

Annual Report
2008





Ministry of Finance and Planning Sri Lanka

Annual Report 2008

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Ministry of Finance and Planning

3

(as at 31st December 2008)

His Excellency the President Mahinda Rajapaksa

Minister of Finance and Planning

Hon. Ranjith Siyambalapitiya MP

**Minister of State Revenue and State Finance
and Deputy Minister of Finance and Planning**

PRINCIPAL OFFICIALS

S. Abeysinghe

**Secretary, Ministry of Finance and Planning
Secretary to the Treasury**

Deputy Secretary to the Treasury

R.H.S. Samaratinga

Additional Secretary

U.R. Seneviratne

Senior Advisors

R.A. Jayatissa- Senior Economic Policy Advisor

W.D.Lakshman - Senior Economic Advisor

V. Kanagasabapathy - Financial Management

R.P.L. Weerasinghe- Taxation Policy

Operations and Review

N.G. Dayaratne- Director General

Heads of Treasury Departments

(as at 31st December, 2008)

Department of National Planning

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

Department of External Resources

Ms. S Cooray	-	Director General
J.H.J. Jayamaha	-	Additional Director General
Ms. M Gamage	-	Additional Director General
Ms. D. Senanayaka	-	Additional Director General

Department of National Budget

Ms. W.S. Karunaratna	-	Director General
Ms. C.S. Kumarasinghe	-	Additional Director General

Department of Public Enterprises

B.M.S. Batagoda	-	Director General
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Department of Management Services

L.P. Jayampathi	-	Director General
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Department of Fiscal Policy

S.R. Attygalle	-	Director General
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Department of Trade, Tariff and Investment Policy

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

Ms D. De Zoysa	-	Director General
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Department of Public Finance

W. Ekanayake	-	Director General
D. Abeysooriya	-	Additional Director General

Department of Legal Affairs

Ms. H.M.N.S. Gunawardana - Director General

Department of Treasury Operations

D. Widanagamachchi - Director General

K.K.V. Jayaratne - Additional Director General

Department of State Accounts

Ms. D.P.R. Senadhipathi - Director General

Department of Management Audit

P.M.P. Fernando - Director General

K.M. Jayatilake - Additional Director General

K. Mahalingam - Additional Director General

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

(as at 31st December, 2008)

Department of Inland Revenue

S. Angamma - Commissioner General

Department of Customs

S.A.C.S.W. Jayatilake - Director General

Department of Excise

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

Department of Import and Export Control

L.P. Jayathilake - Controller

Department of Valuation

P.W. Senarathne - Chief Valuer

Department of Census and Statistics

Ms. D.B.P.S. Vidyaratne - Director General

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

(as at 31st December 2008)

Central Bank of Sri Lanka	Governor Deputy Governor Deputy Governor	A.N. Cabraal W.A. Wijewardena Ms. R.Jayamaha
Bank of Ceylon	Chairman General Manager	G. Wickramasinghe B.A.C. Fernando
People's Bank	Chairman General Manager	W. Karunajeewa M. Wickramasinghe
National Savings Bank	Chairman General Manager	K.D.U. Gunaratne S.P.R. Perera
State Mortgage & Investment Bank	Chairman General Manager	C. Weerakkody A. Weerasinghe
Lanka Puthra Development Bank	Chairman General Manager	A.S. de Silva Ms. S. Wickramasinghe
Rajarata Development Bank	Chairman General Manager	A.B. Karunathilaka R. Siriwardena
Sabaragamuwa Development Bank	Chairman General Manager	B.F. Siyambalapitiya A.B. Ariyaratna
Kandurata Development Bank	Chairman General Manager	Ms. J.G.W.K.R.Jayawardane H.M.K.B.Hellarawa
Ruhuna Development Bank	Chairman General Manager	D. Palihakkara -
Uva Development Bank	Chairman General Manager	T.M.W. Mallahawa U.V. Gunadasa
Wayamba Development Bank	Chairman General Manager	I.M.R.B. Khombakadawala W.A. Sirisena
Development Lotteries Board	Chairman General Manager	U. Liyanage J.D.C. Jayasinghe
National Lotteries Board	Chairman General Manager	C. Ataluwage M.S. Karunaratne

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

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

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KEY ECONOMIC INDICATORS	
GDP at Market Price (Rs.Bn)	4,411
GDP at Market Price (US\$ Mn)	40,714
Services (US\$ Mn)	23,309
Industry (US\$ Mn)	11,959
Agriculture (US\$ Mn)	5,446
Per Capita GDP at Market Price (Rs.)	218,161
Per Capita GDP at Market Price (US\$)	2,014
Inflation – GDP Implicit Price Deflator (%)	16.3
Inflation- CCPI	22.6
Unemployment (No)	394,000
Unemployment- (%)	5.2
STRUCTURE OF THE ECONOMY	
GDP Growth (%)	6.0
Agriculture (%)	7.5
Industry (%)	5.9
Services (%)	5.6
EXTERNAL TRADE	
Exports (US\$ Mn.)	8,137
Imports (US\$ Mn)	14,008
Trade Balance (US\$ Mn)	(5,871)
Worker Remittances	2,918
Current Account Balance (US\$ Mn)	(3,775)
Overall Balance (US\$ Mn)	(1,225)
GOVERNMENT FINANCE	
Revenue (Rs. Bn)	655
Tax Revenue (Rs. Bn)	586
Total Expenditure(Rs. Bn)	996
Current (Rs. Bn))	744
Public Investment (Rs. Bn)	264
Revenue Deficit/GDP(%)	2.0
Budget Deficit/GDP(%)	7.7
Revenue (US\$ Mn)	6,049
Tax Revenue (US\$ Mn)	5,406
Total expenditure (US\$ Mn)	9,195
Current Expenditure (US\$ Mn)	6,865
Public Investment (US\$ Mn)	2,435
Budget deficit (US\$ Mn)	3,146
Total Government Debt (US\$ Mn)	33,029
Total Debt Service (GDP %)	13.4
Total Government Sector Debt (GDP %)	81.1
Domestic (GDP %)	48.3
Foreign (GDP %)	32.8
MONETARY SECTOR DEVELOPMENT	
Narrow Money (Rs. Bn)	277.3
Broad Money (Rs. Bn)	1,522.7
Money Growth (M2b)	8.5
ACCESS TO BANKING & FINANCE	
Domestic Commercial Banks	11
Branch Network	1,894
Foreign Commercial Banks	11
Branch Network	174
Specialized Banks (Excluding RDBs)	8
Branch Network	417
Registered Finance Companies	34
Registered Finance Leasing Companies	76
Specialized Leasing Companies	22
Merchants Banks	9
Regional Development Banks	6
Branch Network	219
Insurance Companies	16
Life & General	11
General	3
Life	2
Unit Trusts	8
Student Savings Units	2,665
ATMs	1,583
Credit Cards Issued	917,418
Local	57,641
Global	859,777
Reserve Requirement (%)	7.75
Credit Institutions Reported to CRIB	95
Credit Rating Institutions	2
SUSTAINS TARIFF REGIME	
Duty Free Items	759
Duty Below 5%	2,084
Duty between 5%-10%	466
Duty between 15%-28%	2,929
Duty Between 75% - 100%	9
Specific	51
Specific and Advolarum	168
Total line items	6,466

TAX RATES (%)		SOCIAL DEVELOPMENT	
Personal Income Tax		Life Expectancy at Birth (Years)	73.4
First Rs. 300,000	Free	Infant Mortality (per 1,000 live births)	12.0
Next Rs. 300,000	5	Maternal Mortality Rate (100,000 live births)	45
Next Rs. 200,000	10	Crude Birth Rate(per 1,000)	18.8
Next Rs. 200,000	15	Crude Death Rate(per 1,000)	5.8
Next Rs. 200,000	20	Literacy (overall % of population)	90.8
Next Rs. 200,000	25	Dependency Ratio (%)	49.3
Next Rs. 500,000	30	Access to Safe Drinking Water (% of people)	78.0
Balance	35		
Foreign Exchange Earnings	Free		
Corporate Tax		MOBILITY OF PEOPLE	
Taxable Income less than Rs. 5.0 Mn	15	Motor Bicycles	1,760,600
Other	35	Three-Wheelers	406,532
Export Income	15	Tractors	247,458
		Lorries/Trucks	276,622
		Busses	81,050
		Jeeps/Cars	381,447
Economic Service Charge		ACCESS TO BASIC INFRASTRUCTURE	
ESC rates vary	0.05% to 1%	Electricity to Households	83.0
(Any ESC paid is deductible from any income tax/ corporate tax payable)		Pipe-born water	34.5
		Telecommunication	
VAT		Fixed Access Services ('000)	3,446
Exports	0	Cellular Phones ('000)	11,082
Essential Goods	5	Internet & E-mail Subscribers ('000)	234
Standard	15	Postal	
Luxury	20	Post Offices	
Port & Airport Development Levy	3	Public	4,053
Social Responsibility Levy	1.5	Private	684
Customs Duty		Roads	
Inputs/Raw Material	0 - 2.5	Road density (km/sq. km)	1.5
Intermediate	6 or 15	Village Coverage (%)	95
Finished and Luxury Goods	28	Total Road Length(km)	116,862
Excise Duty		Ports	
Cigarettes (Rs. Per 1,000)		Vessels arrived	4,811
Length below 60 mm	2,289	Total Container Handled-(TEUs '000)	3,687
Length 60-67 mm	5,215	Total Cargo Handled- '000 MT	50,612
Length 67-72 mm	7,991	Transshipment (TEUs '000)	2,785
Length 72-84 mm	9,681		
Length exceed s 84 mm	11,170		
Pipe Tobacco (Rs. Per kg)	400		
Motor Vehicles		MEGA IRRIGATION SCHEMES	
Passenger Transport	0	(extent to be newly cultivated)-ha	
Three Wheelers		Deduru Oya Reservoir	8,515
Petrol	4	Uma Oya	5,000
Diesol	14	Rambukkan Oya Reservoir	3,500
Other vehicles	34 - 120	Udawalawa Left Bank	3,500
		Veheragala (Menik Ganga)	3,100
		Moragahakanda & Kalu Ganga	3,000
		Yan Oya	2,600
		Heda Oya	2,000
ANNUAL AVERAGE EXCHANGE RATE			
Rs./US\$	108.33		
Rs./SDR	171.24		

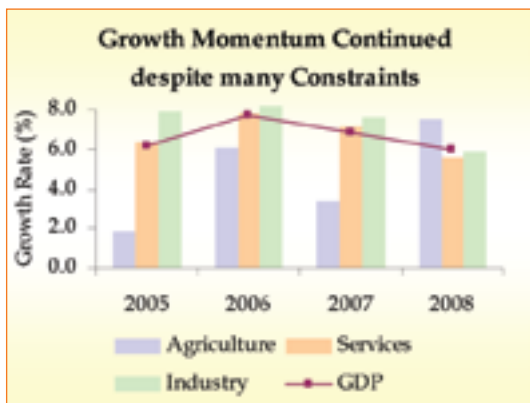
PROFESSIONAL(PROVISIONAL)			MEDIA	
Doctors (Registered)	17,587		<i>Registered</i>	
Registered Medical Practitioners(RMPs)	1,756		Sinhala Newspapers (No.)	154
Dental Surgeons (Registered)	1,716		Tamil Newspapers (No.)	36
Engineers (Registered)	10,478		English Newspapers (No.)	61
Accountants			<i>Published</i>	
CIMA Qualified			Sinhala Newspapers (No.)	133
(Past finalized & Associate members)	3,070		Tamil Newspapers (No.)	26
Chartered Qualified (practicing Chartered			English Newspapers (No.)	46
Associates & Fellow)	3,952		<i>TV Stations</i>	14
Lawyers (Registered)	18,685		<i>Government</i>	
			Sinhala	3
ACCESS TO BASIC NEEDS			Tamil	1
Health			English	1
Private Hospitals	220		<i>Private</i>	
Public Hospitals	612		Sinhala	6
Beds (Government Hospitals)	67,125		Tamil	1
Central Dispensaries	417		English	4
No. of Doctors	12,970		Radio stations (No.)	42
Total manpower (provisional)	106,298		FM Channels- Government	14
			Sinhala	9
Education			Tamil	4
<i>Government</i>			English	1
Schools	9,662			
Students	3,929,234		CAPACITY OF ON-GOING HYDRO POWER/THERMAL	
Teachers	212,699		PLANTS(MW)	
<i>Private & Pirivenas</i>			Upper Kotmale Hydro Power	150
Schools	786		Norochchole Coal Fired Plant	300
Students	171,261		Kerawalapitiya Thermal Power Plant	270
Teachers	11,426		Installed Capacity (MW)	2,644
Access to semi Permanent and Permanent Houses (% of			CEB	1,758
people)	88		Hydro Power	1,207
			Thermal Power	548
WOMEN PARTICIPATION			Wind Power	3
Women Population ('000)	10,105		Private Sector	874
Employed Women('000)	2,511		Hydro Power	137
Women Participation in the Labour Force (%)	34.3		Thermal Power	737
Women in the Public Service	548,100			
Unemployed women (%)	8.0		STOCK MARKET	
			Market Capitalization (Rs. Bn)	489
POVERTY			Average Daily Turnover (Rs. Mn)	465
Poverty gap index-PGI or PI (%)	3.1		All Share Price Index (ASPI)	1,503
Poverty Head Count Index-HCI (%)	15.2		Milanka Price Index (MPI)	1,631.3
Average Daily Calorie Intake			Market Price Earning Ratio (%)	5.4
(both poor and non-poor)	2,118		Turnover to Market Capitalization	22.6
Gini co-efficient of Per Capita expenditure	0.4			

Macro Economic Perspectives

Economic Overview

The Sri Lankan economy registered a 6 percent growth in 2008. While the international financial market turmoil and the global economic slowdown reflected an impact on the economy, particularly from the last quarter of the year, the sharp rise in oil and other commodity prices during most part of the year had an adverse impact on the economy. The liberation of the Eastern province from terrorism, the launching of development programmes under *Nagenahira Navodaya* and resumption of economic activity in the region made a major positive contribution to economic growth.

Chart 1.1



The strong performance of the agriculture sector, with a growth rate of 7.5 percent, made the biggest contribution to the overall economic growth, reducing inflationary pressures and maintaining a high level of employment in the rural sector. Improvements in the performance of the agriculture sector were shown in paddy and other non-plantation crops. The policy measures taken towards improving the performance of the agriculture sector included a major drive to cultivate abandoned paddy lands, providing tax incentives, the fertilizer subsidy, financing on concessional terms and attractive producer prices. Tea production increased by 4 per cent, despite a significant reduction in prices towards the latter part of the year.

The services sector indicated a moderate growth rate of 5.6 percent, reflecting a combined impact of expanded communication and banking services in a sustainable manner and slowing down of exports and domestic trade, and a further contraction in the hotel and restaurant services. The industrial sector showed a moderate growth rate of 5.9 percent in 2008 compared to 7.6 percent in 2007, particularly owing to contraction of global demand. The GDP reflected a 6 percent growth in 2008 in comparison to 6.8 percent in 2007.

The consumer price inflation after reaching a peak of 28.2 percent in June 2008 caused by increased international prices of oil and other commodities and related domestic price adjustments and the impact of increased wages, started to decelerate during the second half of 2008 due to improved domestic supplies of food commodities and the reduction in fuel prices. The inflation rate declined to 14.4 percent in December and there has been a further deceleration to 2.9 percent in April 2009.

In the wake of high inflation, the Central Bank continued a tighten the monetary policy stance through the control of reserve money growth, compressed domestic liquidity and by facilitating credit growth. While the credit to government from the banking sector increased by 52.9 percent, credit to private sector declined to 8 percent in 2008 from 19 percent in 2007. However, bank credit to public corporations declined by 4.4 percent in 2008.

The opening up of Treasury Bills market to foreign investors in 2007 led to a significant inflow of short-term capital with this mechanism up to September 2008. There were premature withdrawals of such funds towards the end of 2008 amidst the global financial market turbulence, exerting pressure on the Balance of Payments and the domestic exchange rates.

Chart 1.2

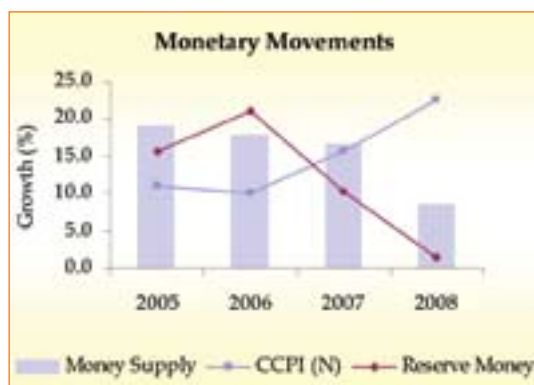
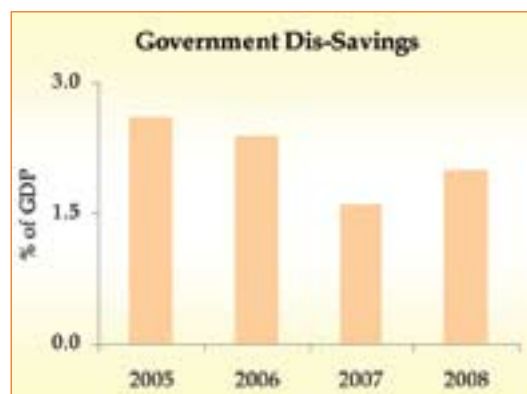


Chart 1.3



The budgetary situation was managed in a absolutely challenging environment with a lower than expected revenue growth and more than expected expenditure overruns. The slippages in revenue arose from tax concessions granted on essential commodities to curtail domestic price increases, a significant decline in motor vehicle imports partly due to import restrictions introduced in the form of increased margin requirements on Letters of Credit for non-essential imports and the implementation of concessionary duty scheme for public servants. Contraction in cigarette sales and liquor production attributable to government policy and the slowdown in the economic activities in the latter part of the year, further hampered revenue flows. Despite these developments, the Government revenue enhanced by Rs. 90 billion to Rs. 655 billion an increase of 16 percent. However, the revenue as a percentage of GDP reduced to 14.9 percent in 2008 from 15.8 percent in 2007.

Despite the pressures exerted due to high fertilizer prices, salary and Cost of Living Allowance (COLA) increases to public servants and pensioners, recruitments to strengthen security forces in the newly liberated areas and the high interest cost stemming from tight monetary policy, the recurrent expenditure as a percentage of GDP declined to 16.9 percent in 2008 from 17.4 percent in 2007. However, this gain was not reflected in the revenue account as revenue deficit increased to 2 percent in 2008 from 1.6 percent in 2007.

Public investments were maintained at 6 percent given the Government's commitment in developing infrastructure

facilities with a view to support economic growth and income generating activities in the lagging regions. Another noteworthy achievement in the fiscal front was maintaining the budget deficit at the same levels as 2007 despite revenue shortfalls, spillovers in certain recurrent expenditures and channeling enhanced funds for public investments. Anticipated foreign financing in the form of capital market borrowings did not materialize in the wake of the global financial turmoil. Therefore, Government had to resort to domestic borrowings especially bank financing thus reversing the net repayments to the banking sector recorded in 2007. As there was a reduction in net foreign financing, mainly caused by flight in short term capital and increased amortization, there was increased recourse to domestic financing. While this shift in financing mitigated the exchange risk in deficit financing, it constrained the growth of credit to the private sector, in the context of a tight monetary policy. The Government debt to GDP ratio further declined to 81 percent of GDP in 2008 from 85 percent in 2007.

Positive trends which Sri Lanka recorded with respect to Balance of Payments (BoP) in the last three years continued into the first nine months of 2008, reversed with the shrinking of exports, pre-mature withdrawals of foreign investments in Government securities and reduction in capital inflows. The overall balance in the BoP recorded a deficit of US \$ 1,225 million by end 2008 in comparison to a surplus of US\$ 531 million in 2007.

Table 1.1
Medium Term Macro Economic Framework (2007-2011)

Indicator	Projection				
	2007	2008	2009	2010	2011
GDP at Market Prices (Rs. Bn)	3,579	4,411	4,927	5,665	6,485
GDP Growth (%)	6.8	6.0	3.0	5.0	6.0
Inflation-GDP deflator (%)	14.0	16.3	9.0	9.5	8.0
Total Investments/GDP(%)	28.0	27.5	24.0	27.0	29.0
Domestic Savings/GDP(%)	17.0	14.1	16.6	18.7	20.3
National Savings/GDP(%)	23.4	18.0	21.5	24.2	26.2
Exports (US\$ Mn)	7,640	8,137	7,394	7,911	8,720
Imports (US\$ Mn)	11,296	14,008	10,759	11,878	13,196
Services (US\$ Mn) (net)	302	402	300	357	449
Worker Remittances (US\$ Mn)	2,502	2,918	3,114	3,461	3,511
Current Account Balance(US\$ Mn)	-1,401	-3,775	-931	-1,165	-1,269
Current Account Deficit/GDP (%)	-4.3	-9.3	-2.2	-2.7	-2.7
Overall Balance (US\$ Mn)	531	-1,225	-141	592	603
Revenue/GDP(%)	15.8	14.9	15.1	16.0	16.7
Expenditure/GDP(%)	23.5	22.6	22.1	22.0	21.7
Revenue (Deficit/Surplus)/GDP(%)	-1.6	-2.0	-1.3	-0.2	1.0
Overall Budget Deficit/GDP(%)	-7.7	-7.7	-7.0	-6.0	-5.0
Government Debt/GDP(%)	85.0	81.1	77.1	73.0	71.0
Reserve Money Growth(%)	10.2	1.5	11.9	13.3	14.2
Broad Money Growth (%)	16.6	8.5	14.0	14.5	14.0

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

External Economic Environment

World Economy Entered into a Recession

The world economy entered into a recession in 2008. This followed a prolonged period of commodity price increases, a burst of the housing market bubble in advanced countries, a credit crunch and bank and corporate failures, mostly in advanced economies.

The consequent sharp contraction of world economic activity, with declining output and growing unemployment

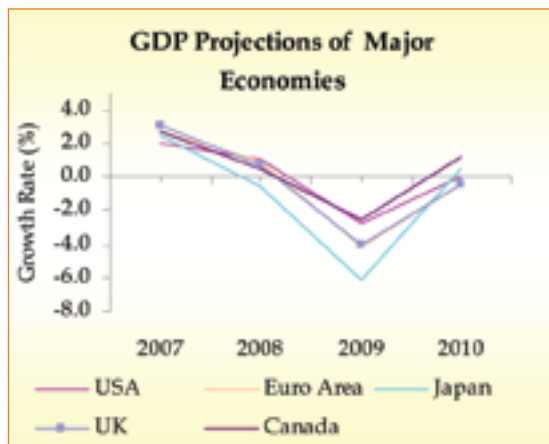
in advanced countries led to a contraction of world trade with adverse repercussions on the rest of the world particularly in relation to developing countries. This situation warranted increased intervention by governments individually as well as through interventions via coordinated policy responses by major players in the world economy and multilateral lending organizations, in order to mitigate the impact of the crisis and facilitate the early resumption of economic activities.



Financial Crisis
Source: www.economist.com

According to IMF, the growth of world GDP declined to 3.2 percent in 2008 from 5.2 percent in 2007, with advanced countries registering a 7.5 percent reduction in output during the fourth quarter of 2008. GDP growth in these economies is projected to decline by 3.8 percent in 2009. In emerging and developing economies, the GDP growth declined to 6.1 percent in 2008 and are expected to grow only by 1.6 percent in 2009. In this context, Sri Lanka's growth also declined to 6 percent in 2008 with a likelihood of a further moderation in 2009.

Chart 1.4



A Transition from High Inflation to Low Inflation/Deflation
The world economy after going through a high inflationary phase over the last few years is presently experiencing a deflationary phase. Emerging and developing economies have registered an average consumer price inflation of 9.3 percent in 2008 with some regions showing somewhat higher inflation. In the context of declining commodity prices experienced recently, the average consumer price inflation of emerging and developing economies is projected to be around 5.7 percent in 2009.

Recession and Rise in Unemployment

The impact of the recession has been felt by many countries signified by massive lay-offs. Despite large fiscal and monetary stimulus packages been launched, unemployment rate in the US reached 8.5 percent in March 2009, while China experienced a 9 percent unemployment rate with many other countries approaching the double digit level.

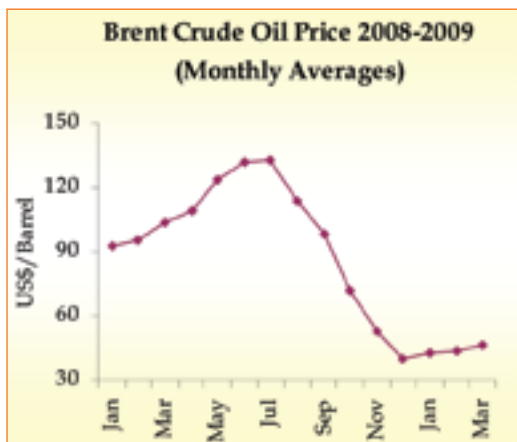
Sharp Contraction of World Trade and Finance

The growth of the world trade volume declined by 50 percent in 2008 to 3.2 percent and is projected to decline to -11.5 percent in 2009 with terms of trade for emerging and developing countries expected to deteriorate by 8 percent in 2009. The import growth of advanced countries declined to mere 0.4 percent in 2008 from 4.7 percent in 2007 and is expected to decline by 12.1 percent in 2009. Meanwhile, net foreign private capital flows to emerging and developing economies had declined from US\$ 617.5 billion in 2007 to US\$ 109.3 billion in 2008, indicating a 83 percent contraction while the prediction for 2009 is a net capital outflow of US\$ 190.3 billion from these economies. However, the net official capital flows to these emerging and developing countries have been negative in 2008.

Oil Prices Peaked in Mid 2008 and Exerted Pressure on Balance of Payments

Oil prices reached US\$ 147/bbl in July 2008 and Sri Lanka's oil import bill rose to US\$ 3,368 million in 2008 from US\$ 2,501 million in 2007.

Chart 1.5



Fiscal Stimulus Packages Raises Budget Deficits in Many Countries

There was an unprecedented injection of liquidity in the form of massive fiscal stimulus and financial sector support measures in many countries. In the Group of 20 (G20) countries, the overall fiscal expansion due to both discretionary action to support economic activity and other fiscal developments have been estimated at 5.5 percent of GDP in both 2009 and 2010. In addition, the financial sector support measures including guarantees issued, have been estimated at 32 percent of their GDP, although upfront government spending on these is estimated at 3.5 percent of GDP.

Table 1.2

Budget Deficits of selected Countries (% of GDP)

	2007	2008	2009	2010
USA	-2.9	-6.1	-13.6	-9.7
Euro Area	-0.7	-1.8	-5.4	-6.1
Japan	-2.5	-5.6	-9.9	-9.8
UK	-2.6	-5.4	-9.8	-10.9
Canada	1.4	0.4	-3.4	-3.6
India	-9.3	-7.3	-5.1	-6.5
China	13.0	9.0	6.7	8.0

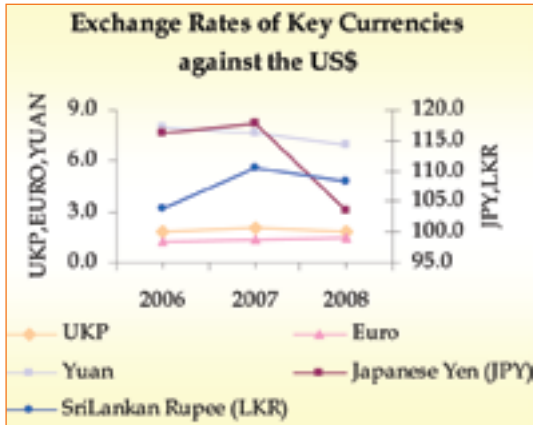
Source: IMF- World Economic Outlook

Despite an Increase in Public Spending the Sharp Reduction in Fixed Capital Formation Globally would Result in Slow Progress in Economic Recovery

While witnessing a growth in public spending in advanced countries in addition to spending to support economic revival, the projection in the April 2009 World Economic Outlook of the IMF indicates a 2.3 percent decline in fixed capital formation in advanced countries and a 2.7 percent decline in newly industrialized countries. With the easing of the oil price boom, the construction industry in oil rich countries has also experienced a contraction. The fixed capital formation in advanced countries is predicted to decline by 12.6 percent in 2009 and by a further 2.7 percent in 2010, while those in newly industrializing Asian economies a sharper contraction of 17.9 percent is predicted for 2009 with a marginal contraction predicted in 2010.

Exchange Rates among Key Currencies were Highly Volatile

Chart 1.6



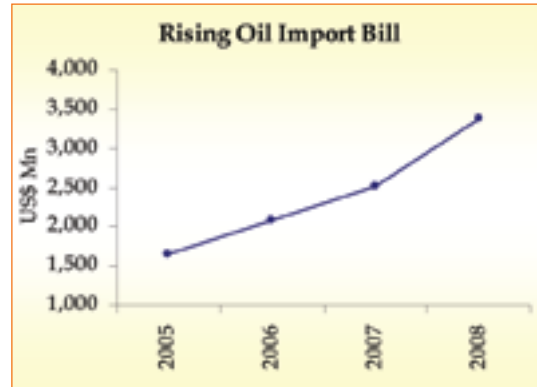
The sharp volatility in exchange rates also made adjustment in the exchange market more challenging, particularly in the backdrop of prospects for recovery of world demand being uncertain. While many currencies have shown drastic adjustments in nominal exchange rates, in the context of complex international market conditions and price behaviours, the rupee also depreciated by 4 percent against the dollar in 2008, unlike in the previous year.

External and Internal Shocks

Unprecedented High Oil Price

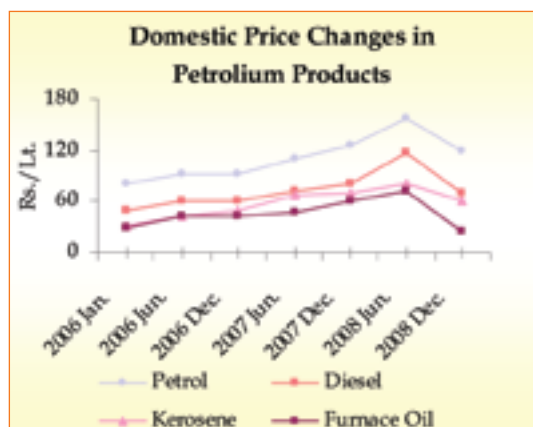
The international oil prices increased to unprecedented levels with crude oil price per barrel reaching to US \$ 147 in July 2008. Our country being totally import dependent pertaining to oil, Ceylon Petroleum Corporation was compelled to revise domestic oil prices.

Chart 1.7



The country's oil bill alone was US \$ 3,368 million in 2008, a further increase of US \$ 800 million during the year. The outflow of foreign exchange caused a severe pressure on the exchange rate and the trade deficit. The exceptionally high oil prices compelled the Government to revise domestic prices to prevent extra pressure on its budgetary operations. However, as the Government was mindful of price escalations in the domestic market and also of consequential general cost increases, these revisions were implemented as gradual adjustments. As a further measure, the government also granted duty waivers to mitigate rising prices of petroleum products and also maintained kerosene prices at a subsidized rate for the benefit of vulnerable segments in the society. The oil prices declined in the latter part of the year enabling the government to reduce domestic prices and reinstate formal taxes on petroleum products by removing duty waivers granted during the period that high prices prevailed.

Chart 1.8



High International Commodity Prices

Food prices continued to increase sharply in 2008 in response to high oil and fertilizer prices, vagaries of weather, precautionary demand for food stocks in many countries and policy response in the form of export bans and price controls by major food exporting countries, to counter domestic inflation.

Table 1.3
Price increases, 2006-2008 June

Commodity	2006 Price	2008 June Price	Percentage Increase
Rice	120	258	116
Wheat	311	870	180
Maize	200	358	79
Soya beans	235	583	148
Milk powder	2,194	4,400	101

Source : Food and Agriculture Organization (FAO) of the United Nations

The Global Food Price Index (2002-2004=100) compiled by FAO reached a peak of 214 index points recording an increase of 44 percent on a year- on-year basis.

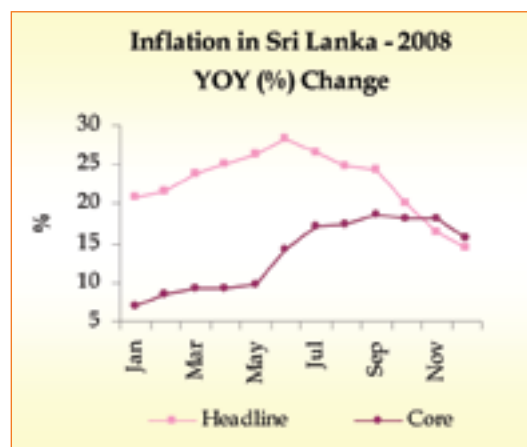
The surge on food prices compelled the government to continue duty concessions granted on such imports to manage rising prices. This resulted in a further revenue loss

of around Rs 15 billion in 2008. The revenue forgone with regard to duty waivers granted on essential commodities alone was around Rs. 14 billion in 2007.

High Cost - of-Living

The high international prices of oil and commodities and consequent domestic fuel price adjustments, supply shortages in domestic agricultural commodities stemming from bad weather conditions, demand pressures due to upward revisions of salaries and pensions to the public sector and the lagging nature of monetary expansion during 2005-2006 resulted in high cost push impact in the first half of 2008. This resulted in the Colombo Price Index (2002=100) to increase rapidly in the first half of the year reaching as high as 28.2 percent on an year-on-year basis in June 2008. However, measures taken by the government to bring down escalating food prices, such as imposing price ceilings on rice and milk powder and the grant of duty waivers were effective to a certain extent in the effort to stabilize prices.

Chart 1.9



However with domestic supply side improvements, especially the bumper paddy harvest in Yala coupled with dwindling world commodity and oil prices due to the contraction in demand in many countries stemming from the recessionary pressures, paved way for a deceleration in inflation in the latter part of the year that reached 14.4 percent by the end of the year. This has been further reduced to 2.9 percent by end April 2009.

A Widened Trade Deficit

Exports reached US \$ 8,137 million, a moderate increase of 7 percent over 2007. Agricultural exports which grew by 23.1 percent to US \$ 1,855 million in 2008, provided a major impetus to growth during the year. Agricultural exports contributed to nearly 70 percent of the export growth, which is largely due to the attractive commodity price boom that prevailed in international markets.

Total imports in 2008, amounted to US \$ 14,008 million in comparison to US \$ 11,296 million in 2007. Expenditure on consumer goods imports increased by 27 percent to US \$ 2,549 million in 2008, largely reflecting high international prices of essential commodities that prevailed before the burst of the commodity price bubble in the global scenario. Non-oil intermediate imports increased to US \$ 4,973 million from US \$ 4,017 million and capital goods increased to US \$ 2,979 million recording a 11 percent increase over 2007.

Table 1.4
External Trade

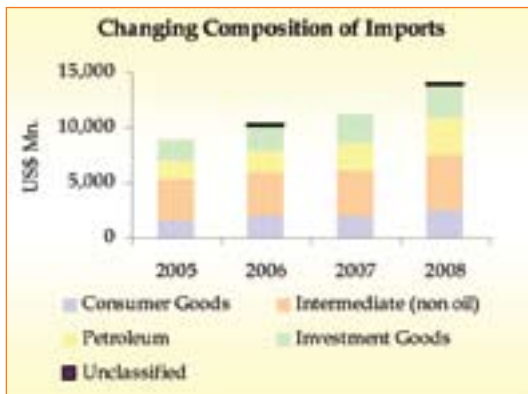
Category	2006	2007	US \$ Mn 2008
Exports	6,882.7	7,640.0	8,136.7
Agricultural Exports	1,292.7	1,507.2	1,854.8
Tea	881.2	1,025.2	1,271.5
Other Agricultural Products	411.5	482.0	583.3
Industrial Exports	5,401.1	5,967.3	6,159.5
Textile and Garments	3,080.4	3,339.6	3,468.7
Rubber Products	427.5	482.5	541.9
Machinery and Equipment	394.3	542.2	461.0
Diamond and Jewellery	327	367.2	436.1
Food, Beverages and Tobacco	363.9	513.5	458.3
Petroleum Products	188.4	168.9	254.8
Other Industrial Products	619.6	483.6	473.1
Gem and Mineral Products	119.9	127.8	122.4
Unclassified *	68.9	37.6	0
Imports	10,253.7	11,296.5	14,008.0
Consumer Goods	1,980.2	2,001.8	2,549.2
Food and Beverages	956.0	1,064.8	1,505.0
Other	1,024.2	937.0	1,044.2
Intermediate Goods	5,962.4	6,517.3	8,340.6
Petroleum	2,070.3	2,500.7	3,368.2
Fertilizer and Chemicals	424.9	473.9	937.7
Textiles and Clothing	1,546.2	1,632.2	1,701.9
Wheat Grain	199	234	375
Other	1,722.0	1,676.5	1,957.8
Investment Goods	2,245.7	2,685.2	2,978.8
Machinery and Equipment	1,065.4	1,246.7	1,307.7
Transport Equipment	364.5	364.5	406.7
Building Material	546.2	780.3	931.6
Other	269.6	293.6	332.9
Unclassified	65.4	92.2	139.4
Trade Deficit	(3,371.0)	(3,626.5)	(5,871.3)

Source: Central Bank of Sri Lanka

* includes re export

These developments created a trade deficit of US \$ 5,871 million in 2008 from US \$ 3,656 million in 2007. In relation to GDP it was 14 percent. The cost of petroleum imports contributed to 57 percent of the trade deficit.

Chart 1.10



Towards Strengthening National Security

After the liberation of the entire Eastern Province from the grips of terror, the liberation of the Northern Province commenced in 2008. The security of the rest of the country was also strengthened to avert any terrorist related incidents. These developments necessitated new recruitments especially to protect the areas newly liberated from terrorists. Extra resources were needed to meet wages and other needs of the security forces, replenishment and for procurement of equipment. Government expenditure on security, including public order and safety amounted to Rs. 181 billion largely reflecting increased expenditure on manpower related outlays of the security forces.



Opening of A-9 Road

Economic Highlights

Sustained Economic Growth Amidst Challenges

Demonstrating the resilience to external and domestic shocks the economy witnessed a growth of 6 percent in 2008. This is the fourth consecutive year that the economy recorded a growth of 6 percent or over. This performance should be viewed in the backdrop of the impact of global economic melt-down which in particular affected the Sri Lankan economy from September 2008. During the first nine months, then economy grew at a rate of 6.5 percent, and declined to 4.5 percent in the last quarter.

Twofold Growth in Agriculture

In 2008, the agricultural sector grew by 7.5 percent compared to the 3.4 percent in 2007, with all subsectors registering relatively high growth rates. High international prices for agricultural commodities in the first three quarters, increased paddy production reflecting benefits of the grant of the fertilizer subsidy and other incentives granted by the Government, increase in the extent of land under cultivation particularly in the Eastern Province, positive results of the food production drive under “*Api Wawamu - Rata Nagamu*” program, were the main contributors to the upturn experienced in the agricultural sector. Taking advantage of the favourable weather conditions that prevailed in the first half of 2008, high international prices for agricultural commodities, good agricultural practices adopted such as timely pruning and the fertilizer subsidy extended to the small holder plantation sector, boosted the tea production in the first half of the year by over 19 percent, which was the highest performance registered in any first half of a year in the history of our country. However, it decelerated to 4.1 percent by end 2008 mainly due to the contraction in the external demand. The drought that prevailed in the latter part of the year, also contributed to slowdown production. The tea prices recorded a significant increases in the first and second quarters of the year boosting export earnings from tea. However, by September, the prices dipped from Rs. 323 per kg to Rs.215 per kg consequent to lower demand.

The rubber production at 129 million kg recorded a 10 percent increase in 2008, despite unfavorable weather conditions

that prevailed in the first half of 2008. Production increased due to increased demand for natural rubber in the backdrop of escalating synthetic rubber prices and consequent price increases. The prices increased by over 30 percent in the first half of the year, experienced a turnaround in the second half of the year with the decline in demand for rubber based products mainly attributable production cuts by large automobile manufacturers. Coconut production recorded a marginal increase of 1.4 percent in 2008. In the first half, coconut production suffered due to the severe drought that prevailed in 2007 and the pests outbreak in the Southern Province, but picked up in the second half and recorded an annual production of 2,909 million nuts.

The paddy production in Maha 2007/2008 and Yala recorded an increase of 24 percent to record level of 3.87 million metric tons. The significant development in the paddy production can be attributed to the extraordinary growth of 51 percent experienced in the Yala season which normally records a relatively lower production. The increase in the extent cultivated mainly in the Eastern province, continuation of the Government's fertilizer subsidy scheme amidst high international fertilizer prices, the more favourable rainfall in 2008 in almost all parts of the country, the substantial shift in the consumption pattern from wheat flour to rice with the average monthly wheat flour consumption reducing by 20 percent contributed to the production increases. This was also supplemented by the 24 percent increase introduced to Government minimum purchasing price of paddy from producers, the successful implementation of government food program "*Api Wawamu - Rata Nagamu*", various agricultural programmes such as "*Yaya*" and "*Saruketha Yaya*" programmes designed to improve the productivity through best agricultural practices, use of modern technology, provision of quality seeds by Agriculture Department also made a positive impact towards improving production.

The production of minor agricultural export crops such as cocoa, cloves, coffee increased while production of cinnamon, pepper and betel declined mainly due to lower global demand. Cinnamon prices reduced by 30-40 percent



Paddy Harvest in the East

per kg with lower demand from Latin American countries while import restriction by countries such as India and unfavourable weather affected the pepper production. A noteworthy development in minor agricultural exports was recorded in fruit and vegetable exports in 2008. The value of vegetable exports increased by over 50 percent while fruit exports grew by 22 percent. Over 36,000 metric tones of fruit and vegetables were exported in 2008 indicating the potential of the sector.

Livestock increased by 5.6 percent with increased diary and poultry responding to the initiatives taken by the Government to boost such industries. Local milk production increased to 208 million liters from 202 million liters in 2007. The egg production grew by 1.4 percent to 1,413 million eggs while annual meat production which was at 102,000 metric tonnes also increased by 1.4 percent in 2008. The annual fish production reached the highest ever level of 319 million kgs in 2008, a 10 percent increase mainly due to increased fishing in the East coast due to expedited resettlement programmes carried out for the displaced, and due to the provision of fishing gear and nets through various community based livelihood development programmes initiated to empower the rural poor. Completion of renovation of all fishing harbours affected by the Tsunami also contributed towards improved fish production in 2008.

Government initiatives such as the introduction of an island wide food programme and minimum purchase price for paddy and milk, grant of the fertilizer subsidy even amidst a very high world price environment, interventions by the government to purchase paddy and enhance investment in irrigation facilities also boosted the output of agriculture sector. The provision of agricultural equipment and seeds especially to farmers in the East to reawaken areas that suffered due to terrorism, continuous government support through tax exemptions, credit facilities and interest subsidies also created a conducive environment to improve sectoral performance. Government also continued with the tax structure with a view to discourage agricultural imports.

Industry Sector Records a Moderate Growth Amidst Challenges

Withstanding the declining demand following the slowdown in major economies, the high cost of production stemming from high oil prices and resultant domestic price increases, value addition in the industrial sector grew by 5.9 percent in 2008 compared to the 7.6 percent witnessed in 2007. All four sub sectors namely mining and quarrying, manufacturing, electricity, gas and water, and construction contributed favourably for the growth in the sector.

The factory industry grew by 5 percent in 2008, compared to 6.7 percent growth in 2007. This achievement should be viewed in a backdrop of relatively high erosion in the competitiveness stemming from high cost of electricity, fuel, water and interest cost, coupled with declining demand conditions in major export destinations and slow domestic demand due to the tight monetary policy stance adopted by the Central Bank of Sri Lanka.

