,316	14,779
<b>Agriculture Development</b>													
Fertilizer	1,765	3,649	2,446	2,487	3,571	6,846	10,700	11,000	26,450	26,935	23,028	29,802	36,456
Paddy Purchasing (To Stabilise the Paddy Prices)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	755	990	680	1,060	1,805	1,629	1,440
<b>Commercial Crop Development</b>													
Crop Subsidy													
Tea	80	95	141	160	205	183	187	199	231	210	190	171	182
Rubber	89	68	54	60	49	115	176	193	275	199	370	484	435
Coconut	67	68	126	218	56	124	269	179	221	236	269	293	353
Cashew	11	12	25	13	15	18	22	23	35	34	24	28	27
Minor Crops - (Cinnamon, Cocoa, Coffee, Pepper)	104	99	40	31	40	45	78	133	117	175	180	220	184
<b>School Children and University Students</b>													
School Uniforms	n.a.	n.a.	799	601	1,099	1,060	963	1,067	582	1,260	950	1,364	2,218
Season Tickets	225	225	225	225	225	250	250	500	600	1,384	1,369	1,359	1,339
School and Dharma School Textbooks	n.a.	n.a.	n.a.	970	1,099	1,080	1,123	2,250	3,387	2,196	2,056	2,337	2,127

**Welfare Payments and Development Subsidies** *contd...*

Grade v Scholarships, Mahapola and Bursary	222	255	n.a.	441	362	421	235	201	565	578	645	777	790
Nutrition Program	-	-	5	43	61	166	722	1,308	1,649	2,251	2,475	2,631	2,790
Thripasa for Children and Expectant Mothers	246	487	617	512	304	504	537	488	649	1,155	865	1,336	1,189
Poshana Malla for Expectant Mothers	-	-	-	-	-	-	82	418	386	505	388	360	249
Fresh milk for Pre-school Children	-	-	-	-	-	-	-	13	35	167	178	249	205
Poshana Manpetha and Lama Saviya	-	-	-	-	13	4	25	22	24	30	30	18	13
<b>Disaster Assistance</b>													
Flood and Drought Relief	-	-	-	-	310	348	171	345	323	738	264	649	153
Cooked Meals and Dry Rations	-	-	-	-	1,800	1,482	2,586	1,670	1,457	2,859	1,000	199	54
<b>Assistance to Religious Places</b>													
Water for Religious Places	-	-	-	-	-	45	45	30	46	144	42	46	49
<b>Losses of Public Enterprises</b>													
Petroleum (Ceylon Petroleum Corporation)	16,062	-	-	-	-	-	946	-	11,085	7,717	20,295	85,165	71,297
Kerosene	-	12	-	-	-	-	-	259	357	-	-	-	-
Electricity (Ceylon Electricity Board)	4,147	6,195	3,023	-	10,124	6,852	14,176	22,314	33,870	7,440	-	19,266	61,164
Water	-	-	139	134	837	92	214	1,278	2,915	1,417	5,955	-	578
Railway	1,671	1,820	1,966	2,062	2,650	3,505	3,981	4,298	4,553	4,768	3,173	4,060	3,796
Sri Lanka Transport Board	984	2,403	2,197	2,464	3,515	2,778	2,542	2,312	6,261	8,026	827	3,307	3,821
<b>Transport Facilities</b>													
SLTB Transport Facilities - Uneconomical Routes	350	1,263	1,715	1,834	3,065	3,689	4,360	3,159	3,736	2,332	2,460	1,922	2,188
Transportation Facilities for Armed Forces	-	-	-	-	-	-	-	-	200	598	208	257	182
<b>Common Facilities</b>													
Street Lighting	-	-	300	294	-	800	900	1,000	1,300	204	360	123	-
<b>Total</b>	<b>40,263.7</b>	<b>33,191.8</b>	<b>28,459.3</b>	<b>25,375.5</b>	<b>44,694.6</b>	<b>51,077.1</b>	<b>74,834.7</b>	<b>83,520.5</b>	<b>133,828.7</b>	<b>106,940.8</b>	<b>103,489.0</b>	<b>198,751.1</b>	<b>237,534.9</b>

Sources: Department of National Budget, Department of Treasury Operations and Department of Public Enterprises