The performance of export oriented industries deteriorated especially towards the latter part of 2008, due to weakening global economic conditions and stiff competitions from low cost manufacturing countries such as China, India and Cambodia. The major export oriented industries being apparel and leather sectors recorded a slower growth of 3.1 percent in 2008, due to external pressures, consequent to major buyers adopting a more cautious approach in placing the orders due to the economic slowdown. Even under difficult conditions, the apparel and garment exports reached to US \$ 3,469 million in 2008. Easing of the uncertainties in the EU markets owing to the retention of the GSP + facility for a further period of three years from 2009 and major players consolidating through mergers, and being ready to face competition by adopting eco friendly manufacturing mechanisms facilitating solid waste management and low carbon emission, thereby helping the apparel sector to withstand related global pressures.

Table 1.5
Manufacturing Sector Statistics

Category	Value Addition (current price) Rs. Bn			Number of Projects Approved by BOI			Industrial Volume Index (1997=100)		
	2006	2007	2008	2006	2007	2008	2006	2007	2008
Food beverages and Tobacco Products	242	283	348	30	53	34	151.9	161.5	169.9
Textiles, Wearing Apparel and Leather	114	132	348	35	35	17	142.7	151.6	156.6
Wood and Wood Products	1.2	1.4	1.4	7	14	8	126.9	133.3	140.2
Paper and Paper Products	4	5	6	5	5	2	127.7	134.5	142
Chemical/Petroleum/Coal/Rubber and Plastic Products	95	113	135	18	27	12	174.5	187	198.5
Basic Metal Products	18	20	23	10	19	15	157.8	171.5	178.3
Fabricated Metal Products, Machinery and Transport Equipment	39	48	55	9	27	21	144.6	151.5	159.5
Manufactured Products n.e. Specified	1.9	2.2	2.5	10	28	30	133.7	140.8	147.6

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

The output of food, beverages and tobacco products increased by 5.2 percent in 2008 with an enhanced production of biscuits, canned fruits, vegetables, ice-cream etc. coupled with other initiatives adopted such as introduction of new products and brands in line with customer preferences and health promoting value added products and an improved distribution network for industries.

The chemical rubber and plastic products category grew by 6.4 percent in 2008 despite tyre and rubber based industries been severely affected due to the crash witnessed in the world automobile industry while the plastics and PVC product demand being curtailed due to the contraction experienced in the domestic construction industry. The introduction of new brands and products in plastic, paints and footwear and exploiting new export destination have also contributed positively.

High energy consuming industries such as ceramic and cement recorded a slower growth in 2008 owing to higher fuel and power costs while the growth in the gem and jewellery industry also decelerated due to reduced demand for such products stemming from the slowing down of the world income.

Construction sector grew by 7.8 percent, at a lesser growth than 2007. Although the public investments in ports, power, irrigation, roads and flyover projects boosted the construction industry, a contraction was seen in private sector investments in the housing and urban property development sector owing to reduced bank credit on housing and cost increases of inputs. The expected improvements in infrastructure developments and rehabilitation and reconstruction in the Eastern and Northern Provinces coupled with increased availability of bank credit in an environment of low inflation and relaxed monetary policy, is likely to create a greater positive impact on the construction industry.

The continuation of Governments commitment on regional industrialization and small and medium scale enterprise development aimed towards improving quality and addressing regional income disparities, continued in 2008. The grant of tax concessions and exemptions for

establishment and relocation of factories in the regions and on importation of machinery, establishment of industrial villages with necessary infrastructure facilities, the enhanced funds allocated to improve vocational training to prepare a workforce suitable for factory based industries, complemented the performance of the manufacturing sector.

Table 1.6
Sectoral Distribution of GDP Growth (%)

Sector	2006	2007	2008
Agriculture	6.3	3.4	7.5
Tea	-2.0	-1.8	4.3
Paddy	2.9	-6.2	22.9
Minor Exports	2.2	5.1	-2.1
Livestock	8.1	7.9	5.6
Food Crops	5.1	4.4	4.7
Fisheries	53.6	15.6	9.9
Industry	8.1	7.6	5.9
Agri. Processing	0.8	2.4	5.3
Factory Industry	5.7	6.7	5.0
SMEs	5.7	5.6	4.5
Electricity	14.8	4.6	2.7
Construction	9.2	9.0	7.8
Services	7.7	7.1	5.6
Trade	7.1	6.1	4.7
Hotels	2.5	-2.3	-5.0
Cargo	20.0	8.8	8.0
Post & Telecommunications	21.6	21.5	22.3
Financial Services	8.5	8.7	6.6
Government Services	5.0	6.0	5.7
Private Services	7.8	7.8	6.5
GDP	7.7	6.8	6.0

Source: Department of Census and Statistics

Moderate Performance of the Service Sector

The slowdown experienced in export and domestic trade owing to the global recession and the credit crunch impact on the domestic market, the contraction in the hotel and restaurants sector due to the decline in tourist arrivals in the wake of reduced income levels in destinations from which tourists come, reduced import trade due to lower demand and imposition of certain import restrictions, resulted in a slower growth of 7.1 percent in the services sector. The growth momentum recorded in telecommunication, banking, insurance and port cargo handling sectors contributed positively to enhance service sector performance.

The telecommunication sector which recorded a buoyant growth in the recent past with an annual growth of over 20 percent expanded further by 22.3 percent in value added terms during 2008. Telecommunication sector benefited from improvements in technology, capacity and coverage, leading to a greater subscriber network and higher service quality. The growth of the sector was facilitated by intensified competition in the industry with the arrival of new service providers coupled with an affordable cost structure been adopted by service providers. The subscriber network of the telecommunication sector grew by 36 percent in 2008, over the 47 percent growth in 2007. The fixed access telephone connections expanded by 26 percent benefiting from the expansion of the wireless network, thereby providing opportunities to the rural population to obtain connections easily. The mobile telephone penetration increased significantly in 2008, the mobile telephone connection as a percentage of the total population increased to 54.8 percent in 2008 from 39.9 percent in 2007, surpassing the levels in the region. These developments resulted in an increase in the telephone density (telephones per 100 people) to 72 from 54 in 2007.

The banking, insurance and real estate sector expanded by 6.6 percent in 2008. The tight monetary policy environment with high interest rates that reduced private sector credit and the slower growth in the real estate sector contributed to a contraction of this sector. However, the Commercial Bank and Licensed Specialized Bank (LSB) network expanded, supporting financial needs of the region. During 2008, bank branch expansion continued with 107 new branches being established including in the North and East. 93 new branches of Commercial Banks and 14 new branches of LSBs were opened with majority been located outside the Western Province reflecting the expansion of financial and economic activities in lagging regions. The bank network also has invested in Automated Teller Machines (ATM) to accommodate electronic fund transfer facilities. The ATMs which were in operation in 2008 increased to 5,369 from 4,951 in 2007.

The government continued to invest in the public transport system with a view to enhance the service by adding 199 new buses to augment the operational fleet of the CTB and 15 Railway Diesel Multiple Units and 100 passenger carriages to the existing fleet in Railways. Further funds were channeled to upgrade and introduce double track railway lines, improve the railways signal system and install new engine kits and purchase other spare parts to make the existing buses roadworthy.

Table 1.7
Selected Indicators of Service Sector Expansion

	2005	2006	2007	2008
Port Services				
Vessels arrived	4,139	4,469	4,710	4,811
Total Cargo Handled (MT 000)	37,301	42,661	46,344	50,612
Total Container Handled (TEU 000)	2,455	3,079	3,381	3,687
Transshipment (TEU 000)	1,716	2,330	2,469	2,785
Telecommunication Sector				
Fixed Telephone Lines (nos 000)	954	1,188	2,742	3,446
Cellular Phones (nos 000)	3,362	5,412	7,983	11,082
Wireless Phones (nos 000)	290	708	1,810	2,512
Internet and E-mail Subscribers	115	130	202	234
Health Sector				
Private Hospitals	190	208	212	220
Public Hospitals	606	606	612	612
No. of Beds (Government)	61,937	62,749	66,430	67,125
No. of Doctors (Government)	9,648	10,526	11,598	12,970
No. of Nurses (Government)	20,332	20,912	22,088	22,977
Financial Sector				
Bank Branches & Other Outlets	3,516	4,128	4,951	5,369
Credit Cards Issued	637,326	811,289	889,338	917,418
Branches of Insurance Companies	589	632	681	921
Registered Finance Companies	28	29	32	34
Registered Leasing Companies	68	72	76	78
Transport Services				
Buses	73,887	77,233	79,870	81,050
Cars	311,030	338,608	361,211	381,447
Lorries	223,740	244,176	262,584	276,622
Motor Cycles	1,265,514	1,422,140	1,604,648	1,760,600
Three Wheelers	254,193	318,659	361,727	406,532
Tractors	180,940	199,980	221,326	247,458

Source: Central Bank of Sri Lanka
Ministry of Finance and Planning

The other service sectors with notable private initiatives also expanded further during year. The number of private sector hospitals increased to 220, offering modern medical and laboratory facilities to the public. The Government investments on health services also increased with additional

funds been used to upgrade and open new wards, avail new and modern equipment and open new central dispensaries and hospitals. Investment on medical human resources was augmented with over 1,500 new doctors and over 900 new nurses being absorbed to the public health sector.

Table 1.8
Gross Domestic Product - Sectoral Composition (2002) Constant Prices

	2006	2007	(Rs. Mn) 2008
Agriculture, Forestry and Fishing	257,131	265,870	285,897
Agriculture, Livestock and Forestry	235,872	241,285	258,881
Tea	26,985	26,494	27,628
Rubber	4,993	5,205	5,743
Coconut	28,933	30,403	31,975
Minor Export Crops	10,187	10,706	10,478
Paddy	37,608	35,261	43,321
Highland Crops	27,054	28,428	29,439
Fruits	1,745	1,826	1,900
Vegetables	53,138	55,249	58,197
Livestock	17,992	19,415	20,495
Other Agriculture	6,856	6,999	15,206
Firewood & Forestry	12,869	13,544	14,499
Fishing	21,260	24,585	27,016
Industry	590,298	635,199	672,790
Mining and Quarrying	35,769	42,631	48,090
Manufacturing	370,355	394,233	413,680
Processing Industries	13,818	14,150	14,896
Factory Industry	333,372	355,611	373,215
Small Industries	23,166	24,472	25,570
Electricity, Gas and Water	52,926	55,339	56,847
Electricity	46,183	48,303	50,184
Gas	4,399	4,525	4,062
Water	2,344	2,512	2,601
Construction	131,248	142,996	154,173
Services	1,243,119	1,331,587	1,406,814
Trade, Hotels and Restaurants			
Import Trade	196,647	203,105	212,651
Export Trade	95,535	103,926	104,861
Domestic Trade	222,328	239,115	254,400
Hotels and Restaurants	9,411	9,199	8,741
Transport and Communication	259,546	286,764	310,029
Transport	220,990	241,648	256,954
Cargo Handling-Ports and Civil Aviation	13,583	14,773	15,951
Post and Telecommunication	24,973	30,343	37,124
Financial Services, Real Estate and Business Services	249,350	265,720	279,185
Banking and Insurance	177,817	193,375	206,048
Real Estates , Renting and Business Services	71,533	72,345	73,137
Government and Other Services	210,300	223,759	236,947
Public Administration and Defense	161,611	171,259	181,051
Community and Other Services	48,689	52,500	55,896
Gross Domestic Product	2,089,444	2,232,656	2,365,500

Source: Department of Census & Statistics

Growth in Exports despite Many Challenges

Earnings from exports recorded a growth of 6.5 percent to US \$ 8,137 million in 2008. Exports which grew by around 10 percent during the first three quarters of the year suffered due to the contraction of the world demand, towards the latter part of the year. The performance in the first three quarters were noteworthy considering challenges that had to be faced such as the economic slowdown faced by major trading partners, high oil prices, and consequential cost escalations coupled with the uncertainties associated with the availability of concessions under the GSP + scheme.

Agricultural exports grew by 23.1 percent to US \$ 1,855 million in 2008 providing an impetus to the export growth. Tea exports generated US \$ 1,271 million, the highest ever earnings recorded for tea exports benefitting from the attractive international prices that prevailed especially during the first three quarters of the year. With the rising demand from Middle Eastern countries, and the uncertainties in relation to production that prevailed in Kenya helped to boost Sri Lankan tea prices which reached a record high level during the period. Associated with the intensification of the global crisis, the drop in demand plunged tea prices in the latter part of the year, compelling the government to intervene through Sri Lanka Tea Board to purchase unsold tea at auctions.

Minor Agricultural exports such as fruits, vegetables, spices such as cloves and cinnamon and betel recorded both price and quantity increases and generated US \$ 287 million, a growth of 24 percent over 2007 levels.

The industrial export at US \$ 6,160 million recorded a moderate growth of 3.2 percent in 2008. The major factor attributable to this was the lower growth recorded in the apparel sector, which grew only by 3.9 percent compared to 6-8 percent growth in the recent years, mainly due to the sluggish US and EU markets. The progress made by tyre and other rubber product exports were curtailed towards the latter part of the year due to the slump in the world automobile industry coupled with declining demand for gems and jewellery stemming from the worsening world

economic conditions, also created a negative impact on industrial exports in 2008.

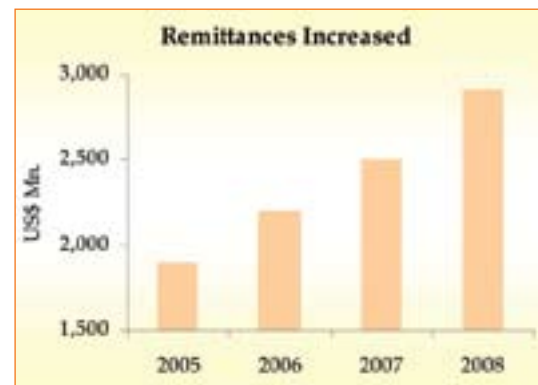
Chart 1.11



Increase in Worker Remittances

Worker remittances in 2008, continued to show an increase at a higher rate for the fourth consecutive year, registering US \$ 2,918 million in 2008. Increase in the average wages in Middle East countries due to increase in income levels in these oil producing countries, increased migrants to countries such as Malaysia, Korea and Singapore which attract higher wages coupled with intensified promotional activities by the commercial banks to mobilized remittances through banking system contributed to enhance worker remittances in 2008. The increased worker remittances provided a cushion to the increasing current account deficit of the Balance of Payment and the stability of the exchange rate.

Chart 1.12



Widened Surpluses in Trade in Services

Trade in service generated US \$ 402 million in 2008 compared to US \$ 302 million in 2007 with improved performances in telecommunications, computer and information technology services, construction and insurance services. The inflows from passenger services, freight charges and other port related activities grew by 22 percent benefiting from the higher rates that prevailed in the first nine months of the year coupled with the enhanced port activities mainly in transshipment cargo. Sri Lanka's improvements in providing specialized services such as software development and other information technology enabled services including Business Process Outsourcing (BPO) has also boosted income generation.

Rise in Investments

Gross domestic capital formation expanded in nominal terms by 21 percent in 2008 to Rs. 1,215 billion while in real terms increased by 4.6 percent. However, as a percentage of GDP the investment declined marginally from 28 percent in 2007 to 27.5 percent in 2008.

The increasing trend in Foreign Direct Investment (FDI) witnessed in recent year continued in 2008 and reached to US dollar 889 million, more than US \$ 150 million above the level recorded in 2007. The noteworthy development should be viewed in the backdrop of financial turmoil, the world is experiencing and the absence of any proceeds from privatization of government enterprises. This reflects the continuous investor confidence in long-term development projects in the country.

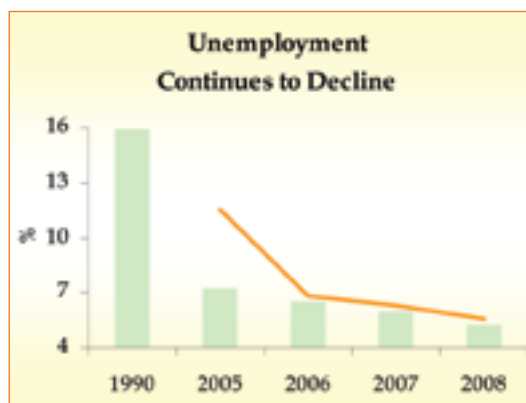
Chart 1.13



Unemployment Continued to Decline

Demonstrating a continued declining trend, the unemployment rate which was 7.7 in 2005, 7.5 percent in 2006 and 6 percent in 2007 declined further to 5.2 percent in 2008. The sustained growth around 6 percent for four consecutive years, implementation of several infrastructure programmes during the year, continues job creation in the public sector to strengthen the security services coupled with several projects implemented under the Employability Development Programmes and Employment Creation and Promotion Programmes contributed to create new employment opportunities in the labour market.

Chart 1.14



Another salient feature in unemployment figures was that male unemployment reduced to 3.8 percent from 4.3 percent in 2007 while the female unemployment figures dipping to 7.7 percent from 9 percent in 2007.

Table 1.9
Unemployment Rate by Level of Education

Level Education	Unemployment rate		
	Total	Male	Female
Below GCE O/L	3.8	3.4	4.5
GCE O/L	7.6	4.2	13.3
GCE A/L and above	8.9	5.3	12.6
Total	5.2	3.8	7.7

Source: Department of Census and Statistics

The steady increase in foreign employment over the years contributed positively for the decline in unemployment. The total departures were 252,021, an increase of 15.3 percent in 2008 compared to the 8.2 percent increase in 2007. The Government's efforts to prepare job aspirants to suit labour market requirements in foreign countries, the incentives granted for enhancing supply of professional services coupled with continued efforts to streamline procedures for overseas employment aspirants, had a positive impact on the foreign employment remittances in 2008.

Rural Development

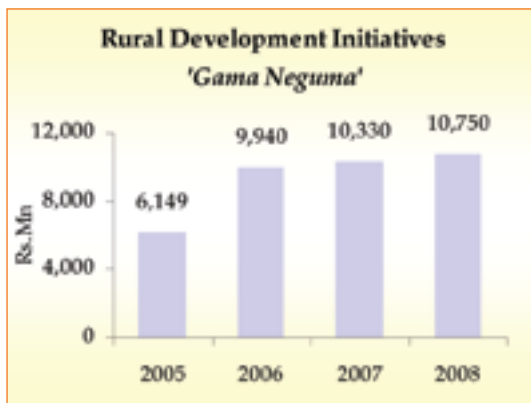
Government commitment in developing the national economy by strengthening the village as the centre of development continued in 2008. "Gama Neguma", the main rural development initiative to empower the rural poor through development projects with community participation gathered momentum in 2008 and expanded to nearly 13,000 Grama Niladari Divisions, by implementing of around 30,000 projects at a cost over Rs. 10.7 billion.

"Maga Neguma", the rural road development program expanded and around 1,350 km of rural roads have been rehabilitated in 2008, most of them been concreted to ensure durability. The cost incurred under this program is Rs 3,830 million in 2008. The Government also continued with "Gami Pubuduwa" and several micro finance programmes to restore community livelihood development

Infrastructure Development

The construction phase accelerated in mega infrastructure projects in power generation, ports, roads, water supply and irrigation. The Government was also successful in mobilizing foreign funds over US \$ 2 billion for projects such as Uma Oya Multipurpose Irrigation Project, Outer Circular Road additional funds for Southern Express Way etc while the construction of the first phase of Kerawalapitiya Combined Power Plant was completed in 2008 adding additional 150 MW to the national grid. Further the Walawe Left Bank Irrigation Project and Kaluganga Water Supply Project were also commissioned during the year.

Chart 1.15



Box 1.1
Initiatives for Pro Poor Growth

The expenditure on pro poor growth was about Rs. 37 billion in 2008. In comparison with the corresponding figure of Rs. 9.9 billion in 2005 and Rs. 36 billion in 2007, the expenditure indicates a steady growth.

Expenditure on Pro Poor Growth, 2008

Programmes	2008 Rs. million
Terrorism affected area development	13,831
Gama Neguma	10,205
Gemidiriya Project (I & II)	1,674
Jathika Saviya	1,362
Samurdhi (Livelihood & Infrastructure Development)	920
Southern Regional Economic Advancement Project	838
District Development Programmes (DCB)	1,035
Pro-poor Economic Advancement Project	301
Industrial Development Programme	176
Plantation Community Development Programmes	585
Community Development Programmes	236
Matale Regional Economic Advancement Project	37
Total	31,200

Source: Department of National Budget

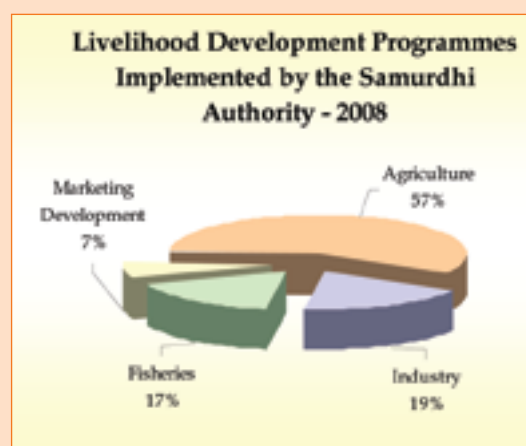
The population below the official poverty line or Poverty Head Count Index has reduced significantly during the last decade and it stood at 15.2 in 2007. The Head Count Index had recorded 22.7 in 2002. This is due to the significant progress achieved in economic activities in 2008, favouring the poor. These include implementation of a number of infrastructure projects in rural areas, extending favourable producer prices, concessions given that has increased paddy production and expansion in health and education facilities. In the context of these developments, the level of poverty in 2008 should remain lower than that noted for 2007. Another notable achievement is that the Millennium Development Goals pertaining to Sri Lanka are well on track. However,

special attention needs to be given to reduce regional disparities in poverty incidence.

Achievements- 2008

Special Programmes for Livelihood Opportunities

A series of multi faceted development programmes and projects which are being implemented through different line agencies have contributed to promote sustainable income generation avenues for low income families. Off-farm economic activities of rural communities were encouraged by the Samurdhi Authority through the provision of subsidized loans. In 2008, 2,040 loans were issued for this purpose amounting to Rs. 158 million.



Being an initiative to boost the rural economy, "Gamidiriya" Programme has issued Rs. 1.4 billion worth of loans for the same purpose. In addition, the National Development Trust Fund and Regional Development Banks have provided loans amounting to Rs. 1.3 billion and created about 110,000 micro enterprises. Under the 1,000 Industrial Village Programme, around 525 small scale rural industries were developed through the establishment of 190 industrial villages. The 300 Industries Programme was able to commence 25 local industries at a total investment of Rs. 2,900 million.

Box 1.1
Initiatives for Pro Poor Growth Contd.



Increased Employment

The reactivation of economic growth since 2005 had a positive impact on employment. The increased inflow of foreign investment, implementation of mega projects in the development of infrastructure, the special programmes carried out rural development such as “Gama Neguma”, “Maga Neguma”, “Jathika Saviya” and various small scale credit programmes introduced for self employment had the effect of increasing local employment opportunities.



The quarterly survey of the labour force carried out by the Department of Census and Statistics indicates that the backlog of unemployed population declined from about 420,000 2007 to about 398,000 in 2008. This represents a reduction of unemployment from 6.5 percent in 2007 to 5.3

percent in 2008. Accordingly, public sector employment, excluding institutional population has increased by 8 percent in 2008.

A significant increase in departures for foreign employment was recorded in 2008. There was a notable increase in share of foreign employment placements to South Korea and Malaysia as a result of the efforts of the government to encourage skill labour migrants. Number of skill labour migrants has increased from 44,239 in 2007 to 54,644 in 2008. The private remittances received from Middle East countries have also increased from Rs. 160 billion to Rs. 189 billion. To bring the benefits of labour migration to the economy, society, and the migrant workers and their families a National Labour Migration Policy has been formulated in 2008.

Improved Labour Relations and Productivity

Following the trend experienced in recent years, the overall labour productivity also continued to improve in 2008. Steady decline in the number of labour strike actions was observed during the year. An increase in the number of collective agreements adopted for wage bargaining, maintenance of better social dialogue at work places, and improvement of the industrial harmony, were also considered as a notable achievement in the field.



Box 1.1
Initiatives for Pro Poor Growth Contd.

Improved Infrastructure in Lagging Regions

Reduction of regional disparities in development in the country has been attempted through a number of specific interventions. Development of rural infrastructure facilities and promotion of livelihood opportunities in lagging regions where the poverty incidence are significantly high, has been given high priority. In 2008, under the *Gama Neguma* programme, 32,903 infrastructure development projects were completed in 23 districts ensuring a speedy change in the rural sector. In addition, around 1,900 livelihood development projects and 919 infrastructure development projects were implemented in the poverty stricken Badulla and Moneragala districts with the community participation.



Gamidiriya project reached its fourth year of implementation of its phase 1. Under this programme, Rs.1,663 million has been spent for rural infrastructure development and livelihood improvement in 2008.

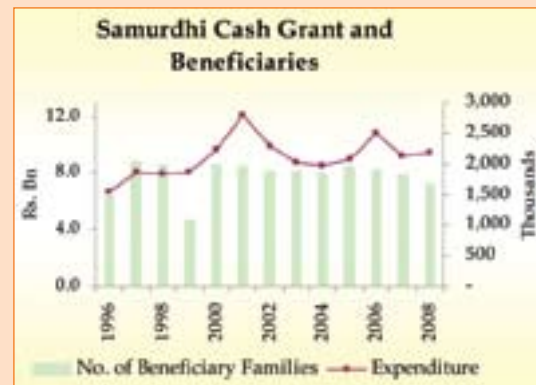
Reduction of poverty in the estate sector has also been attempted through implementation of a number of skills development and entrepreneurial development programmes for estate sector youth. The total expenditure of the programmes has increased from Rs. 1,036 million in 2007 to Rs.



2,958 million in 2008. In addition, the plantation community was provided with accessibility to the basic public utilities. Accordingly, 210 km of roads, 1,428 houses and 2,637 latrines in the estate sector were constructed under the Estate Sector Infrastructure Development Programme in 2008.

Increased Welfare Benefits

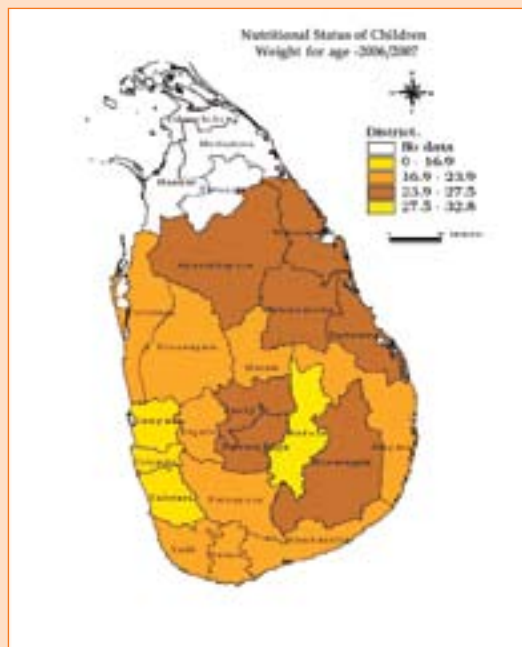
The Samurdhi movement is the key safety net programme implemented by the government to reduce the poverty among the ultra poor. The allowance paid to the Samurdhi beneficiaries was Rs. 9,455 million in 2008. Further, 135,000 families have been uplifted from Samurdhi Programme as they have graduated from the sever poverty. However, still around 38 percent of the total population or 1.6 million families receive benefits from the Samurdhi Cash Grant Programme. The annual cost of the programme is around Rs 9,500 million.



Box 1.1
Initiatives for Pro Poor Growth Contd.

Healthy Nation through Nutrition

Rs 8,765 million has been spent in 2008 for implementation of main nutritional programmes. This is an increase of 66 percent compared to the expenditure made in 2007. The major programmes implemented in 2008 are as follows;



Source: Demographic and Health Survey 2006/2007

Key Nutritional Programmes

Programme	Expenditure Rs. million		Beneficiaries	
	2007	2008	2007	2008
Triplosa Programme	488	649	567,580 m 232,755 c	206,010 m 502,021 c
Nutritional Programme for School Children (mid day meal)	1,260	1,649	515,678	575,896
Fresh milk for children between 2-5 years of age	13	33	17,910	28,105
Poshana Manpetha Programme	22	25	-	-
Nutritional food package for expectant & lactating mothers	-	386	-	91,403
Nutritional Programme (WFP)	2,466	4,436	269,702	270,770
Dairy Village Programmes	90	90	2,400 f	1,340f
Food Production Programme - Japan Grant	-	180	-	2,424
Total	5,253	8,765		

Source: Department of National Budget

f - families

m-mothers

c-children

Labour Productivity

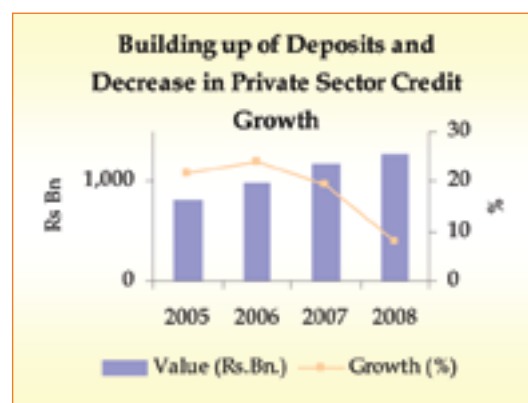
The improvements achieved through skills development programmes of the workforce, implementing innovative ways of workforce management improving technology, coupled with Government emphasis on promoting skillful and globally competitive workforce contributed to an increase of around 4 percent in the labour productivity in 2008, over 2007. The considerable improvements in productivity in the industrial and services sector helped the labour productivity to increase to Rs. 329,700 per worker from Rs. 286,000 per worker in 2005. The industrial and services sectors recorded increases of 5.1 percent and 6.5 percent respectively while in the agriculture sector labour productivity increased by 1.2 percent in 2008.

Financial Markets

Deposit mobilization by the banking sector increased by 12 percent, despite the unfavourable developments in the financial sector mainly due to the aggressive deposit mobilization efforts carried out by the commercial banks to mobilize savings.

The tight monetary policy stance perused by the Central Bank contained the growth in reserve money expansion to 8.5 percent, even below the estimated annual targets. The expansion in the reserve money was entirely due to the increase in net domestic assets (NDA) as net foreign assets of Central Bank and Commercial Banks declined

Chart 1.16



considerably by end 2008. The NDA growth was attributable mainly due to the Government resorting to borrow from the banking sector with the drying up of anticipated foreign commercial lendings earmarked for the investments, in the wake of the global financial crisis. The credit to private sector significantly slowed down reaching to 7-9 percent by end 2008 from levels of 19-27 percent observed in 2007. The high market interest rates prevailed during the year, steps taken by the Central Bank to reduce excessive lending by Commercial Banks in order to curtail high inflationary pressures coupled with the negative outlook for the global economy and associated slowdown in domestic business activities especially in the latter part of the year credit to private sector decelerated extensively in 2008.

Table 1.10
Movements in the Capital Market

Indicators	2005	2006	2007	2008
All Share Price Index (1985=100)	1,922.2	2,722.4	2,541.0	1,503.0
Milanka Price Index	2,451.1	3,711.8	3,291.9	1,631.3
Market Capitalization (Rs. Bn)	584	835	821	489
No. of Listed Companies	239	237	235	235
No. of Listed Companies in Trading	242	232	231	232
Annual Average Turn Over (Rs.Bn)	114	105	105	110
Foreign Sales (Rs.Mn)	21,568	31,790	35,543	52,682
Foreign Purchases (Rs.Mn)	27,712	37,167	46,797	66,632

Source: Colombo Stock Exchange

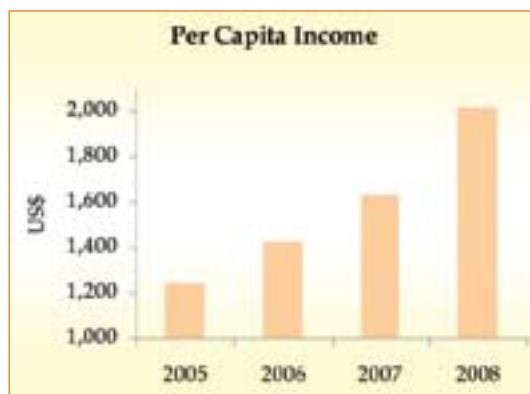
A Sluggish Capital Market

The equity market fell sharply in 2008. The depressed condition in the stock market was mainly due to high interest rates, lower company earnings, impact of the financial crisis and the ensuing economic downturn.

Growth in Per Capita Income

Reflecting the resilience of the economy to unfavourable domestic and external challenges and the ability to sustain the growth at 6 percent or over for four consecutive years per capita income reached US \$ 2,014 in 2008.

Chart 1.17



Prospects

Given the high degree of openness and global integration of the Sri Lankan economy through trade, finance and labour markets, the economy would grow at a slower pace in 2009 than envisaged in the 10 Year Development Horizon, until world economy recovers from the current crisis. Although both exports and imports have shown a drastic decline during the first two months of 2009, some recovery is expected as the year progresses.

The GDP growth rate is likely to be in the region of 3-4 percent in 2009. The continuation of the improved performance in the domestic agriculture, maintenance of higher level of activity in the industrial and services sectors catering to the domestic market together with the expanding scope for

higher level of development and other economic activity in the liberated East and North under “Nagenahira Navodaya” and “Uthuru Wasanthaya” are positive factors that would help to sustain economic growth at a satisfactory level from 2009 and beyond.

The inflation rate after reaching a bottom in the overall deflationary situation that the entire world is going through, improved domestic supply food and other commodities and improved marketing systems including the strengthening Coop City network and in response to very tight monetary policy that was maintained during the last two years is likely to remain in single digit by the end of this year. The monetary policy tightness has been eased to some extent and interest rates have declined from the high levels that prevailed in the last two years. This development would help in the recovery process. In this context, a further reduction of interest rates is expected. Given the structure of the Sri Lanka economy, a desirable interest rate for long-term viability of enterprises should be in the range of 10-12 percent and this could be feasible only if considerable improvement in the efficiency in the use of resources, particularly in the form of current expenditure restraint in both the public and private sectors.

In 2009, in the context of significant financial imbalances that have emerged on the fiscal front, the current aim is to contain the overall budget deficit at 7 percent of GDP. While the government has introduced measures to address the revenue shortfall, a greater prioritization of all expenditures is made to ensure that the overall fiscal deficit will be reduced to 5 percent of GDP as early as possible. The government has already announced that strategic public enterprises will not be privatized, but these enterprises are advised to take all actions and reforms needed to ensure that they would not rely on fiscal subsidies or become a burden on the domestic banking system.

The country also has foreign financing commitments amounting to around US\$ 10 billion for the next 3-4 years. Any new commitments from the development partners for Northern and Eastern region development would be additional. Faster and effective utilization of these resources

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is also a challenge and greater commitment on the part of the project executing and implementing agencies as well as the development partners would be helpful to make most effective use of these resources envelop.

The work of the Tax Commission planned in the context of the 2009 Budget is expected to begin its work soon. It is expected that this would make helpful recommendations to greatly simplify the tax system and introduce a more efficient and equitable tax system in the country.

With the liberalization of the East and North and strengthened security in strategic places and general improvement in the law and order, it should be possible to maintain expenditures in these areas at a reasonable percentage to GDP. It is also essential to protect the government's core investment program aimed as currently planned to facilitate regionally balanced faster growth while providing the required social safety nets for the most vulnerable, including early re-settlement of the internally displaced people.

Successful handling of these challenges would pave the way for a take-off in the Sri Lanka economy towards the realization of Mahinda Chintana Goals.

Fiscal Developments

An Overview

The fiscal strategy of the government in 2008 based on the Medium Term Macro Fiscal Framework, 2007-2010 was steered along to fulfill the desired targets in the backdrop of a very challenging environment stemming from the developments in the external and domestic fronts.

The unprecedentedly high prices on food and petroleum products that prevailed in international markets warranted the Government to grant duty concessions on such items with a view to curb the rising domestic market prices, compressed the revenue flows in 2008. Continued operations to liberalize Northern part of the country from the thrust of the terrorists, necessitated the Government to allocate funds for these activities while expediting the humanitarian, resettlement and development work in the Eastern Province and the newly liberated areas in the Northern Province. Priorities attached to the development work to achieve a regionally balanced economic development through rural development initiatives the “*Gama Neguma*”-“*Jathika Saviya*” and national infrastructure projects under “*Randora*” programme, while maintaining the social safety net to protect the vulnerable groups of the society and the human resource development through better health and education systems also required additional resources. Amidst these external and domestic challenges, fiscal performance in 2008 produced mixed results.

The revenue shortfalls arising from the granting of duty concessions coupled with the global financial crisis which intensified in the latter part of 2008 resulting in a slowing down of domestic economic activities, drying up of foreign investments for budgetary operations coupled with premature withdrawals of foreign investments on Government securities and increased funds required for fertilizer subsidy exerted pressure on budgetary operation in 2008. These adverse developments caused deviations in the underlying assumptions of the 2008 Budget. Even in this background government was successful in maintaining public investments at 6 percent of GDP.

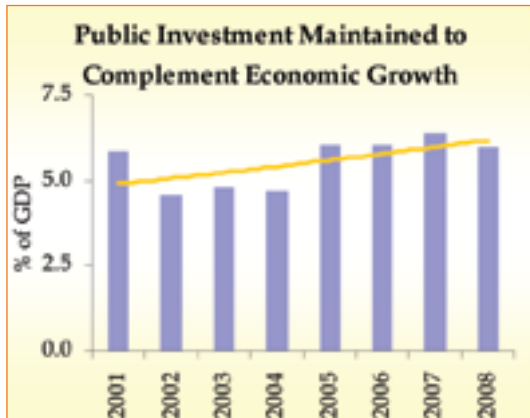
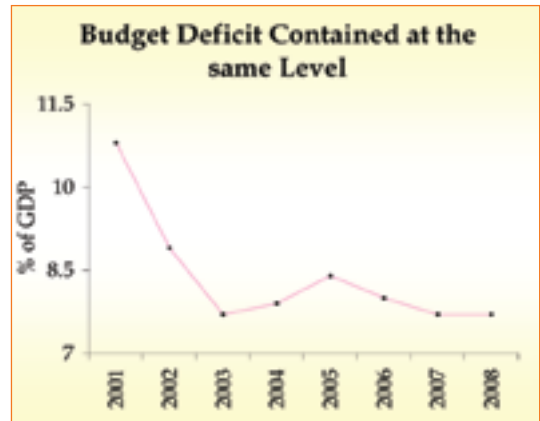
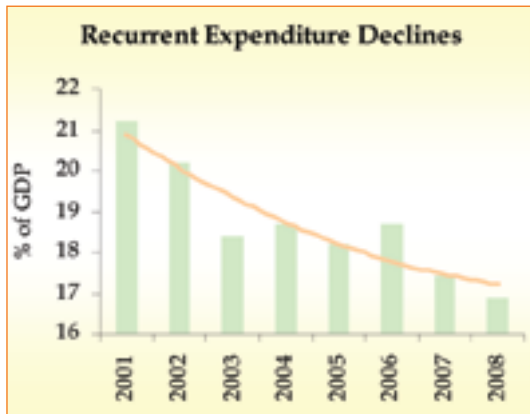
With regard to fiscal consolidation effort, the overall budget deficit including the fully foreign funded projects

was maintained at the same level as in 2007, reduced the recurrent expenditure as a percentage of GDP to 16.9 percent from 17.4 percent in 2007 and maintained the public investment at 6 percent level for the fourth consecutive year in spite of the reduction in Government revenue from 15.8 percent of GDP in 2007 to 14.9 percent in 2008.

The Government revenue effort was thwarted mainly due to revenue shortfalls which arose in external trade taxes stemming from granting duty concessions on motor vehicles for public servants and tax concessions granted on essential commodities to stabilize the domestic prices on such items. The effect of these concessions was felt throughout the year where the revenue forgone from these measures alone was around 0.7 percent of GDP. Consequent to these measures and economic slowdown in the backdrop of intensified global financial crisis in the latter part of the year, the government revenue as a percentage of GDP declined to 14.9 percent from 15.8 percent in 2007.

Channeling enhanced funds to strengthen the national security, new recruitments to the armed services to protect the newly liberated areas, high international prices on fertilizer resulting in enhanced funds required for the fertilizer subsidy, revisions in domestic petroleum prices to mitigate the unprecedentedly high international prices creating over runs in the budgetary allocations in the fuel and related expenditures, maintaining the welfare programmes for vulnerable groups in the society and high interest rate structure that prevailed during the year stemming from the tight monetary policy stance adopted by the Central Bank of Sri Lanka, exerted pressure on expenditure management. Even with these developments the Government maintained its high priority given to the development of infrastructure facilities in the lagging regions and implementation of mega development programmes under the “*Randora*” Infrastructure initiative. Sri Lanka recorded both highest commitment and the highest disbursement of foreign funds in 2008. The gross disbursement stood at US \$ 1,226 million while commitments of foreign funds during 2008 were US \$ 2,067 million. The disbursement of foreign funds continued for projects such as Norochcholai Power Plant, Hambantota Port Development, Upper Kothmale Hydro Power Project,

Chart 2.1
Fiscal Consolidation Continuing Amidst Challenges



Highways, Flyovers etc. Another notable development was the ability of the government to mobilize funds for projects such as Uma Oya Hydro Electricity and Irrigation Project (US \$ 450 million from the Iranian Government), Dikkowita fisheries harbour (US \$ 69 million from the Netherland Government) , Outer Circular Road and Southern Express Way (US \$ 216 million from Japanese Government) and the Kelani Right Bank Water Treatment Plant (US \$ 93 million from the Danish Government).

Fiscal Management Reform Programme continued with greater emphasis to human resource development and capacity building with a view to enhance efficiency in revenue agencies. Data dissemination & transparency aspects were given high priority through submission of comprehensive reports on a timely manner under the Fiscal Management Responsibility Act.