(a) Provisional

Tourism

Item	Unit	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
<b>Tourist Arrivals by Country of Nationality</b>		<b>No.</b>	<b>403,095</b>	<b>400,414</b>	<b>336,794</b>	<b>393,171</b>	<b>500,638</b>	<b>566,202</b>	<b>549,308</b>	<b>494,008</b>	<b>438,475</b>	<b>447,890</b>	<b>654,476</b>	<b>855,975</b>	<b>1,005,605</b>
North America		14,580	17,352	16,304	20,004	25,095	30,654	46,727	35,688	28,338	23,203	25,044	40,552	53,658	59,236
Latin America & the Caribbean		594	342	400	549	636	715	732	805	4,104	3,721	666	594	1,167	1,626
Western Europe		251,061	261,011	204,510	200,676	255,179	285,366	227,558	228,666	195,813	165,822	170,186	255,172	320,431	373,063
Eastern Europe		4,551	6,840	7,045	8,046	10,600	14,259	9,305	14,236	25,485	29,352	26,177	35,630	51,922	72,401
Middle East		3,816	4,347	5,364	6,462	6,759	9,486	10,230	10,191	13,587	16,701	23,821	37,501	36,376	56,169
Africa		732	891	902	1,545	1,925	1,759	2,337	3,163	2,991	2,354	1,591	2,249	6,736	5,045
Asia		117,513	91,409	89,343	142,578	177,377	196,023	222,844	241,954	200,697	175,944	174,382	245,753	334,274	380,289
Australia		10,248	18,222	12,926	13,311	23,067	27,940	29,575	24,900	22,993	21,378	26,023	37,025	51,411	57,776
<b>Tourist Arrivals by Purpose of Visit</b>		<b>No.</b>													
Leisure		383,570	360,887	300,545	335,898	404,327	442,534	382,321	377,093	331,238	321,079	358,188	516,538	687,830	748,436
Private & Official Business		10,772	19,346	22,677	36,793	45,762	59,961	92,789	99,404	52,116	37,261	38,473	83,270	68,436	90,040
Convention & Meetings		3,895	-	-	5,319	10,048	14,037	12,543	17,009	7,620	5,867	6,262	6,350	14,681	22,220
Visiting Friends & Relations		3,258	8,480	6,205	7,823	31,188	36,105	43,943	42,617	40,968	36,304	23,122	35,386	70,531	117,520
Religious & Cultural		1,119	6,891	3,974	3,771	5,765	8,289	5,400	9,561	13,902	11,523	9,127	5,150	2,321	22,371
Other		487	4,810	3,393	3,567	3,552	5,279	12,312	13,919	48,164	26,441	12,718	7,782	12,178	5,018
Official Tourist Receipts	US \$ Mn	225	253	211	253	340	417	362	410	384	342	349	575	830	1,039
Receipt Per Tourist Per Day	US\$	56	62	63	63	67	72	75	83	79	77	82	88	98	103
Average Duration (Nights)	No.	10	10	10	10	10	10	9	10	10	10	9	10	10	10
<b>Accommodation Capacity (Graded)</b>		<b>No.</b>													
Rooms		11,255	13,311	13,626	13,818	14,137	14,322	13,162	14,218	14,604	14,793	14,461	14,714	14,653	15,510
Beds		21,680	24,953	25,595	25,956	26,511	26,854	24,740	27,117	27,500	28,698	28,344	28,978	28,844	30,510



### Tourism contd...

Foreign Travel by Sri Lankans (Departures)													
	504,420	524,212	505,341	532,737	591,126	680,248	727,301	756,735	862,011	966,337	962,786	1,122,212	1,239,290
<b>Revenue from Tourism</b>													1,268,792
Tourism Development Levy	-	-	-	-	0.1	300.6	172.5	177.5	214.3	344.5	405.2	516.9	653.5
Embarkation Tax on Foreign Tourists	201.6	200.2	269.3	393.2	500.6	566.2	823.9	839.4	741.0	738.8	766.3	1,000.1	1,041.7
<b>Museums</b>													809.4
Number of Foreign Visitors	24,997	10,122	11,157	13,577	19,213	23,883	15,281	13,771	9,040	7,353	10,244	22,061	31,096
Revenue from Sale of Tickets	Rs. '000	1,171.0	506.2	620.4	769.0	1,181.1	3,937.6	6,522.5	4,190.9	3,340.6	4,636.4	9,868.6	14,200.0
<b>Cultural Triangle</b>													22,877.0
Number of Foreign Visitors	166,661	155,167	129,201	131,804	212,521	246,380	110,443	138,232	104,583	112,190	109,404	197,947	239,920
Revenue from Sale of Tickets	Rs. Mn	168.7	276.0	222.0	242.8	543.1	284.7	400.9	279.8	307.5	402.8	743.5	998.2
<b>Zoological Gardens</b>													1,330.7
Number of Foreign Visitors	189,043	204,681	150,353	147,329	217,930	252,445	135,006	178,902	155,310	153,934	149,833	249,556	284,898
Revenue from Sale of Tickets	Rs. Mn	11,448	29,215	22,249	30,204	42,297	61,419	82,655	133,118	134,286	201,659	410,097	470,239
<b>Botanical Gardens</b>													n.a
Number of Foreign Visitors	n.a.	n.a.	n.a.	n.a.	n.a.	238,689	110,639	150,138	113,759	117,751	123,425	210,949	237,763
Revenue from Sale of Tickets	Rs. '000	25,199	29,461	21,226	26,346	57,919	32,605	44,210	66,560	69,119	72,267	123,162	253,896
<b>Wild Life Parks</b>													279,045
Number of Foreign Visitors	n.a.	n.a.	n.a.	n.a.	n.a.	88,033	57,441	84,198	58,258	54,323	70,688	143,198	198,536
Revenue from Sale of Tickets	Rs. '000	38,539	60,153	54,390	58,537	102,234	62,692	99,551	85,733	84,420	103,993	227,249	301,009
													n.a

Sources: Sri Lanka Tourism, Central Cultural Fund and Ministry of Economic Development