2. Fiscal Developments - 2008

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Table 2.1
Loss of Revenue due to Granting of Duty Waivers on Essential Commodities, Petroleum Products and Motor Vehicles

Rs.mn

Item	CD	VAT	PAL	SRL	Surcharge	Cess	Excise Duty	Total loss of Taxes	Revenue from SCL	Revenue Foregone
Sprats	168	168	84	3	25	-	-	448	443	5
Milk Powder	4,578		915	68	-	-	-	5,561	406	5,155
Potatoes	2,110	258	80	32	-	-	-	2,480	1,727	753
B Onion	2,966	351	106	44	-	-	-	3,467	2,965	502
Peas	469	366	51	8	70	-	-	964	324	640
Chick Peas	287	125	57	5	43	-	-	517	294	223
Green Gram	68	70	35	1	10	-	-	184	176	8
Lentils	235	1,590	276	3	-	-	-	2,104	378	1,726
Chillie	1,058	312	138	16	-	-	-	1,524	1,059	465
Canned Fish	644	281	129	11	96			1,161	478	683
Coconut Oil	148	150	-	2	22	-	-	322	-	322
Palm Oil	1,360	1,428		24	213	-	-	3,025	-	3,025
Sunflower Oil	13	13	-	-	2	-	-	28	-	28
Soya oil	5	6	-	-	1	-	-	12	-	12
Rice	1,286	-	-	19	-	-	-	1,305	-	1,305
Sugar	5,090	1,406	608	76		56		7,236	7,106	130
Food Items	20,485	6,524	2,479	312	482	56	-	30,338	15,356	14,982
Petrol	5,499	-	-	-	-	-	-	5,499	-	5,499
Motor Vehicles	2,694	2,837	0.6	349	0.6	-	11,094	16,975	-	16,975
Total										37,463

Source: Department of Fiscal Policy

Table 2.2
Summary of Government Fiscal Operations

Rs. bn

	2005	2006	2007	2008 Budget	2008
Total Revenue	379.7	477.8	565.1	750.7	655.2
Tax Revenue	336.8	428.4	509.0	674.1	585.6
Income Tax	55.4	80.5	107.2	143.2	126.5
Taxes on Goods and Services	234.5	289.3	328.6	438.5	322.3
Taxes on External Trade	49.8	58.6	73.2	92.3	136.8
Non Tax Revenue	42.9	49.5	56.1	76.6	69.6
Total Expenditure	584.8	713.6	841.6	1,044.4	996.1
Recurrent	443.4	548.0	622.8	713.1	743.7
Personnel Emoluments	138.6	175.0	214.2	233.4	239.1
Interest	120.2	150.8	182.7	209.8	212.5
Subsidies and Transfers	128.3	144.2	147.4	160.8	170.9
Other Goods and Services	56.3	78.0	78.5	109.0	121.2
Capital and Net Lending	141.4	165.7	218.8	331.3	252.4
Public Investment	148.6	177.4	229.3	335.7	263.9
Other	(7.1)	(11.8)	(10.4)	(43.8)	(11.4)
Revenue Surplus/Deficit	(63.6)	(70.1)	(57.7)	37.8	(88.5)
Budget Deficit	(205.0)	(235.8)	(276.6)	(293.4)	(340.8)
Total Financing	205.0	235.8	276.6	293.4	340.8
Total Foreign Financing	80.4	72.0	131.4	138.6	26.6
Net Foreign Financing	47.8	41.9	100.9	109.9	4.5
Gross Foreign Borrowings	69.1	87.9	165.0	214.7	126.1
Debt Repayment	21.4	46.0	64.1	104.8	121.6
Foreign Grants	32.6	30.1	30.5	28.7	31.2
Total Domestic Financing	118.3	163.8	127.1	154.8	309.6
Net Non Bank Financing	92.1	83.8	111.3	145.8	114.4
Net Bank Borrowings	26.2	80.0	15.8	9.0	195.2
Other	5.3	-	17.4	-	4.2
As a percentage of GDP					
Revenue	15.5	16.3	15.8	18.0	14.9
Tax Revenue	13.7	14.6	14.2	16.2	13.3
Non Tax	1.7	1.7	1.6	1.8	1.6
Expenditure	23.8	24.3	23.5	25.0	22.6
Recurrent Expenditure	18.1	18.6	17.4	17.1	16.9
Public Investment	6.1	6.1	6.4	8.0	6.0
Revenue Deficit	(2.6)	(2.4)	(1.6)	0.9	(2.0)
Budget Deficit	(8.4)	(8.0)	(7.7)	(7.0)	(7.7)
Total Foreign Financing	3.3	2.5	3.7	3.3	0.6
Total Domestic Financing	5.1	5.6	3.6	3.7	7.0

Source: Department of Fiscal Policy

Government Revenue

Government revenue increased by Rs. 90 billion to Rs.655 billion in 2008 compared to the corresponding figures of Rs. 87 billion and Rs. 565 billion in 2007. The revenue performance fell short of the targets envisaged in the Budget 2008 mainly owing to the shortfalls in international trade taxes especially due to the granting of duty concessions on the importation of essential commodities with a view to stabilize domestic prices to curb rising food prices. A significant drop in value and volume of vehicle imports liable for excise duty, importation of around 8,800 vehicles on a concessionary duty structure by public servants, impact of the implementation of free trade agreements and the slow down in domestic economic activities particularly in the latter part of 2008 mainly contributed to lower excise duty, custom duty and VAT. Further a decline in cigarette sales and the slow down in liquor production moderated the growth in revenue from excise taxes and VAT.

Chart 2.2



The revenue which reflected a growth of 22 percent in the first three quarters of 2008 recorded a 16 percent growth for the year with the slow down of economic activities in the latter part of 2008. The compressed revenue performance in the last quarter alone contributed to around one third of the overall shortfall from the envisaged target. As a percentage of GDP, revenue was 14.9 percent in 2008, a decline from the 15.8 percent in 2007, a worrisome development in the fiscal performance in 2008.

Income Tax

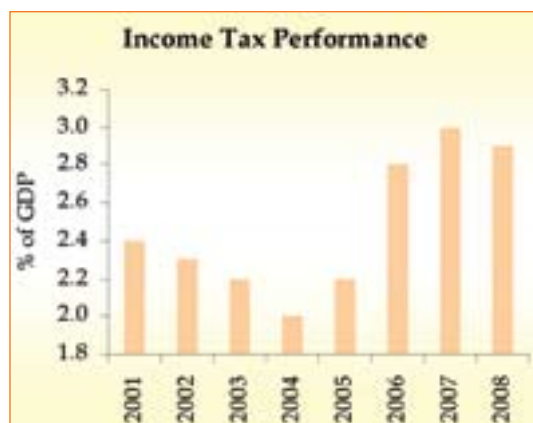
Income tax revenue that consists of Corporate Tax, Personal Income Tax, Tax on Interest Income and Economic Service Charge (ESC) amounted to Rs. 126,541 million in 2008. The personal and corporate income tax recorded a growth of 14 percent as compared to 2007. The ESC and Tax on interest income increased by 19 percent and 24 percent respectively. The policy measures taken by the Government to broaden the tax base, rate revision and other administrative measures helped to increase the income tax revenue while this effort was further supported by completing the enabling legislations to implement revenue proposals in the budget prior to the commencement of the tax year. In this context, Government has taken several bold and aggressive measures in the recent past while embarking on a series of reform initiatives to strengthen the Inland Revenue Department and create an environment conducive to the tax payer and the tax administrators.

Table 2.3
Income Tax Performance

Indicator	Rs. mn.			Growth (%)
	2006	2007	2008	2008/2007
Corporate Tax and Personal Tax	50,965	59,659	68,235	14
ESC	8,853	12,203	14,476	19
Tax on Interest Income	20,665	35,307	43,831	24
Total	80,483	107,169	126,541	18
GDP ratio (%)	2.7	3.0	2.9	

Source: Department of Fiscal Policy

Chart 2.3



Several measures were implemented from 2005 to broaden the tax base and this was further expanded in 2008.

Measures Implemented in 2008 to Broaden the Tax Base

- Non extension of tax holidays that have been granted beyond expiry of each tax holiday period already in placed.
- Tax holidays that commenced after 01.04.2008 will be for a maximum period of three years other than for investments in strategic and regional development projects.
- Any loss from the business of leasing could only be set off against profits from such business.
- If an employer has undertaken to pay income tax on the employment income of an employee, the deduction to the employer will be restricted to the amount of income tax actually payable by the employer in respect of such employment income.
- Tax compilation with regard to both foreign and local persons employed in Sri Lanka to be done in an equal basis.
- Economic service charge rate on turnover of sales of liquor and motor vehicles increased to 1 percent.

Administrative Changes

- Exemption of any person or partnership paying Economic Service Charge from paying Withholding tax, in respect of specified fees, rent, lease, royalty, annuity and management fees.
- Simplification of the prevailing system relating to taxation of salaries and allowances of public servants.

- Proposal of a Special Act enabling the recovery of tax arrears and to resolve pertaining issues.

While measures were taken to increase the income tax revenue, the Government also granted exemptions and concessions to several sectors to boost activities of such sectors.

Exemptions and Other Concessionary Measures

Concessions

- Granting tax relief for new investments under the program of “Negenahira Navodaya” for the revival of the Eastern Province. Interest income on loans granted on such investments by the banks be exempted from income tax.
- Granting qualifying payment subject to a maximum of Rs. 25 million for the construction of new cinema halls and Rs. 10 million for modernization of existing halls with sophisticated equipment to boost the local film industry.
- Increased the qualifying payment up to Rs. 50 million for the production of films approved by Film Corporation.
- A concessionary rate of 2.5 percent will be applicable for gems sold at gem auctions conducted under the sponsorship of the State Gem Corporation to promote the gem industry.
- If the turnover of any business comprises of exports or earnings in foreign exchange, the applicable ESC rate was reduced to a maximum of 0.25 percent. The concessionary ESC rate of 0.1 percent applicable for apparel exports at present was extended to the business of exporting apparels through buying offices, with a view to give an impetus to exports.

Exemptions

- Profits and income from the export of gems after cutting and polishing of gems imported in raw form were exempted with a view to promote industry as high foreign exchange earning industry.
- Profits and income earned outside Sri Lanka by any person or partnership in Sri Lanka, and if such profits and income are remitted to Sri Lanka through a bank were exempted from income tax to boost the inflow of foreign exchange to the country.

- Any profit of a cooperative society was exempted from income tax for a period of 5 years and tax on interest was exempted on interest accruing on the deposits made by such societies, with a view to revive the co-operative system and promote the distribution of essential items at affordable prices.

Slower Growth in Value Added Tax

VAT revenue has shown a growth of 9 percent in 2008, which is below the nominal growth in the economy. On a net basis, the slow down of VAT revenue was mainly reflected in the VAT collected from imports. Domestic VAT revenue registered a 28 percent growth while the VAT on imports declined by 8 percent. The respective growth rate were 15 percent and 9 percent in 2007. The total VAT revenue stood at Rs. 203,712 million in 2008 compared to Rs. 187,699 million in 2007.

Table 2.4
Collection of Value Added Tax

Tax Base	Rs. mn.			Growth (%)	
	2006	2007	2008	2007	2008
Domestic	82,508	95,843	112,682	16.2	17.5
Imports	93,221	101,813	100,831	9.2	(1.0)
Gross Revenue	175,729	197,656	213,513	12.5	8.0
Refunds	11,174	9,957	9,801	(10.9)	(1.6)
Net Revenue	164,555	187,699	203,712	14.1	8.5
Net Revenue as a % of GDP	5.6	5.2	4.6		

Source: Department of Fiscal Policy

Chart 2.4



The decline in the motor vehicle imports, the introduction of composite levy on essential commodities with a view to stabilize the consumer prices, reduction of VAT on petrol from 15 to 5 percent and the concessionary duty scheme implemented for public servants to import motor vehicles contributed for the lower growth in VAT revenue. However, the growth in the telecommunication and financial sectors, restrictions on input credit contributed positively for the performance of the domestic VAT collection.

Table 2.5
Estimated Shortfalls in VAT Revenue

	Rs. mn.
Decline in Motor Vehicle Imports	9,337
VAT rate Reduction on Petrol	4,613
Introduction of Special Commodity Levy	6,524
Decrease in Liquor Production	1,455
Decrease in Cigarettes Sales	327
Public Servants Concessionary Duty Scheme	2,837
Total	25,093

Source : Department of Fiscal Policy

Government took several policy measures to grant VAT exemptions or concessions for economic development in 2008 thus augmenting the support extended to development activities during 2005-2007 period.

Development Measures

Exemptions

- Import of machinery for business purposes by enterprises qualified for tax holiday under the "Negenahira Navodaya" programme / yarn used for domestic textile industry / supply of milk and rice products made out of local production.
- Co-operative Societies, Financial Services provided by Co-operative Rural Banks.
- Locally manufactured sugar, clay roof tiles, imported yarn, locally produced vegetables and fruits, unprocessed fish products, import and supply of rattans.

- Import of aircraft engines and air craft spare parts.
- The import or supply of solar panel modules and accessories for the generation of solar power energy specified under identified HS Code Nos. (with effect from 01.01.2009).
- The importation of machinery used for the construction industry, was extended until 31.12.2010.
- The supply of locally manufactured tea machinery identified by the of Sri Lanka Tea Board, with effect from 01.10.2008.
- The supply of locally manufactured surgical gauze used for surgeries, with effect from 01.01.2009.
- The importation of buses on or after 09.07.2008 to replace the buses destroyed due to terrorist activities.
- The importation of brass sheets, brass ingots, thread, dyes, paraffin wax and shellac for the manufacture of brassware by the National Craft Council with the approval of Ministry of Rural Industries and Self Employment Promotion with effect from 01.01.2009.
- The importation of chemical naphtha by the Ceylon Petroleum Corporation to be supplied to Ceylon Electricity Board for the generation of electricity with effect from 01.01.2009.
- Construction work of "Gama Neguma", "Maga Neguma", "Samurdhi", and community irrigation projects, carried out through the participation of the community with effect from 01.01.2009.
- Supply of financial services by Lady Lohore Loan Fund with effect from 01.01.2009.

Concessions

- Import of certain equipment with the approval of State Film Corporation for the production of films was reduced from 15 to 5 percent.
- VAT on petrol was reduced from 15 to 5 percent.

Slower Growth in Excise Tax Revenue

Excise taxes generated from cigarettes, liquor, motor vehicles, petroleum and selective consumer durables were Rs. 100,971 million in 2008 indicating an increase of 4.4 percent over 2007.

Table 2.6
Excise Tax Performance

Indicator	Rs. mn.			Growth (%)	
	2006	2007	2008	2007	2008
Liquor	20,662	23,723	27,434	14.8	15.6
Cigarettes	30,099	31,447	37,288	4.5	18.6
Motor Vehicles	20,731	17,415	11,067	(16.0)	(36.5)
Petroleum & other	21,353	24,099	25,182	12.8	4.5
Total	92,845	96,684	100,971	4.1	4.4
GDP ratio (%)	3.2	2.7	2.3		

Source : Department of Fiscal Policy

In line with 'Mathata Thitha': the Government policy to discourage tobacco and alcohol consumption that enforced legislation such as National Alcohol and Tobacco Act and implementation of relevant awareness programmes, the declining trend in cigarette sales and hard liquor production that was witnessed in 2007, continued in 2008.

Chart 2.5



Overall cigarette sales decreased by 4.3 percent in 2008 compared to that of 2007. However, upward rate revisions on cigarettes resulted in enhancing the revenue collected from excise duties by 19 percent in 2008, mitigating the effects of downward trend in sales

Table 2.7
Excise Duty Rate Revisions on Cigarettes

Range of the Length of a Cigarette (L)	Per 1,000 Sticks						% change*
	2007-Oct	2007-Nov	2008-Mar	2008-Nov	2009-Jan	2009-Mar	
L > 84 mm	8,588	8,868	9,870	10,870	11,170	12,170	8.9
72 mm < L < 84 mm	8,086	8,314	8,850	9,380	9,681	10,715	21.1
67 mm < L < 72 mm	6,986	7,219	7,219	7,745	7,799	8,485	17.5
60 mm < L < 77 mm	3,722	3,712	4,520	5,048	5,215	5,706	26.2
L < 60 mm	2,215	2,215	2,215	2,215	2,215	2,289	3.0

Source: Department of Fiscal Policy

*This represents the percentage increase of excise duty per 1,000 sticks of cigarettes during the period October 2007 to March 2009

Despite the drop in hard liquor production, implementation of rate revisions helped to realize Rs. 27,434 million as excise duties on liquor. Excise duty rates applied on liquor were regularly increased recording a 16 percent increase over 2007.

Chart 2.6
Liquor Production and Tax Revenue



Hard liquor production recorded a decline of 2 percent in 2008 compared to an increase of 4 percent in 2007. However, revenue collected on hard liquor increased from Rs. 21,544 million to Rs. 24,292 million as a result of upward rate revisions that took place during 2007-2008. Despite the decline in hard liquor production, malt liquor production has shown a notable increase in 2008 with a growth rate

of 15 percent compared to 6 percent in 2007, recording a significant growth of 27 percent in revenue.

Detection of illicit liquor has been accelerated from 52,644 to 56,510 during the period 2006 – 2008 generating Rs. 225 million as fines in 2008.

The main factor behind slower growth in excise duty during 2007-2008 was the shortfall in revenue collected from importation of motor vehicles. The declining trends in importation of motor cars under the normal statutory levies continued in 2008, recording a further drop of 19 percent in volume. The negative growth rate of 16 percent recorded from excise duty in 2007, further deteriorated by 37 percent in 2008. Concessions offered to public servants

for importation of vehicles, declined volume and value in motor cars and motor vehicles (goods transport and dual purpose) under standard levies, and shift towards low value small motor vehicles imported mainly from India and China are the key factors for this extensive change. The import restrictions applied by Central Bank of Sri Lanka through Letter of Credit margins of 200 percent of value also had a negative impact on motor vehicle import.

Table 2.8
Excise Duty Rate Revisions on Liquor

	2006 Oct Rs.	2007 March Rs.	2007 Oct Rs.	2008 Oct Rs.	Change 2006 Oct - 2008 Oct (%)
Arrack (Per Proof liter)	421.00	446.00	510.00	560.00	33
Foreign Liquor (Per Proof liter)	550.00	575.00	640.00	690.00	25
Beer – less than 5% (Per liter)	37.50	37.50	38.00	48.00	28
Beer – more than 5% (Per liter)	53.50	53.50	54.00	64.00	20
Wine (Per Proof liter)	275.00	300.00	365.00	415.00	51

Source: Department of Fiscal Policy

Table 2.9
Motor Vehicle Imports

Description	Units	
	2007	2008
Tractors	27,621	32,128
Passenger Vans and Buses	2,461	1,289
Motor Cars (Three Wheelers, Ambulances, Hearses etc) ^(a)	70,292	56,981
Motor Vehicles for Transport of Goods (including dual purpose Vans & Cabs etc.)	25,531	15,518
Special Purpose Motor Vehicles	527	472
Total	126,432	106,388

Source: Department of Sri Lanka Customs

(a) Excluding Concessionary Vehicles

Table 2.10
Estimated Shortfall in Excise Duty Revenue

	Rs. mn
Public Servants Concessionary Duty Scheme	10,062
Slow Down in Vehicle Imports	13,500
Slow Down in Liquor Sales	2,000
Slow Down in Cigarettes Sales	2,335
Total	27,897

Source: Department of Fiscal Policy

Box 2.1
Concessions on Motor Vehicle Imports

The importation of motor vehicles under concessionary duty structure was implemented under different circulars in 2008. In most of these schemes, the excise duty which is the largest revenue source was either exempted or placed under a concessionary rate. The schemes implemented under section 19(A) of the Customs Ordinance were; Public Administration Circular No.22/99 for retired public servants, Foreign Ministry Circular No. 165 for public servants in Foreign Service and Trade, Tariff and Investment Policy Circular No. 01 & 02 for public servants. In addition, duty waivers have also been granted under compliant Tax Payers Scheme, Sri Lanka Nation Building Bond Scheme and for the eligible members of the Parliament and Provincial Councils.

Out of the 16,758 concessionary permits issued to public servants under Trade, Tariff and Investment Policy Circular during 2007-2008, 11,684 permits have been made use of

during the same period. The foregone excise duty under these concessionary permits in 2008 alone was Rs. 10,062 million which was around 0.3 percent of the GDP. The total revenue foregone from all these schemes amounted to Rs. 11,094 million in 2008. However, the implementation of this scheme for public servants was terminated in March 2008.

Number of Concessionary Permits Issued

Category	2007	2008
Public Administration Circular No.22/99 (Retired Public Services)	42	42
Foreign Ministry Circular No. 165 (Public servants in Foreign Service)	147	139
Trade, Tariff and Investment Policy Circular No. 01 & 02 (Public Servants)	14,345	2,413
Total	14,534	2,594

Source: Department of Trade, Tariff and Investment Policy

Excise Duty Waivers on Motor Vehicle Imports under Concessionary Schemes

Category	No. of Vehicles Imported		Excise Duty Waiver (Rs. mn)	
	2007	2008	2007	2008
Public Administration Circular No.22/99 (Retired Public Services)	142	139	730	730
Foreign Ministry Circular No. 165 (Public servants in Foreign Service)	35	28	102	139
Trade, Tariff and Investment Policy Circular No. 01 & 02 (Public Servants)	2,882	8,802	4,203	10,062
Other	346	154	1,569	163
Total	3,405	9,123	6,604	11,094

Source: Department of Sri Lanka Customs

In addition to above concessions, Government has exempted excise duty on locally assembled/manufactured vehicles using new vehicle components containing not less than 30

percent of domestic value addition recommended by the Ministry of Industrial Development.

Modest Performance of Import Duty Revenue

Import duty revenue increased by 14 percent to Rs. 63,842 million during 2008. Although the imports grew by 24 percent in US dollar terms, 81 percent of the imports were investments and intermediate goods, which carry lower duty rates. In addition, the decline in vehicle imports and slower growth in other consumer durables which carry higher duty rates, implementation of a composite levy on essential commodities where the rates were maintained below the normal rates to ease the price pressures in the domestic markets, coupled with the impact on concessionary vehicle imports by public servants could be cited as the main factors that contributed to the moderate growth in import duty collection. The high oil prices that prevailed in the first quarter compelled the Government to grant duty waivers on petroleum products to control the domestic price escalation, also had a negative impact on the import duty collection in 2008. The import restrictions imposed by Central Bank of Sri Lanka by way of imposing LC margins on certain commodities also contributed to lesser imports and thereby reducing the import duty revenue.

Chart 2.7



To arrest the declining trend in import duty revenue, the facility to import vehicles on concessionary basis by public servants was terminated from end March 2008. A restriction was also imposed on items that could be brought into the country under the duty free concessions with a view to control leakages at the duty free shops. Government also took steps to introduce or increase the specific duties on certain goods in order to arrest the under invoicing issues.

Revenue implication of Free Trade Agreements on Import Duty

In order to reap the benefits of international trade, Sri Lanka too, has become a member of several bi-lateral and regional free trade agreements at present. Apart from various benefits that the country is expected to derive from these trade agreements, such as expanding market for country's exports, inflow of foreign investments and transfer of technology, the country has to forego certain amount of revenue by way of tariff concessions that are being offered in respect of selected imports under such trade agreements. Whilst, only import duty is being considered for granting concessions, four major free trade agreements of which Sri Lanka is a signatory, have resulted in Rs. 5,137 million loss of revenue to the country during 2008. Among Sri Lanka's major free trade agreements, India-Sri Lanka Free Trade Agreement (ISFTA) had the biggest impact on country's revenue with the estimated loss of revenue due to tariff concessions granted to selected imports from India amounting to Rs. 4,663 million during the period under review.

Table 2.11
Estimated Revenue Loss on Import Duty due to Tariff Concessions Offered by Sri Lanka under Major Trade Agreements during 2008

Free Trade Agreement	Number of Products Subject to Tariff	CIF value Concessions (Rs. mn.)	Estimated Revenue Loss (Rs. mn.)
India-Sri Lanka Free Trade Agreement (ISFTA)	4,486	55,329	4,663
Pakistan-Sri Lanka Free Trade Agreement (PSFTA)	5,245	2,331	353
South Asia Free Trade Agreement (SAFTA)	4,893	2,721	78
Asia-Pacific Trade Agreement (APTA)	914	365	43

Source: Department of Sri Lanka Customs

Special Commodity Levy

With a view to control price escalations of essential food commodities, Special Commodity Levy was introduced under the Special Commodities Act No. 48 of 2007. Special Commodity Levy, a single composite levy has replaced the different duties and taxes applicable in respect of the essential food commodities concerned. During 2008, Special Commodity Levy was applicable for 11 essential food commodities, including milk powder, dhal, sugar, potatoes, onions, and thereby helped to ease the cost of living burden of the general public to a greater extent. During the period

under review, the rates applicable under the Special Commodity Levy for certain commodities were revised, based on the domestic price concerns and international commodity prices.

During the year 2008, Special Commodity Levy generated Rs 15.63 billion. At the same time, the Government had to forego, nearly Rs 10 billion as a result of the imposition of a single levy, in lieu of regular taxes and duties that were applicable for the 11 essential food commodities concerned.

Table 2.12

Revenue Loss due to the Imposition of Special Commodity Levy to ease the Cost of Living Considerations during 2008

Commodity	Special Commodity Levy (Rate)	CIF Value	Special Commodity Levy (Revenue)	Revenue if Regular Taxes/Duties were in Force	Revenue Foregone
Sprats	Rs. 20 per kg	2,796	443	448	5
Milk Powder	Rs. 5 per kg ¹	30,581	429	5,561	5,155
Potatoes	Rs. 15 per kg ²	2,673	1,727	2,480	753
B'onion	Rs. 20 per kg	3,545	2,965	3,467	502
Peas	Rs. 15 per kg	1,676	324	964	640
Chick Peas	Rs. 15 per kg	1,750	294	517	223
Lentils	Rs. 6 per kg ³	9,173	378	2,104	1,726
Green Gram	Rs. 13 per kg ⁴	1,168	176	184	8
Chillies	Rs. 30 per kg ⁴	4,578	1,059	1,524	465
Canned Fish	Rs. 25 per kg	4,301	478	1,161	683
Sugar	Rs. 14 per kg	20,258	7,106	7,236	130
Total Revenue Foregone					10,290

Source: Department of Sri Lanka Customs

¹- Rate was increased from Rs. 5 per kg to Rs. 15 per kg w.e.f. 06. 11. 2008

²- Rate was increased from Rs. 15 per kg to Rs. 20 per kg w.e.f. 26. 08. 2008

³- Special Rate of R. 4 per kg was introduced on whole grain w.e.f 01. 05. 2008 to encourage processing

⁴- Rate was increased from Rs. 30 to Rs. 40 per Kg w.e.f. 06/11/08 and a special rate of Rs. 30per kg was introduced in neither crushed chillies.

Other Taxes

Cess

The focus on Cess in the year 2008 was directed mainly to make domestic industries and producers viable in the backdrop of the adverse competition arising from the flood of low priced imported products, import of non essential goods to the country and to recycle such revenue collection for export development. Rate revision and extension on scope of Cess brought for the above purposes, in turn generated Rs. 23,383 million in 2008, a 36 percent increase over the Rs. 17,157 million in 2007. The revenue from Cess has shown a steady buoyancy of 0.5 as a percentage of GDP as well as 1.5 as a percentage of total imports over the past two years compared with 0.2 percent of GDP and 0.6 percent of total imports in 2006. The buoyant revenue performance of Cess has also contributed to ease the burden of absolute or comparative low price-competition posed by certain imported products on domestic production and the gradual decrease of revenue from international trade, as evidenced from the reduction of import duty revenue to 1.9 percent of GDP in 2008 from 2 percent in 2007.

Over 55 percent for the total Cess revenue flowed from textile and textile articles, vehicles, food items and paints and cosmetic preparations of which either the rates were revised or new items were brought to the base in the year 2008. Compared to the year 2007, around 190 percent increase in Cess revenue was shown in the category of textile and its articles mainly due to the inclusion of almost all textile items to the Cess base in 2008. Cess from vehicles increased by over 90 percent with the upward rate revision from 5 to 10 percent. Rate increases applicable to food items and cosmetic preparations raised in most cases by 10 percentage points, were able to increase their contributions by over 35 percent and 80 percent respectively.

Port and Airport Development Levy recorded a 17 percent growth in 2008 and generated Rs. 31,017 million despite the exemption granted for imports that are used for exports, concessionary rates applicable on certain medicines and machinery and equipment.

The Regional Infrastructure Development Levy which was introduced on motor vehicles, other than those vehicles used for goods and public transport, land vehicles and three wheelers generated Rs. 2,599 million compared to Rs. 1,481 million in 2007. Despite the slowdown in vehicle imports, the scale up of the rates by 2.5 percent helped to increase the revenue from this tax.

Stamp duty imposed on selected instruments generated Rs. 3,751 million, a decline of 7 percent from the levels in 2007. The slowdown in sectors such as construction and activities related to mortgage etc contributed to the reduction in stamp duty collection. Debit taxes stood at Rs. 8,410 million in 2008 recording a growth of 17 percent over 2007.

The revenue collected from cellular mobile phone levy which generated Rs 8,049 million in 2008 was extended to cover the fixed line phones from January 2009.

Changes in Other Taxes

Rate Changes

- Regional Infrastructure Development Levy rate was increased by 2.5 percent from January 2008 to the following rates based on the cylinder capacity of motor vehicles other than agricultural land vehicles, three wheelers, vehicles used for goods and public transport.

up to 1,600 cc	-	5.0 percent
1,600 to 2,000 cc	-	7.5 percent
Above 2,000 cc	-	10.0 percent
- Cellular Mobile Phone Subscribers Levy was extended to cover both mobile and cordless phones at a 10 percent rate. The fixed line telephones were also brought under this levy with effect from January 15, 2009.
- Social Responsibility Levy was increased from 1 to 1.5 percent in support of further strengthening the National Action Plan for children.
- Stamp duty on renewal of liquor license fee was increased from Rs. 1,000 to Rs. 10,000

- Environment Conservation Levy was imposed on selected items from August 2008, but it could not be implemented due to the stay order granted by the Supreme Court. The stay order was relaxed on charging this levy on the mobile phones and this came to effect from December 2008.
- Cess rates were increased or imposed on certain imports to discourage non essential imports to strengthen the local industries.
- The import duty on wheat grain was increased from 6 to 10 percent with effect from 06th November 2008 to discourage the consumption of wheat flour and to promote the production of paddy and other grains.

Other Development Measures

- The Special Commodity Levy on imported milk powder was increased from Rs. 5 to Rs. 15 per Kg in November 2008 to encourage dairy farmers and the funds collected from this has been earmarked to import milking cows, promote breeding centres and set up small and medium scale milk farms on a scientific basis and to broaden the veterinary services.
- The Special Commodity Levy on sugar was increased from Rs. 14 to Rs. 16 per kg in order to encourage local sugar industry.
- To promote local agricultural produce such as Black Grain, Kurakkan, Cowpea and Sesame seed, a cess of 15 percent was imposed on similar imports.
- To promote locally made flour such as rice and Kurakkan flour, a cess of 5 percent was imposed on imported wheat flour.
- The cess levied on imported chocolates, biscuits and sweets was further increased to promote local production of such items.
- To encourage the local production of sarees, sarongs and ready made garments and domestic production of fruits and vegetables the existing cesses on similar imported items were scaled up by 25-50 percent.
- With a view to protect the local handicraft industry cess imposed on all related substitute imports were increased by 100 percent while import duty & VAT on raw materials such as copper, silver were exempted in order to minimize the production cost of local entrepreneurs.
- A cess of 15 percent was imposed on all imported furniture to further incentivize related local manufactures.
- To incentivize the local footwear, hand bags and belts manufacturing industries the applicable cess rates were scaled up on related imports of such products while all the raw material required for such manufacturing were exempted from import duty and VAT.
- As an incentive to local maize farmers a cess of 25 percent was imposed on imported maize and this has been further increased to 35 percent from beginning of 2009. Sogam which is a close substitute of maize came under a cess levy of 35 percent as a further incentive to local maize farmers.
- In order to preserve the environment and to discourage the usage of polythene and plastic the cess applicable on such imports were increased from 1 to 5 percent.
- Stamp duty on any deed of mortgage of aircrafts and ships has been exempted while registration of a ship under the Sri Lankan flag has been exempted from the PAL.
- Accounts maintained by the Co-operative societies, School Development Societies and "Api Wenuwen Api" fund have been exempted from debit tax for a period of 5 years.
- Land transfer tax was exempted for foreigners who invest on IT related training institutions, educational institutions and the BPO industry with an investment not less than US \$ 2 million.

Non Tax Revenue Performance

Non tax revenue generated Rs. 69,639 million a growth of 24 percent over 2007. Increase in social security contribution arising from higher salaries, sales and charges mainly from Telecommunication Regulatory Commission and higher

interest income received contributed for the enhanced non-tax revenue. Further, the non tax revenue was boosted by the Central Bank profit transfers amounting to Rs. 8,000 million compared to Rs. 4,000 million in 2007.

Table 2.13
Finance & Revenue Related Legislations (2007 November - 2008 December)

Statute	Objective
Value Added Tax (Amendment) Act No. 15 of 2008	To grant the exemptions and rate reductions as mentioned in budget 2008
Finance (Amendment) Act No. 7 of 2008	To extend the 10 percent mobile telephone levy presently imposed on mobile phones to cover the cordless telephones
Finance (Amendment) Act No. 8 of 2008	To revise the Social Responsibility Levy (SRL) rate from 1 percent to 1.5 percent and remove SRL charged on personal income tax.
Inland Revenue (Amendment) Act No. 9 of 2008	To implement proposals in budget 2008
Stamp Duty (Special Provision) (Amendment) Act No. 10 of 2008	To simplify the tax system and fall in line with the existing mechanism adopted by Provincial Councils, stamp duty payable on leases and mortgages to be made either by affixing the receipt of proving such payment to a bank or by affixing the stamp.
Economic Service Charge (Amendment) Act No. 11 of 2008	To enable the ESC rate not to exceed 0.25 percent if the turnover of any business comprises of export earnings in foreign exchange and to increase the rate with respect to the turnover of liquor and motor vehicle sales from 0.5 percent to 1 percent. Amendments have also been made to rectify the existing anomalies.
Regional Infrastructure Development Levy (Amendment) Act No. 12 of 2008	To increase the Regional Infrastructure Development Levy by 2.5 percent.
Butchers Ordinance (Amendment) Act No. 13 of 2008	To prohibit slaughtering of lactating cows imposing a fine of Rs. 50,000 or an imprisonment for a period not exceeding three years, for not adhering to the prohibition.
Strategic Development Project Act No. 14 of 2008	To enable granting tax free period/concessions for identified Strategic Development Projects.
Environment Conservation Levy Act No. 26 of 2008	To enable imposing a levy on items imported, domestically manufactured and on a service provided within Sri Lanka which is likely to have a harmful impact on the environment.

Compiled by Department of fiscal Policy

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Table 2.14
A Summary of Government Revenue

	2006	2007	2008
			Rs. mn
Tax Revenue	428,378	508,947	585,621
Income Tax	80,483	107,169	126,541
Personal & Corporate Income Tax	50,965	59,659	68,235
Economic Service Charge	8,853	12,203	14,476
Tax on Interest Income	20,665	35,307	43,831
Taxes on Goods & Services	289,342	328,604	356,161
VAT	164,555	187,699	203,712
Manufacturing	30,892	22,645	23,723
Non Manufacturing	40,615	52,434	54,133
Imports	84,282	101,501	100,831
VAT on Banking & Financing	8,766	11,119	25,025
Excise Tax	92,845	96,684	100,970
Liquor	20,662	23,723	27,434
Tobacco/Cigarettes	30,099	31,447	37,288
Motor Vehicles	20,731	17,415	11,067
Petroleum & Other	21,353	24,099	25,181
Other Taxes & Levies	31,942	44,221	51,479
Stamp Duty	1,516	4,026	3,751
License fees/Motor Vehicles & Other	3,045	6,308	8,301
Debit Tax	6,255	7,187	8,410
Port & Airport Development Levy	21,126	26,700	31,017
Tax on External Trade	58,553	73,174	102,919
Import	52,681	56,017	63,844
Cess	5,872	17,157	24,472
Special Commodity Levy	-	-	14,603
Non Tax Revenue	49,456	56,104	69,639
Property Income	19,066	22,633	26,720
CB Profit	-	4,000	8,000
Interest	10,321	9,242	9,305
Profits & dividends	7,451	7,682	7,365
Rent	1,294	1,709	2,050
Social Security Contribution	6,470	8,777	9,791
Fines, Fees, Sales and Charges & Other	23,920	24,694	33,128
Total Revenue	477,834	565,051	655,259

Source: Department of Fiscal Policy

Table 2.15
Variance Analysis of Government Revenue

Items	2008 Budget	2008	Remarks
Income Tax	143,291	126,541	Slowdown in service and manufacturing sectors especially in the latter part of the year contributed to a deviation in the ESC and Corporate income, while due to the uncertainty in financial markets the tenure of majority of Government Securities were confined to shorter maturities which in turn affected the withholding tax income caused a negative variance in the tax on interest income.
VAT	244,370	203,712	Decline in motor vehicle imports, impact on the concessionary duty scheme applied to import vehicles for public servants, removal of VAT with the introduction of a consolidate tax on essential commodities to address the rising cost of living being effective throughout the year coupled with less than expected growth in manufacturing sector especially in the latter part of the year caused a negative variance. Under performance of services such as tourism sector mainly stemming from the slowdown in world economy also contributed to this deviation.
Excise	133,080	100,970	Upward rate revisions of some selected categories of cigarettes, increased excise duty on liquor and increased beer production contributed positively for the excise tax collection. However, decline in cigarette sales and hard liquor production mainly as a result of Government's policy introduced through "Mathata Thitha" the national drug and alcohol prevention initiatives and related legislations and measures, duty concessions granted to public servants to import vehicles, motor car imports declining by 19 percent in terms of volume and caused a variation in the excise duty category. Decline in Cigarettes sales and Liquor production accounted for shortfall of Rs. 4 billion from the anticipated excise revenue, while revenue forgone on account of duty concessions granted to public servants was in excess of Rs. 10 billion.
Import Duty	72,901	63,844	Decline in motor vehicles in volume and value terms, granting of duty waivers on essential commodities such as food items and petroleum products to ease the domestic price pressures due to high international prices on such commodities coupled with possible evasions with relation to import duties caused the variations.
PAL	28,430	31,017	Despite the drop in motor vehicles and granting of duty waivers which had a negative impact on the collections, the increase in imports of investment and intermediate goods which are liable for PAL caused the positive deviation. Revision of PAL rate to 3 percent also had a positive impact on the revenue collection.
Cess	19,373	24,472	Scaling up of existing rates on imports such as fruits, vegetables, confectionaries, shoes, tiles, kitchenware etc, imposition of Cess on imported furniture, Polythene, Plastics etc caused a positive variation. Also the cess applicable for a short period on petrol and diesel imports generated a revenue around Rs. 800 million.
Other Taxes	32,674	35,065	This includes the Rs. 14 billion collected as Special Commodity Levy outside the budget estimates. The deviation in the Regional infrastructure Development Levy due to decline in motor vehicle imports, the lower revenue collected on taxes that are liable to the Social Responsibility Levy, the moderate performance of the stock market activities causing deviation in the Share Transaction Levy and the slowdown in construction and related mortgage activities causing a reduction in stamp duty collection which contributed to the decline in revenue.
Non Tax	76,622	69,639	Despite the sales and charges performing over the anticipated targets mainly due to the transfers from Telecommunication Regulatory Commission, non achievement of profits and dividends anticipated from the government enterprises such as Sri Lanka Telecom, and Sri Lankan Air Lines caused the deviation

Source: Department of Fiscal Policy

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Table 2.16
Variance Analysis of Estimates vs Actual Revenue Department Wise (2004-2008)

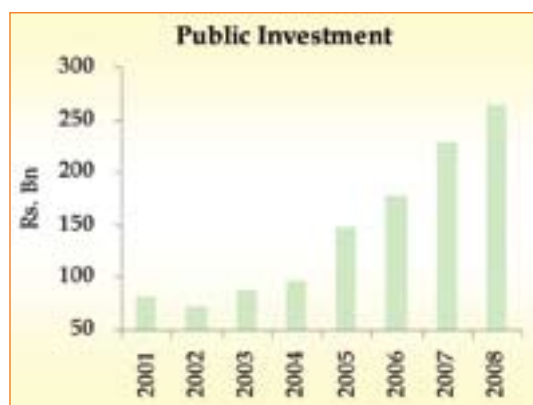
Department	Tax		2004	2005	2006	2007	2008
Inland Revenue	Income Tax	Est	61.6	55.4	75.3	102.1	143.2
		Act	41.4	52.5	80.5	107.2	126.5
		%	67.2	94.9	106.5	105.0	88.3
	VAT	Est	124.8	142.7	174.3	202.2	244.3
		Act	120.4	138.7	164.6	187.7	203.7
		%	96.5	97.2	94.4	92.8	83.4
	Stamp Duty	Est	-	-	3.7	1.6	6.3
		Act	-	-	1.5	4.0	3.7
		%	-	-	41.1	251.6	58.7
	Debit Tax	Est	4.4	5.3	6.3	8.1	9.8
		Act	4.5	5.7	6.3	7.2	8.4
		%	102.9	108.6	100.0	88.2	85.7
	other	Est	0.5	1.0	1.0	1.1	0.9
		Act	0.3	0.8	0.8	1.3	1.0
		%	60.0	80.0	80.0	118.2	136.4
Total	Est	191.3	204.4	260.6	315.1	404.3	
	Act	166.6	197.7	253.7	307.4	343.3	
	%	87.1	96.7	97.4	97.5	84.9	
Customs	Import Duty	Est	42.3	54.8	64.6	70.8	73.3
		Act	41.1	45.4	52.7	56.3	64.0
		%	97.1	82.8	81.6	79.5	87.3
	Cess	Est	-	4.6	6.8	13.3	19.3
		Act	-	4.4	5.9	17.2	24.5
		%	-	95.7	87.0	129.0	126.9
	PAL	Est	6.5	11.4	15.6	28.9	28.4
		Act	7.6	10.9	21.1	26.7	31.0
		%	115.9	95.9	135.1	92.4	109.1
	Tobacco/Cigarettes	Est	21.8	27.3	30.1	33.4	38.1
		Act	23.5	26.7	30.1	31.4	37.3
		%	107.4	97.8	99.9	94.1	97.9
	Petroleum	Est	16.7	21.9	18.0	19.2	22.4
		Act	14.8	17.0	18.5	19.1	19.0
		%	89.0	77.5	102.6	99.8	84.8
	Motor Vehicles and other	Est	7.1	10.5	16.9	30.3	41.8
		Act	14.0	16.2	23.6	22.3	17.3
		%	198.0	154.3	139.6	73.6	41.7
Total	Est	94.4	125.9	152.0	195.9	223.3	
	Act	101.0	115.8	151.9	173.0	193.1	
	%	106.9	91.9	99.9	88.3	86.5	
Excise	Liquor	Est	13.8	17.1	20.3	24.7	30.8
		Act	13.5	16.1	20.7	23.7	27.4
		%	98.3	94.2	101.6	96.5	89.0

Complied by the Department of Fiscal Policy

Government Expenditure

The overall expenditure at Rs. 996,125 million in nominal terms recorded a 18 percent growth in 2008. Recurrent expenditure in nominal terms increased by 19 percent to Rs. 743,710 million while public investment rose by 15 percent to Rs. 263,860 million. The overall expenditure as a percentage of GDP declined to 22.6 percent from 23.5 percent in 2007 with recurrent expenditure reducing by 0.5 percent to 16.9 percent, complementing the government's fiscal consolidation effort. Even under a difficult environment created mainly by the external factors, the government was able to embark on a public investment programme amounting to 6 percent of GDP, reflecting its commitment on a sustainable investment on human resource and infrastructure development.

Chart 2.8



The following exerted a pressure on recurrent expenditure.

- New recruitments to security services and police.
- Increase of Cost of Living Allowance to public servants of lower grades and revision of allowances especially for public officers in the health and judiciary.
- Increased interest cost incurred in the backdrop of high interest rates regime and investor preference shifting to shorter maturities for government securities.
- High fertilizer prices prevailed in the international markets.
- The impact of high prices on other goods and services.

The government continued in channeling enhanced resources to support the development of the lagging regions through programs such as "Gama Neguma", "Jathika Saviya", "Maga Neguma" and other pro poor pro growth

development initiatives. The momentum gained with respect to mega infrastructure development projects in electricity generation, ports and highways sector was maintained in 2008. The Combined Cycle Power Plant at Kerawalapitiya was commissioned in 2008 adding additional 150 MW to the national grid, while Arugambay bridge & several fly overs were completed.

Policy Thrust to Rationalize Public Expenditure

A number of policy measures were taken along with the fiscal consolidation path, to rationalize growth in current expenditures while channeling enhanced resources towards accelerated development initiatives for rapid and equitable growth.

The Cap on the (COLA) of Rs. 375 per month for public servants and Rs. 187.50 for pensioners were continued, in the first half of 2008 while that was revised to Rs. 1,000 per month from July for public servants in lower grades to grant relief to counter the high inflation. But for upper grades in the public sector it was confined to Rs. 750 per month during the second half of 2008. The leave encashment for public servants was terminated with effect from January 2008. Also several policy initiatives were taken with respect to cadre management through determination of optimal cader while coordinating and maintaining inter ministerial and inter agency activities on cadre management issues. Further, policy measures were taken to improve the productivity of the public sector with the guidance of the National Productivity Secretariat.

In the context of rising oil prices, administered prices of petroleum products were raised by the Ceylon Petroleum Corporation (CPC), placing domestic prices on cost recovery rates and eliminating subsidy in petrol. However domestic prices of diesel and kerosene carried a subsidy element. Government took steps to reduce the petroleum prices in the latter part of the year in line with world market developments. Electricity tariff was also adjusted by around 40 percent in line with the petroleum price increases in March 2008. The bus and railway fares were revised upwards to curtail losses arising from the increased fuel cost thus easing the pressure on the budget.

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Table 2.17
Domestic Petroleum Price Adjustments-2007/2008

Item	2007		2008				Rs/Lit
	December	14th Jan	25th May	06th Nov	05th Dec	31st Dec	
Petrol	117.00	127.00	157.00	142.00	122.00	120.00	
Diesel	75.00	80.00	110.00	80.00	-	70.00	
Kerosene	68.00	70.00	80.00	60.00	-	50.00	
Fuel Oil 180 ct	51.70	61.70	71.70	51.70	-	41.70	
Fuel Oil 380 ct	46.65	56.65	66.65	45.00	-	35.00	

Source: Department of Fiscal Policy

The Government was able to stabilize the exchange rate during the first three quarters of the year supported by foreign inflows through enhanced remittances and bond issues carried out in international markets.

With the intention of improving government debt management, measures were taken to ease the problem of bunching in the Treasury bill maturities by the issuance of longer maturity bills. The Treasury bill market was further

opened up for foreign investment which allowed to invest in Treasury bills up to a maximum limit of 10 percent of the outstanding stock, with a view to reduce pressure on the domestic market. Strict Treasury operations through the single account system also helped to minimize the idled funds in government accounts thereby saving a considerable amount of interest payable by the government. This system also helped to reduce the transaction cost incurred by government agencies.

Table 2.18
Current Expenditure, 2006 - 2008⁽¹⁾

Item	2006	2007	2008	Rs. mn
Current Expenditure	547,960	622,758	743,710	
Salaries & wages	175,031	214,160	239,078	
Other Goods & Services	77,994	78,472	121,250	
Interest payments	150,778	182,681	212,475	
Foreign	16,990	21,311	24,208	
Domestic	133,787	161,370	188,266	
Pensions	58,006	68,822	74,920	
Losses of Railway, Postal and C.T.B.	11,767	10,137	12,157	
Assistance to other Statutory Agencies	27,376	26,248	27,192	
Fertilizer Subsidy	11,867	11,000	26,450	
Welfare payments and subsidies	35,141	31,238	30,186	
As a % of GDP				
Total Current Expenditure	19.5	17.4	17.2	
Salaries & Wages	6.0	6.0	5.4	
Other Goods & Services	2.6	2.2	2.8	
Interest Payments	5.1	5.1	4.8	
Pensions	1.9	1.9	1.7	
Losses of Enterprises	0.4	0.3	0.3	
Assistance to other Statutory Agencies	0.9	0.7	0.6	

Source: Department of National Budget Department
(1) Figures as per Economic Classification

Box 2.2
Public Service Salaries and Pension Payments

By the end of 2008, the total number of government employees was around 950,000 excluding semi-government sectors, standing at around 13 percent of the labour force of the country. This represents the highest population/government employee ratio in South Asia where the main intension is to provide an efficient and effective public service. A major share of total government employees represents defence, education and health sectors covering both central and provincial governments.

The expenditure on salaries and wages which is the highest single expenditure item in the central government budget, represented 5.4 percent of GDP while accounting for 32 percent of the total recurrent expenditure in 2008. Further, salaries and wages have absorbed 36 percent of the total revenue in 2008.



The wage bill of the Central Government including defence, public order and civil security was Rs. 165,287 million in 2008. The Provincial Council salaries amounted to Rs. 79,878 million out of which Rs. 73,791 million was provided from the national budget while the rest was from the own revenue earned by the Provincial Council.

The cost of salaries and wages has reached Rs. 239,078 million in 2008, an increase of Rs. 24,918 million over 2007. This was the combined result of the increase in recruitments mainly in the armed forces and the enhancement of Cost of Living Allowance (COLA) to all employees by Rs.375 from 1st January and by a further Rs.375 from 1st July to the staff categories and Rs.625 each to lower grades. Accordingly, two different monthly COLA i.e. Rs.2,850 and Rs.3,500, were

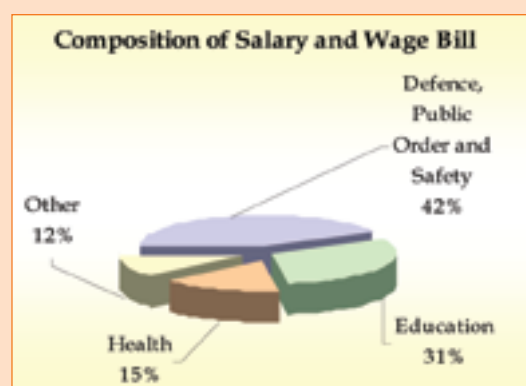
paid for staff and other ranks respectively. Expenditure on account of COLA was around Rs.33,000 million in 2008. It was further revised in the Budget 2009, with public servants in all categories receiving a monthly COLA of Rs. 4,500 per month from January 2009.

Personal Emoluments Growth
(on minimum salary)

Category	Rs. per month		
	2005	2008	Growth (%)
Basic Salary	8,140	11,730	69
COLA	-	3,500	
Total	8,140	15,230	87

Source: Department of National Budget

The hike of salaries and wages reflected Rs. 13,324 million for Defence, Rs. 3,653 million for Police and Civil Security, Rs. 3,516 million for Central government and Rs. 4,425 million as the government provision for provincial council salaries and wages. The salary bill of the education sector which covers around 225,000 teachers amounted to Rs. 74,382 million and is second only to defence, public order and safety salaries. However, the salaries & wages of the institutions such as Universities are not included in this total salary bill since these institutions receive transfers as the Government contribution from the national budget.



Box 2.2
Public Service Salaries and Pension Payments Contd.

New recruitments were made to government service with the intention of further strengthening the public sector service delivery and to protect the newly liberated areas from terrorists. During 2008, 53,164 persons were recruited for defence and police related services while further 14,216 were recruited for civil services under the central government and the provincial councils. This includes the 2,088 appointments made with effect from 1st January 2008 under the 'Tharuna Aruna' programme and the appointments given for graduate teachers.

Recruitments to Public Service

Item	2006	2007	2008
Creation of New Cadre	28,854	18,403	67,380
Cumulative	73,038	91,441	158,821
Recruitments	30,397	36,182	21,630
Cumulative	71,323	107,505	129,135

Source: Department of Management Service

Pension Payments

The total pension bill for 2008 was Rs.74,920 million against Rs.68,822 million in 2007. As at end 2008, around 445,120 pensioners and W & OP recipients have been benefited from the public service pension scheme. Even though 12,053 persons were added as new pensioners in 2008, 6,619 pensioners have been unlisted due to deaths during the year.



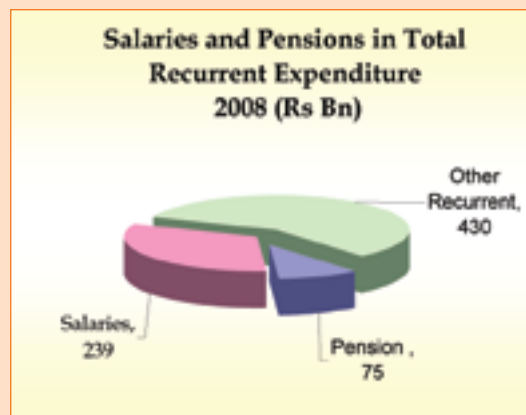
The increase in the number of new pensioners by 12,053 persons and the enhancing of existing COLA by Rs.187.50 every six months, have resulted in the increase of pension payments by 9 percent over 2007. The COLA of pensioners have been increased to Rs.2,000 per month from January 2009 as announced in the Budget 2009.

**Enhancement of Cost of Living Allowance
(Received per month)**

Date	Public Officers Amount (Rs)		Pensioners Amount (Rs)
	Salary Over Rs. 22,935	Salary Below Rs. 22,935	
2006.01.01	1,000	1,000	500.00
2006.07.01	1,375	1,375	687.50
2007.01.01	1,750	1,750	875.00
2007.07.01	2,125	2,125	1,062.50
2008.01.01	2,500	2,500	1,250.00
2008.07.01	2,875	3,500	1,437.50
2009.01.01	4,500	4,500	2,000.00

Source: Department of National Budget

With these developments in public service by the end 2008, around 1.4 million persons representing a wide range of service delivery systems including the pensioners were remunerated by the Government.



High Interest Cost

Interest cost registered an increase of 16 percent and reached Rs. 213 billion in comparison to Rs. 183 billion in 2007. The high domestic interest rates prevailed during the year consequent to the tight monetary policy adopted by the Central Bank of Sri Lanka and investor preference moving to short term maturities in a high inflationary environment

coupled with new borrowings to finance the deficit contributed in the high interest expenditure. The stability of the exchange rate in the first eleven months helped to mitigate the pressure on the interest cost. However, the interest cost as a percentage of GDP reduced to 4.8 in 2008 from 5.1 in 2007.

Chart 2.9
Trends in Interest Payments

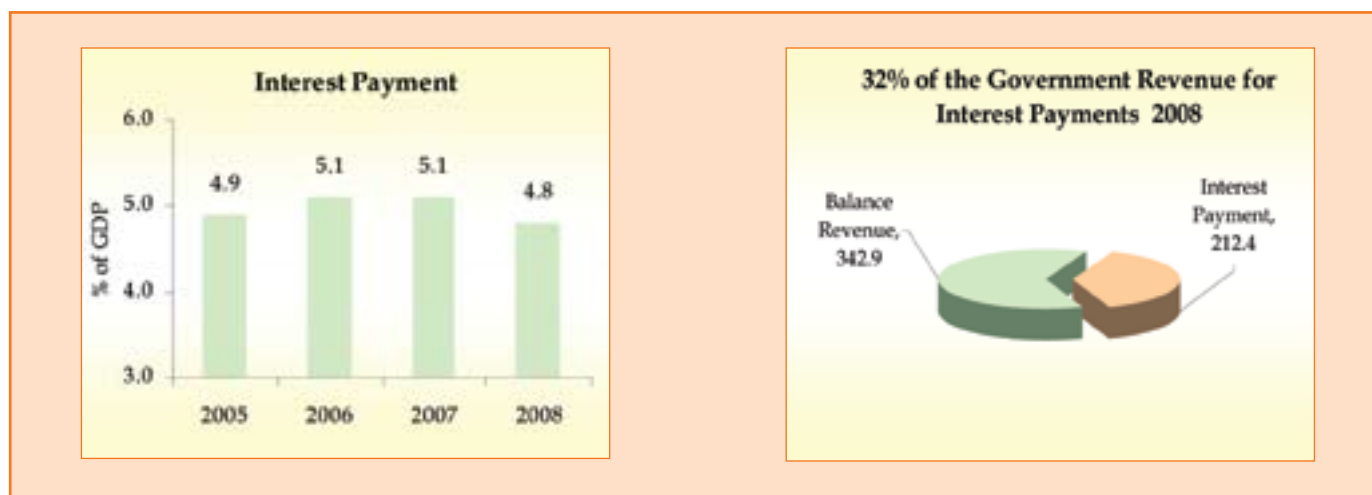


Table 2.19
Yield Rates

Year	Treasury Bills			Treasury Bonds			
	91 days	182 days	364 days	2 year	3 year	4 year	5 year
September 2007	18.20	17.47	17.31	17.27	16.45	14.32	14.22
March 2008	18.39	18.96	19.00	-	17.05	-	-
June 2008	17.29	18.17	18.53	17.83	16.93	-	-
September 2008	17.22	18.28	19.06	19.33	19.22	19.09	17.00
December 2008	17.33	18.57	19.12	20.53	20.34	19.60	-
Change(Sept 07/Sep 08)	(0.89)	0.36	1.32	1.27	1.44	3.16	2.78
March 2009 (4th week)	14.62	16.16	16.63	18.06	18.10	18.03	17.00

Source: Department of Treasury Operation

Transfers to State Enterprises

The transfers to cover the operational losses of the CTB, Railway & Postal department amounted to Rs. 10,621 million. The total transfers to corporations amounted to Rs. 12,942 million.

Chart 2.10



The operating losses of the Postal department continued in 2008, but at a slower pace, benefiting from the postal rate revision implemented in May 2007. There is a rising demand from the public for a variety of services, given the extensive post office network and easy accessibility to the public, the post office could be used as a point of sale for many services across the country, there by operating as a profit making institution.

Despite several revisions in bus fares the CTB continued to make operational losses in 2008 due to the inadequacy of revisions to cover the costs, emerging from the high oil prices. The operation of uneconomical bus routes cost was Rs. 392 million in 2008.

Table 2.20
Key Statistics of Bus Transportation (SLCTB)

	2006	2007	2008
Expenditure per day (Rs. mn)	35.32	43.25	53.75
Income per day (Rs. mn)	21.69	33.54	42.39
Subsidy per day (Rs. mn)	13.63	9.71	9.8
Average kilo meters operated	262	305	313
Subsidy per kilo meter (Rs)	19.10	11.13	11.24
Capital expenditure (Rs. bn)	3.98	2.61	1.88

Source: Department of National Budget

Although, the Railway fares were revised upwards in 2008 after a lapse of 3 years, the Railway, continued to incur operational losses in 2008 recording a loss of Rs. 4,553 million.

Chart 2.11

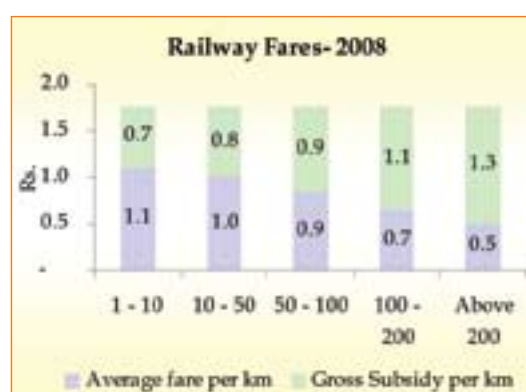


Table 2.21
Key Statistics of Railway Transportation (CGR)

	2006	2007	2008
Operational Expenditure (Rs. mn.)	6,473	7,577	8,225
Total Income (Rs. mn)	2,491	2,999	3,671
Total Subsidy (Loss)	3,981	4,578	3,325
Passenger Kilo meters Operated (mn.)	4,316	4,769	4,681
Passengers Transported ('000)	100,602	110,465	104,598
Train Kilometers Operated (mn.)	8	9	9

Source: Department of National Budget

The transfers to other public institutions decreased from Rs. 27,382 in 2007 to Rs. 26,407 million in 2008 mainly due to the controls applicable through treasury cash management on other recurrent expenditures despite increases in fuel bill, its related expenditures and salary increases.

Assistance to Agriculture

The fertilizer subsidy scheme continued in 2008, particularly, targeting the small scale paddy farmers. The paddy farmers enjoyed all varieties of fertilizer at a subsidized price of

Rs. 350 per 50 kg bag despite high fertilizer prices in international market. This was particularly in the first nine months of 2008. The urea fertilizer subsidy was extended to the plantations sector in 2008, covering plantation less than 50 acres in extent, at a subsidized price of Rs. 1,200 per 50 kg bag. This subsidized price was further reduced to Rs. 1,000 per 50 kg bag in the latter part of 2008. The Government had to bear 93-95 percent of the total cost of fertilizer. This exerted additional pressure on the budget with the subsidy cost amounting to Rs. 27 billion compared to Rs. 15 billion budgetary allocations. The impact of the drop in fertilizer prices in the latter part of the year did not have an impact on the subsidy cost of 2008 but would help to reduce the related costs in 2009.

Chart 2.12

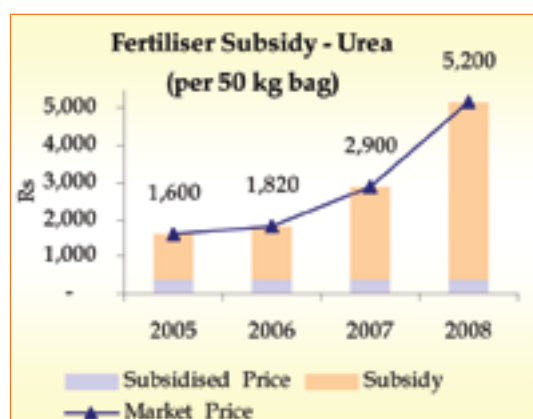


Table 2.22
Fertilizer Subsidy - Paddy Sector (September 2008)

Fertilizer	Market Price for 50 kg Bag as at Aug 2008	Subsidized Price per 50 kg Bag	Subsidy per 50 kg Bag	Government Subsidy as a Percentage of the Market Price (%)
Urea	5,300	350	4,950	93
MOP	7,200	350	6,850	95
TSP	6,300	350	5,950	94

Source: Fertilizer Market Bulletin - August 2008

With a view to ensure stable prices for paddy farmers, the advances for paddy purchasing programme continued at a cost of Rs. 195 million in 2008. This programme was implemented by the Paddy Marketing Board covering the North as well as the East.

In 2008 around Rs. 155 million was channeled to assist the agriculture sector by way of an interest subsidy on cultivation loans to small scale farmers cultivating paddy and other subsidiary food crops. Further, around 67,397 cultivation loans amounting to Rs.2,750 million were provided under the New Comprehensive Rural Credit Scheme (NCRCS) for 2007 Yala and 2007/2008 Maha Seasons. In addition, 1,373 loans at subsidized interest rates amounting to Rs. 7,586 million were disbursed to private sector to purchase paddy.

The stimulus package introduced by the Government in December 2008 to strengthen the economy, granted additional benefits to the agricultural sector by way of interest subsidy for working capital loans, subsidies for price stability in tea, rubber and cinnamon as well as enhanced fertilizer subsidies for the tea sector.

In addition, under the concessionary loan scheme announced in the 2008 budget for the benefit of the small dairy farmers and liquid milk processes, 557 loans amounting to Rs. 54 million were disbursed to revitalized the milk production industry. The Government extended the already granted tax concessions to agricultural sector, by awarding incentives to value added agricultural products. Processing of agricultural products and products such as tea bags, yoghurt and curd were exempted from income tax. Further, VAT on domestically manufactured machines used for tea industry was removed.

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Table 2.23
Government Expenditure - Economic Classification

Rs.mn

Item	2005	2006	2007	2008
Current Expenditure	443,350	547,960	622,758	743,710
Goods and Services	194,860	253,025	292,632	360,328
Central Government	66,416	83,556	87,524	112,265
Salaries	44,950	54,544	61,799	65,315
Other	21,466	29,012	25,725	46,950
Defence	61,498	81,243	101,856	134,710
Salaries	38,040	44,960	60,185	73,509
Other	23,458	36,283	41,671	61,201
Police & Public Security	20,467	25,197	32,470	36,487
Salaries	10,993	14,074	22,810	26,463
Other	9,474	11,123	9,660	10,024
Provincial Councils	46,479	63,029	70,782	76,866
Salaries	44,620	61,453	69,372	73,791
Other	1,859	1,576	1,410	3,075
Interest Payments	120,159	150,778	182,681	212,475
Domestic	113,164	133,788	161,370	182,198
Foreign	6,995	16,990	21,311	30,277
Subsidies & Transfers	128,331	144,157	147,445	170,908
Public Corporations	10,412	18,336	10,639	12,942
o/w Railways & Postal	5,205	6,781	6,592	6,519
Public Institutions	16,084	20,807	25,746	26,407
Local Authorities	233	172	150	217
Households	101,602	104,842	110,910	131,342
Pensions	46,782	58,006	68,822	74,920
Disabled Soldiers	4,749	6,563	7,428	8,694
School Uniform/Text Books & Nutrition Programmes	2,734	2,798	4,625	6,036
Samurdhi	9,161	10,789	9,200	9,995
Fertilizer Subsidy	6,846	11,867	11,000	26,450
Fuel Subsidy	26,400	9,419	632	-
Refugee Assistance	1,591	2,586	1,666	1,457
Other	3,339	2,814	7,537	3,790
Public Investment	148,582	177,443	229,273	263,860
Capital Expenditure-Grants	140,154	162,213	206,161	232,575
To Ministries & Departments	88,190	88,208	111,510	114,088
To Public Corporations	19,919	21,526	23,737	22,470
To Public Institutions	20,701	32,371	50,408	74,780
To Provincial Councils	11,141	19,699	20,346	21,220
Other	203	409	160	17
Capital Expenditure-Lending	1,279	3,473	12,684	19,841
To Government Corporations	8,428	15,230	23,112	31,253
Repayment of on Lending	(10,364)	(13,881)	(11,677)	(13,526)
Other	3,215	2,124	1,249	2,114
Total Expenditure	584,783	713,646	841,603	996,126

Source: Department of National Budget

Table 2.24
A Variance Analysis of Government Expenditure⁽¹⁾

	2008 Budget	2008	Remarks
Salaries & Wages	233,393	239,078	Enhanced COLA allowance from July 2008 to public servants in the lower grades, in addition to Rs. 375 increase from January 2007 meeting wage commitments to new recruitments specially in civil security and defence services, increases in other allowances for judges and medical officers caused the variance.
Pensions	73,060	74,920	Impact of the entry of more than 12,000 new retirees in 2008 and estimation error caused the variation.
Interest Payment	209,825	212,475	Increase in domestic interest rates and investors moving to short term Government Securities. In addition, the increase of new funding requirements and shifting of large share of funds required for financing the deficit to local sources due to the non availability of anticipated foreign commercial funds resulted in a high interest cost.
Fertilizer Subsidy	15,000	26,450	Continuation of fertilizer subsidy at a rate of Rs. 350 per 50 kg bag, in the back drop of high international fertilizer prices consequent to rise in petroleum prices, caused the variation.
Transfers to Public Corporations	10,538	12,942	Despite the rate revisions in bus & railway services to mitigate the loss of fuel price increase and the related cost increases, the adjustments were not sufficient to cover the operational losses of CTB and Railway caused a variation. The revision in the bus fares in May 2008, reflected a lower rate in the public sector than the private sector. The rate revision was 17.4 percent compared to the private sector average of 27.2 percent.
Transfers to Institutions	27,382	26,407	Despite the cost escalation stemming from fuel and related price increases, salary and COLA increases, strict cash management entrusted upon these institutions helped for the positive variation.
Samrudhi	10,687	9,995	Better targeting of deserving families.
Other Subsidies and Transfers	22,335	20,192	Although the payments to disabled soldiers and cost of printing of school text books recorded overruns, better targeting and savings from other transfers caused the positive variation.
Public Investment	335,672	263,860	Under performance of some of the foreign funded projects due to procedural issues such as delays in awarding the contract by project implementing agencies, poor performance of the contractors, delay in granting approvals for sub loans coupled with shortage in envisaged rupee funds due to shortfalls in the revenue caused the deviation.

Compiled by Dept of Fiscal Policy

(1) figures as per economic classification

Welfare and Social Safety Net for Vulnerable Groups

Cost effective nutrition intervention programmes that were initiated in 2006 and 2007 continued in 2008 improving maternal and child health care. 53,393 mothers have been benefited at a cost of Rs. 386 million under the programme to provide a nutritional food package worth Rs. 500 per month for expectant mothers in 2008. Further, 708,031 expectant and lactating mothers have been benefited through "Thripasha" programme utilizing Rs. 627 million in 2008. Fresh milk worth

of Rs. 360 per month was provided for children between 2-5 years benefiting 28,105 children covering 70 AGA divisions.

Funds allocated for School Mid Day Meal Programme increased with the enhanced coverage of the programme for grade 1 to 4 children, totaling 575,896 children in under-privileged areas including North and East at a cost of Rs. 1,649 million in 2008.

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The “Senehasa” bank account scheme, which was designed to support the children who lost their parents consequent to tsunami and terrorist activities in North and East continued in 2008, with a further cost of Rs. 12.3 million benefiting

683 such children. Other welfare payments such as school season tickets, bursaries, school uniforms, Dhamma school text books and assistance to differently abled school children continued in 2008.

Table 2.25
Welfare Payments and Subsidies

Description	2006	2007	2008
			Rs. mn
Programmes for Children	4,046	6,405	7,633
Infant Milk Food Subsidy, “Poshana Malla”	82	418	386
“Thripasha” Programme	537	488	652
Free Text Books	1,123	2,250	3,387
School Uniforms	963	1,067	582
School Season Tickets	250	500	600
Handicapped Students	50	71	70
Dharma school Text Books & Uniforms etc,	84	102	99
Bursaries and Scholarships	235	201	208
School Nutritional Foods	722	1,308	1,649
Welfare Payments to Households	32,569	32,233	37,910
Samurdhi Relief	10,789	9,200	9,995
Assistance to Disable Soldiers	5,921	7,426	8,694
Assistance to Internally Displaced Persons	2,586	1,666	1,457
Food Assistance	1,075	2,466	4,437
Public Assistance through Provincial Councils	648	326	922
Flood and Drought Relief	171	345	323
Free Medicine to Government Hospitals	11,379	10,804	12,082
General Fuel Subsidies	10,069	632	-
Petrol	650	-	-
Diesel	2,145	-	-
Kerosene	2,889	632	-
Fuel Oil	4,385	-	-
Agriculture	12,072	11,140	26,604
Interest subsidy for Agriculture Loans etc,	158	100	155
Fertilizer Subsidy	11,867	11,000	26,449
Development Subsidy	47	40	-
Other	945	1,030	1,346
Street Lighting	900	1,000	1,300
Water Subsidy for Religious Places	45	30	46
Total	59,701	51,440	73,493
Losses of Departmental Enterprises	11,767	10,525	10,621
Sri Lanka Railways	3,982	4,578	4,553
Sri Lanka Transport Board	4,976	3,653	4,088
Postal Department	2,809	2,294	1,980

Source: Department of National Budget

Rural Sector Development Initiatives

"Gama Neguma" Programme

"Gama Neguma" programme is designed to achieve island wide economic development through the creation of an economically prosperous village. It was expected to build up the village through provision of infrastructure facilities such as roads, electricity, irrigation, water supply, community halls and shelters. The programme constitutes of projects implemented to re-cultivate of social, cultural and religious values under the moral and social development, to uplift the community through income and employment generating activities within the village under the Livelihood Development. It also covers the projects to reconstruct and construct small scale rural infrastructure which will make direct and indirect contribution towards economic activities in the village. The "Nenasala" centres will provide the community with advance technology, knowledge and information. The envisaged overall goal of the "Gama Neguma" initiative is to build a comprehensive balanced of a developed village.

The programme inaugurated in 2006 within 119 Grama Niladhari Divisions (GN) was expanded to cover 4,000 divisions in 2007 and ultimately to cover all 14,034 GN Divisions. The "Gama Neguma" projects included in the village development plan prepared through the "Jana Sabha" in each GN division was implemented adhering to an Annual Implementation Programme phased out according to the priority accorded to them in the Village Development Plan. Under this programme, 35,839 projects were approved covering 13,744 GN divisions. The total number of projects completed during the year was 32,862 at a cost of nearly Rs. 10 billion, benefiting 6,316,919 beneficiaries.



Concrete Road

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Table 2.26
"Gama Neguma" - District wise Expenditure in 2008

District	Physical Progress of Projects		Expenditure (Rs mn.)	Peoples' Participation (Rs. mn)	Beneficiaries
	Completed	In Progress			
	Moneragala	843	-	571	157
N'Eliya	990	-	438	166	1,170,143
Badulla	1,068	8	437	110	273,603
Rathnapura	1,440	31	614	257	320,514
Colombo	721	105	360	82	73,952
Kalutara	1,347	13	525	153	108,936
Gampaha	1,724	60	546	139	195,793
Jaffna	329	56	149	38	173,828
Anuradhapura	422	154	596	136	542,224
Polonnaruwa	500	10	242	55	262,794
Kandy	1,288	192	425	94	122,689
Matale	674	19	301	61	27,935
Vavuniya	51	-	55	-	48,211
Galle	1,363	20	889	199	387,500
Matara	1,335	164	659	170	167,307
Hambantota	749	57	539	60	230,900
Kurunegala	12,403	98	928	196	520,163
Kegalle	2,037	13	415	86	195,071
Puttlam	1,615	13	638	170	127,610
Mannar	79	36	103	4	7,084
Ampara	475	105	342	31	647,297
Batticaloa	931	182	343	101	200,556
Trincomalee	478	496	278	101	190,890

Source: Ministry of Nation Building and Estate Infrastructure Development

Table 2.27
Expenditure on "Gamaneguma" - Sector wise Development in 2008

Sector	Expenditure Rs. mn	Peoples' Participation Rs. mn	Beneficiaries
Infrastructure Development	9,993	2,467	5,968,062
Roads and Bridges (3,354 km)	7,058	1,899	4,105,701
Housing	65	13	16,598
Power & Energy	1,594	222	637,215
Irrigation	226	80	327,763
Social and Sports	544	127	436,711
Water Supply and Sanitation	248	81	352,921
Others	257	46	91,153
Livelihood Development	374	99	333,857
Human Resource Development	7	1	12,416
Livelihood Development	155	35	28,932
Agricultural and Animal Husbandry	66	22	14,021
Other	146	40	278,488
Total	10,367	2,566	6,301,919

Source: Ministry of Nation Building and Estate Infrastructure Development

"Jathika Saviya" Programme

Under this programme, initiatives were taken to provide financial assistance expeditiously to construct infrastructure facilities and resettlement of people in the areas liberated from the terrorists in the North and East and adjoining areas such as Puttlam and Anuradhapura districts which were under threat from the terror activities. Programs were implemented to rehabilitate and reconstruct access roads, irrigation network, housing and electricity. Further projects were designed to resettle the displaced persons in their hometowns and assure livelihood support for these people. Special emphasis was placed on fishery harbour development, reconstruction of irrigation schemes and agricultural roads which directly contributed to agriculture production.

A large number of barren lands were brought under cultivation to raise production of paddy, maize, vegetables, fruits, cashew, chilies and other cash crops. The farmers were provided with capital, technology, agricultural equipment, and fertilizer needed in this regard. Further, the Government provided machinery and equipment used for road construction and farm land preparation such as hydraulic excavators, drum trucks, wheel loaders, motor graders, bacco loaders and bowsers.



Water Tank

Table 2.28
Financial Allocations under "Jathika Saviya" Programme
Main Projects- District wise

District	Project	Allocation (Rs. mn)
Jaffna	Jaffna Lagoon Development	80
	De-silting of Delft Harbour	12
	Thondamanaru Bridge	88
	Infrastructure & Livelihood Development	126
	Rehabilitation Centre Karinagar	5
Batticaloa	Chenkaladi Mahaoya Road	43
	Police Posts	30
	Irrigation Development	27
	Land Preparation	8
	Electricity-Vakarai-Venugal	8
	Other Rehabilitation activities	30
Mannar	Silavatura-Puttlam Road	74
Trincomalee	Police Post	2
	Seruvila- Somawathi Road	47
	Outer circular Road	72
	Housing Scheme- Muttur	70
	Trincomalee market	92
	Housing	108
	Ring Road- Kaddaiparichchan	3
	Civil Air Movement Building- China Bay	6
Vavuniya	Mullative Puliankulam Road and Strengthening security	20
Anuradhapura	Housing - Dematawewa, Gonamariyawa Janakapura, Welioya	101
	Electricity - Medawachchiya and Strengthening Security	28

Source: Ministry of Nation Building and Estate Infrastructure Development

Estate Infrastructure Development

Several projects were implemented focusing on the plantation sector with a view to upgrade the living standards of people in plantations in Nuwara Eliya, Badulla, Ratnapura, Kegalle and Kalutara Districts. These included programmes to

upgrade health and educational facilities, estate housing, estate roads and bridges, water supply and sanitation, vocational training at a cost of Rs. 585 million, benefiting 251,700 estate sector people.

Table 2.29
Estate Infrastructure Development - 2008

Sector	No of Projects Completed	No of Project in Progress	Expenditure Rs. mn.	Outcome
Education	7	5	16	Classrooms, School Buildings and Teachers Quarters, <i>No of Beneficiaries - 24,295</i>
Health	27	10	18	Construction and improvements to OPDs, Wards, Laboratories, Maternity Wards, DMO quarters, Ambulance parks. <i>No of Beneficiaries - 126, 05</i>
Housing	units 1,428	units 3,940	131	<i>No of beneficiaries - 5,368</i>
Roads & Bridges	176	19	393	210 km of estate roads completed and 35 km under renovation. <i>No of Beneficiaries 78,564</i>
Water & Sanitation	77	15	18	improving water supply facilities <i>No of Beneficiaries - 12,354</i>
Vocational Training	11	4	1	Training programmes in the areas of Driver Training, Curtain Making, House Wiring, Ornamental and Wood Crafting and Beauty Culture. <i>No of Beneficiaries - 90</i>
Cultural	3	3	10	Construction of 3 cultural centres in N'Eliya, Badulla and Ratnapura have been completed and 2 under construction <i>No of Beneficiaries - 4,954</i>

Source: Ministry of Nation Building and Estate Infrastructure Development

Rural Development Programmes for "Samurdhi"

Recipients

The "Gami Pubuduwa", "Jana Pubuduwa" Programmes designed to empower the "Samurdhi" recipients through

community livelihood development and micro enterprise development were strengthened at a cost of Rs 920 million in 2008.

2. Fiscal Developments - 2008

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Table 2.30
Main Programmes Implemented by Samrudhi Authority in 2008

Programme	Projects	Amount Rs. mn
Livestock/Fisheries Development	Providing milking cows, construction of cattle sheds, rearing of goats and pigs, providing fishing gear, ornamental fish, Prawn and poultry farming, technical training	50
Agricultural Development	Promotion of local food production, home gardens, export crops, agricultural training projects, tea small holdings development	107
Marketing Development	Small scale marketing promotional programmes, identification of entrepreneurship skills of low income groups and directing to suitable projects by providing facilities	29
Industrial Development	Setting up of industrial villages, rice processing villages, small scale enterprises (food processing, gold, silver, pottery etc)	64
Social Development	Programmes for drug control, moral development and "Diriya Piyasa" Programme (for widows and low income families with disabled persons)	158

Source: Ministry of Nation Building and Estate Infrastructure Development

In addition, credit facilities amounting to Rs. 4,088 million have been provided through 1,042 Samurdhi banks.

Table 2.31
Micro Finance Facilities through Samrudhi Banks - 2008

Areas of loans	Amount Rs. mn
Cultivation	696
Self Employment	1,365
Fisheries	50
Jana Pubudu Low Interest Loans for Self Employment	1,017
Housing	75
Consumer	288
Suwashakthi	537
Mihijaya	60
Total	4,088

Source: Ministry of Nation Building and Estate infrastructure Development

Under the Samurdhi Social Security Programme, the entitlements offered to Samurdhi beneficiary families for childbirth, marriage, death, hospitalization and the "Sipdora" scholarship programme continued in 2008 at a cost of around Rs. 175 million.

The "Maga Neguma" Programme-2008

"Maga Neguma" rural road development program was further strengthened in 2008 by rehabilitating 1,640 km of roads at a cost of Rs. 3,830 million. The implementation of this program covers over 5,800 km of rural roads that have been rehabilitated at a cost of Rs. 8,495 million.

Table 2.32
 "Maga Neguma" Rural Road Development Programme – 2008

District	No. of Projects	Length of Road Development (km)	Expenditure (Rs.mn)	Beneficiary Families
Colombo	196	34	126	2,689
Gampaha	738	133	485	10,999
Kalutara	458	52	175	5,297
Kandy	136	28	80	2,391
Matale	62	13	48	989
Nuwara Eliya	73	15	51	973
Galle	145	114	124	2,533
Matara	386	94	337	6,420
Hambanthota	785	173	682	12,811
Jaffna	9	4	42	740
Mannar	6	2	15	295
Vavunia	13	19	40	2,087
Mullaitivu	6	8	11	392
Kilinochchi	11	7	8	887
Batticaloa	10	4	31	393
Ampara	266	253	161	8,686
Trincomalee	36	16	33	865
Kurunegala	700	383	626	15,272
Puttalam	136	31	114	1,710
Anuradhapura	159	91	92	3,653
Polonnaruwa	97	82	118	2,499
Badulla	119	37	111	2,292
Monaragala	70	14	39	928
Ratnapura	391	79	168	5,379
Kegalle	213	37	116	3,501
Total	5,221	1,640	3,830	94,681

Source: Department of National Budget

2. Fiscal Developments - 2008

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Table 2.33
Government Expenditure- Functional Classification

	2006	2007	Rs.mn 2008
Current Expenditure ^(a)	397,783	440,077	531,235
General Public Services	136,352	162,102	207,348
Civil Administration	29,912	31,481	36,150
Defence	81,243	101,856	134,710
Public Order and Safety	21,950	28,765	36,487
Social Services	204,635	226,271	240,768
Education	61,144	72,592	77,141
Health	44,069	51,741	55,874
Welfare	86,753	91,747	94,789
Community Services	12,669	10,191	12,963
Economic Services	50,612	45,573	80,303
Agriculture and Irrigation	22,173	22,849	41,579
Energy and Water Supply	2,766	3,647	3,323
Transport and Communication	19,038	18,983	29,587
Other	6,635	4,094	5,814
Other	8,831	2,131	2,816
Public Investment	177,443	229,273	263,860
General Public Services	21,356	32,143	34,404
Civil Administration	18,109	28,438	29,675
Public Order and Safety	3,247	3,705	4,728
Social Services	48,386	54,986	60,236
Education	17,200	19,948	22,942
Health	13,969	16,961	18,674
Housing	4,021	4,481	4,826
Community Services	13,197	13,596	13,794
Economic Services	106,189	141,244	168,879
Agriculture and Irrigation	12,615	14,736	17,681
Energy and Water Supply	26,376	47,850	48,783
Transport and Communication	37,988	50,995	82,916
Other	29,810	27,663	19,499
Other	912	900	341
Debt Servicing	444,302	500,514	592,805
Interest	150,777	182,681	212,475
Repayments	293,525	317,833	380,330

Source: Department of National Budget

^(a) Excludes Interest Payments

Enhanced Development Expenditure

The overall public investment increased from Rs 229,273 million in 2007 to Rs 263,859 million in 2008. More resources have been primarily enhanced towards Health, Education and Infrastructure development to sustain a rapid and equitable economic growth. Priority development initiatives were continued in 2008 with a greater emphasis on targeting the national infrastructure development initiative; “*Randora*” and enhancing the provincial and rural infrastructure development; “*Jathika Saviya – Gama Neguma*” and “*Maga Neguma*” programmes.

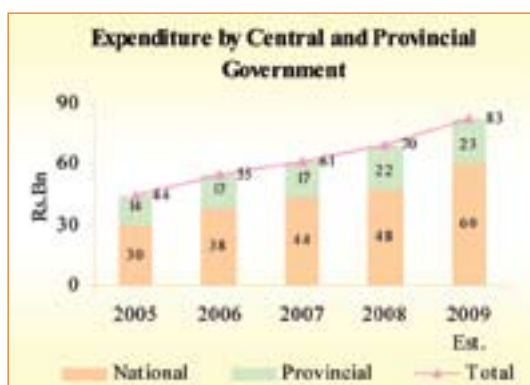
Emphasis on Human Resource Development Continues

Priority has been continuously placed on human resource development by the Government through the provision of enhanced investment to health, education and skills development with the aim of building a strong competent human resource base required for the development of the country.

Health

The Government earmarked a major share of its investment for health with an overall policy objective of delivering quality and modern healthcare services particularly to underserved areas. The total investment on health in 2008 was Rs 70 billion, indicating an increase of 14 percent over 2007, with a growing share at both the national and provincial levels.

Chart 2.13



Investments in curative health care services have been significantly increased during 2007-2008. Establishment of a centre of excellence in Nephrology at Maligawatte, Colombo, with facilities for diagnosis, dialysis and kidney transplantation surgery at a cost of Rs. 405 million, was one of the key development projects completed in 2008. In addition, the construction of staff quarters for Medical Officers in remote areas, construction of a surgical treatment complex at the Kandy General Hospital and provision of medical equipment including Linear Accelerators are some of the major development projects implemented in 2008.

Meanwhile, funds were provided in 2008 for the continuation of the Matara-Godagama Korea-Sri Lanka Friendship Hospital, Neuro Trauma Unit at the National Hospital Colombo, Improvement of Cardiology, Oncology and Maternity wards at the Kurunegala General Hospital while initiating new projects with donor assistance such as improvement of the Anuradhapura General Hospital with JICA assistance, improvement of the Kurunegala Teaching Hospital with Austrian assistance etc.

Further, the expenditure on Medical Supplies for Government medical institutions have been increased by 11 percent over 2007 to Rs 12.1 billion in 2008, to meet the cost escalations and needs of emerging of new medical units.

The assistance given to preventive health programmes was also continued in 2008. A greater emphasis was given to control the out break of ‘Chikungunya’ while conducting preventive programmes on both communicable and non communicable diseases i.e. Dengue, Rabies, Malaria, cancer etc.

To meet the challenge of human resource shortage in the health sector, 956 Medical Officers and 2,030 pupil nurses were recruited in 2008, which added the total number of nurses recruited to 14,617 under the 15,000 nurses programme.

The investment in traditional systems of medicine namely Ayurveda and other indigenous systems, has been increased by 8 percent from 2007 to 2008 with a view to promote Indigenous System of Medicine to cater to the increasing demand for such systems.

Box 2.3 Financing the Health Sector

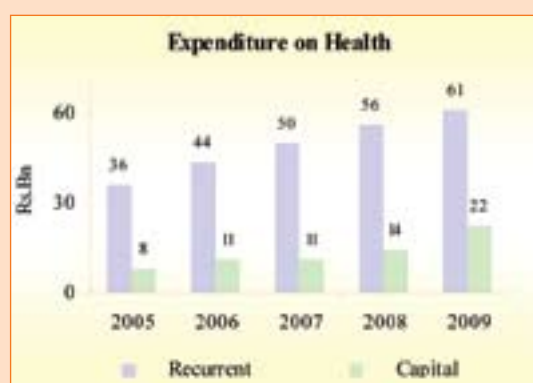
In line with the policy directions outlined in the “Mahinda Chinthana”: Vision for a new Sri Lanka: A Ten Year Horizon Development Framework 2006- 2016, the Government continues to support long-standing policy of providing a universal free health service to its people while maintaining the Millennium Development Goals that the country has already achieved.

The total Government investment in health has increased from Rs. 61 billion in 2007 to Rs. 70 billion in 2008 which is about 1.6 percent of GDP. The health sector investment represented a 40 percent of the total Human Resource Development Budget of 2008, and a 7 percent of the total Government expenditure. This is in addition to the steady growth in investment by the private sector in the health sector that has taken place over the years.

The total health budget includes a growing share of investment both at national and provincial level covering outlays on preventive, curative and promotive health services.

Resource Mobilization in Health

Annually, a major share of health expenditure is channeled to meet the recurrent expenditure while providing a substantial increase of funds on capital expenditure.



The capital investment on health has increased from Rs 11 billion in 2007 to Rs 14 billion in 2008. These funds were mainly used for curative health care, especially hospital development. The total capital expenditure on health is largely financed from domestic funds. The foreign assistance contribution was only 28 percent. However, the funds committed on hospital development projects were not satisfactorily utilized in 2008, due to procedural delays associated with donors, problems in land acquisition etc.