(a) Provisional

### Livestock Sector

Item	Unit	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(a)
<b>Total Livestock Population</b>		<b>11,024</b>	<b>12,738</b>	<b>12,652</b>	<b>12,671</b>	<b>13,402</b>	<b>11,683</b>	<b>13,001</b>	<b>13,619</b>	<b>15,133</b>	<b>15,820</b>	<b>16,444</b>	<b>15,591</b>	<b>16,076</b>	<b>16,262</b>	<b>16,172</b>
Cattle	No. '000	1,433	1,704	1,148	1,153	1,113	1,139	1,161	1,185	1,215	1,223	1,196	1,137	1,170	1,192	1,236
Buffalo	No. '000	823	764	305	290	282	280	302	308	314	319	440	372	423	405	415
Goat/Sheep	No. '000	437	610	506	504	360	424	417	405	395	405	387	385	381	384	393
Swine	No. '000	81	87	71	68	82	68	79	85	92	94	89	81	84	82	89
Chicken	No. '000	8,250	9,573	10,622	10,655	11,564	9,772	11,042	11,636	13,117	13,779	14,331	13,615	14,018	14,199	14,039
<b>Total Production</b>																
Milk	Mn Lt.	292	333	181	183	183	187	190	193	197	202	208	233	248	258	299
Chicken	Mt '000	31	39	67	71	75	80	78	86	85	100	103	99	104	117	123
Eggs	Mn	817	862	1,032	1,172	1,290	1,357	1,595	1,449	1,243	1,252	1,380	1,099	941	1,185	1,457
Mutton	Mt	3,100	2,213	2,100	1,900	2,000	1,700	1,800	1,800	1,700	1,600	1,400	1,500	1,700	1,790	1,500
Pork	Mt	2,570	2,339	5,500	5,500	9,500	9,500	10,000	11,000	11,500	11,700	11,100	10,120	10,435	9,800	7,030
<b>Domestic Demand - Milk</b>																
Milk Requirement	Mn. Ltrs per Year	631.5	664.3	674.2	683.6	693.5	702.6	710.3	717.6	725.6	730.4	738.0	746.4	753.7	767.0	742.0
Domestic Production	Mn Ltrs.	291.8	333.3	181.5	183.0	183.2	186.8	190.3	192.7	196.6	202.0	208.0	233.3	247.5	258.3	299.3
Domestic Production / Total Req. Ratio	%	46.2	50.2	26.9	26.8	26.4	26.6	26.8	26.9	27.1	27.7	28.2	31.3	32.8	33.7	40.0
Production Gap	Mn Ltrs.	339.7	331.0	492.7	500.6	510.3	515.8	520.0	524.9	529.0	528.4	530.0	513.1	506.2	508.7	442.7
<b>Domestic Demand - Chicken</b>																
Chicken Requirement	Mt'000 per year	221.0	232.5	236.0	239.3	242.7	245.9	248.6	251.2	253.8	256.5	261.1	261.2	263.8	228.4	260.0
Domestic Production	Mt'000	31.4	38.9	66.5	71.3	74.7	80.3	77.8	86.3	85.3	100.1	102.5	99.3	104.2	116.8	122.3
Production Gap	Mt'000	189.6	193.6	169.5	168.0	168.0	165.6	170.8	164.9	168.6	156.5	158.6	162.0	159.6	111.7	137.7

## Livestock Sector contd...

Domestic Demand - Egg																
Egg Requirement	Mn. per Year	3,157	3,321.5	3,370.8	3,418.2	3,467.5	3,513.1	3,551.5	3,588.0	3,626.3	3,664.6	3,730.3	3,732.1	3,768.6	3,809.0	3,710.0
Domestic Production	Mn.	817	861.7	1,032.1	1,172.4	1,289.5	1,356.6	1,594.8	1,449.0	1,243.0	1,252.0	1,380.0	1,099.0	941.0	1,185.3	1,457.1
Production Gap	Mn.	2,340	2,459.8	2,338.7	2,245.9	2,178.0	2,156.5	1,956.7	2,139.0	2,383.3	2,412.6	2,350.3	2,633.1	2,827.6	2,623.7	2,252.9
Per Capita Availability																
Milk	kg per Year	16.9	18.3	9.8	9.8	9.6	9.7	9.8	9.8	9.9	10.1	10.2	11.4	12.0	12.1	14.7
Chicken	kg per Year	1.8	2.2	3.6	3.8	3.9	4.2	4.0	4.4	4.3	5.0	5.0	4.9	4.9	5.7	6.8
Eggs	No. per Year	29.6	46.9	55.9	62.6	67.8	70.3	82.0	73.7	62.6	62.4	67.5	53.7	45.6	82.0	112.7
Mutton	kg per Year	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Pork	kg per Year	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.4
Beef	kg per Year	2.0	1.5	1.6	1.5	1.5	1.5	1.5	1.5	1.4	1.3	1.1	1.1	1.1	1.7	1.8
Imports																
Milk and Milk Products	Mt	66,507	50,185	52,526	49,069	60,769	58,461	52,702	52,788	65,840	61,242	65,376	63,874	75,483	88,129	83,867
	Rs. Mn	2,322	5,532	7,780	9,080	9,587	10,106	11,289	12,591	16,254	19,306	30,849	18,609	29,029	38,192	39,038
Poultry and Poultry Products	Mt	161.3	635.6	1,488.7	1,522.7	1,491.0	2,427.7	2,042.1	2,098.5	479.3	1,199.9	2,617.1	989.9	1,235.7	1,952.1	844.5
	Rs. Mn	11.8	40.8	90.6	98.8	97.3	149.6	131.2	151.6	32.7	88.7	228.9	85.2	149.7	300.1	148.1
Mutton and Mutton Products	Mt	148.3	699.5	805.9	596.3	537.5	450.8	536.7	405.7	450.0	415.9	293.1	269.7	284.9	169.2	163.0
	Rs. Mn	12.6	60.1	87.7	88.7	106.1	100.6	120.1	109.0	116.6	116.4	93.0	58.3	82.2	72.9	105.2
Pork and Pork Products	Mt	26.9	3.7	19.8	8.9	6.7	8.9	12.8	4.2	48.8	60.3	37.7	0.5	0.2	0.3	0.9
	Rs. Mn	2.3	0.9	8.4	4.3	3.4	5.8	4.3	4.6	6.2	27.6	21.1	0.4	0.5	0.4	0.8
Beef and Beef Products	Mt	63.8	64.3	68.7	53.8	65.9	50.2	53.4	33.6	67.5	23.7	30.1	22.0	28.9	61.1	27.5
	Rs. Mn	15.2	20.9	26.5	14.6	19.8	21.4	32.2	24.1	29.0	23.1	25.6	16.9	12.7	52.3	24.2