Major Capital Investments in Curative Healthcare, 2006-2008 Rs. mn

Investment Area	2006	2007	2008	2009 ^(a)
Hospital Development Projects	1,802	2,468	4,269	5,194
Hospital Rehabilitation	1,685	1,983	1,831	2,899
Medical Equipment & Machinery	1,767	1,825	902	3,241
Hospital Furniture	92	101	65	250
Vehicles to Hospitals	94	-	168	96
Total	5,440	6,377	7,235	11,680

Source: Department of National Budget and Department of State Accounts

Note: Includes only Central Government Expenditure

^(a) Estimate

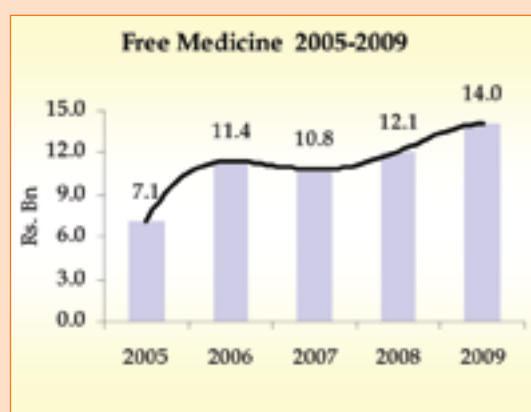
In addition to hospital development projects, a major share of capital investment has also been channeled for hospital rehabilitation, medical equipment etc. Further, a total capital investment of Rs 1,168 million was provided to carry out new initiatives to control communicable and non communicable diseases with domestic as well as foreign assistance - World Bank, Global Fund etc. in 2008.

Out of the total recurrent expenditure on health, a bulk has been channeled for medical supplies, hospital maintenance and payment of salaries.

Box 2.3
Financing the Health Sector Contd.



Expenditure on medical supplies to Government institutions has been doubled from Rs 7.1 billion to Rs 14 billion from 2005 to 2009 in order to ensure proper maintenance of patient care services. Recurrent expenditure on hospital maintenance has also accounted for high outlays around Rs 3,373 billion in 2008, mainly on diet, electricity and water, fuel, laundry and security services etc. Since nutritional intervention has given a foremost concern during the past years, the funds channeled for long standing nutritional programme; Thripasha, had been increased by 33 percent in 2008 over 2007. Further, the Government had been investing a fair share of its total salary bill i.e. around 15 percent in 2008, to meet the cost of personal emoluments of the staff attached to the health sector annually.



Human Resource Base

By 2008, a total of 106,295 health sector personnel had been deployed within the public sector health institutions, out of which around 57,459 were attached to institutions under the Central Government.

Human Resource Base in the Public Health Service

Category	2006	2007	2008
Specialist Medical Officers	959	1,023	1,006
Medical Officers - Administrative	124	128	131
Medical Officers	9,297	9,662	10,932
Dental Surgeons	849	861	879
Registered Medical Officers & Assistant Medical Practitioners	1,274	1,244	1,244
Nurses	20,912	22,088	22,977
Public Health Midwives	7,590	8,139	8,722
Public Health Inspectors	1,662	1,686	1,695
Medical Lab Technicians	910	1,006	1,020
Attendants	7,129	7,201	7,145

Source: Ministry of Healthcare and Nutrition

To overcome the prevalent imbalance in the human resource distribution particularly in rural areas, a considerable number of Medical Officers including Specialists, Nurses and other para medical staff were recruited and appointed during 2007 and 2008.

Manpower Recruitment and Appointment

Category	Recruitment ^(a)		Appointment	
	2007	2008	2007	2008
Specialist Medical Officers	146	155	137	60
Medical Officers	909	956	1,716	907
Dental Surgeons	-	100	-	111
Nurses	3,079	1,906	2,802	1,216

Source: Ministry of Healthcare and Nutrition

^(a) Recruitment for Training

Box 2.3
Financing the Health Sector Contd.

Taking Services to the People

During 2006-2008, a number of development projects were initiated aiming at further addressing the key health issues of providing equal access to healthcare while paying special

attention to North and East provinces. Several projects on hospital development were completed in 2008, minimizing the imbalances in the service delivery of healthcare.

Key Developments in Curative Healthcare

Anuradhapura General Hospital: Constructed a four storied ward complex at a cost of Rs 110 million and a Renal Dialysis and Research Unit at a cost of Rs 45 Million

Cancer Hospital Maharagama: Constructed a building to install a Linear Accelerator Machine at a cost of Rs120 million while providing a Linear Accelerator Machine worth of Rs 610 million.

Centre of excellence in Nephrology at Maligawatte, Colombo: Established a centre of excellence in Nephrology with facilities for diagnosis, dialysis and kidney transplantation surgery at a cost of Rs. 405 million.

Kantale and Nillayadi Base Hospitals, Badulla General Hospital, Kalmunai South Hospital, Murunkan District Hospital, Mullaitivu District Hospital and Kandy Teaching Hospital: Constructed staff quarters for Medical Officers utilizing Rs 45 million

Kurunegala Teaching Hospital – Completed Stage I of Maternity Ward Complex at a cost of Rs 120 million

Kuliyapitiya, Puttalam, Kantale, Diyathalawa, Horana, Dambulla, Mahiyanganaya, Kalmunai North, Awissawella, Panadura, Balapitiya, Embilipitiya, Wathupitiwala and Homagama Hospitals: Developed infrastructure facilities in above 14 hospitals in less privileged areas at a cost of Rs 256 million

Nursing School at Ampara: Constructed the Ampara Nursing School at a cost of Rs. 350 million with Red Cross assistance

Badulla General Hospital – Constructed a drug store at a cost of Rs 46 million

Nuwara Eliya Base Hospital – Developed a Maternity ward and a Administrative Building Block at a cost of Rs 100 million

Kurunegala Teaching Hospital: Supplied medical equipment worth of Rs 864 million with the assistance of the Austrian Government

Medical Equipment: Provided bio medical equipment worth of Rs 434 million to hospitals island wide.

The construction of Neuro Trauma Unit at the National Hospital, Colombo is one of the key projects nearing completion. The total cost of this unit is Rs. 2,137 million and it is being constructed with the assistance of the Government of Saudi Arabia. Establishment of this eight storied unit expects to provide state of the art healthcare facilities for patients with neurological problems.

Moreover, the construction of the Epilepsy Unit at a cost of Rs 2,918 million with the assistance of the Government of Saudi and the 3rd Medical Ward Complex at a cost of Rs. 375 million at the National Hospital, is expected to enhance the capacity of providing specialized and quality healthcare facilities for people.

Box 2.3
Financing the Health Sector Contd.

New Initiatives Targeting Underserved Areas

Key Project	Total Cost (Rs.mn)
Kantale – Rehabilitation of Kantale Base Hospital	37
Kalmunai – Construction of an OPD Building at Kalmunai Base Hospital	56
Kalutara – Construction of a clinical complex and an OPD building at Kalutara General Hospital	65
Peradeniya – Construction of Sirimavo Bandaranaike Specialized Children’s Hospital (Stage – II)	426
Matara – Establishment of Korea – Sri Lanka Friendship Hospital with Korean assistance at Matara	6,100
Anuradhapura – Improvements to curative healthcare facilities at Anuradhapura General Hospital with JICA assistance	950
Kegalle – Construction of a Theatre Complex at Kegalle General Hospital	240
Badulla – Establishment of a Chest Unit	106
Kandy – Construction of a Theatre Complex	230
Kurunegala – Construction of an Oncology Unit and a Maternity Ward at Kurunegala Teaching Hospital	254

Estate Health Sector Development

During 2008, a special emphasis was given to the plantation sector in providing basic healthcare facilities. Plantation sector reported the highest rate of morbidity and mortality i.e. Nuwara Eliya district, specially in maternal and infant mortality than in the rest of the country.

The Government decided to integrate the estate health services into National Health System to reduce the existing inequities and disparities in health service provision between the plantation and other sectors. Under these circumstances, the Provincial Government has taken over 26 Estate Hospitals under provincial health authorities which were previously managed by the plantation companies or Janatha Estate Development Board (JEDB), with appointment of MBBS qualified medical officers to those institutions.

Developments in Estate Health Sector

Category	No.
No. of Estate Hospitals taken over by the Provincial Government	26
No. of Medical Officers appointed	26
No. of Public Health Inspectors appointed	28
No. of Public Health Midwives appointed	110
No. of Sanitary facilities constructed	1,534

Source: Ministry of Healthcare and Nutrition

Funds were provided in 2008 to develop curative as well as preventive health services in the plantation sector as a special project under the Ministry of Health utilizing Rs 110 Million for health infrastructure development in the estates.

Moreover, boundaries of the areas coming under the Medical Officers of Health (MOH) were re-demarcated to encompass the plantation areas into the MOH divisions as a result of a policy decision taken by the Government to take over preventive and public health services of the estate health sector into the district health system. The provision of the cadre; Public Health Inspectors, Public Health Midwives and Medical Officers, for the districts covering estate areas was increased on par with other areas.

Box 2.3
Financing the Health Sector Contd.

The assistance given for execution of preventive health programmes were continued with a view to minimize the challenges posed with epidemiological and demographic transition.

Programmes Conducted on Preventive Health, 2008

Category	No	
	2007	2008
Mobile Clinics conducted on Malaria	2,285	1,697
Human vaccines used for dog bites under Rabies control programme (VIALS)	317,945	343,611
Clinic sessions conducted on STD/HIV/AIDS	15,573	15,515

Source: Ministry of Healthcare and Nutrition

A greater emphasis was given to combat the vector borne viral fever outbreak called 'Chikungunya' detected largely in the Ratnapura District in 2008. As an emergency relief, funds amounting to Rs.138 million were provided to procure equipment for hospitals and for mosquito control activities in the District. A special provision was also provided for effective continuation of the Rabies Control Programme by vaccinating 134,366 stray dogs and sterilizing 119,084 dogs in 2008.

National Authority on Tobacco and Alcohol was established under the Act No. 27 of 2006 to reduce the habit of smoking and drinking of alcohol among public where the ultimate objective is to promote a healthy nation.

Economic Benefits of Health

Sri Lanka has been able to maintain impressive health indicators during the last few decades at par with some of the medium developed countries in the South East Asia region. In this regard, Sri Lanka's health achievements with the per capita expenditure on health are noteworthy during the past years. As an outcome of the policy of free health care, improved public health spending which has enhanced quality of care over the years has led Sri Lanka to attain impressive health indicators ranking in the 99th

position of Human Development Index (HDI) under the rank of Medium Human Development while standing at 0.743 of HDI in medium human development status in 2005 (Human Development Report, 2007/2008).

Basic Health Indicators

Indicator	2000	2004	2008
Life expectancy at birth (years)	72	74.3	74.3
Maternal Mortality/ 100,000 live births	47	38	N.A
Infant Mortality/ 1,000 live births	12.2	11.2	11.2
Under 5 mortality/1,000 live births	18.8	14	N.A
Number of Hospitals	581	606	612
Number of Beds in all hospitals	57,027	59,144	66,835
Doctors / 100,000 Population	41.3	47.3	60.2
Nurses / 100,000 population	84.4	86.9	99.0
Per Capita Health Expenditure (Rs)	1,191	1,961	3,500

Sources: Ministry of Healthcare & Nutrition, Budget Estimates 2000-2008 and Human Development Report 2007/2008

Private Sector Participation in Health

Even though the Government provides health services to every one free of charge, the Government has encouraged the private sector to participate in the national health system through establishment of private hospitals which provide quality healthcare. Since 1992, the Government has also provided fiscal incentives to private healthcare investors through tax exemptions on import of machines and raw materials, income tax relief etc.

Box 2.3
Financing the Health Sector Contd.

Resource Base in the Private Sector

Item	No
Key Health Facilities^(a)	
Private Hospitals and Nursing Homes	151
Medical Laboratories	434
Medical Centres / Screening Centres / Day Care Medical Centres/ Channel Consultations	241
General Practices/ Dispensaries / Medical Clinics	
Full Time	391
Part Time	1,086
Dental Surgeries	
Full Time	108
Part Time	99
Medical Specialist Practices	
Full Time	19
Part Time	20
Private Ambulance Services	11
Other Private Medical Institutions	59
Hospital projects approved under Section 17 of the BOI Law	
Awaiting Commercial Operation	11
In Commercial Operation	18
Key Health Personnel ^(b)	
Medical Officers	
Full Time	212
Part Time	8,500

Source: Ministry of Healthcare & Nutrition, Private Health Services Regulatory Council and Board of Investment

^(a) Registered under Private Health Sector Regulatory Council, Sri Lanka as at Dec. 2008

^(b) By end 2007

dental surgeries etc. through the establishment of Private Health Regulatory Council under the Private Medical Institutions Act No. 21 of 2006.

Indigenous System of Medicine (ISM)

The support given by the Government for the development of traditional systems of medicine continued further in 2008. The total investment for the development of Indigenous and Ayurvedic Medicine sectors have increased from Rs. 683 million in 2007 to Rs.739 million in 2008 indicating a 8 percent increase over 2007.

Osu Govi Gammana, one of the key development projects commenced in 2005 to cultivate 12 identified varieties of medicinal plants with the intension of minimizing the costs involved in importation of such products, was converted to an *Osu Govi Company Limited* in 2008 ensuring independent operation of the program.

A greater emphasis has also been given to improve the preventive health services with the application of Ayurvedic system of medicine. Moreover, development of the Ayurveda Teaching Hospital at Borella (Master Plan), Helaveda Medura Program, and the Development of Homeopathy System are some of the major interventions successfully carried out with the intention of developing curative health care services in 2008. Construction work of the ward complex at Ayurveda Teaching Hospital at Borella is now nearing completion of which the total cost is Rs 1,204 million. A special emphasis was also given on Ayurveda Research with the initiation of the Mihintale Research Hospital at a cost of Rs. 587 million in 2008 while constructing the Hambantota Ayurveda Hospital at a cost of Rs. 117 million.

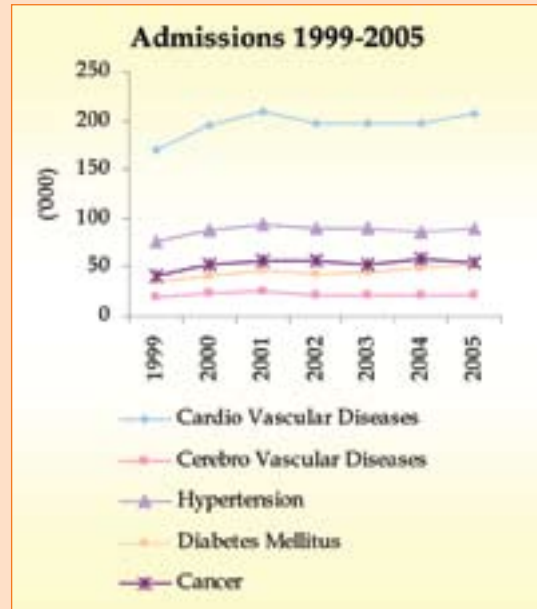
However, the Government continues to ensure that the patients get value for their money at private health institutions by registering the private medical institutions such as hospitals, nursing homes, channel consultations,

Box 2.3
Financing the Health Sector Contd.

Meeting the Challenges

The challenges in the fields of both preventive and curative health care are on the rise. Changing epidemiological trends, rising trend of non communicable diseases such as diabetes, hypertension, heart diseases etc. and resurgence of certain communicable diseases and inadequate nutrition are several key challenges that Sri Lanka is faced with, despite a long list of favourable achievements.

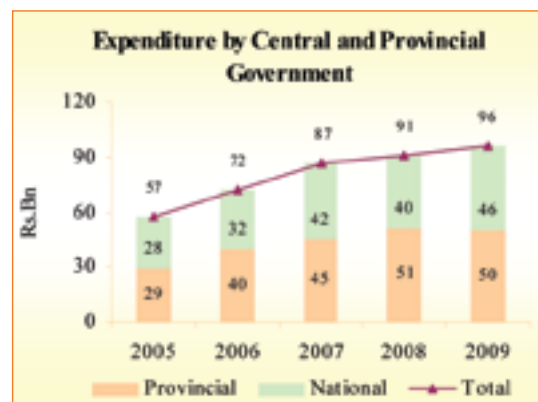
Since the prevalence of diabetes, hypertension and heart diseases are on the rise, the cost of treating or managing patients in these categories of diseases in public hospitals is also on the increase. In order to keep pace with the above challenges, the Government needs efficient and effective management of rising costs of healthcare which can be identified as one of the foremost challenges in the country.



Education

The public expenditure on education covering Primary, Secondary and Tertiary Education has increased, demarcating General and Higher Education under both the Central and Provincial Governments during 2005-2008. The total expenditure on Education has increased from Rs. 87 billion in 2007 to Rs 91 billion in 2008. The expenditure on school text books, nutrition programmes and uniforms has almost doubled in 2008 compared to that of 2006. Around 4.1 million students were provided with these benefits in 2008.

Chart 2.14



The Education Sector Development Framework Programme was continued in 2008 to promote equitable access to basic and secondary education to improve the quality of education, and to enhance the economic efficiency and equity of resource allocation within the education sector. Greater emphasis was given to Information Technology in education while channeling resources to modernize curricula and improve English medium education. Further, special programmes were implemented to enhance the knowledge of teachers with a view to ensure their professional development.

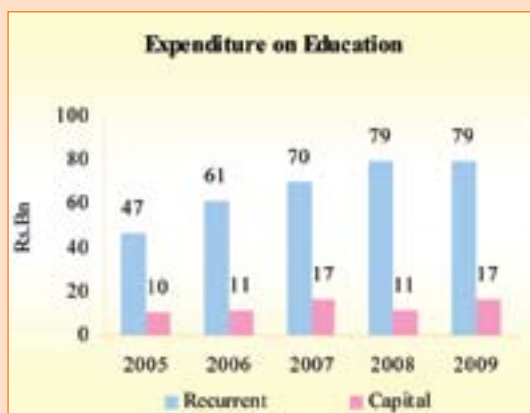
The expenditure on university education has been raised steadily over the years. As of 2008, the total expenditure stood at Rs. 20,096 million. The number of students admitted to state Universities has been increased from 14,237 in 2005 to about 20,369 in 2008 representing an increase of 21 percent.

Box 2.4 Investing in Knowledge Based Education

Investment in general education was mainly aligned under four major themes; promoting equitable access to basic and secondary education, improving quality of education, enhancing efficiency and equity of resource allocation and maintaining an effective system of service delivery. The expenditure on education grew from Rs. 86,535 million in 2007 to Rs. 90,706 million in 2008, an increase of 5 percent. Enhanced funds were mainly channeled under above four themes identified in the Education Sector Development Framework prepared by the Government at both national and provincial levels over the years, while maintaining an overall percentage of 2-3 of the GDP in 2008.

The total recurrent expenditure on education has been increased from Rs. 69,730 million to Rs. 79,383 million from 2007 to 2008. Around 92 percent of the total recurrent expenditure was accounted for salaries of school teachers, principals, academic and non-academic staff of Universities and administrative officials.

The Government also continued channeling funds to welfare expenditure programmes such as printing and delivery of text books, free mid day meals, bursaries and scholarships and school uniforms ensuring the free education policy of the country. Meanwhile, Rs. 11,323 million has been utilized on capital expenditure in 2008.



Education Spending as an Investment

The continued increase in investment in General and Higher education systems in Sri Lanka over the last decades have placed Sri Lanka relatively above the educational attainments in many countries in the South and South East Asian Region. Impressive attainments in basic indicators such as primary and secondary enrolment rate, overall literacy rate, survival rate in the compulsory basic education (Grade 1-9) and cognitive achievement scores in English and Mathematics have been complementaries of the free education policy implemented by the Government.

Box 2.4
Investing in Knowledge Based Education Contd.

Student Enrolment Ranking in the South and
South East Asian Region in 2008/2009

Country	Enrolment		
	Primary	Secondary	Tertiary
Sri Lanka	42	66	102
India	80	104	98
Thailand	64	85	44
Malaysia	23	95	71

Source: World Economic Forum, 2008

Increased financing has resulted in improving the educational facilities provided at both national and provincial levels during the period of 2005-2008.

Expansion of Educational Facilities

Item	2005	2008
No. of Schools	9,723	9,662
No. of National Schools	324	330
No. of Provincial Schools	9,399	9,332
No. of Navodya Schools	388	515
Fee-levying Private Schools	26	36
Non fee levying Private Schools	34	34
Special Schools	25	24
No. of Schools with Computer Labs	1,147	2,431
No. of Schools with English Medium Classes	359	449

Source: Ministry of Education

Emphasis on Free Education Policy Continues

A significant increase of funds to execute welfare programmes on education is seen during 2006-2008. The government has channeled Rs 5,811 million in 2008 for school welfare programmes while providing an enhanced allocation of Rs. 7,265 in 2009 for further continuation of the policy.

Welfare Expenditure in Primary and Secondary Education

Investment	Rs.mn		
	2006	2007	2008
Text Books	1,123	2,250	3,387
Nutrition programmes	722	1,260	1,649
Uniforms	963	1,066	582
Bursaries & Scholarships	235	185	193
Season Tickets	250	500	600 ^(a)
Total	3,293	5,261	6,411

Source: Department of National Budget

^(a) Directly provided to the Ministry of Transport by Treasury

Around four million students were provided with school uniforms in 2008 covering all the 9,678 schools in 92 educational zones. Robe materials were also distributed among 30,554 student monks in 710 approved Pirivenas throughout the island. The Department of Educational Publications has provided free text books for the student population in 9,678 schools. The department has directly distributed text books to 370 schools, including national and provincial schools which were having more than 2,000 student population and for provincial schools through 304 divisional offices. The government has provided additional funds to the tune of Rs. 1,736 million in 2008 to supply free text books.

Box 2.4
Investing in Knowledge Based Education Contd.

Number of Beneficiary Children				
Item	2005	2006	2007	2008
Text Books	3,732,332	3,709,557	3,688,056	3,688,056
Uniforms	4,003,598	4,000,321	3,931,588	3,942,327
Nutritional Food	196,834	695,934	798,495	575,896
Year 5 Scholarships	70,000	70,000	70,000	82,971
Season Tickets	371,745	318,702	362,519	362,519

Source: Ministry of Education

In addition, free season tickets, bursaries and scholarships were provided to eligible students of low income families who have passed the year 5 scholarship examination. The allowance for year 5 scholarship has been increased to Rs. 2,400 in 2009 for 2,000 scholarship holders belonging to Samurdhi beneficiary families in Urban Schools. Moreover, about 515,000 students in the primary schools in disadvantaged areas were also provided with a free mid day meal.

Achievements in General Education

The Government has made initiatives to enroll all students who are in the eligible age group for formal schooling. Meanwhile, the Ministry of Education has taken action to enforce compulsory education regulations by activating 8,450 School Attendance Committees and was able to enroll 12,796 additional students in 2007 and 7,818 students in 2008.

Education sector continued to make progressive achievements in reducing the number of out-of-school children in the compulsory schooling age category of 5-14 years. Between 2006 and 2008, over 30,000 out-of-school children had been enrolled either in schools or in Literacy Centres. Simultaneously, a programme for schools to take necessary measures to prevent the drop-out has been implemented in all provinces.

The percentage of primary school children scoring over 50 percent has been significantly improved; 82 percent for mathematics, 81 percent for First Language and 49 percent for English. The G.C.E O/L and A/L pass rates have also

been significantly increased in 2007 i.e. O/L rate, 49 percent and A/L rate, 61.3 percent in comparison with 42 and 44 percent respectively in 2002.

Moreover, curriculum upgrading has been proceeded according to the targets. Actions were taken to distribute Teacher Guidance Codes relevant to curriculum modernization and to prepare examination guidelines. The revised curricula for Grades 1-7 and 10-11 have been introduced into the education system while development of examination guidelines for the core subjects at the GCE O/L, (First Language, Mathematics and Science) has been completed. Furthermore, the publication and delivery of textbooks on time has been improved and the Education Publications Department has instituted a clear review process to improve the quality of school textbooks. 53 Educational Standards and 180 indicators for self development of schools have also been prepared.

Increased Accessibility for Quality Education: A Well Developed School Net work

During 2006-2008, increased funds have been provided to develop infrastructure facilities of national and provincial schools including Navodya and plantation schools, pirivena education assisted schools and schools for the disabled, primary schools under Model Primary Schools Development Project, and secondary schools under Isuru Schools Development Project.

National School Development: Priority has been given for infrastructure development in National Schools and Rs. 380 million has been invested for construction of new school

Box 2.4 Investing in Knowledge Based Education Contd.

buildings while spending Rs. 3,213 million for repairs and modernizations of existing facilities. In addition, Rs.115 million has been spent to purchase furniture and equipment such as photo copiers, fax machines, multi media projectors etc. for these National Schools.

Navodya Schools: The number of Navodya schools has increased from 504 in 2007 to 516 in 2008 with the intension of upgrading more schools to have advanced level classes in all three streams; arts, commerce and science. Also, a series of programmes were implemented to develop physical and human resources in Navodya schools with the intension of improving the quality in education with professional development of teachers.

Isuru Schools and Model Primary School Development Programme: Hundred and fifty schools have been identified to be developed to a level of apex school in selected Divisional Secretariat areas with the intension of minimizing high demand for national schools located in urban areas. Construction work of 40 schools has been commenced by providing funds amounting to Rs.642 million to Provincial Councils. In addition, 66 principals and the entire staff have been trained in Isuru Schools during 2008.

Moreover, infrastructure facilities of 60 primary schools were developed under the Model Primary Schools Development Project in 2008 at a cost of Rs. 415 million. Due to these developments, the results of the year 5 scholarship examination in these schools have shown a significant improvement.

Plantation School Development: Out of the total number of 830 plantation schools in the plantation areas, 115 schools located in Nuwara Eliya, Kandy, Matale, Badulla, Kalutara and Ratnapura districts were rehabilitated with adequate sanitary facilities, electricity, water supply and furniture. Rehabilitation work on another 29 schools has also commenced during 2008.

Further, 150 schools have been identified to be developed under Asian Development Bank (ADB) assisted Knowledge

Based Society Project at a total cost of Rs 11,235 million. Solar owered computers were also provided to 24 rural schools where electricity supply is not available.

Human Resource Development

A significant increase in number of teachers in Government schools was witnessed from 2005 to 2008. This has resulted in improving the student teacher ratio from 21 in 2005 to 19 in 2009. About 3,586 new appointments were made to Sri Lanka Teacher Service in 2008, while 754 graduate teachers were appointed to Uva Province. Teaching in second language was improved by appointing 3,799 Tamil medium teachers to plantation schools in 2008. In addition, human resources in the education sector of Eastern province were also strengthened with the recruitment of Tamil medium teachers. Further, 3,606 volunteer teachers were appointed as Teacher Assistants. Action has also been taken to absorb 1,507 graduates to the school system through a competitive examination while arrangements have been made to recruit Moulavi teachers to improve the quality of religious education in those schools. Moreover, action has also been taken to fill the vacancies in the Sri Lanka Education Service, Sri Lanka Principals' Service and Sri Lanka Educational Administrative Service during 2008. Accordingly, 492 officers have been recruited to the Sri Lanka Education Administrative Service to improve the governance of school network. Meanwhile, the approval of the cabinet has been obtained to implement the National Teacher Transferring Policy with a view to address the issues in service delivery.

Box 2.4
Investing in Knowledge Based Education Contd.

Development of Plantation Schools, 2005 - 2008

District	No. of Schools Rehabilitated	No. of Schools Provided with Adequate Sanitary Facilities	No. of Schools Provided with Electricity Facilities	No. of Schools Provided with Water Supply Facilities	No. of Schools Provided with Students Furniture
Nuwara Eliya	21	36	26	09	07
Kandy	21	40	13	07	07
Matale	07	14	01	01	03
Badulla	19	19	-	14	06
Ratnapura	27	28	12	01	22
Kalutara	20	09	-	08	-
Total	115	146	52	40	45

Source: Ministry of Nation Building and Estate Infrastructure Development



Teacher Training Programmes were conducted continuously to enhance the quality of teaching. A school-based teacher development programme was implemented in 2008 to

improve the capacity of teachers. A 100 number of Teacher Centers were also established under the Provincial Councils, in order to ensure the professional development of teachers serving in the provincial school system.

Infrastructure development in Teachers' Colleges and Colleges of Education were carried out during the year 2008 aiming at further expansion of the training facilities available in these centres. Funds amounting to Rs. 138 million have been channeled for the provision of equipment and furniture, and for the construction and renovation of buildings and lecture halls etc. in these colleges.

Better Use of Information Communication Technology (ICT) in Education

The Government has given priority for development of ICT in education for the entire school population covering all the schools in the county. Accordingly, action was taken to provide a network of computers for 25 new computer laboratories in national schools and increased the number of computer learning centres in provincial schools with the financial assistance provided under the Secondary Education Modernization Project. As at end 2008, 817 Computers have been provided to National and Plantation Schools, and Computer Resources Centers throughout the island with a view to expand the facilities for better use of ICT in education. Meanwhile, action has been taken to develop 20 selected schools as e-villages under the Education Project for Knowledge Society (EKSP) while training 4,190 teachers and 508 officers on e-citizen.

Under the 'School Net' Project, internet and e-mail facilities have been provided to 1,200 educational institutions including schools, all Zonal Education Offices, Provincial Education Departments, Provincial and Zonal Information Technology Centers and National Colleges of Education.

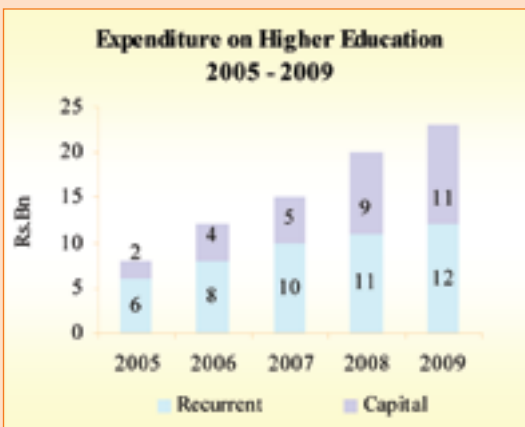
Box 2.4
Investing in Knowledge Based Education Contd.

Challenges Ahead

- Promotion of equitable access to quality education with required infrastructure facilities, teaching tools, equipment and with better qualified teachers in underserved areas.
- Development of motivation, skills and commitment of teachers ensuring delivery of quality education equally in all schools.
- Ensuring of good governance and management in the delivery of education at the provincial level.
- Rehabilitation and reconstruction of education and infrastructure of Eastern and Northern provinces to address education needs of the children affected by terrorists' activities.

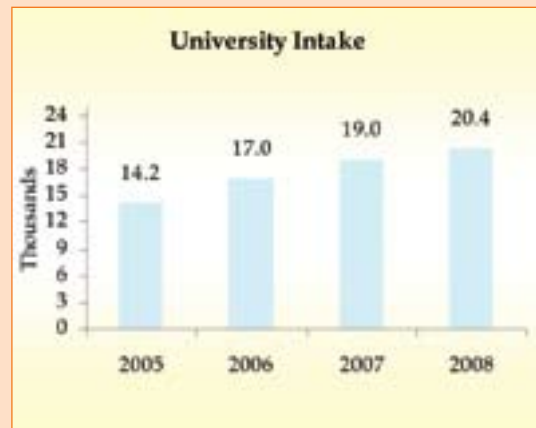
Higher Education

The Government investment on higher education covers 17 Universities, 05 Postgraduate Institutions and 02 Bhikku Universities. The financial assistance provided for Universities and Higher Education Institutions has been significantly increased by 133 percent from 2005 to 2008. The total capital investment on higher education amounted to Rs 8,707 million in 2008 of which 18 percent comprised of foreign aid.



With the increased funds provided to universities, the University Grants Commission took measures to increase the student intake from 19,000 in 2007 to 20,369 in 2008.

However, at present, only around 16 percent of the students who qualified for university admissions are given placements in government universities.



Expanding Opportunities for Higher Education

The University Grants Commission has recognized 7 new institutions under section 25A of the Universities Act No. 16 of 1978 as degree awarding institutions. These institutions have been approved in order to increase the higher education opportunities for A/L qualified students who are not selected to enter in to government universities in the country. Through this initiative, it is expected to minimize the number of students going abroad for higher education. In addition, the Ministry of Higher Education has awarded 138 scholarships to Sri Lankan students for undergraduate studies in foreign universities, in addition to awarding of scholarships for post graduate education in China, India, Russia, Japan, New Zealand and United Kingdom.

Enhanced Facilities for Distance Education

Distance Education Modernization Project (DEMP) was implemented to modernize the Open University in order to provide online facilities to follow courses in distance mode. The objective of this project is to increase the student enrolment including students from rural areas by establishing 40 National Online Distance Education Service (NODES) and Access Centres (NACs) to follow online courses.

Box 2.4
Investing in Knowledge Based Education Contd.

Key Developments in 2008

- New educational programmes have been introduced by universities in order to meet the market demand. A course in Tourism Management has been introduced in the Sabaragamuwa University while few new courses were introduced at Eastern and Jaffna Universities. Moreover, a new faculty of Allied Health Science at the University of Peradeniya and a new medical faculty at the Rajarata University were also established during 2008, in order to increase the intake of medical students and to provide increased number of para medical personnel to the country.
- Infrastructure developments in universities were further expanded in order to provide enhanced facilities for students. In 2008, more than 110 construction projects were implemented at universities for the improvement of infrastructure facilities. These projects include, the construction of the Uva Wellassa University, Administrative building, lecture halls and health center of the Wayamba University, hostel for 800 students

at the Rajarata University, building complex for the Agriculture Faculty, hostel for 240 students, lecture halls and the IT centre in the Sabaragamuwa University and the Para Clinical building, hostel for 512 students and the expansion of the Faculty of Arts at the Peradeniya University.

Challenges in Higher Education

- Limitation of the state university system to provide university education for the students who qualified for university admission. At present, a large number of students seek university admissions abroad and various institutions affiliated to foreign institutions. This has eventually led to substantial outflows of foreign exchange annually.
- Poor linkages between the universities and labour market which result higher unemployment among university graduates.
- Lack of a properly designed development plan to university system in Sri Lanka.

Box 2.5
Investing in Skills Development to Meet the Emerging Demands in the Industry

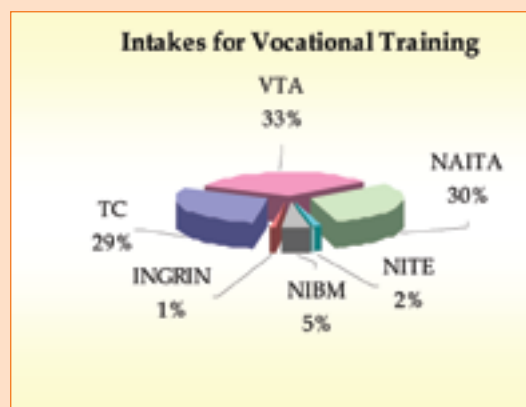
Government has provided increased funds from Rs. 3,528 million to Rs. 4,115 million during 2006 to 2008, for the Vocational Training and Technical Education sector with the intention of providing high quality vocational training and technical education to meet the needs of the global labour market. Accordingly, an increase of 94 percent of investment in this sector was witnessed during 2005-2008.



In 2008, Rs 2,034 has been accumulated for capital expenditure on skills development which accounted for 50 percent of the total expenditure. Out of the total capital expenditure, 69 percent i.e. Rs. 1,413 million, has been channeled for implementation of development projects in vocational training and technical education. The total funds channeled for public institutions have been increased from Rs. 929 million in 2007 to Rs 1,109 million in 2008.

Expanding Opportunities for Technical Education

Many initiatives have been taken to expand the technical education opportunities to match the increasing demand for the skilled labour in the labour market. Accordingly, the total intake into the main public training institutions has increased from 70,410 to 76,875 during 2007 to 2008. As at end 2008, about 35,000 students have been placed for on the job training.



Vocational Training Centres

Institution	Number			
	2005	2006	2007	2008
National Apprenticeship & Industrial Training Authority (NAITA)	55	59	56	60
Department of Technical Education & Training (DTET)	36	38	38	38
Vocational Training Authority of Sri Lanka (VTA)	212	220	251	269
National Institute of Technical Education (NITE)	3	3	3	3
National Institute of Business Management (NIBM)	2	2	2	2
University of Vocational Technology (UNIVOTEC)	-	-	-	1
Total	306	320	348	371

Source: Ministry of Vocational Training and Technical Education

The number of vocational training centres have increased to 371 in 2008 while the number of training centres functioning under Vocational Training Authority (VTA) which conduct level 3 and 4 courses in National Vocational Qualification Framework have also increased. The government has established 18 new training centres under VTA and 4 new centres under NAITA particularly covering remote areas.

Box 2.5

Investing in Skills Development to Meet the Emerging Demands in the Industry Contd.

The first ever University of Vocational Technology in Sri Lanka was established in 2008 by the University of Vocational Technology Act No 31 of 2008 to offer higher educational opportunities up to graduate level for students and teachers in various technical fields. In order to attract more trainees for vocational training sector, “Nipunatha Arunella” Programme was implemented at school level and in rural areas. Meanwhile, the quality of the training has improved with the introduction of National Vocational Qualifications (NVQ) system along with internationally recognized training standards and quality assurance. This has opened avenues to trainees in the sector to pursue their training upto the graduate level.



University of Vocational Technology in Sri Lanka

The National Vocational Training Centre at Niyagama was upgraded as a centre of excellence while upgrading Jaffna and Maradana Technical Colleges as colleges of Technology (COT) with the assistance of foreign donors (JICA, KOIKA). In addition, priority has also been given to upgrade the vocational training centers located in the Eastern Province, which had been damaged by terrorist activities. In addition 112 instructors were recruited to these institutions in 2008. Twenty new training centres were also established in this province with foreign assistance and issued 380 National Vocational Qualification Certificates.

Meanwhile, 8 Technical Colleges have been upgraded to the level of COTs in 2008 with the assistance of Asian Development Bank and German Government. These colleges

conduct level 5 and 6 courses in NVQ to offer diploma and higher diploma level courses. Further, 176 private sector training institutions have been registered with the Tertiary and Vocational Education Commission (TVEC) to conduct training programmes in line with the NVQ system. The TVEC has offered 5,407 NVQ certificates for trainees in 2008.

Preliminary action has been taken to commence courses under National Vocational Qualifications Systems in the proposed Colleges of Technology in Kurunegala, Kandy, Ratnapura, Badulla, Ampara, and Jaffna. Further, new buildings were constructed for Technical Colleges at Weerawila, Vavuniya, Akkaraipattu, Matale and Beliatte under the Mahinda Chinthana Programme.

Box 2.5
Investing in Skills Development to Meet the Emerging Demands in the Industry Contd.

Key Initiatives Implemented with Foreign Assistance

Key Project	Total Cost (Rs. mn)	Status
Technical Education Development Project funded by Asian Development Bank (ADB)	2,667	Established the University of Vocational Technology and provided necessary infrastructure facilities. In addition, prepared the curricula for the Bachelors Degrees in Technology and Education in Technology.
Post-Tsunami Rehabilitation, Reconstruction & Modernization Technical Education and Vocational Training Institution Project with the assistance of German Technical Cooperation Organization (GTZ)	1,660	Conducted local & foreign training programmes to upgrade the skills and knowledge on new technology development and learning methods while training equipment were also provided to selected training centres.
Tsunami Recovery & Reconstruction Project funded by United State Agency for International Development (USAID)	1,250	Constructed Vocational Training Centers at Hikkaduwa, Koggala, Tangalla, Samanthurai, Ampara, Kalawanchikudi Nindtavor, Talalla and Ahangama.
Project on upgrading the Jaffna Technical College to a College of Technology with Korean assistance (KOICA)	296	Constructed 250 meters of access roads, buildings and provided laboratory equipment to improve the quality of Diploma courses.
Project on upgrading Maradana Technical College to a College of Technology with the assistance of Japan International Cooperation Agency (JICA).	600	Commenced diploma Level Programmes at National Vocational Qualification (NVQ) Level 5 and 6 and trained 65 students in modern technology.
Project on Upgrading of Niyagama National Vocational Training Centre Export & Import Bank - Korea	1,213	Nearing completion of the construction of main building and provided necessary training equipment.
Project on Employment Oriented Training for Rural Youth through LRDC & LRUCs Norwegian Development Cooperation Agency (NORAD).	110	Developed new curricula to meet the demands of the job market. Trained 7,500 trainees during 2007-2008, where 50 percent of them were female.

Future Challenges

- Rapid economic and technological developments in Asian countries together with the globalization have created more job opportunities for educated youth with high levels of skills in specialized fields as well as diversified and updated skills. A high quality of relevant vocational and technical education is necessary to meet such future demand.
- Out of the total students who sit for A/L examination, about 90 percent does not gain admission to a university.

Only a part of these students enroll in vocational and technical training. Others enter into the world of work without obtaining the necessary skills.

- The lack of suitably qualified and skilled instructors has become a major obstacle for expanding training opportunities as well as for improving quality of programmes.

Infrastructure Development Initiatives

Roads and Bridges

Investments in the road sector increased from Rs. 46,938 million in 2007 to Rs 82,700 million in 2008. This included Rs 20,913 million on highways, Rs.15,737 million in expressways, Rs. 8,848 million on rehabilitation of tsunami

affected roads and Rs10,038 million on bridges and flyovers. Expenditure on Provincial Road Development Programme in 2008 amounted to Rs.6,906 million. Further, Rs. 3,830 million was spent in 2008 on rehabilitation of rural roads under the “Maga Neguma” programme uplifting 1,640 km of such roads.

Box 2.6

Randora: Road Development Endeavor

Integrated development of the total road network is one of the major areas of focus in the Government development agenda. Therefore, the investment on road sector has increased tremendously by 450 percent from 2004 to 2008. In 2008, the road sector alone contributes 1.9 percent of the GDP.

The share of investment on local roads has increased from 2 percent in 2004 to 19 percent in 2008 due to the rural roads upgrading under the *Maga Neguma* and *Gama Neguma* programmes. The actual expenditure on provincial roads have increased from Rs. 2 billion in 2004 to 7 billion in 2008. During 2004 – 2008 the investment on national roads has been enhanced from Rs. 14 billion to Rs. 60 billion which represented a 72 percent of the total investment on this sector.



Investment on Road Development

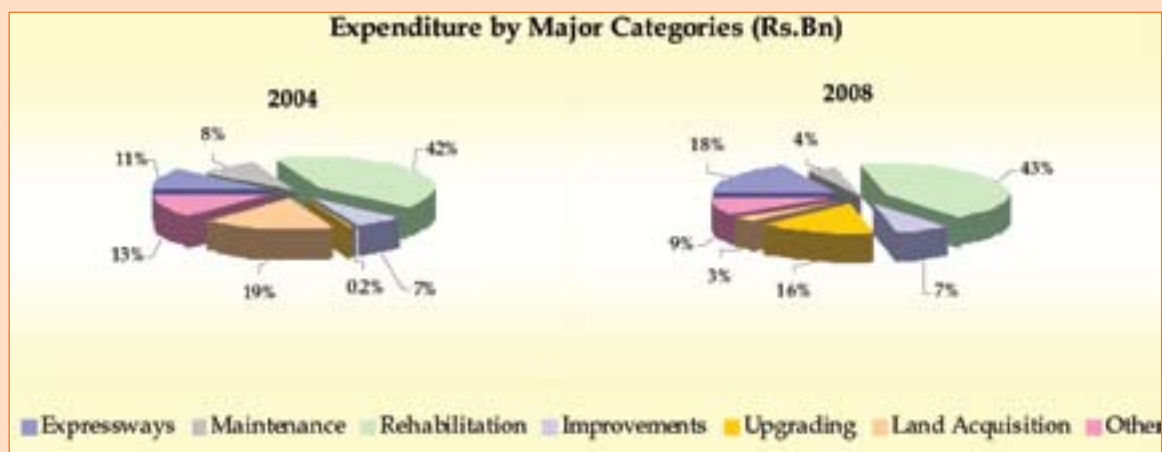
Increased public funds have been mainly utilized for construction of expressways, maintenance and improvement of roads and acquisition of lands for road development in the last five years.

To improve accessibility, connectivity, mobility and sustainability, the increased investment was distributed at different levels.

During this period the total investment on rehabilitation of roads and bridges has been increased from Rs. 6 billion to Rs. 35 billion. With this investment, around 541 km of roads and 15 major bridges have been rehabilitated along with the proposed regional economic centers and tsunami and conflict affected areas.



Box 2.6
Randora: Road Development Endeavor Contd.



The three bridges at Arugambay, Bentota and Tangalle and the flyover at Kelaniya were constructed and opened to public in 2008 and also the flyover at Nugegoda was opened in January 2009.

In addition, 1,024 km of provincial roads and 130 km of local roads have been rehabilitated with the assistance of the Asian Development Bank and Government of Japan. In 2008, around Rs. 2,900 million of Provincial Specific Development Grant was used for local and provincial roads development.

During the period of 2004 – 2008, the Government investment on expressway development has increased from Rs. 1,600 million to Rs. 15,700 million. The construction of a four-lane Southern Expressway was continued and 52 percent of the total cost has been utilized by the end 2008. A further some of Rs. 4,568 million has been spent for land acquisition and resettlement under this project. Moreover, land acquisition and resettlement work of the Colombo – Katunayake Expressway and the Outer Circular Highways are in progress and the construction work of these two projects is to be commenced in 2009.

The Road Maintenance Trust Fund, the focal mechanism for the road maintenance, was established in 2006. Rs. 3,100 million has been spent for maintenance of national roads in the year 2008, excluding labour wages.

Investment on widening and improvement of roads has increased from Rs. 1,000 million to Rs. 6,000 million from 2004 to 2008 respectively. Under this programme, improvement on 68 km of national roads and 26 bridges were completed in nine provinces. Further, widening and improving of 547 km of roadway and 10 bridges are in progress.

With the community participation under the *Maga Neguma* and *Gama Neguma* Programmes, the accessibility and durability of rural roads have been upgraded island wide at a cost of around Rs. 12,550 million in 2008. Since 2005, around 1,956 km of rural roads have been concreted under *Maga Neguma*.

“Maga Neguma” Rural Road Development

	2005	2006	2007	2008
Total km completed	731	2,284	1,202	1,640
Of which concreted	21	277	777	881
Total Cost (Rs.Mn)	433	1,800	2,734	3,830
Of which cost of concreted	62	832	2,408	2,863

Source: Department of National Budget

Foreign aid component of the total investment in 2004 was Rs. 7,800 million and it has grown to Rs. 35,120 million in 2008 which accounted for 43 percent of the total investment.

Box 2.6
Randora: Road Development Endeavor Contd.

Almost 93 percent of the committed foreign aid has been spent in 2008 and the balance has not been utilized due to procedural delays of the projects.

A major share of foreign financing has been spent on rehabilitation (64 percent) and followed by construction of expressways (24 percent) in 2008 while the rural road development is financed through domestic funds.



During the medium term 2006 – 2008, the following developments have been achieved:

Achievement in Medium Term, 2006 – 2008

Achievement	Total Cost (Rs.mn)
316 km of roads have been rehabilitated in lagging regions: Gampola – Nawalapitiya (17 km), Gampola – Nuwara Eliya (54 km), Nawalapitiya - Ginigathena (12 km), Nittambuwa – Urapola (8 km), Weerawila – Kataragama (25.8 km), Dickwella – Beliatta (13.3 km), Pelmadulla – Madampe – Malwatta – Timbolketiya (43.6 km), Timbolketiya - Embilipitiya - New Japanese Road (12 km), Nagoda- Agalawatta Road (23 km), Ambalangoda - Elpitiya (16.2 km), Balangoda - Bandarawela (57km), Denagama – Mulatiyana (12.2 km) and Hakmana - Talahanduwa (11.1 km) etc.	11,110
Manampitiya, Getambe, Mahanama, Waskaduwa, Bentota and Tangalle Bridges were completed	2,683
221 km of road sections have been widened and improved	6,684
Reconstruction of tsunami affected 115 km of Katukurunda – Matara road, Akurana, Seenigama, Magalla, Goyyapana, Weligama, Komari, Koddakallaru, Periyakallaru, Panichchankerny and Arugambay bridges in the southern and eastern coastal areas.	6,514
95 damaged bridges have been replaced by bailey bridges in North, East and adjoining provinces and 250 km of provincial and local roads and 8 km of Paranthan - Poonakary road have been rehabilitated.	4,545
Maintenance of 11,700 km of national roads & 4,000 bridges	9,446
Around 754 km of provincial roads and 7 bridges in Uva, North Central, North Western and Western provinces have been rehabilitated	7,161
590 km of estate roads have been upgraded	588
5,126 km of rural roads have been upgraded of which 1,935 km of roads have been concreted	8,364

Box 2.6 Randora: Road Development Endeavor Contd.

Challenges

Continuous increase of investment clearly reveals that the government has given high priority of investment in roads. However, the road network in Sri Lanka is grossly inadequate in various aspects.

- Lack of coordination among implementing agencies causing overlapping & duplication of road development.
- Inadequate capacity of implementing agencies and contractors with cost overruns.

- Insufficient funds for maintenance and improvement of the quality of the road network
- Low capacity of highways and lack of expressways have caused high traffic density at many places and has deprived riding quality and safety.
- Lack of planning to develop roads as an integral part of transport system.

Water Supply and Sanitation

Access to safe water and adequate sanitation is considered as an inevitable pre-requisite for overall economic and social development of the country, thus making its provision a top priority of the investment portfolio. Although by now 85 per cent of population has access to safe drinking water, there are wide disparities evident across districts. Sewerage services are available only in urban areas, mainly in and around Colombo. A significant progress has been made over the past few years in improving access to pipe borne water supply in urban areas. However, improving the

access to safe water and adequate sanitation remains a challenge in certain villages, estates and conflict-affected areas in the North and East. Meanwhile, the functioning of several townships as regional growth centers as well as service centers had to be facilitated through establishing proper water supply and sewerage systems. Understanding of this situation subsequently resulted in giving priority to implement projects targeting population outside Colombo including major townships, secondary towns and rural villages.

Box 2.7
Water and Sanitation Services Expanded

The total investment in the water supply and sanitation sector has recorded a steady increase during the period of 2005-2008. This increase has amounted to more than 125 percent. Investment in the sector in 2008 was Rs. 25,672 million. Out of this amount, Rs. 20,384 million (79 percent) has been allocated for large-scale schemes that covers mainly the major towns and suburbs of Kandy, Kalutara, Nuwara Eliya, Anuradhapura, Ampara, Galle, Ambalangoda, Negambo, Potuvil, Nawalapitiya etc. Several small-scale schemes have been augmented island wide. A significant amount of investment has been made in 2008 to establish sewerage systems in selected industrial townships. Major part of this investment consisted of large-scale projects funded by donors.

**Investment in Water Supply and Sewerage Sector
2005-2008**

	Rs.mn			
	2005	2006	2007	2008
Water Supply				
Major Schemes	10,736	14,066	12,621	20,384
Small Town Schemes	1,500	1,538	1,293	1,540
Rural Schemes	595	1,418	1,679	1,667
Sewerage				
Township Sewerage	328	1,001	4,145	2,081
Total	13,159	18,023	19,738	25,672

Source: Department of National Budget

High Cost Water Infrastructure

Urban Water Supply; Township water supply involves a high cost to construct treatment plants, storage tanks, reservoirs, and transmission & distribution networks. The following are few main constructions completed in 2008;

- Procurement & installation of two package treatment plants of 10 million gallons per day each at Ambatale and Negombo at a cost of around Rs. 2,000 million.
- 260 km long distribution system in Hikkaduwa-Ambalangoda-Balapitiya at a cost of around Rs. 1,000 million.

- Distribution systems of 15 km at Ginigathhena and 25 km at Rikillagaskada with two treatment plants have been completed at a cost of around Rs. 1,500 million.
- Wastewater treatment system in Batticaloa Hospital & Prison spending Rs. 91 million and 3.6 km storm water drainage system in Batticaloa at a cost of Rs. 60 million.
- 107 km long distribution and elevated water towers at Polonnaruwa at a cost of Rs. 533 million.
- 62 km of distribution pipelines and water towers completed spending Rs. 430 million in Hambantota.
- In Muttur, a 71 km distribution pipe system at a cost of Rs. 541 million.
- 1000 m³ capacity water tower at Panadura, Horana-Bandaragama 26 km distribution extension, 20 km distribution system at Raigama spending around Rs. 400 million.

On average, the government incurs a capital cost of more than Rs. 200,000 per pipe-water connection. However, Water Board charges consumer only about Rs. 38,000 per connection including a minor cost recovery charge. However, due to continuous investment, the total assets of water supply and sanitation related infrastructure has significantly been increased during the past few years. In 2007, the total assets value of the Water Board was Rs. 100,813 billion and this has increased to Rs. 115,267 billion in 2008.

Rural Water Supply; Government spends about Rs. 15,000 per household (Rs. 12,600 to build a well, Rs. 13,300 for a tube well, Rs. 18,500 for gravity pipe borne water connection) in rural water supply schemes. In case of these the community contributes 20 percent of the cost, which amounts to about Rs. 2,500 per family depending on the facility they obtain.

Sewerage; On average, the capital cost of a sewerage connection is around Rs. 300,000 – 500,000 in areas where the systems are newly built. It is 2-3 times higher than that of a water connection. Sewerage systems are available only in few urban areas and those are managed by Municipal Councils and the Water Board. The Water Board charges only Rs. 35,000- 50,000 per new sewerage connection.

Box 2.7
Water and Sanitation Services Expanded Contd.

Investment in sewerage has been increased significantly during the past few years. There are about 80,000 households with sewerage connections in urban areas. Out of that, about 70,000 connections are managed by Colombo Municipal Council through the income generated from levying rates. Negotiations were held with the Asian Development Bank for rehabilitation of critical parts of the 100 year old Colombo sewerage system. The total cost for this has been estimated at Rs.13 billion.

In 2008, Rs 2,000 million was allocated for establishment of sewerage systems that were to be managed by the Water Board. Sewerage disposal systems are being established in Kandy Municipal Council area, Moratuwa, Ratmalana, Ja-Ela and Ekala areas where as urgent rehabilitation in Greater Colombo is being implemented.

Performance 2008

The percentage of population covered by Water Board's pipe-born schemes has increased from 32 per cent in 2007 to 34 percent in 2008. The number of new connections provided under major schemes has increased from 90,000 in 2007 to 108,049 in 2008.

Over the years, Water Board has targeted generally to cover 20,000 – 50,000 households with new connections / service improvements in 20 years duration under each large scheme that was invested. However, it is observed a mismatch between the annual expenses of loan repayment of completed projects and the income from the sale of water including the income from new connections. In 2008, the total number of new connections has increased by 9 percent from 2007. But income from sale of water has increased only by 4 percent than 2007 whereas interest paid for loans of completed projects has increased by 40 percent. Water Board has earned Rs. 340 million net income in 2008 from new connections and paid interest on loans amounting to Rs. 1,192 million.

The general assumption is that the sales would largely improve through service enhancements by recently completed projects such as Kandy, Kaluganga, Galle, Ampara, Towns North and South of Colombo etc.



During the past four years 345,716 new households have been given with pipe borne water connections and a significant increase can be seen in the Eastern, Central, Southern and Western Provinces. However, the larger share of total number of connections still remain in the Western Province. A significant increase in number of connections due to recent expansions made in regions is yet to thrive.

Box 2.7
Water and Sanitation Services Expanded Contd.

Province-wise Distribution of Water Connections by
Water Board

Province	Number of Connections			2008 Increase Over 2004
	2004	2007	2008	
Central	87,625	128,029	139,414	51,789
Eastern	37,899	54,997	74,942	37,043
North Central	28,573	39,851	50,026	21,453
North Western	21,639	28,470	32,684	11,045
Northern	3,016	5,083	5,435	2,419
Sabaragamuwa	44,048	57,363	62,340	18,292
Southern	116,852	153,549	172,663	55,811
Uva	31,777	44,178	49,157	17,380
Western	469,786	569,872	600,270	130,484
Total	841,215	1,081,392	1,186,931	345,716

Source: National Water Supply & Drainage Board

The two major Community Water Supply Projects cover 11 districts including Matale, Kandy, Nuwara-Eliya, Kurunegala, Badulla, Matara, Ratnapaura, Colombo, Gampaha, Anuradhapura and Hambantota. The total investment in rural water supply has increased from Rs. 595 million in 2005 to Rs. 1,667 million in 2008. A total of 1,435 Grama Niladari divisions are to be fully covered by 2009 under these two projects. As at end 2008, 517 Grama Niladari divisions have been covered. Community Based Organizations (CBOs) are responsible for operation and maintenance of these schemes. It is also expected that the Provincial Councils would play a greater role in this regard.

Community Water Supply and Sanitation Project - Progress
2007/2008

District	No. of Sub-projects Implemented	Beneficiaries	Sanitation (No. of Latrines)
Matale	58	72,965	3,012
Kandy	96	124,810	6,680
Nuwara Eliya	35	44,080	5,548
Nuwara-Eliya Estates	06	5,375	242
Kurunegala	89	109,375	3,511
Badulla	21	20,400	780
Matara	27	33,415	337
Ratnapura	31	35,260	610
Colombo	34	39,435	705
Gampaha	40	49,610	199
Anuradhapura	39	47,075	1,370
Hambantota	41	46,110	822
Total	517	627,910	23,816

Source Community Water Supply & Sanitation Project

Box 2.7
Water and Sanitation Services Expanded Contd.

Community Water Supply and Sanitation Projects are being implemented in the estate sector, where the drinking water supply is an acute problem. The following 09 estates / divisions in the Nuwara Eliya district were covered on a pilot basis in collaboration with the estate management:

Diagama East 2nd Division, Torrington Estate, Wanaraja Estate, Poistan Estate, Diagama East 3rd Division, Kotiyagala Lower, Middle, Upper and Colony Divisions of the Kotiyagala Estate.

Milestones 2008

- ADB Assisted Third Water Supply and Sanitation Sector Project - Total Cost Rs.13,582 million - No. of Beneficiaries – 1 million in Anuradhapura , Kalutara, Ranna, Kakkapalliya, Kegalle, Wellawaya and Kekirawa - 886 Small scale water supply systems in 1,000 Grama Niladari Divisions.
- Greater Galle Water Supply Project Stage II -Total Cost Rs. 2,711 million -391 km of distribution system laid in Akmeemana, Bope Poddala and part of Hikkaduwa and Habaraduwa Pradeshiya Sabha areas.
- New Water Supply Scheme for Thirukkivil and Augmentation of Tangalle and Puttalam Schemes - Total cost Rs. 2,280 million- 30,000 people in Thirukkivil area –52,000 people in Tangalle and Beliatta with improved capacity from 6,500m³/day to 15,000 m³/day.
- Augmentation of Ampara, Nawalapitiya and Koggala Water Supply Scheme -Total Cost Rs. 2,670 million - Pipe borne water to Nawalapitiya, Ampara, Koggala, Habaraduwa Pradeshiya Sabha area.- 89,000 people will be able to obtain pipe borne water facilities.
- Water Supply to Hambantota, Ambalantota, Weligama, and Kataragama - Total Cost Rs. 2,126 million - Provision of 28,000 new connections and service level improvements-Commissioning of three new treatment plants at Weligama-Kataragama - Ambalantota- Improvement of existing distribution system from Kataragama to Sella Kataragama is underway.

Flagship Projects Beyond 2008

Town South Kandy Water Supply Scheme (Total Cost, Rs. 9,626 million)

The total water production of this project is 53,000 cu.m./ per day and expects to provide pipe borne water facilities to around 350,000 people in Peradeniya, Pilimalawa, Kadugannawa, Murutalawa, Danture, Gampola, Ulapne and Welamboda. About 73 percent of project works has been completed as at the end of 2008.

Nuwara Eliya District Group Water Supply Project (Total Cost, Rs. 4,511 million)

Covering six major towns of Rikillagaskada, Ginigathena, Walapane, Maskeliya, Ragala and Hatton in the Nuwara Eliya district. The number of beneficiaries are estimated at 96,000. About 65 percent of project works has been completed.

Secondary Towns & Rural Community-based Water Supply & Sanitation (Total Cost, Rs.19,272 million)

Safe drinking water supply facilities to 829,000 people and sanitation facilities to 171,500 people in four urban centers at Hambantota, Batticaloa, Muttur and Polonnaruwa and in the rural areas of the North Central Province are covered by this project.

Water Treatment Plants at Ambatale and Negombo Desalination Plant (Total Cost, Rs. 2,690 million)

The construction of a full treatment plant at Ambatale with the capacity of 50,000 m³ to provide treated water to Moratuwa and Panadura areas and a desalination plant with capacity of 3,000 m³/day to supply water to the Negombo area is in progress.

Tsunami Affected Area Rebuilding Project (Total Cost –Rs. 1,220 mn)

Provision of water supply facilities through the construction of 29 new schemes and improving the existing schemes in Tsunami affected areas of Hambantota, Batticaloa and Trincomalee districts are being undertaken. Out of 29 sub schemes, 8 in Hambantota and Muttur were completed.

Box 2.7
Water and Sanitation Services Expanded Contd.

Challenges – 2008

- **Inflated Budget;** Foreign funds amounting to Rs. 3,600 million budgeted for Labugama - Kalatuwawa Treatment Plants and Eastern Coastal Towns Phase III projects were not mobilized as anticipated.
- **Additional Funds;** Secondary Towns Water Project, Nuwara Eliya District Water Supply Project, Kelani Right Bank Treatment Plant and Negombo & Ambatale Water Treatment Plants projects were successfully implemented sooner than expected requiring a further Rs. 5,641 million.
- **Un-assured Viability;** Due to cost overruns at the end of three projects, domestic funds had to be mobilized unexpectedly as the variations were not covered by foreign funds. In the circumstances of limited resource availability, the Water Board should take immediate, corrective and early measures to maintain the viability established at the beginning of such projects.

Expanded Irrigation Facilities

Priority programmes in irrigation sector in 2006 were continued in 2008 too, focusing mainly on the development of multi purpose irrigation schemes and trans-basin diversions. Out of the total investment of Rs. 13 billion in 2008, Rs. 10 billion was spent on capital investment which is 58 percent higher than that of 2006.

Government has played a major role in 2008, investing a higher share of domestic financing for the development of multi purpose irrigation schemes such as Menik Ganga (Weheragala), Wemedilla reservoir, Deduru Oya & Rambukkan Oya and the initial work of some schemes such as Moragahakanda & Kalu Ganga reservoir, Uma Oya diversion.

Menik Ganga - Weheragala irrigation project was completed at the end of 2008 benefiting 8000 families in Moneragala & Hambantota districts, leaving some of the balance development work of the national park, roads and minor tanks for 2009.

Construction of one of the saddle dams at Moragahakanda is in progress under the local funds. Deviated road network, infra structure development for resettlement and land acquisition process are in progress. EIA under Kaluganga has been completed. Environmental mitigation activities are also in progress as stipulated in EIA. Funds from Japan, Kuwait and Saudi will be obtained in 2009 for the construction of head works of the Moragahakanda & Kaluganga reservoir project.

Government of Sri Lanka has signed an agreement with the Iranian government for the commencement of the Uma Oya project with donor assistance in 2008. 12,000 farmer families will be benefited & 15,000 ha. will be cultivated in Badulla, Moneragala & Hambantota districts under this project. It is expected to generate 120 MW hydro power as well.

Dam Safety & Water Resources Planning Project with World Bank assistance was inaugurated in August 2008, aiming to ensure the safety & operational efficiency of 32 large dams out of a selected 80, to establish a modern Hydro-Meteorological information system and to improve water resource planning of the country with other stake holders such as the Mahaweli Authority of Sri Lanka, the Department of Irrigation and the Ceylon Electricity Board.

Box 2.8
Investing in Irrigation

“By the year 2016, irrigated agriculture will be transformed in to a commercially viable and technologically advanced sector. A more productive minor irrigation sector developed through participatory approaches will contribute to poverty reduction. New water resources developed, through trans-basin diversions and other means will lead to increased supply for irrigation and other uses”.

At present, only 32 percent of the total water withdrawal of the country is used for the productive purposes. Hence, medium term focus is to direct more funds to improve the productivity of water usage at least to 38 percent. Mahinda Chintana: A Ten year Horizon Development Framework, 2006-2016 accords high priority for water resources development.

Investment in this sector has been significantly increased over the last few years mainly for rehabilitation and improvement of existing reservoirs & schemes, development of new water resources and for other works such as development of flood protection, drainage and salt water schemes and for carrying out research and feasibility studies etc. Funds have been mobilized for multipurpose irrigation projects.

In comparison with 2006, the total expenditure for this sector has been increased by 50 percent in 2008 is Rs.13 billion. The budgetary provision for 2009 is Rs. 23 billion.

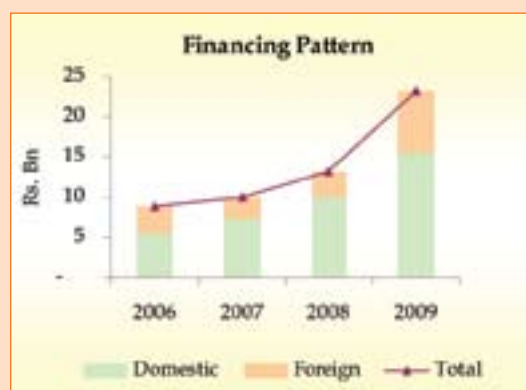
When compared with the total investment expenditure of this sector, operational expenditure shows a marginal increase from 2006 to 2008.

About 93 percent of the total operational expenditure has been spent in 2008 for the personal emoluments. In addition to the existing staff, it includes more than 150 new recruitments for the Ministry of Irrigation, Dept. of Irrigation, Mahaweli Authority etc. including engineers, engineering assistants, drilling & hydrology field assistants, soil testers, maintenance labourers, drivers etc. by filling the gap of the human resources prevailed over several years hampering the development programmes of this sector.

Owing to the domestic price and tariff revisions coupled with the cost to operate pump houses to divert water, to control the unexpected flood conditions under Gin and Nilwala rivers in Southern Province, the expenditure incurred on fuel and electricity in 2008 was 50 percent higher than that of 2007. Additional funds were provided to meet this increased cost.

Investment Highlights

Total capital investment in 2008 under this sector was Rs. 10.4 billion. In 2009, Rs. 20 billion has been allocated considering Uma Oya and other activities of major projects such as Moragahakanda & Dam Safety project.



Box 2.8
Investing in Irrigation Contd.

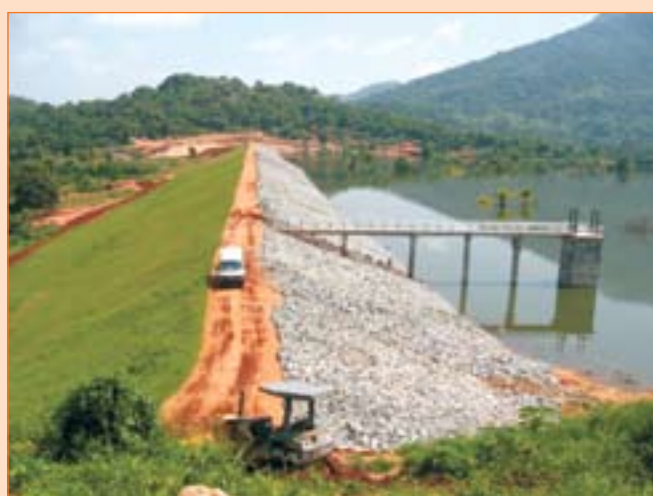
Domestic Financing

Out of the total capital investment in 2008, Rs. 7.2 billion was domestic funds. The Department of Irrigation played a major

role completing four major and 8 medium irrigation schemes using domestic funds in 2008, facilitating to cultivate about 25,000 ha. and benefiting more than 20,000 farmer families.

Some of the Selected Major & Medium Irrigation Schemes completed under the Department of Irrigation

Schemes	District	Cumulative Investment up to end of 2008 (Rs.mn)	Benefits
Major			
Menik Ganga (Weheragala)	Hambantota, Moneragala	1710	Extent 10,000 ha. of farm land, 8000 families, overcome water shortages in the Kirindi Oya Scheme
Weli Oya Diversion project	Moneragala	852	Extent 2,186 ha. of farm lands, 3,000 families
Wemedilla Reservoir	Matale	224	Extent 720 ha. of farm lands, 600 families
Rehabilitation of River Division Gal Oya	Ampara	275	Extent 10,000 ha. of farm lands, 8,000 families
Medium			
Wahalkada tank	Anuradhapura	55	Extent 190 ha. of farm lands, 200 families
Holuwagoda drainage scheme	Galle	45	Extent 650 ha. of farm lands, 500 families
Medagama Gonagama	Kurunegala	15	Extent 57 ha. of farm lands, 200 families



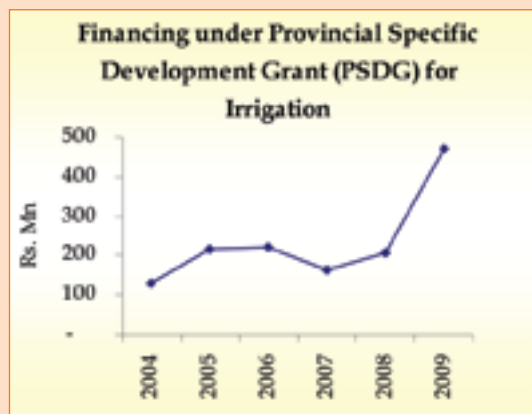
Wemedilla Reservoir project in Matale District

and Kekiri Obada reservoir projects for the continuation of construction work, land acquisition and resettlement activities and provision of infrastructure facilities for resettlers while around Rs. 2.5 billion has been spent on the part of contract payments of the Uma Oya project.

The Provincial Specific Development Grant (PSDG) shows an increasing trend in domestic investment over the past few years. Expenditure in 2008 was Rs. 208 million which was 25 percent higher than that of 2007. An allocation of Rs. 469 million was provided for PSDG for 2009, for the development of provincial minor irrigation schemes such as anicuts & small tanks. A similar type of a small-scale programme was implemented islandwide through the "Gama Neguma" under the Ministry of Nation Building as well.

A Rs.1,534 million of domestic funds had been spent in 2008 for the Moragahakanda, Deduru Oya, Rambukkan Oya

Box 2.8
Investing in Irrigation Contd.



From 2004 onwards, 2418 minor tanks have been rehabilitated by the Department of Agrarian Development, under the island wide Minor tank rehabilitation programme. Including the 393 minor tank rehabilitation projects identified to be carried out in 2008 and other continuation projects, 523 of them were completed by the Department of Agrarian Development in 2008, spending Rs. 346 million. The Provincial Councils will continue this programme from 2009 onwards.

Foreign Financing

The foreign assistance component was Rs. 3.2 billion in 2008 which is 30 percent of the total capital expenditure of this sector. However, foreign fund utilization in 2008 was low, due to procedural delays such as delay in signing agreements, surveys & investigations, delays in awarding contracts etc.

Total capital allocation in 2009 is Rs. 20 billion. A major share includes the contract payments of Foreign Aid Related Domestic Funds for the Uma Oya project. With the commencement of the several mega foreign funded projects in 2008, total foreign financing allocation for 2009 has been increased up to Rs. 7.7 billion.

Following are some of the foreign funded projects, which were completed in 2008 while others are in progress.

Projects Completed in 2008

- The Walawe Left Bank Development project was completed in 2008 with the Japan Bank for International Corporation (JBIC) assistance, by spending Rs 9,425

million providing irrigation and other rural infrastructure facilities directly to the 5,469 farmer families. An amount of Rs. 1,939 million was spent in 2008 for the construction of roads and purchasing of machinery & equipment etc. with another Rs. 74 million allocated for the project completion work in 2009.

- System B left Bank project with Saudi assistance (Saudi Riyal 85 million) was completed in 2008, providing irrigation infrastructure & socio economic facilities for the benefit of 18,000 farmer families living in the dry zone. Rs. 11.9 million has been spent in 2008 for the completion of the balance work in irrigation systems.

Work in progress

- Seek foreign assistance from Japan, Kuwait & Saudi funds to accelerate the work of Moragahakanda & Kaluganga project under Mahaweli Authority, Ministry of Agricultural Development & Agrarian Services, allocating Rs. 3,448 million for 2009.
- Financial assistance agreement of US\$ 65.33 million from World Bank, was signed for the Dam Safety and Water Resources Planning Project in May 2008. It was officially launched in August 2008, aiming to ensure the safety and the operational efficiency of the 32 major dams & 80 other selected dams of the country. Environmental assessment was conducted for 12 dams in 2008 spending Rs. 50 million of local funds. Allocation for 2009 is Rs. 2,000 million.
- Uma Oya Multipurpose Development project was initiated with Iranian assistance for the benefit of 12,000 farmer families which will enable to cultivate 15,000 ha. of paddy and generate 120 MW Hydro power in Moneragala and Hambantota districts. Financing agreement was signed in April 2008 with the Ministry of Irrigation & Water Management for US \$ 548 million. The feasibility was partly completed at a cost of Rs. 41 million in 2008. A part of the contract payment has been made spending Rs. 2.5 billion. Rs. 7,000 million was provided to the Ministry of Irrigation and Water Management

Box 2.8
Investing in Irrigation Contd.

in 2009, for contract payments after finalization of the financing agreement and to commence work on the project.

- Phase II of the Sustainable Water Assistance Management Project commenced with the assistance of the Australian government in 2008. It is implemented jointly by the Department of Agriculture, Agrarian Development and Sri Lanka Samurdhi Authority. 3,000 numbers of Solar power Drip irrigation systems have been imported spending Rs. 781 million by the end of 2008. These systems are being distributed among Dry Zone farmers. Rs. 800 million was allocated for 2009 to import the balance sets of 2,000 Drip irrigation systems.

Northern and Eastern Revival

Government has given highest priority for the development of Northern and Eastern provinces with the clearance of terror activities in these areas. Around Rs. 1 billion have been invested for irrigation purposes through various implementing agencies such as the Ministry of Nation Building, Provincial Councils, the Department of Irrigation and the Department of Agrarian Development etc. in 2008 mainly in the cleared areas of both Provinces. Under Re-awakening project of the Ministry of Nation Building, the rehabilitation work on 4 major schemes namely Giant tank in Mannar, Allai Extension scheme in Trincomalee, Rugam Scheme in Batticaloa & Karawahu drainage scheme in Ampara were carried out at a cost of Rs. 123 million.

Work has not yet commenced in schemes selected in un-cleared areas. Implementing agencies expect security clearance, assurance for mines free environment for transportation of construction materials in some areas. In 2009, allocation has been increased approximately up to Rs. 2.5 billion, for these provinces through various foreign assistance projects such as Re-awakening, NECORD II, PEACE, TIP etc. aiming to rehabilitate major, medium & minor irrigation schemes in the Northern and Eastern provinces.

Future Initiatives for Investment

- Invest in new multipurpose irrigation schemes while investing in rehabilitation of abandoned and existing irrigation systems (rehabilitate suitable small tanks or schemes) – giving priority to the development of irrigation schemes in Northern and Eastern Provinces.
- Watershed development, water management and operation & maintenance (O&M) of irrigation schemes through farmer participation and use of new technology - establishing viable funding mechanisms (Farmer – Government joint funding for O&M based on Public Private Partnerships).
- Invest in transferring water through diversion to water short schemes outside the basin (trans-basin linkages).
- Increase productivity of a unit of water through improved techniques.
- Minimize wastage of funds due to overlapping & duplication of functions through better coordination among and within implementing agencies.

Ports

Construction of several mega infrastructure projects was carried out in 2008. The contract of South Harbour project was signed and the construction of the breakwater was started in April 2008. The construction work on the Hambantota Port Project with Chinese aid continued with the completion of nearly 200 meters of the west breakwater and part of the coffer dam.

Preliminary work of the Oluvil Harbour with Danish funds has been started while assessment study and environmental monitoring plan of the Galle Port has been completed. The Government's success in mobilization of necessary funds for major projects through foreign assistance is a noteworthy achievement in the port sector development.



Hambantota Port Development Project

Improved Public Transport Facilities

Expansion of public transport system continued in 2008 with the government investing Rs. 13.2 billion. A set of 218 new buses were added to the existing fleet to meet the demand for passenger transport and to provide a reliable bus service. Further, 183 buses were made road worthy by replacing necessary engines and other spare parts.

In order to improve the railway network, work on double tracking of the Kalutara South beach line and the Puttlam line upto Ja-Ela was completed, while railway line bridges at Kalutara and Nilvala bridge were constructed. Funds were also channeled for upgrading of railway lines, construction

of new railway stations at Aselapura, Wanduradhimulla, Riditenna and Ganthalawa, improvement of signal systems and strengthening of the tracks by sleepers and ballasting. Two diesel engines, 100 new compartments and 15 diesel multiple units were added to strengthen the service capacity of the Sri Lanka Railways.

Mega Projects Capable of Addressing Power and Energy

The power and energy sector development initiatives gathered momentum in 2008 with Kerawalapitiya Combined Cycle Power Plant been commissioned in November 2008, providing 150 MW to the national grid. The other major power projects such as Norochcholai Coal Power Plant funded by China, the second phase of the Kerawalapitiya power project and the Upper Kotmale Hydro Power Project accelerated its construction. Total investment in the energy sector was Rs. 23 billion in 2008 compared to the Rs. 21 billion in 2007.

Number of transmission development and improvements were also carried out in 2008. The projects included Kerawalapitiya - Kotugoda Transmission Line, New Galle Transmission Line, Killinochchi-Chunnakam Transmission Line, Trincomalee-Veyangoda Transmission Line and lighting Sri Lanka - Hambantota transmission Development Project.

Table 2.34
Rural Electrification Schemes Completed in 2008

Area	Number of Schemes completed
Southern	936
North Central	589
Central	1,164
Uva	150
West-South	324
West-North	177
Eastern	414
Sabaragamuwa	583
North Western	629
Northern	31
Total	1,997

Source: Ministry of Power and Energy.

Development in Fisheries Sector

The fisheries sector development continued in 2008, with a great emphasis on rehabilitation and modernization of fisheries harbours destroyed by the Tsunami and the construction of new fisheries harbours. The total expenditure in 2008 on fisheries sector stood at Rs. 3.1 billion.

All fisheries harbours destroyed by Tsunami have been rehabilitated and modernized. Under this program harbours at Kirinda, Tangalle, Kudawella, Puranawella, Mirrisa, Galle, Hikkaduwa, Beruwala, Panadura and Cod bay have been upgraded. Further, construction work in fisheries harbours of Hambantotoa, Ambalangoda and Chilaw were completed in 2008, which will boost the operation of multiday boats in South and North West seas. With a view to provide facilities to the multiday boats, designing and construction of two mother vessels at a cost of US \$ 3.2 million had commenced. Meanwhile, the construction work of the Dikkowita Fishery Harbour at a cost of Euro 53 million has also commenced with Netherland assistance. This will consist 11.7 ha of harbour area enclosed by around 1,100 meters of breakwater with berthing facilities for 20 multiday boats at a time.

Under the coast conservation programmes groyne with a total length of 912 meters have been constructed in Gampaha, Colombo and Puttlam districts at a cost of Rs 81 million. Further 8 revetments having a total length of 2,346 meters have been constructed in Matara, Galle, Colombo and Gampaha districts at a cost of Rs. 38 million.

Art, Culture & Religion

Several projects were designed in 2007-2008 period towards safeguarding and promoting cultural and religious values. With a view to facilitate cultural activities, new cultural centres were established in Muthiyangana, Hambantota, Kandeketiya and Namalgama in 2008. A cultural training centre was constructed at a cost of Rs. 48 million at Veyangoda to provide training in cultural propagation and development. The funds amounting to Rs. 400 million have been mobilized from Peoples' Republic of China to construct the National Performing Art Theatre and the preliminary infrastructure of it has been completed.



National performing Art Theater

The Dutch sites in Matara and Galle which are of great historical importance have been conserved through financial assistance from Netherland Government. The construction work of the Sigiriya Museum continued in 2008 with the JICA assistance. It is expected to be opened in Mid 2009. Meanwhile, archeological research work in Abayagiriya, Jethawana Monastery, Ramba Vihara, Tissamaharama and the Galle Fort has been completed.

Providing assistance to Dham Schools of all religions continued with a view to promote Daham Education in the country resulting the number of Daham schools increasing to 280 and student population of around 740,000.

Box 2.9

"Negenahira Navodaya" - the Road of Recovery from Terrorism to Development

The terrorist activities over the past two and half decades has taken a toll in economic development and stymied the growth of the Eastern Province (EP). However, the Government wrested the control over the lands that were being dominated by the terrorist groups and created a conducive environment for the resumption of normalcy in the region. "Negenahira Navodaya" is the lead programme incorporating the core components of "Mahinda Chinthana" programme for restoration of law and order followed civil administration, speedy implementation of reconstruction of social and economic infrastructure, demining activities, resettlement, infrastructure and industrial development that would reduce the regional imbalances and enable sustainable economic revival in the East.

Government of Sri Lanka was compelled to respond to terrorist attacks militarily in July 2006 to eradicate terrorism starting with the humanitarian operation to re-open the Mavilaru sluice gate closed by the terrorists in the Eastern Province. This resulted in the successful liberation of the entire Eastern Province from the clutches of the terrorists paving the way for immediate restoration of fundamental rights ensuring the safety of the people in the region and helped to venture into reviving the livelihoods of the communities. The local Government election in the liberated areas in the EP was held in March 2008 followed by Provincial Council Elections in May 2008, thus restoring the democracy and the administration structure in the region.



Kokkaddichola New Police Station

In order to strengthen the institutional capacity to maintain law and order the establishment of new police stations, police posts, accommodation facilities for police officers were carried out while 18 judiciary courts were made to functional throughout the province. Further, 301 Tamil speaking police officers from the Eastern Province were recruited and deployed.

Institutions for Maintaining Law and Order

District	Number
Batticaloa	05 new police stations 41 new police posts
Trincomalee	07 new police stations
Ampara	6 new police stations

Source : Ministry of Nation Building and Estate Infrastructure Development

The Eastern Province with a estimated population of 1.5 million constitutes 15 percent of the total land area of the country which contains one sixth of the country's total paddy lands. Government had identified the vast potential in the Eastern Province and with great emphasis embarked on agricultural sector development in rural areas through revitalization of this productive sector of the economy. Resources were allocated to provide fertilizer, seeds, agricultural equipment, and financial support to the farmers. This has resulted in increasing the extent of cultivated land, production and the yield of paddy and the success of the other major subsidiary crops as well. In addition, vegetable cultivation also had gathered momentum with the cultivated extent increasing from 5,345 ha in 2006 to 9,518 ha in 2008 and the production increasing from 80,175 metric tons in 2006 to 142,770 metric tons in 2008.

Box 2.9

"Negenahira Navodaya" - the Road of Recovery from Terrorism to Development Contd.

Paddy and other Major Subsidiary Crops-Extent,
Production 2006-2008

Crop	Cultivation (ha)			Production (MT)		
	2006 Y	2007 Y	2008 Y	2006 Y	2007 Y	2008 Y
	2006/7 M	2007/8 M	2006/7 M	2006/7 M	2008/9 M	2008/9 M
Paddy	166,712	175,090	241,425	703,950	742,526	1,048,622
Maize	8,200	11,700	12,775	12,301	17,655	19,163
Ground Nut	1,089	1,504	2,127	2,178	8,328	4,254
Green Gram	1,115	2,105	2,310	1,673	3,159	3,466
Cowpea	742	4,192	6,409	1,114	6,289	9,610
Red Onion	416	496	634	10,400	12,425	15,850

Source : Department of Agriculture.

Increasing accessibility in collection facilities and replacement of lost livestock has improved the milk production and other livestock products in the province with milk production increasing to 15.8 million litres in 2008 from 6.9 million liters in 2006 while recording a two fold increase in curd, gee and yoghurt production in 2008 compared to 2006.

Government has channeled funds with a view to improve the long neglected economic infrastructure of the region in electricity, roads, bridges, water supply, transport and port development. These facilities will enhance the connectivity between the consumers and producers, reduce transport cost, improve linkages with the other provinces and open backward areas to economic development.



Maize cultivation in the East

Economic Infrastructure in East, 2006-2008

Sector	Rs.mn Expenditure
Roads and Bridges	36,209
Electricity	1,533
Water Supply	3,810
Transport	69
Ports	275
Total	41,896

Source: Ministry of Nation Building and Estate Infrastructure Development

Box 2.9

"Negenahira Navodaya" - the Road of Recovery from Terrorism to Development Contd.

Bridges in the East

Improving the Urban Rural Connectivity

Yan Oya Bridge

Pudavaikkattu Bridge

Kinniya Bridge

Oddamavadi Bridge

Kallady Bridge

Arugambay Bridge

Koddaikalar Causeway

Periyakkallaru Causeway

Construction of bridges at 'Arugambay', 'Komari', 'Koddaikallaru' and 'Periyakkallaru' has been completed and 9 other bridges are being constructed. The total investment is Rs. 6.5 billion.

Box 2.9

"Negenahira Navodaya" - the Road of Recovery from Terrorism to Development Contd.

Construction and Rehabilitation of Roads and Bridges, 2006-2008

District	Roads and Bridges and Culverts	Expenditure Rs.mn	Beneficiaries
Trincomalee	1356.94 Km Road, 15 culverts & 12 Bridges (Kinniya, Pulmoddai, Illankathurai, Causeway, kinniya- ferry, Yan oya bridge)	16,599	387,728
Batticaloa	725.58 Km Road, culverts and 7 Bridges (Kallaru, Periyakallaru, ferry ramp)	8,610	203,326
Ampara	924.15 Km Road, 12 culverts and 13 Bridges (Arugambay, Thiraiodai, Yanavilunthan, Neinakadu, Bakinigasdowa, Warapitya Lagugala),	11,000	159,670
Total	3,007 km Road and 28 culverts , 32 Bridges	36,209	751,024

Source : Ministry of Nation Building and Estate Infrastructure Development

The power sector development programme undertaken under the "Negenahira Navodaya" programme has improved the electrification levels in the region from 48 percent in 2005 to 59 percent by 2008. Also it is envisaged in increasing the power generation capacity through the construction of a 500 mw coal power plant in Trincomalee.

Electricity - 2006- 2008

District	Out put	Expenditure Rs. mn	Beneficiaries (Households)
Trincomalee	33.15 km + 198 schemes	585	42,635
Batticaloa	110 Schemes	419	32,878
Ampara	37.86 km + 357 schemes	530	95,278
Total	71 km + 665 Schemes	1,534	170,521

Source : Ministry of Nation Building and Estate Infrastructure Development

In order to improve the transport sector in the region, Government has invested Rs. 69 million between 2006-2008 with the provision of new buses, construction of bus stations,

commencement of school bus service, building of model bus depots and restrooms. Under the port development activities, the construction work of the Oluvil port construction has commenced.

Developments undertaken in Eastern Area - Water Supply

- Increase of capacity of water treatment plant from 3.86 million gallons per day (mgd) to 15.86 mgd to extend the provision to towns in the Eastern Coastal area of Ampara District i.e. mainly Ampara, Potuvil, Kalmunai & Samanturai.
- 6,500 cubic meters/day to Ampara UC area (benefiting 28,000).
- Water supply scheme to Potuvil.
- Rehabilitation of Tsunami affected area water supply schemes in Batticalo, Trincomalee & Ampara.
- Improvements in the small schemes of Serunuwara, Orris Hill, Thampalakamam etc.

Box 2.9

"Negenahira Navodaya" - the Road of Recovery from Terrorism to Development Contd.

Road Development in the East

Connecting People
Easy Access

Bogahawewa - Pulmudai

Trincomalee - Habarana Road

Trincomalee - Pulmudai Road

Ambilanthurai - Veeramunai Road

Akkaraipattu - Sakamam Road

Siyambalanduwa - Potuwil - Akkaraipattu Road

Potuwil - Panama Road

Around 1,250 km of national, provincial and local roads have been completed during the period 2006-2008. Further, 354 km of national roads are being rehabilitated. Investment on these projects amount to Rs. 16.6 billion.

Box 2.9
"Negenahira Navodaya" - the Road of Recovery from Terrorism to Development Contd.