Sources: Department of Census and Statistics and Department of Animal Production and Health  
(a) Provisional

### Fisheries Sector

Item	Unit	1900	1995	2000	2001	2002	2003	2004	2005	2007	2008	2009	2010	2011	2012(a)
<b>Fishing Fleet Capacity (Total Boats)</b>	<b>No.</b>	<b>27,675</b>	<b>27,269</b>	<b>28,148</b>	<b>27,717</b>	<b>28,703</b>	<b>30,295</b>	<b>31,164</b>	<b>30,504</b>	<b>38,383</b>	<b>39,049</b>	<b>40,245</b>	<b>48,134</b>	<b>53,476</b>	<b>53,210</b>
High Seas Boats		n.a.	n.a.	6	6	8	10	9	10	10	13	19	26	29	130
Multi Day Boats		2,364	1,639	1,430	1,572	1,614	1,530	1,581	1,328	2,454	2,529	2,604	2,679	3,843	3,950
One Day Boats		**	1,357	1,170	993	1,112	1,486	1,493	1,164	1,085	1,110	1,135	1,160	1,120	890
Out Board 6-8 m FRP		9,758	8,564	8,690	8,744	9,033	11,020	11,559	11,010	15,016	15,016	15,016	15,016	22,890	23,100
Motorized Traditional Boats		973	1,060	1,205	640	776	618	674	1,660	2,188	2,213	2,238	2,263	2,960	2,340
Non-Motorized Traditional Boats		14,580	14,649	15,100	15,200	15,600	15,040	15,260	14,739	16,640	17,178	18,243	26,000	21,650	21,760
Beach Scene Boats		***	***	547	562	560	591	588	593	990	990	990	990	984	1,040
<b>Annual Fish Production</b>	<b>MT</b>	<b>183,980</b>	<b>235,750</b>	<b>300,380</b>	<b>284,760</b>	<b>302,890</b>	<b>284,960</b>	<b>286,370</b>	<b>162,680</b>	<b>291,050</b>	<b>319,120</b>	<b>339,730</b>	<b>384,670</b>	<b>444,830</b>	<b>486,170</b>
Marine Fish Catch		145,790	217,500	263,680	254,890	274,760	254,680	253,190	130,400	252,670	274,630	293,170	332,260	385,270	417,220
Coastal		134,120	157,500	175,280	167,530	176,250	163,850	154,470	63,690	150,110	165,320	180,410	202,420	222,350	257,540
Offshore and Deep Sea		11,670	60,000	88,400	87,360	98,510	90,830	98,720	66,710	102,560	109,310	112,760	129,840	162,920	159,680
Inland and Aquaculture		38,190	18,250	36,700	29,870	28,130	30,280	33,180	32,280	38,380	44,490	46,560	52,410	59,560	68,950
<b>Fish for Dry or Smoking</b>	<b>MT</b>	<b>22,000</b>	<b>36,000</b>	<b>60,900</b>	<b>43,650</b>	<b>61,720</b>	<b>54,340</b>	<b>63,470</b>	<b>18,900</b>	<b>77,830</b>	<b>93,240</b>	<b>97,690</b>	<b>100,120</b>	<b>112,295</b>	<b>131,840</b>

Source: Ministry of Fisheries and Aquatic Resources Development

\*\* Included in Multi Day Boats

\*\*\* Beach Scene Boats are included in Non- Motorized Traditional Boats

(a) Provisional



# APPENDIX

## Tax Reforms Introduced since 2011

### 1. Income Tax

#### 2011

- The tax-free allowance for the computation of personal income taxes was increased from Rs.300, 000 to Rs.500, 000.
- Pay-as-you-earn (PAYE) tax was made a final tax for those with only employment income and the threshold was increased to Rs. 600,000 (by way of additional exemption of Rs. 100,000).
- The personal income tax slabs were widened to Rs 500,000 each from Rs 400,000 each and rates were reduced to 4-24 percent from 5-35 percent.
- The PAYE tax was introduced for government sector employees.
- The corporate income tax rate was reduced to 28 percent from 35 percent. The rate of tax applicable to Non Governmental Organizations (NGOs) on the profits (3 percent of the donations) was reduced from 30 per cent to 28 percent.
- Certain concessionary rates were introduced for different sectors such as education, agriculture, exports and Small and Medium Enterprises (SMEs) etc.
- Income tax rates particularly applicable to the firms that are engaged in export related activities with higher local value addition were reduced. Accordingly,
  - The tax rate was reduced to 12 percent for normal export activities and If the value addition is more than 65 percent,
  - then the applicable tax rate was reduced to 10 percent.
- Liquor and tobacco products were subjected to a high income tax rate of 40 percent.
- Relief was granted on Employees' Provident Fund (EPF) contributions and retirement benefits.
- Withholding tax on interest income of individuals was revised to tally with the reduction of the tax rate and the broadening of the tax slabs.
- Withholding tax on specified fees was removed as a part of the process for simplification of tax system.
- A restriction on qualifying payment was made to certain sectors.
- A new tax holiday regime was introduced covering a minimum investment of Rs 50 million up to large investments and certain sectorwise exemptions without any investment criteria such as undertaking for fishing, producing agricultural seeds or planting materials, undertaking for the operation of any port terminal and businesses carried out in any port in Sri Lanka or undertaking for the construction of any port.