Developments undertaken in the Eastern Province - Water Supply

	2006	2007	Rs. mn 2008
Small Schemes Serunuwara, Orris Hill, Thampalakamam etc.	38	43	143
Ampara UC Area	119	125	122
Eastern Coastal Area of Ampara District	1355	240	213
Pothuvil		25	443
Greater Trincomalee		34	49
Eastern Area Water supply Improvements		42	2
Tsunami Affected Area System Improvement - Eastern area	9	11	478
Tsunami Affected Area Rehabilitation - Batticaloa, Trincomalee & Ampara	138	181	
Total	1,659	701	1,450

Source: Department of National Budget

Government has also embarked on development of irrigation schemes in the Eastern Province. Construction work of the Allai extension scheme with the World Bank assistance including the dis-silting of Raja-Ela, building of radial gates of the Marvil-Aru, rehabilitation of the Verugal Anicut and the Mahaweli flood bund at Neelapola has commenced. Further, rehabilitation of most of the other tanks and channels in all three districts such as Unnichchi, Rugam, Morawewa, Kurangupanchan are in progress. These projects would benefit around 30,000 families in the Eastern Province.

A Human Resource Development programme has been carried out in the Eastern Province at a cost of over Rs. 3,500 million with the construction of school buildings, hostels, assembly halls, playgrounds, toilets, health clinics, dispensaries etc. Meanwhile, the government has also strengthened the human resource capacity in the region by appointing 86 medical officers, 105 nurses, 14 dental surgeons, 125 midwives and 28 public health inspectors. Over 4,500 teachers, consisting of graduate teachers, part time English teachers, volunteer teachers, second language teachers and NCC English teachers have also been absorbed during this period. To enable smooth functioning of service the delivery mechanism, agricultural instructors and

development officers, in the fields of livestock, cooperative, agriculture, community and rural development, along with data entry operators and sports officers have been absorbed to the public sector during this period.



Irrigation Scheme

Box 2.9

"Negenahira Navodaya" - the Road of Recovery from Terrorism to Development Contd.

Resettlement of Internally Displaced Persons (IDPs)

Resettlement of internally displaced persons in the liberated areas of the Eastern Province continued in 2008 with over 57,000 families resettled by the end 2008. Further the

demining in these areas continued with around 376,000 square meters in the Eastern Province and being cleared by the end 2008 at a cost of Rs. 450 million.

Resettlement in Trincomalee and Batticaloa Districts

District & DS Division	Resettled Families
Batticaloa	33,200
Manmunai West-Vavunathivu	8,028
Eravur Pattu-Chenkalady	3,448
Koralaipattu South-Kiran	1,644
Manmunai South West-Paddipalai	6,437
Poraitivu Pattu-Vellavelly	9,098
Koralaipattu North-Vakarai	4,545
Trincomalee	18,651
Verugal	3,033
Muttur	13,649
Seruwila	2,269
Total	57,747

Source: Ministry of Resettlement and Disaster Relief Services

Demining as at end 2008

District	Areas estimated as Dangerous M ²	Areas cleared M ²	Devices Found
Trincomalee	150,000,000	134,867,785	2,001
Batticaloa	250,000,000	240,950,815	14,717
Ampara	113,622	113,622	120
Total	400,113,622	375,932,222	16,838

Source: Ministry of Nation Building and Estate Infrastructure Development

Construction and Repairs of Houses 2006-2008

District	Number of Houses	Expenditure Rs. mn.	Beneficiaries
Trincomalee	6,863	1,474	9,239
Batticaloa	13,452	4,465	19,006
Ampara	22,432	6,653	23,230
Total	42,747	9,591	51,477

Source: Ministry of Nation Building and Estate Infrastructure Development

Allocations under Section 6 of Appropriation Act No. 61 of 2007

The details of allocations made during 1st January to 30th December 2008 under appropriation Act No. 61 of 2007 are given below.

Table 2.35
Allocations Made during 1st January to 30th December 2008

Head No.	Ministry / Department	Purpose	Expenditure (Rs)	
			Recurrent	Capital
1	His Excellency the President	Payment of compensation (late PC Members), vehicles(SEMA), Rehabilitation of children leaving armed groups(Commissioner General Of Rehabilitation), Duties and Taxes, UNDP funded project for Peoples' Consultation on Post Tsunami Relief, Reconstruction and Rehabilitation, Programme for rehabilitation of misguided youth(Commissioner General of Rehabilitation), settlement of accounts for security related expenses during 2000-2001	5,000,000	945,353,700
2	Office of the Prime Minister	Rehabilitation of buildings, security related expenses	-	18,333,200
3	Judges of the Superior Courts	Allowances, fuel	6,820,000	-
4	Office of the Cabinet of Ministers	Purchase of a vehicle, personal emoluments	187,373	6,200,000
5	Parliament	Purchase of vehicles, Personal Emoluments, Supplies and Services, fuel, rehabilitation of vehicles	93,090,000	57,800,000
6	Office of the Leader of the House of Parliament	Fuel allowance, traveling, personal emoluments, maintenance of vehicles	2,450,000	-
7	Office of the Chief Government Whip of the Parliament	Maintenance/ rehabilitation of vehicles, services	2,770,000	100,000
8	Office of the Leader of the Opposition of Parliament	Maintenance of vehicles, Fuel, transport, Foreign travel, electricity & water, personal emoluments	13,653,500	-
11	The Constitutional Council	Personal emoluments, electricity & water	1,320,000	-
12	Public Service Commission	Office rent, Purchase of vehicles, Office equipment , Legal charges, personal emoluments, electricity and water	21,147,680	16,980,950
13	Judicial Service Commission	Purchase of a vehicle(balance provision)	500,000	675,000
14	National Police Commission	Rehabilitation of vehicles	-	1,500,000

2. Fiscal Developments - 2008

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Table 2.35
Allocations Made during 1st January to 30th December 2008 Contd.

Head No.	Ministry / Department	Purpose	Expenditure (Rs)	
			Recurrent	Capital
15	Administrative Appeals Tribunal	Rents and local taxes	140,000	-
16	Commission to Investigate Allegations of Bribery and Corruption	Personal emoluments, fuel, maintenance	8,252,500	-
17	Department of Elections	Provincial Council Election in Eastern, Sabaragamuwa, and North Central Provinces, purchase of a vehicle, rents, transport, property loan interest, Personal emoluments, services	469,975,000	6,500,000
18	Auditor General's Department	Incentive Payment, compensation, fuel, property loan interest	40,200,000	-
19	Office of the Parliamentary Commissioner for Administration	Fuel allowance ,contribution fees, rents, furniture and office equipment, personal emoluments	695,450	28,850
20	Finance Commission	JBIC funded MIS Project under SIRUP II (FA)	-	3,000,000
101	Ministry of Religious Affairs and Moral Upliftment	Construction of Sri Lanka Buddhists' Pilgrims Rest in New Delhi, fuel, foreign travel, Personal emoluments	19,828,595	-
102	Ministry of Finance and Planning	UNDP funded Pilot Distance Education Programme for graduate trainees , Legal Affairs Department, new recruitment(264 Accountants) ,contractual services, taxes and duties, personal emoluments, fuel, vehicle maintenance , foreign travel	92,244,684	31,186,205
103	Ministry of Defence, Public Security, Law and Order	Civil Security Committees, Sir John Kothalawala Defence Academy(Recruitments)	17,200,000	-
104	Ministry of Plan Implementation	Office rent , fuel allowance, personal emoluments	11,010,311	-
105	Ministry of Nation Building and Estate Infrastructure Development	Personal emoluments ,Diyawara Gammana Programme (Budget Proposal 2008), Matale Rural Economic Advancement Project(FA), North East Reconstruction Project (FA), ex-gratia payment to late Mr. D.M.Dassanayake- Minister of Nation Building, Purchase of a vehicle, allowances, complete the projects in Matara District, Gratuity payment to employees of National Paper Company,	13,464,000	569,170,000

2. Fiscal Developments - 2008

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Table 2.35
Allocations Made during 1st January to 30th December 2008 Contd.

Head No.	Ministry / Department	Purpose	Expenditure (Rs)	
			Recurrent	Capital
106	Ministry of Disaster Management and Human Rights	UNHCR funded project (FA), Erecting of Tsunami Towers, Project for National Protection and Solutions to the IDPs(UNCHR), fuel, National Building Research Organization, Project for Disaster Management Communication and Response Capacity Development	10,437,216	190,378,755
107	Ministry of Tourism	Fuel, personal emoluments, services	3,315,000	-
110	Ministry of Justice and Law Reforms	Personal emoluments, fuel, furniture and office equipment(for newly appointed Minister's Office), construction of Ministry Office Complex, purchase of vehicles, to continue legal aid activities in tsunami affected areas(Legal Aid Commission)	26,625,000	83,720,000
111	Ministry of Healthcare and Nutrition	National Priority to address nutritional needs (Budget proposal 2008), purchase of vehicles, customs duties, personal emoluments	707,100,244	232,850,000
112	Ministry of Foreign Affairs	To provide tents for the earthquake victims in China, Project on Technical Development for Palestine Development, foreign travel, Delimitation of the Continental Margin of Sri Lanka, Donation for cyclone victims in Myanmar, earth quake victims in China and flood victims in Nepal and Bihar	41,875,000	29,200,000
114	Ministry of Transport	Purchase of vehicles, Sri Lanka Transport Board(to recover losses due to increase in fuel prices), Assistance to SLTB, arrears of cost of living allowance	775,963,784	17,000,000
115	Ministry of Petroleum & Petroleum Resources Development	Personal emoluments, purchase of a vehicles	900,000	9,850,000
116	Ministry of Trade, Marketing Development, Co-operatives and Consumer Services	Strengthening co-operative system (Budget Proposal 2008),Personal Emoluments, setting up cost of State Trading(Co-operative wholesale Company Ltd.) , Rice subsidy for the plantation sector(- Budget proposal)	61,620,000	657,600,000
117	Ministry of Highways & Road Development	Rehabilitation of Katukurunda Matara Road(FA), Southern Transport Development Project, Construction of Mannar Bridge(Taxes), STDP-Section from Kurundugahaketama, Settlement of Customs duties and taxes(Regional Bridge Project)	-	5,460,520,397
118	Ministry of Agriculture Development and Agrarian Services	System B left Bank (FA), Production of organic fertilizer (Budget proposal), payment of compensation-JFEL, cost living allowance	21,500,000	60,970,173

2. Fiscal Developments - 2008

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Table 2.35
Allocations Made during 1st January to 30th December 2008 Contd.

Head No.	Ministry / Department	Purpose	Expenditure (Rs)	
			Recurrent	Capital
120	Ministry of Child Development and Women Empowerment	Project for tsunami affected/displaced children and backing their families(FA), Fuel	2,000,000	22,500,000
121	Ministry of Public Administration and Home Affairs	Purchase of vehicles, ADB funded Tsunami Affected Area Rebuilding Project, UNDP project(CADREP)	-	73,447,087
122	Ministry of Mass Media and Information	Fuel allowance, contribution fees for SAARC Information Centre, Personal emoluments, legal charges, Foreign travel, recurrent expenditure(SLBC), fuel	114,341,332	-
123	Ministry of Urban Development and Sacred Area Development,	Fuel, Housing Development Programme for Urban Underserved (Budget proposal 2008)	3,334,810	100,000,000
124	Ministry of Social Services and Social welfare	Fuel, Social Security Board (rents), installation of solar power units	6,227,623	2,805,878
125	Ministry of Housing and Common Amenities	Purchase of vehicles, personal emoluments, Centre for Housing, Planning and Buildings, Fuel, 25 houses per village programme in 119 selected DS divisions,	12,533,642	25,828,356
126	Ministry of Education	Purchase of vehicles, Personal emoluments	279,700,000	15,000,000
127	Ministry of Labour Relations and Manpower	Transport services, Personal emoluments	27,200,000	-
128	Ministry of Rural Industries and Self Employment Promotion	Purchase of a vehicle, Fuel allowance, fuel, foreign travel	5,405,571	7,650,000
129	Ministry of Vocational and Technical Training	Employment Oriented Training for Youth Project, fuel	5,900,000	23,750,000
130	Ministry of Local Government and Provincial Council	Rural Integrated Water Sanitation and Hygiene Project (FA), Road Sector Development Project, Provincial Road Improvement Project, Development Programme in Eastern Province, Rehabilitation of Batticaloa Municipal Council Office Complex and Quarters, Town Development Programme	-	306,500,000
132	Ministry of Enterprise Development and Investment Promotion	Purchase of vehicles, purchase of Ridigala Estate(BOI), Personal Emoluments, Fuel allowance	4,000,000	334,900,000
133	Ministry of Science and Technology	Personal emoluments(NERD), institutional support	21,050,000	-

2. Fiscal Developments - 2008

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Table 2.35
Allocations Made during 1st January to 30th December 2008 Contd.

Head No.	Ministry / Department	Purpose	Expenditure (Rs)	
			Recurrent	Capital
135	Ministry of Plantation Industries	Office rent, Mahaweli Coconut Plantation Ltd.	8,500,000	15,000,000
136	Ministry of Sports and Public Recreation	Purchase of a vehicle	-	12,500,000
139	Ministry of Fisheries and Aquatic Resources	Fuel, Coastal Resources Management Project, personal emoluments	5,930,000	434,000,000
140	Ministry of Livestock Development	To set up Cold storage facilities and milk collection centres at provincial level- Budget proposal 2008, fuel, electricity and water, personal emoluments	7,061,624	50,000,000
142	Ministry of Cultural Affairs	National Performing Art Theatre , Netherlands Sri Lanka Cultural Assistance Programme, Purchase of a vehicle, Conservation and Restoration of the Old Dutch Naval Commissioner's House in Trincomalee, Central Cultural Fund, National Film Corporation, Construction of Seegiriya National Museum	62,900,000	258,500,000
143	Ministry of Parliamentary Affairs	Group Insurance Scheme for the members of Parliament, Ex-gratia payment to the widow of late Hon. T.Maheswaran- MP, personal emoluments, vehicle maintenance, taxes and duties(vehicles), Retirement benefits, settlement of Fiscal Levies for the vehicles imported for MP's	56,025,500	126,395,046
145	Ministry of Re-settlement and Disaster Relief Services	Fuel, Disaster Relief and Recovery Activities, distribution of cooked meals and dry rations for displaced persons	122,815,335	-
149	Ministry of Industrial Development	Personal emoluments(NPC), purchase of vehicles, vehicle rent,	2,000,333	25,400,000
151	Ministry of Foreign Employment Promotion and Welfare	Purchase of a vehicle, fuel	1,825,500	5,500,000
152	Ministry of Irrigation and Water Management	Fuel, rents, personal emoluments, Water Resources Board(salary)	27,075,000	-
153	Ministry of Land and Land Development	Sri Lanka Land Titling and Related Services Project(FA), fuel	2,750,000	1,209,734
156	Ministry of Youth Affairs	Common Wealth Youth Affairs Minister's Meeting	15,000,000	-

2. Fiscal Developments - 2008

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Table 2.35
Allocations Made during 1st January to 30th December 2008 Contd.

Head No.	Ministry / Department	Purpose	Expenditure (Rs)	
			Recurrent	Capital
160	Ministry of Environment and Natural Resources	Marine Pollution Prevention Authority, fuel, electricity and water, personal emoluments, Haritha Gammuna and Piyakarapurawara (Budget Proposal 2008), Training, rents and local taxes	6,935,000	140,064,232
161	Ministry of Internal Administration	Personal emoluments, fuel, services	2,683,800	-
163	Ministry of Youth Empowement and Socio Economic Development	Vehicle rent, fuel, personal emoluments	12,540,000	-
164	Ministry of Community Development and Social Inequity Eradication	Operational expenses, Foreign travel, Personal Emoluments, fuel,	11,626,000	-
165	Ministry of National Heritage	Cost of Chinese delegation visit	1,500,000	-
166	Ministry of Water Supply and Drainage	Rehabilitation, Reconstruction and Resettlement Programme, Rural Development Programme, fuel, Personal emoluments, services, supplies, rent, Nawalapitiya, Ampara & Koggala project, Rural Water Supply and Sanitation project, Secondary Towns Rural Community Based Water Supply, Nuwara-Eliya District Group Water Supply, Assistance for Emergency Measures and Water Supply Scheme, maintenance of vehicles, Waste Water Disposal System, Kelani Right Bank Water Treatment Plant, Treatment Plant for Negombo	24,916,000	942,800,000
167	Ministry of Export Development and International Trade	Fuel allowance, Foreign travel	6,800,000	-
168	Ministry of Public Estate Management and Development	Arrears payment for SLSPC, personal emoluments	750,000	60,000,000
169	Ministry of Construction and Engineering Services	Renovation of Minister's Official Residence, transport allowance, hire charges, Personal emoluments, fuel, postal and communication, vehicle maintenance	6,011,000	3,000,000
171	Ministry of Higher Education	Furniture and office equipment for Open University and its online Centers Islandwide, building construction (Buddhist and Pali University)	-	398,134,000

2. Fiscal Developments - 2008

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Table 2.35
Allocations Made during 1st January to 30th December 2008 Contd.

Head No.	Ministry / Department	Purpose	Expenditure (Rs)	
			Recurrent	Capital
172	Ministry of Supplementary Plantation Crops Development	Arrears of electricity bills(Galoya Plantation), Salaries and other expenses for Kantale Sugar Industries(restructuring), Project Development Office	-	26,325,000
201	Department of Buddhist Affairs	Upasampada ceremony, personal emoluments, All island Dhamma School Competition	13,324,827	-
202	Department of Muslim Religious Affairs and Cultural Affairs	Personal emoluments	1,080,000	-
203	Department of Christian Religious Affairs	Personal emoluments	1,030,000	-
206	Department of Cultural Affairs	Renovation of lighting system of John De Silva Memorial Theatre(FAG)), Museum of Independence, electricity and water , National Dancing Festival, National Kalabushana Festival, personal emoluments	10,671,350	23,314,569
207	Department of Archaeology	Personal emoluments, fuel, vehicle maintenance, property loan interest	10,492,560	-
210	Department of Government Information	Personal emoluments, fuel, services	4,954,250	-
211	Department of Government Printer	Electricity and water	4,500,000	-
212	Department of Examination	Expenditure for examinations related activities	43,200,000	-
215	Department of Technical Education and Training	Taxes and duties-Jaffna Technical Collage(KOICA project	-	28,500,000
221	Department of Labour	ILO - IPEC project (FAG)	-	313,734
222	Sri Lanka Army	Deferred payments, funds for troops deployment in Haiti, security items, acquisition of machinery and equipment, hire charges for vehicles, machinery and other equipment	5,160,249,000	12,232,936,014
223	Sri Lanka Navy	Deferred payments, personal emoluments, fuel	680,000,000	374,410,000
224	Sri Lanka Air Force	Deferred payments, furniture and office equipment for troops deployed in liberated areas, losses and write-off, personal emoluments	50,231,602	2,914,854,304
225	Department of Police	Deferred payments	-	202,000,000

2. Fiscal Developments - 2008

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Table 2.35
Allocations Made during 1st January to 30th December 2008 Contd.

Head No.	Ministry / Department	Purpose	Expenditure (Rs)	
			Recurrent	Capital
226	Department of Immigration and Emigration	Purchase of blank passports, personal emoluments	4,500,000	500,000,000
227	Department of Registration of Persons	Personal emoluments	3,100,000	-
228	Courts Administration	Rents , construction of courts buildings and judges residential complexes, furniture and office equipment, electricity(Superior Courts Complex), transport, vehicle maintenance	20,300,000	370,000,000
229	Attorney General's Department	Purchase of vehicles, Vehicle Insurance, Personal emoluments	2,322,500	124,730,875
230	Legal Draftsman's Department	Foreign training	-	2,435,500
231	Department of Debt Conciliation Board	Domestic travelling, fuel, services	99,000	-
232	Department of Prisons	Maintenance/rehabilitation of vehicles, fuel, diets and uniforms	77,000,000	500,000
233	Department of Government Analyst	Personal emoluments	2,000,000	-
234	Registrar of Supreme Court	Personal emoluments, travelling, vehicle maintenance, retirement benefits	2,520,000	-
235	Department of Law Commission	Purchase of a vehicles, Personal emoluments, fuel electricity	1,000,000	4,850,000
237	Department of National Planning	Project Management Bureau (Budget Proposal 2008)	1,000,000	9,000,000
238	Department of Fiscal Policy	Payments to Prima Ceylon Ltd(cabinet decision)	1,000,000,000	-
241	Department of Public Enterprises	Payment of gratuity to ex-employees of CCC Ltd., initial subscription for the shares of Sri Lanka Coal Company(Pvt.) Ltd., Personal emoluments, To settle outstanding turnover tax payable of Colombo Commercial Company ltd. to Department of Provincial Revenue Ratnapura	2,500,000	3,465,562
242	Department of Management Services	Personal emoluments	1,200,000	-
243	Department of Development Finance	Personal emoluments, fuel, vehicle maintenance, postal and communication, Financial Markets Programme for Private Sector Development	580,000	1,024,811,700

2. Fiscal Developments - 2008

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Table 2.35
Allocations Made during 1st January to 30th December 2008 Contd.

Head No.	Ministry / Department	Purpose	Expenditure (Rs)	
			Recurrent	Capital
245	Department of Public Finance	Personal emoluments, fuel, purchase of vehicles	2,642,000	5,865,000
246	Department of Inland Revenue	Acquisition of buildings (Cabinet decision), rehabilitation of building at Nawam Mw, postal and communication, property loan interest	5,900,000	233,224,132
247	Sri Lanka Customs	The value, custom duty and other taxes paid for customs forfeited vehicles obtained by Government Ministries and Departments	-	162,771,300
248	Department of Excise	Fuel, property loan interest, vehicle maintenance	6,200,000	-
249	Department of Treasury Operations	Interest payments	1,236,000,000	-
253	Department of Pensions	Social security for disabled soldiers, pension, gratuities and compensation	3,700,000,000	-
254	Department of Registrar General	Personal emoluments	15,000,000	-
256	District Secretariat - Gampaha	Property loan interest	1,893,000	-
257	District Secretariat - Kaluthara	Property loan interest, personal emoluments	14,667,500	-
261	District Secretariate Galle	Personal emoluments	1,960,000	-
264	District Secretariat - Jaffna	Personal emoluments	8,025,000	-
270	District Secretariate - Ampara	Personal emoluments	9,100,000	-
271	District Secretariat - Trincomalee	Paddy purchasing programm(2005/2006)	16,149,155	-
273	District Secretarit - Puttalam	Property loan interest	1,500,000	-
274	District Secretariat - Anuradhapura	Paddy purchasing programm(2005/2006), personal emoluments	100,595,606	-
275	District Secretariat - Polonnaruwa	Paddy purchasing programm(2005/2006), property loan interest	133,975,801	-
277	District Secretariat -Monaragala	Paddy purchasing programm(2005/2006)	7,236,504	-
278	District Scretariat - Ratnapura	Personal emoluments	7,000,000	-

2. Fiscal Developments - 2008

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Table 2.35
Allocations Made during 1st January to 30th December 2008 Contd.

Head No.	Ministry / Department	Purpose	Expenditure (Rs)	
			Recurrent	Capital
280	Department of Foreign Aid and Budget Monitoring	Rent and local taxes, cost of living allowance, fuel, property loan interest	12,824,000	-
282	Department of Irrigation	Fuel, electricity and water, Uma Oya Diversion Project	8,500,000	2,450,000,000
284	Department of Wild Life Conservation	Purchase of vehicles, Protected Area Management and Wild Life Conservation Project	-	202,000,000
285	Department of Agriculture	Small Scale Agriculture Research Project(FAG)	-	1,200,000
290	Department of Fisheries and Aquatic Resources	Personal emoluments	6,500,000	-
291	Department of Coast Conservation	Coast Conservation Activities	-	34,000,000
293	Department of Rubber Development	Fuel, travelling, supplies, services, furniture and office equipment, purchase of vehicles, replanting of rubber factory modernization	6,050,000	101,700,000
294	Department of National Zoological Gardens	Personal emoluments	1,200,000	-
296	Department of Import & Export Control	Purchase of a vehicle, personal emoluments	100,000	3,900,000
301	Department of Co-operative Development	Personal emoluments	1,250,000	-
302	Co-operative Employees Commission	Personal emoluments	553,000	-
303	Department of Textile Industry	Losses and write-off	8,164,220	-
308	Department of Posts	Property loan interest, Contribution fees, transport, personal emoluments	520,774,097	-
309	Department of Buildings	Traveling, maintenance, supplies, fuel, Personal emoluments	18,358,277	-
310	Government Factory	Personal emoluments, losses and write-off, property loan interest	22,686,459	-
311	Department of National Physical Planning	Personal emoluments	4,800,000	-
320	Department of Civil Security	Deferred payments, personal emoluments	517,000,000	170,000,000
321	Eastern Provincial Council	Pro-Poor Rural Development Project	-	50,000,000
Total			16,831,083,115	33,040,909,253

Performance of Provincial Councils (PCs)

The revenue collected by PCs increased by 21 percent to Rs. 31.4 billion. As a percentage of GDP the revenue was 0.7 percent, the same level as in the two previous years. A coordinated effort has to be taken to increase the provincial revenue at least to 1 percent of GDP.

Out of the total recurrent expenditure of Rs. 103.2 billion 77 percent was on account of personal emoluments. The investment expenditure of PCs increased by 21 percent to

Rs. 24.6 billion where 70 percent of this investment was through Province Specific Development grants and foreign financing arrangements.

The transfers from the National Budget were Rs. 88.9 billion in 2008. The envisaged transfers to PCs could not be fully materialized due to the revenue shortfalls and on recurrent overruns with together amounted to around Rs. 125 billion.

Table 2.36
Consolidated Budget

	Rs bn		as % of GDP	
	2007	2008	2007	2008
Total Revenue	590.9	686.6	16.5	15.6
Central Government	565.1	655.3	15.8	14.9
Tax	508.9	585.6	14.2	13.3
Non Tax	56.1	69.6	1.6	1.6
Provincial Councils	25.9	31.4	0.7	0.7
Tax	21.5	26.0	0.6	0.6
Non Tax	4.4	5.4	0.1	0.1
Total Expenditure	866.4	1,027.5	24.2	23.3
Central Government^(a)	841.6	996.1	23.5	22.6
Current	622.8	743.7	17.4	16.9
Capital and net Lending	218.8	252.4	6.1	5.7
Provincial Councils^(b)	24.8	31.4	0.7	0.7
Current	22.0	26.4	0.6	0.6
Capital	2.8	4.9	0.1	0.1
Budget Deficit	-275.4	-340.9	-7.7	-7.7

Source: Department of Fiscal Policy

^(a) Includes transfers to Provincial Councils (PCs).

^(b) Includes expenditure incurred by the PCs using own funds.

Debt Management

The Appropriation Act passed by the Parliament for the Financial year 2008 authorized a gross borrowing limit of Rs. 708 billion. The Government was able to manage its fiscal operations within the borrowing limits during the year by limiting its gross borrowings at Rs. 689 billion. The annual borrowing programme deviated from the originally planned programme due to the lack of funds from external commercial sources and pre-mature withdrawals of foreign investments in the rupee denominated government security market stemming from the turmoil in the international financial markets and the associated uncertainties. In addition, the limited resources availability in the non bank sector also contributed to the deviation.

The gross borrowing from the domestic sources exceeded the original target by Rs. 101 billion to reach Rs. 559 billion while the gross borrowing from foreign sources was limited to Rs. 130 billion.

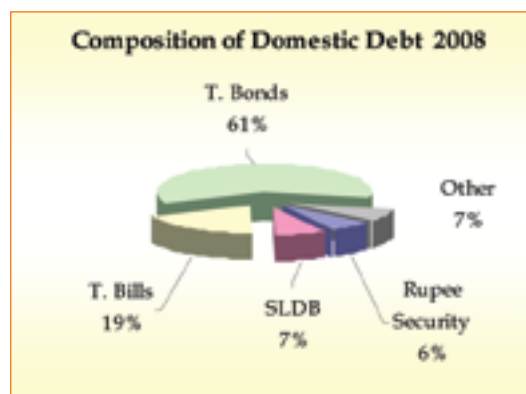
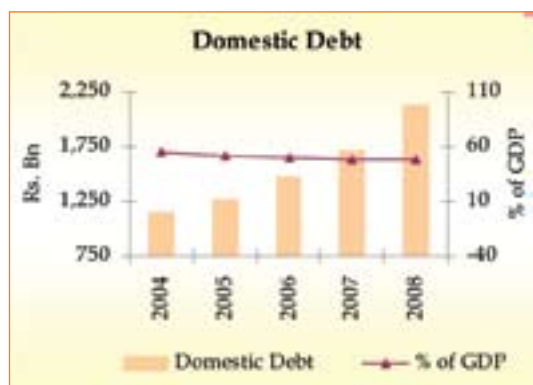
Table 2.37
Government Gross Borrowing by Instrument - 2008

Source	Rs. bn
Domestic	559.4
Rupee loan	-
Treasury Bonds	406.5
Treasury Bills	62.9
SLDB/FCBU	44.4
CBSL advances	15.6
Other	30.9
Foreign	129.6
Concessional	98.5
Non concessional	31.1
Total	689.00

Sources: Department of Treasury Operations
Central Bank of Sri Lanka

The total debt of the Government amounted to Rs. 3,578 billion as at the end 2008, which is an increase of Rs. 576 billion compared with the Rs. 3,042 billion at end 2007. The increase was 18 percent. However, the debt in relation to GDP decreased steadily for the fourth consecutive year, to 81.1 percent from 85 percent in 2007. Total debt consists of Rs. 1,449 billion of foreign debt and Rs. 2,129 billion of domestic debt reflecting 59.5 percent of total debt on account of domestic debt. The foreign debt portfolio reduced to 40.5 percent of the total debt from 43.5 percent. The domestic debt component increased mainly due to the high borrowings from the domestic markets in the latter part of the year due to the non materializing of anticipated foreign borrowings from external capital market and the premature withdrawals of foreign investments in the event of the financial crisis and the overshooting of borrowing requirement due to revenue shortfalls and the overruns in the recurrent expenditure. The total foreign investments in the government securities increased to Rs. 71 billion by mid September from Rs 49 billion as at end 2007. However, this was reversed in the latter part, where the foreign withdrawals amounted to Rs. 47 billion, creating heavy pressure on the domestic borrowing as well as the stability of the domestic rupee market. With these developments funding shortfall had to be raised from the domestic market, resulting borrowing through treasury bonds and bills increasing to Rs. 407 and Rs. 62 billion respectively. The limitation of funds in the non bank sources, the government had to rely heavily on the borrowing from the banking system resulting the net credit to the government by the banking system reaching Rs. 195 billion in 2008 compared to the Rs. 16 billion in 2007.

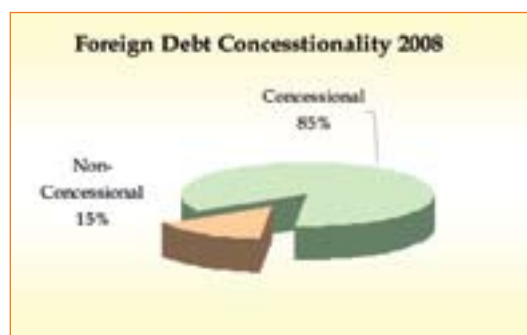
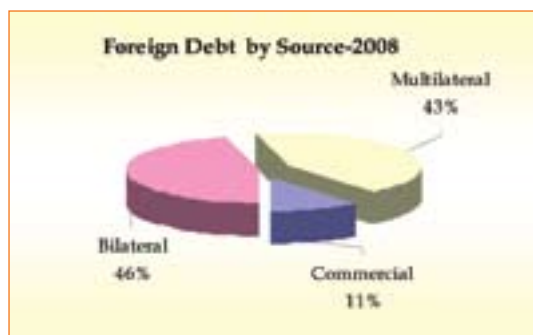
Chart 2.15
Trends in Domestic Debt.



Total foreign debt increased to Rs. 1,449 billion as against Rs. 1,355 billion in 2007. The impact of the exchange rate variations in 2008 was an increase in the rupee value of the outstanding foreign debt by Rs. 118 billion. Concessional debt increased from Rs. 1,100 billion to Rs. 1,227 billion while non concessional debt decrease to Rs. 222 billion

from Rs. 227 billion resulting from the withdrawals of foreign investments in Treasury bills and Treasury bonds. The foreign debt stock as a percentage of GDP has steadily decreased over the last 5 years from 47.7 percent in 2004 to 32.8 percent by end 2008.

Chart 2.16
Foreign Debt



2. Fiscal Developments - 2008

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Table 2.38
Currency Composition of Foreign Debt

Currency	2006			2007			2008		
SDR	42.2			38.3			36.7		
Japanese Yen	28.7			25.5			30.6		
US Dollar	16.0			20.1			17.7		
Euro	8.9			9.2			9.1		
other	4.1			6.9			5.7		
Memo: Total External Debt. (Rs. Billion)	1,103			1,327			1,449		

Source: Central Bank of Sri Lanka

Table 2.39
Outstanding Government Debt (a)

Item	Rs.bn		
	End 2006	End 2007	End 2008
Total Domestic Debt	1,479.2	1,715.2	2,129.3
Short-term	313.2	363.2	505.5
Treasury bills ^(b)	257.7	307.0	402.6
Provisional advances from the Central Bank	49.0	60.7	76.3
Other	6.5	-4.5	26.6
Medium and Long-term	1,166.0	1,351.9	1,623.9
Rupee Securities ^(c)	116.7	131.5	130.0
Treasury bonds ^(b)	886.0	1,018.8	1,282.0
Sri Lanka Development Bonds	62.5	86.4	158.8
Other ^(d)	100.9	115.2	53.1
Total Foreign Debt	1,103.4	1,321.8	1,448.7
Concessionary Loans	1,023.0	1,099.9	1,227.2
Multilateral	564.3	565.3	590.8
Bilateral	458.8	534.6	636.5
Non – Concessionary Loans	80.3	221.9	221.5
Multilateral	4.2	15.4	27.4
Bilateral	27.7	29.9	30.0
Commercial Loans ^(e)	48.4	176.6	164.0
Total Outstanding Government Debt	2,582.6	3,036.9	3,578.0

Source: Central Bank of Sri Lanka

^(a) Values are calculated on the face value of domestic debt instruments and on disbursement date rate of exchange in relation to foreign currency loans. Off share Banking Units (OBUs) and Sri Lanka Development Bonds loans are calculated on end month exchange rate of each month.

^(b) Exclude Treasury bills and treasury bonds issued to foreign investors.

^(c) Include long term bonds of Rs. 24 billion issued in 1993 to Bank of Ceylon (BOC) and People's Bank (PB).

^(d) Inclusive of outstanding balances to OBUs, Ampara Water Supply and Co-operative Whole sale Establishment (C.W.E.) bonds in 2003.

^(e) Includes defence loans, rupee denominated treasury binds and treasury bills issued to foreign investors and proceeds from the sovereign bond issues of the Government in 2007.

Table 2.40
Debt Indicators

Indicator	2006			2007			2008		
Public Debt/GDP	87.9			85.0			81.1		
Domestic Debt/GDP	50.3			47.9			48.3		
Foreign Debt/GDP	37.5			37.1			32.8		
Debt Service/GDP	15.1			14.0			13.4		
Total Debt Service/Revenue	93.0			88.6			90.5		
Foreign Debt Service/Export Earnings and Foreign Remittances	5.7			6.5			10.7		
Domestic Interest/Current Expenditure	24.4			25.9			24.5		
Interest/Government Revenue	31.7			32.3			32.4		

Source: Central Bank of Sri Lanka
Treasury Operations Department

Table 2.41
Debt Service Payments

Indicator	2006			2007			2008		
Total Debt Service Payments	444.3			500.5			593.2		
Domestic	381.3			415.1			441.4		
Foreign	63.0			85.4			151.8		
Interest Payments	150.8			182.7			213.0		
Domestic	133.8			161.4			182.7		
Foreign	17.0			21.3			30.3		
Debt Repayment	293.5			317.8			380.2		
Domestic	247.5			253.7			258.7		
Foreign	46.0			64.1			121.5		

Sources: Central Bank Of Sri Lanka
Treasury Operations Department

Performance of Public Enterprises

Overview

The objectives, functions and strategies of the Department of Public Enterprises were substantially restructured in the year 2008 in order to implement new government policy on Public Enterprises (PEs). Prior to 2008, the Department of Public Enterprises monitored and supervised all PEs including commercial enterprises, statutory bodies, research institutions and universities. The government decided that commercial enterprises should be restructured and developed to make them financially viable without burdening the Treasury and where possible to generate dividend income for the Government as its equity.

The government policy is not to privatize PEs, but to restructure them with new strategies including major reforms to improve their performance. Therefore the Cabinet of Ministers in July 2007 decided to close down the Public Enterprises Reform Commission (PERC) by repealing the Public Enterprises Reform Commission Act No. 1 of 1996. The post privatization monitoring of the institutions privatized by PERC was vested with the Department of Public Enterprises since 2008.

The strategies of the government on Public Enterprises have been articulated in the Budget Speech 2007 which emphasizes the importance of reducing the dependence of underperforming PEs on government funds. Thus, the budget speech proposes that,

"... The relevant agencies must use their own assets to generate revenue and cut down 5 percent of the provisions made for them from the Treasury in 2007".

Accordingly, given the emphasis that the government has placed on the improvement of the performance of commercial public enterprises, the Ministry of Finance and Planning has directed that the Department of Public Enterprises should focus on only commercial enterprises. The other non-commercial enterprises including statutory bodies and authorities were transferred to the Department of National Budget.

In line with this policy framework the major objective of the department of Public Enterprises is to monitor and guide these enterprises:

- i. to reduce and eventually eliminate their dependence on the government budget
- ii. to convert loss making PEs into profit making ones
- iii. to improve their transparency and accountability, operational efficiency in general

Under the new mandate, the Department of Public Enterprises has to monitor, supervise and uplift 137 commercial enterprises. This includes 55 Commercial Corporations, 39 Government Owned Companies and 43 government minority holding companies.

The Department observed several major continuing issues relating to PEs:

- heavy reliance on the government budget for recurrent expenditures of several loss making and non-functional PEs
- non payment of dividends to the government by most of the minority share holding companies
- heavy public enterprise debts which have impact on banks on performance
- unusual accumulation of inter-public enterprise debt

Meanwhile the Department of Public Enterprises has to help PEs in managing a large number of Voluntary Retirement Schemes (VRS) as a measure to improve the non-performing enterprises reducing excess staff, facilitating PEs to obtain their debt and equity capital requirements, attending to matters relating to outstanding issues of privatized entities by the PERC including matters relating to 31 companies that are under liquidation and facilitating the incorporation of new companies by various ministries

In 2008, the Treasury has granted Rs. 506,162,320 to defunct enterprises.

The Department of Public Enterprises initiated the process of updating the Public Enterprise guidelines for Good Governance published in 2003. Circulars were issued to all PEs instructing them to improve their performance through

management reforms. The PEs were directed to concentrate on their core business activities in order to become commercially viable entities. During 2008, five circulars were issued:

- PED 48 providing guidelines for the preparation of Annual Reports and Accounts and stressing the need to submit these reports to the Parliament on time as per statutory requirements.
- PED 49 providing guidelines on how a PE can comply with the new Companies Act No. 7 of 2007.
- PED 50 providing guidelines for improving the efficiency in the use of fuel by PEs in the context of rising energy costs.
- PED 51 in order to ensure effective Audit Committee Meetings of the PEs.
- PED 52 on granting extensions of services for employees over 55 years of age.

Categorization of Public Enterprises

In order to ensure proper monitoring and supervision of the 285 PEs a process revising the existing categorization of Public Enterprises with the assistance of National Salaries and Cadre Commission was begun. This initiative will help improve the guidelines of the different categories of PEs. Accordingly, based on their nature and scope of work, PEs are re-categorized into 6 major groups viz. Strategic Commercial Public Enterprises, Commercial Public Enterprises, Statutory Bodies, Regulatory Bodies, Research Organizations and Universities & Affiliated Institutions. These 6 major categories were further classified into several sub categories based on their total assets, total revenue and the total number of employees. The new categorization of PEs is given below:

- Category 1 : Strategic Commercial Public Enterprises
- Category 2A : Large Commercial Public Enterprises
- Category 2B: Medium Commercial Public Enterprises

- Category 2C: Small Commercial Public Enterprises
- Category 3A: Large Statutory Bodies
- Category 3B : Small Statutory Bodies
- Category 4 : Regulatory Bodies
- Category 5 : Research Organizations
- Category 6 : Universities and Affiliated Institutions

In addition, the Department of Public Enterprises has strengthened its monitoring activity as follows:

- Special performance reviews of nonfunctional and underperforming PEs to identify the issues and ensure efficiency and the effective utilization of resources towards achieving their goals and objectives and make them financially viable.
- Enforcing the provisions of Part II of the Finance Act No.38 of 1971 and the Public Enterprises guidelines for good governance.
- Facilitating the Committee on Public Enterprises (COPE) to carry out their oversight functions of Public Enterprises.

Further the capacity of the Department of Public Enterprises was strengthened by obtaining the services of training accountants who are serving their Article training of the Institute of Chartered Accountants of Sri Lanka. These accountants are qualified in financial management and were recently absorbed to the government service.

Assisting the Committee on Public Enterprises (COPE)

The Department of Public Enterprises assists COPE to carry out its oversight function of PEs. This also helped the Department of Public Enterprise to implement its supervisory function of PEs. In the year 2008, the Department assisted 22 COPE meetings by analyzing the performance of PEs and submitting issues to the COPE. The Department also helped these Public Enterprises to implement the COPE recommendations through regular monitoring and follow up meetings.

Return on Government Investment

Return on Investment of Government owned Companies

The Government has invested in 92 companies which have been established under the Companies Act No.07 of 2007. The Companies in which the government has invested can be categorized into four groups based on the ownership of shares and the nature of business of these companies.

1. Fully Government owned companies
2. Companies with more than 50% government holding and other controlling power holding companies.
3. Companies with less than 50% Government holding
4. Plantation companies with less than 50% Government holding

The government has invested rupees Rs. 31, 614 millions in the shares of these 92 companies. Of this Rs.14, 225 millions have been invested in companies with more than 50% government holding and companies with government controlling power. Table 3.1 depicts the government investment in different groups of Companies.

According to Table 3.1, out of total government investments, 45% has been invested in the companies with more than 50% government holding and companies with government controlling power. Only 13% of the total investment has been invested in companies with less than 50% government holding.

One of the government's major objectives of investing in public money in the shares of commercial companies is to develop the sector while also expecting return on investment. However the rate of return on investment that the government receives from these enterprises is not satisfactory. Even though government has invested Rs. 31.6 billion in those 92 companies, the accumulated return on investment for the previous eight years is only Rs.9 billion. In other words only 28% of the total investment has been recovered in eight years.

Out of 92 companies only 46 companies have paid dividends at least once over the period of last eight years. Table 3.2 shows accumulated dividend received as a percentage of investment during the period from 2000 to 2008.

Table 3. 1
Total Investments in Government Owned Companies (2000-2008)

Category of Company	Number of Companies	Investment By the Treasury Rs. million	%
Fully Government Owned Companies	29	13,278	42
Companies with more than 50% Government holding and other Companies with government controlling power	14	14,225	45
Companies with less than 50% Government holding	29	3,704	12
Plantation Companies with less than 50% Government Holding	20	407	1
Total	92	31,614	100

Source: Department of State Accounts

Table 3.2
Total Dividends Received on Total Investment

	Number of Companies	Total Dividends Received (Rs. Million) (2000-2008)	% of total Dividends Received
Fully Government Owned Companies	29	431	5
Companies with more than 50% government holding and with government controlling power	14	6,530	72
Companies with less than 50% government holding	29	2,036	22
Plantation Companies with less than 50% government holding	20	69	1
Total	92	9,066	100

Source: Department of Treasury Operations

Chart 3.1

As shown in Table 3.2, 72% of total dividends received by the government are from the companies with more than 50% Government holding and companies with government controlling power. The minority share holding companies have paid 22% of total dividends during the last eight years. The Sri Lanka Telecom Ltd of which the government has controlling power, has paid Rs 4,370 million as accumulated dividends for the last eight years.