#### 2012

- Tax holiday regime was streamlined into three levels;
  - Small and Medium Enterprise Sector
  - Large Scale Investments and
  - Strategic Import Replacement Enterprises.
- In order to facilitate the investments made in an existing business, qualifying payment relief was granted for expansion of undertakings of the same qualified criteria, including strategic import replacement companies.
- Selected tax exemptions were granted in general without any investment criteria for areas such as profits from the administration of any sports grounds, stadium or sport complex, and royalty received from outside Sri Lanka and interest on foreign loans etc.
- Concessionary rates were applied on the profits from activities such as;
  - SME enterprises
  - Manufacturing and exporting value added tea through joint ventures of the exporter cum manufacturer
  - Local handloom products and
  - Healthcare services.
- In order to reduce upfront cost, deductions in arriving at the taxable profit were allowed on:
  - High tech plant and machinery etc. at 50 percent
  - Triple deduction for expenditure on research and development (R&D)
  - Travelling overseas up to a certain level and
  - Maintenance or management of any sports ground, stadium or sport complex.



**2013**

- The rule in deciding residency of individuals was relaxed to improve free movement of individuals and to promote remittance of foreign earnings
- An exemption was granted for any income earned outside Sri Lanka, if such income is remitted to Sri Lanka.
- Specific Exemptions:
  - Institutional: Profits and income (other than interest or dividends) of;
    - College of General Practitioners of Sri Lanka
    - Sri Lanka Social Security Board
    - Any Public Corporation to the extent of provision of services free of charges out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the government
    - Sri Lanka Savings Bank which is merged with National Development Trust Fund
    - Sri Lanka Deposit Insurance Scheme and Lanka Puthra Development Bank.
  - Source wise exemptions: Profits and income of:
    - Any off- shore business where goods are procured outside Sri Lanka and exported to another country other than Sri Lanka.
    - Royalty, franchising fee or any payment for designing made to any foreign collaborator by a BOI registered company during the period of tax holiday under section 17A or Section 16D of Inland Revenue Act (IRA).
    - Any government assisted private schools.
    - Profits from employment of any expert who is not a citizen of Sri Lanka and brought to Sri Lanka by a Board of Investments of Sri Lanka (BOI) registered company, during the period of tax holiday under section 17A or section 16D of the Inland Revenue Act, where the total investment made is out of foreign direct investments exceeding US\$ 50 million if such services are essential to carry out the activities of the company, as determined by the BOI on request made for this purposes (The exemption is limited to 5 experts).
    - Interest on corporate debt securities or Municipal Bonds issued with the approval of the General Treasury to develop capital market and provisions were made to deduct WHT in cases which are not exempted.
    - Interest payable to a person outside Sri Lanka on loans taken has been extended on foreign bonds as well.
    - Profits and income of an undertaking from cultivation of renewable energy crops in agricultural lands is exempt for a period of 10 years.
    - Profit and income from production, distribution and sale of organic fertilizer.
    - Profits and income derived from any source outside Sri Lanka by an individual who is a resident and citizen of Sri Lanka, if such income is remitted to Sri Lanka through a bank in Sri Lanka.
    - Profits and income from a business of manufacturing (other than manufacturing of liquor or tobacco products) of an individual returned to Sri Lanka after completion of his foreign employment exempt for a period of 5 years if the earnings were utilized in that business.
- Concessionary income tax rates were introduced on:
  - Profits of unit trust management companies
  - Poultry industry
  - Supply of goods or services to ships
  - Local sales by export undertakings up to 40 percent
  - Operating mini hydro power projects
  - Turnover limit for the application of concessionary rate of SME's was increased from 300 million to 500 million, with the view of promoting SMEs
  - Profits from employment of pilots or employees working for companies, which provide professional services to persons out of Sri Lanka for payment in foreign currency and the profits from employment being compensation for loss of employment, which is not uniformly applicable to all the employees, was reduced from maximum of 20 percent to 16 percent.
  - Profits from export of "Organic tea in bulk" (classified as non-traditional goods) were reduced to maximum of 12 percent
  - Tax payable by any company listing its shares on or after 1 April 2013, and more than 20 percent of its shares are issued to the general public was reduced by 50 percent for the year of assessment in which such shares are listed and for the two years of assessment immediately succeeding that year of assessment.
- Ascertainment of profits and income, deductions;
  - On the purchase of plant and machinery, energy saving equipment etc. to reduce the upfront cost of capital investment.
  - Special Levies charged by the Government - Any sum paid by a Public Corporation or Government owned business undertaking as a special levy to the government will be allowed as an expenditure deductible.
  - Research and Development (R&D) expenses - The triple deduction allowed for expenditure on R&D carried out through government institutions was extended to such expenditure incurred on R&D activities carried out through private institutions as well.
  - Advertisement expenses - The present restriction on the deduction of advertisement expenses (25 percent) was removed for specific sponsorship of international sports events approved by the Minister of Sports (with effect from 1 August 2012).
  - Separate provisions were introduced for the determination of arms length price of goods and services in local transactions of associated undertakings and new provisions for advance pricing arrangements.

<b>2.</b>	<b>Economic Service Charge (ESC)</b>
<b>2011</b>	<ul style="list-style-type: none"> <li>• Turnover for the chargeability of the ESC was increased to Rs. 25 million per quarter mainly for the benefit of the SMEs while the rates schedule was simplified.</li> <li>• Exemption from the payment of ESC was granted for tax not paid for past period due to conflict environment and financial constraints of SMEs in which turnover per year is less than Rs. 100 million.</li> </ul>
<b>2012</b>	<ul style="list-style-type: none"> <li>• Turnover applicable on ESC liability was expanded to Rs. 50 million from Rs. 25 million per quarter. Chargeability of ESC was simplified by removing the liability on the turnover of any business of which the profits are subject to income tax.</li> <li>• Exemptions were granted on any sale of locally manufactured clay roof tiles and pottery products by a manufacturer</li> </ul>
<b>2013</b>	<ul style="list-style-type: none"> <li>• The funds for the provision of services on behalf of the Government of Sri Lanka by any Public Corporation will not be treated as turnover for the purposes of ESC and</li> <li>• The turnover of the Central Bank of Sri Lanka was exempted from ESC.</li> </ul>
<b>3.</b>	<b>Value Added Tax (VAT)</b>
<b>2011</b>	<ul style="list-style-type: none"> <li>• VAT rates were unified at 12 percent (including VAT on Financial Services) and the VAT system was modified to avoid complexities and cumbersome refund procedure and setting off mechanisms.</li> <li>• An Investment Fund Account (IFA) was established to transfer the 8 percent of the VAT reduction on Financial Services to be utilised for SME loans etc as per the guidelines issued for that purpose.</li> <li>• Simplified Value Added Scheme (SVAT) was introduced to facilitate the exporters, deemed exporters, suppliers to Strategic Development Projects and Specified government projects to avoid applying for cash refunds and financial constraints on purchases.</li> <li>• VAT advance payments (WHT) was removed.</li> </ul>
<b>2012</b>	<ul style="list-style-type: none"> <li>• The restriction of 5 percent on the claimability of unabsorbed VAT was removed.</li> <li>• Changes were made to the SVAT scheme to ensure its smooth implementation.</li> <li>• Exemptions were given to a number of activities/items, including; <ul style="list-style-type: none"> <li>• Cinema industry</li> <li>• Pharmaceutical industry</li> <li>• Agriculture, and</li> <li>• Plant, machinery or equipment for certain enterprises enjoying tax holidays, subject to conditions specified in the related agreements.</li> </ul> </li> </ul>

**2013**

- VAT was imposed on wholesale or retail trade with quarterly turnover (including exempted turnover and supplies) not less than Rs 500 million to broaden the VAT base.
- VAT threshold was increased to Rs. 3 million per quarter or Rs. 12 million per annum on all the businesses carried out by any person or partnership to facilitate SMEs.
- Following VAT exemptions were provided for institutions, imports or local supplies;
- Institutional exemptions: Central Bank of Sri Lanka, Any Public Corporation to the extent of provision of services on behalf of the Government, free of charges out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government and Unit trust Management Companies.
- The supply of; hotel accommodation to any sportsman, organizer of any sport event or sponsor arriving in Sri Lanka for participating in any sport event or activity connected with sport, locally manufactured products out of coconut waste (coco peat, coir fiber, grow pellets, grow bags, twist fiber, coconut husk), services provided to yarn, fabric or garment manufacturers, which result in the improvement of quality, character or value of any fabric or garment (non-exporters)
- The import of;
  - Bowsers, bulldozers, graders, levelers, excavators, fire fighting vehicles, Road tractors for semi trailers, raw materials for the manufacture of energy saving bulbs under specified HS Code Numbers.
  - Gully bowsers, semi-trailers for road tractors and any machinery or equipment for the use of garbage disposal activities carried out by any local authority.
  - Packing materials not manufactured in Sri Lanka exclusively for the use for the packing locally manufactured ayurvedic medicines by the manufacturer of such ayurvedic medicines.
- Supply of leasing facilities (rental on or after 01 January 2013) in respect of bowsers, bulldozers, graders, levellers, excavators, fire fighting vehicles and road tractors for semi-trailers which are subject to VAT exemption at the point of import.
- Application of special rates: The supply to the local market by export oriented BOI registered companies is subject to the following special rates:
  - Garments - Rs 25.00 per piece
  - Fabrics or products manufactured out of fabrics:
  - Linen or curtains - Rs 40.00 per kg
  - Towels - Rs 25.00 per item
  - Bags - Rs 40.00 per item
  - Excess fabric as cut pieces not more than two meters in length - Rs 25.00 per kg
  - Any other fabric at Rs 40.00 per kg
- Simplified Value Added Tax (SVAT) Scheme: Changes were made to regularize Guidelines through Gazette notifications, registration provisions to be made mandatory, and to incorporated penal provisions for non-compliance of those provisions.
- Filing of VAT Returns and payment of taxes: The date of filing VAT return was extended to the last day of the month and the payment dates were made twice a month other than for manufacturing.

**4. Nation Building Tax (NBT)****2011**

- The NBT rate of 3 percent was reduced to 2 percent and NBT was extended to the wholesale and retail level amalgamating the Business Turnover Tax (BTT) of Provincial Councils (1 percent) relating to those sectors.
- A revenue sharing mechanism between the central government and the Provincial Councils (PCs) was introduced to compensate the loss of revenue of PCs from the abolition of the BTT.
- The percentage of the revenue collected from the motor vehicle registration fees transferred to PCs was increased to 70 percent from 60 percent with effect from 01 January 2011.
- The transferring of entire revenue from stamp duty and 1/3 of NBT to PCs was commenced from 2011.

**2012**

- Exemptions were granted for a number of items, including the followings;
- Importation of an air craft or a ship, artificial limbs, wheel chairs, hearing aids, accessories for such aids, white canes for the blind, Braille typewriters and parts, Braille writing papers and boards, timber logs, yarn except sewing thread and vegetable fiber based yarn, fabric - subject to a Cess of Rs 75.00 per kg.
- Wholesale or retail sale of printing of books, goods to exporters, collectors of fresh milk, green leaf, cinnamon, rubber (latex, crape or sheet rubber), petrol, diesel or kerosene in a filling station
- Locally manufactured clay roof tiles and pottery products by a manufacturer
- Sale of a painting by the creator of such painting.

<b>2013</b>	<ul style="list-style-type: none"> <li>The NBT threshold of all the businesses carried out by any person or partnership was increased to Rs. 3 million per quarter or Rs. 12 million per year to facilitate the SMEs.</li> <li>Following exemptions were granted;</li> <li>Institutional Exemptions: Central Bank of Sri Lanka or any Public Corporation to the extent of provision of services on behalf of the Government, free of charges out of the funds voted by Parliament from the Consolidated Fund or out of any loan arranged through the Government.</li> <li>Import of: <ul style="list-style-type: none"> <li>Solar panel modules, accessories or solar home systems for the generation of solar power energy, Coal, goods for the use of any international sports event held in Sri Lanka.</li> <li>Gems subject to a Special Service Fee at the rate specified in the Gazette published under section 6A(a) of the Customs Ordinance, (Chapter 235) and including any subsequent sales of such gems as processed gem.</li> <li>Gully bowlers, any machinery or equipment for the use of garbage disposal activities carried out by any Local Authority.</li> <li>Any machinery or equipment identified for the purpose of generating electricity by the Ceylon Electricity Board (CEB) or any institution which has entered into an agreement with CEB with the approval of the Minister of Finance.</li> <li>The local supply of goods manufactured by a company identified as a Strategic Development Project to another Strategic Development Project, a specified project which are considered as import replacement</li> </ul> </li> </ul>
<b>5.</b>	<b>Import Duty and Cess</b>
<b>2011</b>	<ul style="list-style-type: none"> <li>The four band tariff structure, which consists of 0, 5, 15 and 30 percent tariff rates, is continued.</li> <li>Import tax burden was eased, particularly targeting a number of areas, including agriculture, domestic industries, SMEs, tourism, telecommunication, construction, information and communication technology (ICT) and business process outsourcing (BPO) etc. to support the economic growth.</li> <li>Import duties and Cess on most of the raw materials were removed.</li> <li>Intermediate goods, which are necessary to local value added industries, were placed at a low tax regime to support the domestic value addition.</li> <li>Taxes on importation of machinery and equipment were reduced further to encourage mechanization of economic activities.</li> <li>The importation of branded light weight electrical and electronic products was brought into a low effective tax regime by reducing/removing their taxes with the view of developing Sri Lanka as an international trading hub as well as reducing the smuggling and tax evasion.</li> <li>Surcharges on imports were eliminated.</li> <li>Desired import duty rates and Cess were introduced to domestic value-added products that Sri Lanka has a comparative advantage to create a fair competition.</li> </ul>
<b>2012</b>	Import duty on a number of items was revised, Cess rates applicable on a number of items were revised and new items were subjected to Cess
<b>2013</b>	Import duty on a number of items was revised, Cess rates applicable on a number of items were revised and new items were subjected to Cess
<b>6.</b>	<b>Special Commodity Levy (SCL)</b>
	Periodic changes were introduced to the SCL system including new items bringing to SCL system.
<b>7.</b>	<b>Other Taxes</b>
<b>2011</b>	<p>Following taxes were removed responding to public demands for a simpler tax system;</p> <ul style="list-style-type: none"> <li>Debits Tax</li> <li>Social Responsibility Levy (SRL)</li> <li>Regional Infrastructure Development Levy (RIDL)</li> <li>Environment Conservation Levy (ECL)</li> <li>Cellular Mobile Subscribers' Levy (CMSL)</li> <li>Telecommunications Levy was introduced as a composite tax to the telecommunications sector by removing VAT, NBT, RIDL, ECL and CMSL.</li> <li>Tapping of Palmyrah and Kithul trees was permitted without having to obtain special permits to develop that industry.</li> <li>Strategic Development Projects Act No. 14 of 2008 was amended to infuse clarity that tax exemptions could be granted from time to time, either in full or part, to facilitate attracting strategic investments.</li> <li>Excise duty on liquor and cigarettes was revised.</li> </ul>

<b>2012</b>	<ul style="list-style-type: none"> <li>Levy on rooms of Five Star Hotels provided to Airline Crew to whom the concessionary rates specified by price regulations apply was removed.</li> <li>Withholding tax on registration of motor vehicles was removed.</li> <li>Rate applicable on the annual luxury motor vehicle levy, annual semi-luxury motor vehicle levy and annual semi-luxury dual purpose vehicle levy was changed.</li> <li>Application of the provisions of the Customs Ordinance, Exchange Control Act and the Import and Export Control Act was exempted to enterprises recognized by the BOI as companies engaged in specified export or international trade.</li> <li>Excise duty on liquor and cigarettes was revised.</li> </ul>
<b>2013</b>	<ul style="list-style-type: none"> <li>Exemptions on Ports and Airports Development Levy (PAL) were granted for the import of a number of items, including those for the encouragement of the economic activities in Sri Lanka by promoting Sri Lanka as a service provider for local and international petroleum operations activities.</li> <li>Single cabs or light trucks used for transport of goods were exempted from payment of semi luxury dual purpose motor vehicle levy.</li> <li>The liability of the payment of Tourism Development Levy by the SME sector having turnover less than Rs. 3 million per quarter or Rs. 12 million was removed.</li> <li>Concessions were given to promote and encourage the investments in the fields such as entrepot trade, off-shore business and provision of front end services to manufacturers abroad.</li> <li>A 1 percent Crop Insurance Levy charge was imposed on the after tax profits of financial institutions. The revenue from this levy will be remitted to a dedicated account of the National insurance Trust Fund incorporated under the National Insurance Trust Fund Act No. 28 of 2006.</li> <li>Following changes were introduced to Betting and Gaming business; <ul style="list-style-type: none"> <li>The annual levy payable was revised as follows; <ul style="list-style-type: none"> <li>Payable by betting business through agents was increased to Rs 2,000,000 from Rs 1,000,000 per year.</li> <li>Payable by betting business where live telecast facilities are not used was reduced to Rs 25,000 from Rs 50,000 per year</li> <li>Payable by business of gaming, including Rudjino, was increased to Rs 100 million from Rs 50 million per year</li> <li>A 5 percent of all inclusive levy was imposed on gross collection (as Betting and Gaming Levy) on monthly basis other than the levy referred above in lieu of all indirect taxes</li> </ul> </li> <li>Registration of business for tax purposes was introduced as a mandatory requirement to carry out the betting and gaming activity in Sri Lanka</li> </ul> </li> <li>Permission was given for tapping Coconut trees on a similar basis to Kitul trees.</li> <li>Telecommunication Levy was reduced from 20 percent to 10 percent in respect of services provided through Internet.</li> <li>The provisions were made to the Customs Ordinance to make an appeal by any person (importer or exporter) to the Director General of Customs where there are disputes relating to the imposition or exemption of customs duty on any goods, any conditions or exception to the payment of customs duty or clarification or description of goods and if determination is not given within the time specified to appeal to the Tax Appeals Commission.</li> <li>Marriage Registration Act, Kandyan Marriage and Divorce Act, Muslim Marriage and Divorce Act, Notaries Act, Registration of Documents Act, Powers of Attorney Act and Births and Deaths Registration Act were amended to revise various fees under these acts upward.</li> <li>Excise duty on liquor and cigarettes was revised.</li> </ul>
<b>8.</b>	<b>Taxes in General</b>
<b>2011</b>	Prohibitive tax rates on many items, including motor vehicles, were simplified.
<b>2012</b>	<ul style="list-style-type: none"> <li>An all-inclusive tax of Rs. 75.00 per kg., including sale of any excess export oriented fabric, was imposed except for cut pieces of fabric not more than two meters, in which the tax is Rs. 25.00 per kg.</li> <li>An all inclusive tax of Rs. 40.00 per kg was imposed on fabric sales by export oriented companies with the approval.</li> <li>All imports of branded apparel products, including sportswear, were subjected to a maximum of 35 percent of all inclusive tax at the point of Customs.</li> </ul>

9.	Tax Administration
<b>2011</b>	<ul style="list-style-type: none"> <li>• A Tax Interpretation Committee and a Tax Appeals Commission (in place of the Board of Review in existence under the Inland Revenue Act) were appointed to further improve the tax system.</li> <li>• Investment Fund Account (IFA) was established to use tax savings by banks and financial institutions from the reduction of VAT rate on financial services to 12 percent and maximum corporate income tax rate to 28 percent, to use for long term lending.</li> <li>• The BOI incentive regime was revisited to move towards a broad-based low tax regime and to provide an equitable incentive regime for private investment. Accordingly,               <ul style="list-style-type: none"> <li>• The tax regime under the BOI Act was harmonized with the Inland Revenue Act (IRA) in relation to Section 17 of the both Acts and</li> <li>• All the tax incentives were brought under the IRA.</li> </ul> </li> </ul>
<b>2013</b>	<ul style="list-style-type: none"> <li>• Income Tax: Certain administrative measures were introduced to strengthen the tax administration and the implementation of the provisions of the Acts such as;               <ul style="list-style-type: none"> <li>• The reduction of time bar from 2 years to 18 months</li> <li>• Application of the provisions of the IRD Act after the expiry of tax holiday under BOI and</li> <li>• Restrictions in extending the existing agreements of tax holidays under BOI</li> </ul> </li> <li>• Tax Appeals Commission: The required legislations were made enabling Tax Appeals Commission to resolve the tax appeals efficiently in order to facilitate taxpayers.</li> <li>• Fiscal Management (Responsibility) Act (FMRA): Amendments were introduced to the Section 3 of the FMRA in order to strengthen the fiscal management by;               <ul style="list-style-type: none"> <li>• Increasing the limit of government guarantees as a percentage of Gross Domestic Product (GDP) from 4.5 percent to 7 percent.</li> <li>• Introduction of the a realistic medium term timeframe relating to government debt with a reduction of government debt as a percentage of GDP to 80 percent in 2013 and to 60 percent by 2020 to reflect current thinking regarding the future path of fiscal policy development.</li> </ul> </li> </ul>