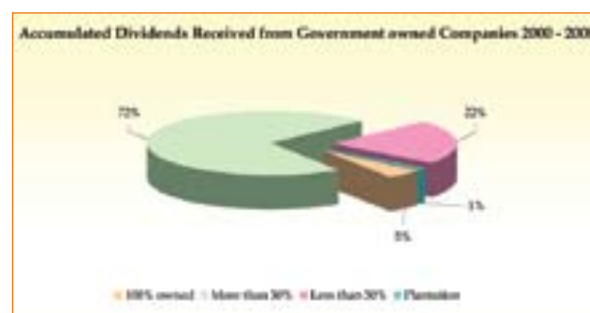


Table 3.3 presents dividends paid by different groups of companies annually.

Table 3.3
Total Dividends Received for the Previous Eight Years (2000-2008)

Category of Company	Dividends Paid to the Government in each year (Rs. mn.)								
	2000	2001	2002	2003	2004	2005	2006	2007	2008
Fully Government Owned Companies	11	4	1	6	17	183	108	57	44
Companies with more than 50% government holding and with government controlling power	58	283	300	750	1058	727	1458	999	893
Companies with less than 50% government holding	200	324	133	136	38	247	124	686	151
Plantation Companies with less than 50% government holding	7	22	8	-	-	2	3	10	17
Total	276	633	442	892	1,113	1,159	1,693	1,752	1,105

Source: Department of Treasury Operations

Chart 3.2



Levy and Dividend from Public Enterprises

The levy and dividend income from Public Enterprises to the Government amounted to Rs.7370 million in 2008 reflecting a marginal decrease from 2007. This decrease is due to several of the large public enterprises failing to generate sufficient surpluses to contribute by way of either levy or dividends to the Treasury as Return on Investment.

While the world economic conditions affected the profitability of many of the large public enterprises such as Ceylon Petroleum Corporation, Ceylon Electricity Board and Sri Lanka Ports Authority, other PEs such as State Pharmaceutical Corporation, State Printing Corporation being profit making entities faced liquidity problems. This resulted in many PE's contributing less than budgeted to the government coffers.

Out of 92 companies, on average, 75% of the companies have not paid dividends during the last eight years which is not an acceptable situation, given the large investments that the Government has made.

Chart 3.3



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Table 3.4
Levy/Dividend Income from Public Enterprises

Institutions	2008	2007	2006	2005	2004	Rs mn 2003
Levy						
Telecommunication Regulatory Commission.	3150	2250	2050	1150	400	450
State Timber Corporation	75	150	75	50	37	37
State Pharmaceuticals Corp.	30	20	20	74		
SL Export Credit Insurance Corporation	25	16	-	-	-	-
State Pharmaceutical Manu. Corp.	10	10	5	5	10	-
Sri Lanka Ports Authority	0	65	115	50	95	-
State Mortgage & Investment Bank	0	25	116	135	50	100
National Lotteries Board	-	-	-	-	127	
Other	3	13	38	11.5	22	5
Dividends						
Sri Lanka Telecom	893	893	670	446.702	402	482
Bank of Ceylon	1046	846	1173	1150	763	675
National Savings Bank	1060	1060	810	1310	1060	1812
People's Bank	816	1416	668	818	756	572
De La Rue Lanka (Pvt) Ltd	100	100		152		120
Lanka Mineral Sands Ltd.	34	50	98	132	9	14
Lanka Industrial Estates	31.2	62	19.5	19.5	37	2
Ceylon Petroleum Storage Terminal	-	437.5	125	-	-	-
Airport & Aviation Sri Lanka Ltd	-	100		280	-	-
Lanka Electricity Company	-	75	99.76	74.82	-	-
Sri Lankan Air Lines	-	-	788	-	656	263
Other	97	93	81	70	24	781
Total	7370	7682	6951	5929	4448	5313

Source: Department of Treasury Operation.

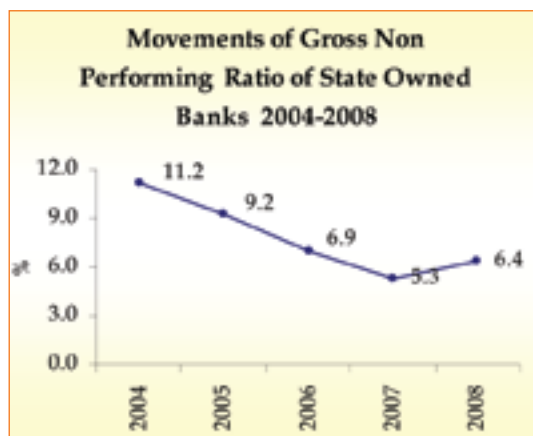
Finance Sector

Overview

The banking sector has made a significant contribution to the overall economic development of the country in 2008 providing banking services to a broader geographical clientele through a network of 1,325 main branches and a workforce of 21,777 employees. Total assets held with State Owned Banks amounted to Rs. 1,239 billion at the end of 2008 indicating an increase of 7.83 percent over the previous year. The assets base of state sector banks mainly consisted of loans and advances (49.4 percent) and investments (36.4 percent).

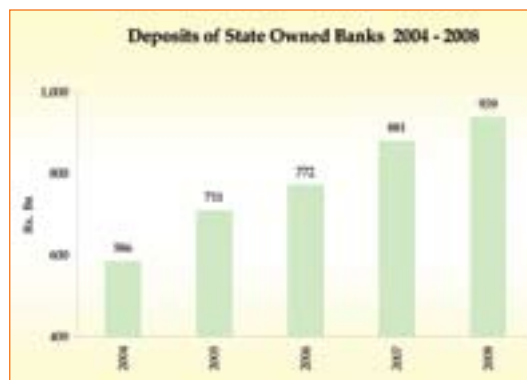
The loans and advances of State Owned Banks amounted to Rs. 616 billion by the end of 2008 indicating a slight decline by one per cent over the year 2007. Two Licensed Commercial Banks i.e Bank of Ceylon (BOC) and People's Bank (PB) contributed 82.5 percent of total loans and advances disbursed by state owned banks.

Chart 3.4



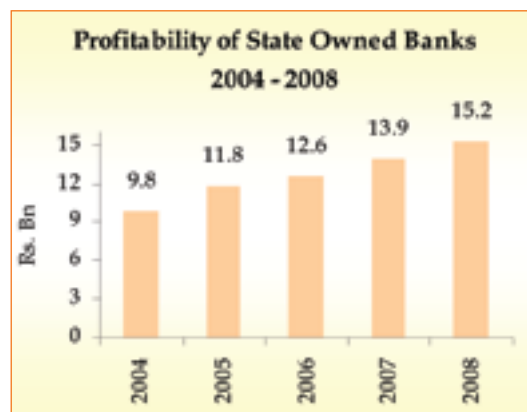
The total NPLs have recorded at Rs. 41.8 billion in 2008, which indicate a 23.5 percent increase over the previous year. The Gross Non Performing Advances (GNPA) Ratio has also increased from 5.3 percent in 2007 to 6.4 percent by the end of 2008. Total deposits mobilized by the sector amounted to Rs. 938.7 billion in 2008 registering a growth of 6.1 percent over the previous year.

Chart 3.5



Total capital funds deployed by the sector have amounted to Rs. 65.8 billion by the end of 2008. The profitability of the State Owned Banks continued to grow in 2008. The State Banks have made a profit before tax of Rs. 15.2 billion in 2008 registering a growth of 9.1 percent over 2007. Net Interest Income of the sector as a percentage of average assets accounted to 3.9 percent.

Chart 3.6



The Return on Assets (ROA) and Return on Equity (ROE) ratios of state banks reported as 1.3 per cent and 12.9 percent respectively in 2008

Chart 3.7



Chart 3.8



All state owned banks have been rated by Fitch Rating Sri Lanka as per Table 3.5.

Table 3.5
Ratings of State banks

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

Source: - Fitch Rating Sri Lanka

While competing in the market, State Owned Banks play a key role through their participation in implementation of the Government policies and decisions in respect of finance sector. Extending property and housing loans to public servants at concessionary rates, granting direct

loans to government and state owned enterprises, providing free banking services to the government and government departments, extending various development loans such as project loans, New Comprehensive Rural Credit Scheme, Krushi Novodaya Credit Scheme etc. are some major functions carried out by state owned banks in line with government policies. The banks bear an opportunity cost of resources employed to implement government policies. This opportunity cost should be reflected in bank's books in order to make informed policy decisions. In 2008, several important developments took place in the arena of state banking sector. Pradeshiya Sanvardhana Bank Act No. 41 of 2008 was passed by the Parliament in order to amalgamate six Regional Development Banks into one bank to form a strong regional development bank.

Box 3.1 Pradeshiya Sanvardhana Bank

Six Regional Development Bank viz Wayamba Development Bank, Kandurata Development Bank, Sabaragamuwa Development Bank, Uva Development Bank, Ruhuna Development Bank and Rajarata Development Bank have been established under Regional Development Bank Act No. 06 of 1997. With the intention of strengthening the existing Regional Development Bank network and establishment of one bank with a strong capital base, proposed Pradeshiya Sanvardhana Bank is to be established absorbing the assets, liabilities, contracts and employees etc. of existing Regional Development Banks established in terms of Regional Development Bank Act No. 06 of 1997. The proposed Pradeshiya Sanvardhana Bank will engage in all or any of the activities permitted to be carried out by a Licensed Specialized Bank.

The capital of the new bank shall be of such sums of money comprising contributions made by the government, the Bank of Ceylon, the People's Bank, the National Savings Bank to the existing Regional Development Banks. Only the shareholders referred above will contribute further capital of the bank.

The objects of the bank shall be to facilitate to the development in the fields of agriculture, industry, trade, commerce, livestock, fisheries and empowerment of woman through financial assistance to Micro Finance Enterprises. Further, the Minister may decide the percentage of lending required to be allocated to the priority sectors in line with government policies.

The management and the administration of the bank shall vest in a Board of Directors consisting with ex-officio directors and nominated directors who shall be appointed by the Hon. Minister of Finance & Planning with the consultation of the Secretary to the Treasury. A Deputy Secretary to the Treasury, a Deputy General Manager each from Bank of Ceylon, People's Bank and National Savings Bank will be ex-officio directors. The Hon, Minister may appoint a nominated director as the Chairman. General Manager will be the Chief Executive Officer of the Bank. The Regional General Managers will be responsible for the affairs of each region in the field of deposit mobilizing, lending and regionally focused development activities.

Under a single management and administration, the proposed Pradeshiya Sanvardhana Bank can be driven towards its objectives minimizing the cost.

Further, preliminary actions were taken to implement a Pension and Terminal Benefit Scheme for the employees of state owned banks with effect from 01.01.2009. In 2009, state sector banks have greater potential for the expansion of their lending activities and deposit mobilization. They have a vital role in development activities under the "Nagenahira Navodaya" and proposed "Uthuru Wasanthaya" for providing the financial assistance to the clientele hither to unbanked

or under banked in Northern. In order to ensure market dominance and stability, state sector banks should be keen on corporate governance practices and strict compliance with rules and regulations imposed by various regulatory authorities. Further, international best practices in various risk management should be adopted proactively.

With the global financial crisis and its impact on Sri Lanka banking sector, state banks have a greater responsibility in 2008 / 2009 than previous years. State banks had to intervene to safeguard the stability of entire banking sector through various mechanisms.

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Table 3.6
Contribution of State Owned Banks to the Government

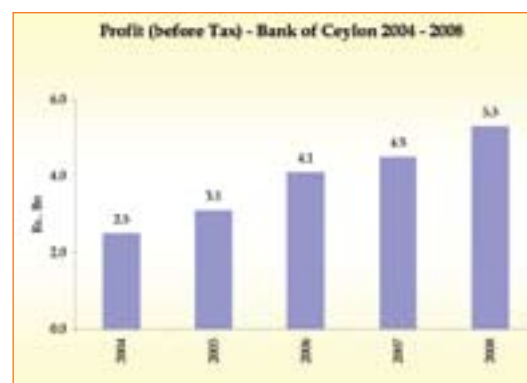
Institution	Tax	VAT on Financial Services	Dividends/ Contribution to Consolidated Fund	Rs. mn Total
Bank of Ceylon	1,670	2,073	1,046	4,789
People's Bank	2,959	2,639	816	6,414
National Savings Bank	2,041	1,246	1,060	4,347
SMIB	8	70		78
HDFC Bank	(2)	30		28
Lankaputhra Dev' Bank	162	63		225
Ruhuna Dev' Bank	105	85	15	205
Wayamba Dev' Bank	132	117	4	253
Sabaragamuwa Dev' Bank	103	101	12	216
Uva Dev' Bank	42	50	4	96
Rajarata Dev' Bank	50	38		88
Kandurata Dev' Bank	62	60		122
Total	7,332	6,572	2,957	16,861

Source: Banks' Annual Accounts

Chart 3.9

Performance of Bank of Ceylon (BOC)

The BOC consists of highest asset base (Rs. 484.9 billion or 18.8 percent in banking industry), customer base and leadership in offshore banking and largest corporate and retail lending portfolio (Rs 286 billion). The BOC provides its services with a network of 302 branches connected online and 399 ATMs. The BOC has 09 subsidiaries and 06 associates. In 2008, the bank's profits (before tax) has improved significantly to Rs 5.3 billion from Rs 4.5 billion in 2007.



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The BOC's assets grew by 11 percent in 2008 mainly due to growth of investments in securities. The loan portfolio indicated a decline of 5.1 percent in 2008 in comparison to the last year.

The bank's deposits increased only 2.07 percent in 2008 compared to the 17.5 per cent growth in 2007. The BOC accounts for around 18 per cent of the total deposits of banking industry. The non performing ratio has increased from 3.9 percent in 2007 to 4.9 percent in 2008.

Table 3.7
Key Performance Indicators of BOC

	2006	2007	2008
Number of Branches	305	307	309
Number of Employees	8,363	8,253	7,912
Assets (Rs. bn)	378.3	437.9	484.9
Deposits (Rs. bn)	262.6	308.6	316.1
Number of Deposits Accounts	6.2	7.0	7.5
Foreign Currency Deposits (Rs. bn)	90.3	106.3	96.7
Corporate & Retail Lending (Rs. bn)	223.2	282.4	271.1
Profit before Tax (Rs. mn)	4,137	4,518	5,231
Profit After Tax (Rs.mn)	2,627	2,843	3,561
Capital Adequacy Ratio (1)	11.9	12.1	11.3
Capital Adequacy Ratio (11)	12.3	13.2	15.9
Non Performing Loans (Rs.mn)	13,602	11,334	13,816
Non Performing Loan Ratio	5.8	3.9	4.9
Rating	AA	AA	AA

Source: Bank's Annual Accounts

Performance of Peoples Bank (PB)

People's Bank operates with the largest network of 642 banking outlet catering to the clientele in the entire country. The Bank holds 15.4 percent of total asset base of the banking industry. Maintaining the momentum of profitability

recorded by the bank in last few years, the bank increased its profits before tax to Rs.5.6 billion in 2008 from Rs 5 billion reported in 2007. Its total assets and total deposits recorded

growth of 4.5 percent and 7.8 per cent respectively during year 2008 (table 3.8).

The government infused Rs. 1.5 billion of fresh equity into the bank during 2008. This along with the retained profits of the bank helped the bank to improve its Tier II CAR from 6.9 percent as at end 2007 to 10.5 percent at end 2008. Accordingly, the bank maintained the Capital Adequacy Ratio (CAR) at the required minimum level of 10 percent which reported below the required minimum for past few years. The Bank won the people's award for the banking and financial brand for the year 2008.

Table 3.8
Key performance Indicators of People's Bank

	2006	2007	2008
Number of Branches	630	639	642
Number of Employees	9,516	8,416	8,587
Assets (Rs. bn)	338.5	380.6	397.5
Deposits (Rs. bn)	269.9	300.9	324.5
Number of Deposits Accounts	10.5	11.0	11.6
Corporate & Retail Lending (Rs. bn)	207.1	238.3	248.6
Profit before Tax (Rs. mn)	4,079	5,002	5,664
Profit After Tax (Rs,mn)	3,157	2,374	2,705
Capital Adequacy Ratio (1)	3.7	5.3	6.5
Capital Adequacy Ratio (11)	5.6	6.9	10.5
Non Performing Loans (Rs.mn)	15,951	14,865	17,857
Non Performing Loan Ratio	7.2	5.9	6.8
Rating	A-	AA	AA

Source: Bank's Annual Accounts

Performance of National Savings Bank (NSB)

The NSB by its statute is required to invest not less than 60 per cent of its deposits in government securities. As at 31.12.2008, 69.3 percent of bank's assets were in various investment securities while only 24 percent of total assets were in the form of advances. This has helped the bank to maintain a very low ratio of non-performing advances (1.7 per cent as at end 2008). The bank has successfully

ventured into housing finance and investing in corporate debt instruments.

Table 3.9
Key Performance Indicators of National Savings Bank

	2006	2007	2008
Number of Branches	114	117	123
Number of Employees	2,900	2,867	2,883
Assets (Rs. bn)	235.5	270.2	294.3
Deposits (Rs. bn)	212.2	235.3	259.6
Number of Deposits Accounts	15.1	15.4	15.6
Foreign Currency Deposits (Rs. Bn)	460.7	1,342.8	2,139.6
Corporate & Retail Lending (Rs. bn)	33.8	54.0	56.3
Profit before Tax (Rs. mn)	3,501	3,301	3,100
Profit After Tax (Rs,mn)	1,885	1,573	1,059
Capital Adequacy Ratio (1)	40.7	33.3	34.8
Capital Adequacy Ratio (11)	11.7	12.2	19.4
Non Performing Loans (Rs.mn)	521	740	1,080
Non Performing Loan Ratio	1.5	1.4	1.9
Rating	AAA	AAA	AAA

Source: Bank's Annual Accounts

However, declining profits and reducing market share of deposits have been key areas of concern for the bank. The bank's profit after tax has further declined to Rs. 1.1 billion at the end of 2008 which amounted to Rs. 1.5 billion in 2007. The thinning of margins due to escalation of market interest rates is the main reason for the low level of profits. The bank also ventured into mobilizing overseas remittances as a part of promotion of savings. Total foreign currency deposits amounted to Rs. 2,140 million at the end of 2008 indicating a commendable increase of 59.3 percent over previous year.

Performance of State Mortgage & Investment Bank (SMIB)

The SMIB predominantly concentrates on business of housing finance. Even though its statute permits provision of financial assistance for agriculture and other development activities, the bank has not paid much attention on lending to these operations so far.

The bank's after tax profits further reduced drastically to

Rs. 32 million in 2008 compared to Rs. 83 million earned in 2007. This decline is mainly due to increase in cost of funds, which is similar to market interest rate increase.

Despite decreased level of profits, the bank in 2008 recorded a considerable improvement in advances and deposits growth, which had been retarded in last few years. Accordingly, the advances growth, which stood at 11 percent and 15 per cent in 2006 and 2007 respectively, rose to 20.1 percent in 2008. Further, the bank owing to its increased efforts taken to mobilize deposits has recorded 35.2 percent deposit growth in 2008 compared to 36.3 per cent recorded in 2007. However, continuation of non-performing advances at a higher level as indicated by 35 per cent non-performing ratio is a reason for concern.

Table 3.10
Performance of SMIB

	2006	2007	2008
Number of Branches	7	12	12
Number of Employees	349	339	328
Assets (Rs. bn)	10.2	12.1	14.5
Deposits (Rs. bn)	5.7	7.5	10.1
Corporate & Retail Lending (Rs. bn)	9.5	11.0	13.3
Profit before Tax (Rs. mn)	318	124	41
Profit After Tax (Rs,mn)	213	83	32
Capital Adequacy Ratio (1)	81.2	56.9	29.1
Capital Adequacy Ratio (11)	82.5	57.9	29.6
Non Performing Loans (Rs.mn)	3,431	4,203	4,706
Non Performing Loan Ratio	35.8	37.7	35.2
Rating	A	A	A-

Source: Bank's Annual Accounts

HDFC Bank (HDFCB)

The HDFC Bank, which operates predominantly as a housing finance bank, accounts for only 0.5 percent of the total assets of the banking industry.

The bank's assets grew by 5.2 percent in 2008 mainly due to the increase of investments by 40.9 per cent. The 90 percent of loans have been given to small and medium housing

units. During the year 2008, the bank has extended housing loans to public servants amounting to Rs. 1,075 million. The deposit base increased marginally by 17 million in 2008 and reported at 4,976 million. The bank incurred a loss of Rs. 79 million before the provision for taxation in 2008 due to reduction in net interest income and high level of non-performing advances. The bank's non-performing loans ratio as at end 2008 stood at 20.7 per cent, which is much higher than the industry average.

Table 3.11
Performance of HDFC Bank

	2006	2007	2008
Number of Branches	20	21	21
Number of Employees	285	286	289
Assets (Rs. bn)	10.7	13.4	14.1
Deposits (Rs. bn)	2.5	4.9	4.9
Corporate & Retail Lending (Rs. bn)	10.1	11.9	11.9
Profit before Tax (Rs. mn)	239	47	(79)
Profit After Tax (Rs. mn)	172	21	(77)
Capital Adequacy Ratio (1)	37.6	31.0	25.4
Capital Adequacy Ratio (11)	37.8	31.8	26.5
Non Performing Loans (Rs. mn)	1,892	2,099	2,500
Non Performing Loan Ratio (Rs. mn)	18.6	17.6	20.7
Rating	A	A	BBB+

Source: Bank's Annual Accounts

Lankaputhra Development Bank (LDB)

The LDB, which started its operations in February 2006, indicated a growth in its operations during the short time span that passed. While focusing on development oriented lending, the bank has adopted a selective approach in expanding its loan portfolio. The bank recorded a significant profit of Rs. 97 million in 2008 in comparison to the profit of Rs. 23 million in 2007.

Being a start up bank the LDB's presence is still limited to a few districts. While having its head office in Colombo, the bank has one branch in each district at Hambantota and Polonnaruwa and Kandy and extension offices in Kegalle and Wennappuwa.

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

The bank's asset base amounted to Rs. 6.9 billion in 2008. Total advances portfolio amounted to Rs. 2.4 billion while mobilizing a deposits amounting to Rs.133 million in 2008. Converting the deposits held with SME Bank and PSIDC as assets of LDB is the main reason for the decline in the deposit base of the bank. Amidst this impressive growth figures, bank's non-performing loans ratio has increased from 5.3 in 2007 to 23.7 in 2008 due to the amalgamation of non-performing loans of SME bank.

Regional Development Banks (RDBs)

Six Regional Development Banks (RDBs) viz. Wayamba (WDB), Ruhuna (RuDB), Kanduarata (KDB), Uva (UDB), Sabaragamuwa (SDB) and Rajarata (RaDB), which were established with a view to develop the rural economy are operating with a network of 215 branches in provinces.

Total assets of all RDBs amounted to Rs. 34,425 million at the end of the year 2008, indicating an increase of 12.25 percent over the previous year. The majority of RDB's assets constitutes with loans and advances (76.4 percent) and investments in government securities (15.7 percent). The RDB recorded the highest growth of assets by 29.06 percent in 2008 due to the increase in loans and advances (30.27 percent) while UDB recorded the lowest in asset growth 9% in 2008.

Chart 3.10



Loans and Advances Portfolio of RDBs

The net loans and advances of RDBs amounting to Rs. 26,315 million by the end of 2008 indicating an increase of 10.7 percent over last year. Although net loans and advances of RDBs have increased over last few years, the growth momentum has been gradually moderated.

Pawning advances to total loan portfolio of RDBs has increased from 29.6 per cent in 2007 to 33.3 percent in 2008. However, this ratio exceeded 50 per cent in SDB and 40 per cent in RaDB in 2008.

A significant portion of RDB's loans has been channeled to housing loans (27 percent) while a 20.5 per cent has been granted for agriculture related activities. RDBs' exposure to agriculture sector has increased in 2008 in comparison to 2007. Small industries sector has received only 12.% in 2008.

Non Performing Loans and Advances of RDBs

The improvement in assets quality of RDBs has contributed towards the reduction of non-performing ratio in many RDBs. The non-performing advances declined from Rs. 1,252 million in 2007 to Rs. 1214 million in 2008 indicating a 3.0 percent decline. However, gross loans and advances have

Table 3.12
Performance of RDBs

	2006	2007	2008
Number of Branches	209	211	215
Number of Employees	1,908	1,986	1,934
Assets (Rs. bn)	26.1	31.0	34.4
Deposits (Rs. bn)	18.7	21.9	25.9
Corporate & Retail Lending (Rs. bn)	19.3	23.0	26.3
Profit before Tax (Rs. mn)	633	814	1,037
Profit After Tax (Rs.mn)	299	416	424
Capital Adequacy Ratio (1)	9.0-14.4	8.2-15.1	8.4 - 15.0
Capital Adequacy Ratio (11)	11.4 - 18.1	9.8 - 15.7	8.9 - 15.8
Non Performing Loans (Rs.mn)	1,161	1,252	1214
Non Performing Loan Ratio	5.6	5.3	4.5

Source: Bank's Annual Accounts

increased from Rs. 23,767 million in 2007 to Rs. 27,156 million in 2008 recording an increase of 14.2 percent. Accordingly, Gross Non-performing Loan Ratio (NPL) has declined from 5.3 percent in 2007 to 4.5 percent in 2008 due to the increase in total advances over the period.

Table 3.13
Purpose- wise Distribution of Loans and Advances by RDBs in 2008

	RaDB		RuDB		WDB		KDB		UDB		SDB		Total	
	Rs. mn	(%)	Rs. mn	(%)	Rs. mn	(%)	Rs. mn	(%)	Rs. mn	(%)	Rs. mn	(%)	Rs. mn	(%)
Agriculture	1,326	50	1,292	23	1,293	18	218	6	718	29	626	11	5,473	21
Manufacture	130	5	618	12	1,374	20	84	3	367	15	626	11	3,199	12
Housing	418	16	1,336	24	2,851	40	184	5	736	30	1,528	29	7,053	26
Consumption	263	10	847	15	479	6	1,331	38	468	19	381	7	3,769	14
Services*	119	4	861	15	534	8	294	8	1	0	1,186	22	2,995,	11
Others	408	15	620	11	524	8	1,422	40	168	7	1,114	20	4,256	16
Total	2,664	100	5,574	100	7,055	100	3,533	100	2,458	100	5,461	100	26,745	100

Source:- Annual Accounts 2008

*including loans classified as Trade and Commerce SDB

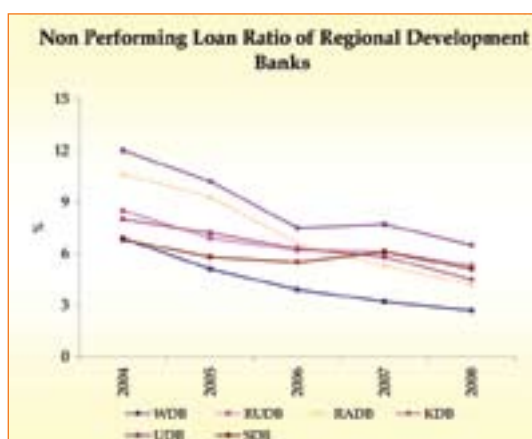
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The highest NPL Ratio reported at UDB amounting to 6.5 per cent. Only WDB (3.7 percent and RaDB (4.2per cent) maintained a NPL below the average of 4.5 percent.

All RDBs except RaDB reported a declining trend in NPL Ratio through out the entire period. However, RaDB reported a marginal increase in NPL in 2008.

Chart 3.11



Age analysis of RDB's non-performing advances reveals that more than 56.6 per cent non-performing advances are over 18 months. This is mainly due to difficulties in realizing the securities. However, adequate provisions have been made in 2008 covering 67.6 percent NPLs. Accordingly, net exposure of bank (net non performing advances) has declined to Rs. 393 million in 2008 from Rs. 394 million in 2007.

Chart 3.12

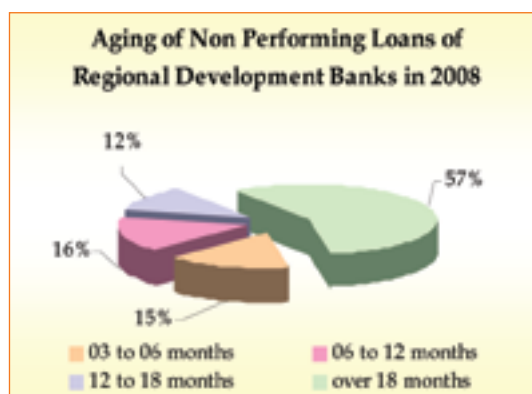


Table 3.14
Capital funds of RDBs

	2007 (Rs. mn)	2008 (Rs. mn)	Change (%)
RuDB	717	806	12.4
WDB	709	1,019	43.7
SDB	368	447	21.5
UDB	228	250	9.6
RaDB	271	314	15.9
KDB	280	303	8.2
Total	2,606	3,139	20.5

Source: Bank's Annual Accounts

Total capital funds employed in RDB amounted to Rs. 3,139 million by the end of 2008 indicating an increase of 20.5 per cent over 2007. The highest capital growth reported in WDB. The Capital Adequacy Ratio (CAR) of RaDB was below the minimum requirement of CBSL and reported at 8.94 per cent. Other RDBs maintained CAR through low risk weighted assets.

Liquidity Position of RDBs

By the end of December 2008, all RDBs except RaDB maintained the required Statutory Liquid Assets Ratio (SLAR) of the Central Bank of Sri Lanka. The consolidated Credit Deposit Ratio of RDBs amounting 104.7 per cent, reveals that banks have granted loans more than the deposits they have mobilized. The RDBs are meeting higher demand for credit by borrowing from outside. The sector has borrowed Rs. 3,109 million by end of 2008 indicating a slight reduction of 5.0 per cent over previous year. RDBs face the liquidity problem due to the funding loans with long-gestation such as housing loans using short-term borrowings.

Total deposits mobilized by RDBs registered a growth of 17.9 per cent over the previous year, amidst the competition of other banks. WDB mobilized the highest deposits amounting to Rs 7,218 million or 27.8 percent of total deposits of the sector. The entirety of RDB's income constituted with the interest income from its loan portfolio and interest

on investment of Treasury Bills. The net interest income of consolidated RDBs as a percentage of average assets (Interest Margin) amounted to 9.5 per cent in 2008.

The staff cost of the sector as a percentage of total operating expenses amounted to 69.9 per cent in 2008. RuDB maintained the lowest staff cost/ total operating expenses ratio of 67.9 per cent.

Chart 3.13



The profitability of consolidated RDBs grew by 27.36 in 2008 due to the increase in interest income from loans and advances followed by the growth of loan demand. The profit before tax amounted to Rs. 1037 million in 2008. Out of this, 33.3 per cent was contributed by WDB.

The Return on Average Assets Ratio of the sector remained at 3.2 percent in 2008 as in 2007. Only UDB and KDB reported a lower ROA than the average. Return on Equity Ratio has declined from 17.2 percent in 2007 to 14.8 percent in 2008. The ROE of UDB, KDB and RaDB have indicated an increase in 2008.

The operational cost of RDBs has increased by 25.89 percent in 2008 than the year 2007. The majority of operational cost constitutes with staff cost as most of RDBs have not automated their functions. As a result the Cost Income Ratio of RDBs remained at 75.9 per cent in 2008. The highest Cost Income Ratio of 81.7 per cent was reported at UDB while SDB maintained the lowest Cost Income Ratio of 74.2 percent in 2008.

Chart 3.15

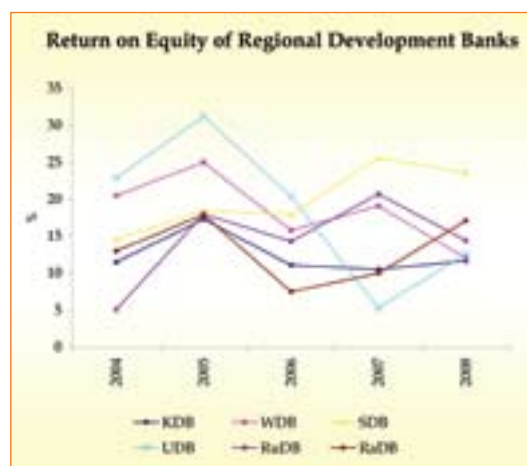
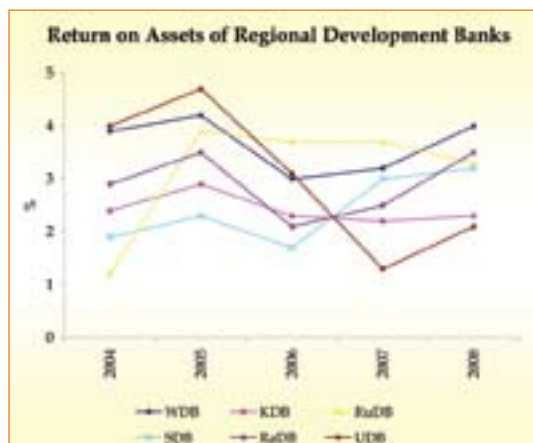


Chart 3.14



Sri Lanka Savings Bank Ltd (SLSBL)

Sri Lanka Savings Bank Ltd was established under the Companies Act to operate as a licensed specialized bank while providing a relief to the depositors of failed Pramuka Savings and Development Bank (PSDB). Accordingly, assets and deposit liabilities of PSDB were vested with SLSBL. Assets base of SLSBL amounted to Rs. 1.29 billion of which Rs. 700.5 million was constituted with investment in government securities by the end of 2008. The bank has earned a operating profit of Rs. 155 million for the year 2008. Accordingly, retained loss of Rs. 2.17 billion has declined up to Rs. 1.98 billion by the end of the year. The SLSBL has recovered Rs. 207.65 million from the capital outstanding of PSDB loans while recovering Rs. 25.45 million of interest receivable. In terms of the settlement scheme formulated by the Central Bank of Sri Lanka, total settlement made by the end of 2008 amounted to Rs. 185.63 million. The bank presently has introduced various savings products such as normal savings, fixed deposits and saving certificates.

Infrastructure Development Sector

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

The government has mobilized foreign finance on lend to PEs to undertake earmarked investment activities coming under their purview. Outstanding on-lending to public enterprises by the government amounted to Rs. 231 billion by the end of 2008, which is an increase of 8 percent. During the year 2008 the total amount on-lent to PEs was around Rs.26,390 million mainly to implement infrastructure projects of Ceylon Electricity Board and Sri Lanka Ports Authority.

Table 3. 15
On Lending to Public Enterprises by the Government

Name of the institution	Rs.mn		
	Outstanding at the end 2007	On-Lending during 2008	Outstanding at the end 2008
National water supply and drainage Board	16,546	2,693	18,888
Ceylon Electricity Board	51,086	11,743	62,829
Ceylon Petroleum Corporation	5,882	-	5,235
Sri Lanka Ports Authority	42,495	141	51,044
Airport & Aviation Services Ltd	16,546	-	14,308
Others	81,118	11,813	79,413
Total	213,673	26,390	231,717

Source: Department of Treasury Operations

Ceylon Electricity Board (CEB)

The CEB is a public utility that implements the government's policy in the sphere of provision of electricity or energy. The CEB covered its domestic connections to 80 percent of total households in the country. The demand for electricity which is expected to be stimulated with the accelerated development projects undertaken in the North & East of Sri Lanka requires

additions of about 100MW each year. The government has compensated to the CEB through investment or operational support to continue the government policy on electrification level to 95% in the year 2015 and to meet the increasing demand.

The CEB is in the process of implementing several power

projects. The Government grants for these projects for the year 2008 are Upper Kotmale Hydropower project (JBIC) 4,000 million, Norochcholai Coal power plant Rs.8,500 million, Morogolla Hydro power plant Rs.40 million, Rehabilitation of old Lakshapana and Wimalasurendra Hydro power plant Rs.40 million, Kerawalapitiya Power Plant Rs.3,000 million, Construction LNG related Facilities Rs.600 million, Rehabilitation of Ukuwela Power Plant Rs.100 million, Coal Power plant Rs.5 million, Ginganga Hydro Power Project Rs.5 million, Athuruwela Coal Fired Thermal Power plant Rs.5 million.

The installed capacity of power generation of the CEB registered a marginal increase in 2008. The gross electricity generation grew at a relatively higher rate of 8.2 percent during 2008, compared to the growth of 4.5 percent in 2007. The increase in electricity sales (Gross Units) moderated by 1.7 percent in 2008, as the average price per unit increased by 25 percent. Revenue of the CEB has improved by 27 percent in 2008 consequent to an increase in the unit price as well as the increased sales.

A comprehensive tariff revision was undertaken in 2008 which resulted in the average tariff being increased by 23% to Rs.13.1/unit in 2008 from Rs.10.6/unit in 2007. However the CEB incurred on average cost of Rs.17.80 in generating one unit of electricity in 2008. The difference between the unit cost & the tariff despite a tariff revision is mainly due to the government's policy of subsidizing electricity consumed by both the low income group of consumers and the religious institutions in the country.

Since more than 50% of the total electricity generation is through thermal power the steep increases in the crude oil prices directly affected the financial performance of the CEB. As such in 2008, CEB incurred a huge loss of Rs.34 billion in 2008 in compared with the loss of Rs.14 billion incurred in 2007. This loss would have exacerbated if the government had not decreased the price of heavy fuel to a fixed price of Rs.45/l in the last quarter of 2008. The CEB was also required to adjust its Fuel Adjustment Charge whereby the industrial sector in the country will be privy to the benefits that the CEB will be accrued on the heavy fuel cost being cheaper. The government subsequently as a budget proposal decided to supply heavy fuel to CEB at Rs.25/l from January 2009. The CEB ended the year 2008 owing the CPC Rs.45 billion on the purchases of heavy fuel.

Outstanding loans to banks from the CEB has decreased to Rs.6517 million in 2008 from Rs.7075 million in 2007. At the same time the government has given a debit moratorium at a cost of Rs. 7- 10 billion per annum to the CEB until the commissioning of the Norochcholoi coal power plant which is expected to replace high cost thermal power generation. During 2008, Rs.14 billion was released to CEB through budgetary allocations to meet investment expenditure. As at the end of 2008 the total accumulated debt of CEB stood at Rs.64 billion exclusively due to the government on account of past borrowings, largely consequent to capital expenditure project undertaken.

chart 3.16



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Table 3.16
Ceylon Electricity Board

Category	Unit	2006	2007	2008 2009 (Budgeted)	
Available Capacity	MW	2,434	2,443	2,644	2,690
Installed Capacity	MW	2,434	2,443	2,644	2,690
CEB Hydro	MW	1,207	1,207	1,207	1207
Thermal	MW	548	548	548	548
Wind	MW	3	3	3	3
Private Hydro	MW	107	116	149	175
Thermal	MW	567	567	737	757
Electricity Generation	GWh	9,389	9,814	9,901	10,277
CEB Hydro	GWh	4,290	3,603	3,700	3,288
Thermal	GWh	1,669	2,336	2,083	1,878
Wind	GWh	2	2	3	2
Private Hydro	GWh	345	345	435	424
Thermal	GWh	3,082	3,528	3,680	4,685
Total Sales by CEB	GWh	7,832	8,276	8,417	8,865
Domestic and Religious	GWh	2,622	2,771	2,799	2,948
Industrial	GWh	2,605	2,627	2,678	2,820
General Purposes	GWh	1,395	1,626	1,570	1,653
Local Authorities/LECO	GWh	1,111	1,114	1,130	1,190
Street Lighting	GWh	98	108	108	114
Hotel	GWh	0	122	133	140
Total Revenue	Rs.Mn	69,941	87,575	111,287	115,245
Consumers	No .Mn	3,637	3,867	4,089	4,339
Average unit Cost	Rs	10.88	13.48	17.76	14.29
Average unit Selling price	Rs	8.99	10.58	13.22	13.00
Operational Losses	Rs. Mn	14,176	22,314	34,640	7,204
Investments	Rs. Mn	3,152	3,882	-	-
Bank Borrowings	Rs. Mn	7,669	7,075	6,517	7626

Source: Ceylon Electricity Board

Table 3.17
Fund Releases to the CEB through Budgetary Allocations

Project Name	Rs.mn					
	2006 Budget	2007 Actual	2008 Budget	Actual	Budget	Actual
Generation	589	1,506	29,060	20,920	13,763	8,529
Transmission	1,968	928	4,636	289	7,690	1,701
Distribution	6,582	2,051	6,992	2,737	4,953	3,905
Total	9,139	4,485	40,688	23,945	26,407	14,136

Source: Annual Estimates/ Treasury Operation Department

Table 3.18
Number of Power Stations by Ownership

	2006		2007	
	CEB	PPP	CEB	PPP
Hydro	16	60	16	64
Thermal	6	10	6	10
Wind	1	0	1	0
Total	23	70	23	74

Source : Ceylon Electricity Board Statistical Digest 2007

PPP : Private Power Purchase

Ceylon Petroleum Corporation (CPC)

The CPC faced severe challenges in 2008, primarily due to the unprecedented increase in world oil prices. The purchase price of crude oil increased up to US\$ 113.99/bbl by the month of August 2008 while the average crude oil price in 2007 was US\$ 71.96/bbl. Thus the value of total imports of both crude & refined products has increased to Rs.303,395 million in 2008 which is an increase of about 25 % from Rs.225,046 million incurred in 2007. The CPC raised prices of petroleum products in an endeavor to cope with the rising oil prices.

The government in 2007 successfully negotiated with the government of Iran a credit facility to supply oil on interest free basis for a period of 4 months with a provision to extend this facility for further 8 months on an interest payment basis. The CPC benefited significantly from these arrangements in 2008.

The CPC's performance in 2008 witnessed a significant decline, incurring a loss of Rs.14,320 million against a profit of Rs.2,862 million in 2007.

The government in the latter part of the 2008 decided to supply heavy fuel at Rs.45/l since it is used in the generation of electricity. In 2009 as per a budgetary proposal the CPC will provide heavy fuel at Rs.25/l to both the CEB & the independent power suppliers for the generation of electricity. It is expected that this proposal will not affect the CPC adversely as the price of crude oil has been tumbling at record rates during the latter part of 2008 and the early 2009. The Power sector accounts for almost 1/3rd of the total of the CPC sales.

Taking in to account the fluctuation of oil prices and the limited refinery capacity, government initiated action to revamp the refinery and storage capacity of the CPC. In this context the government was successful in securing funding of US\$1500 million for the Sapugaskanda oil refinery expansion and modernization (SOREM) project from the government of Iran. This project is expected to expand the current processing capacity of 50,000 barrels per steam day (bbsd) to 100,000 bpsd with bottom upgrading to maximize diesel production and other products.

This expansion and modernization project is expected to improve the commercial viability of the CPC as well as the energy security of the country. The project is due to be completed by 2011. The CPC has been engaging in marketing of agrichemicals and has planned to establish CPC owned outlets in agricultural areas. The CPC decided to enter into LPG retail market, from their LPG production. Therefore customers can buy LPG at lower cost. The CPC restructured its filling stations to attract customers in year 2008.

Chart 3.17



3. Performance of Public Enterprises

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Table 3.19
Performance of Ceylon Petroleum Corporation

Category	Unit	2006	2007	2008	2009 (Budgeted)
Quantity Imported					
Crude Oil	MT'000	2,146	1,931	1,846	2,170
Refined Products(b)	MT'000	1,926	1,603	1,629	1,383
Value of Imports (C&F)					
Crude Oil	Rs. Mn	107,160	114,218	144,670	96,479
	US\$ Mn	1,028	1,023	1,264	854
Refined Products(b)	Rs. Mn	114,822	110,828	158,725	79,442
	US\$ Mn	1,078	996	1,462	703
Average Price of crude Oil (C&F)	Rs/Barrel	6,748	7,991	10,589	6,008
	Us\$/Barrel	65.11	71.96		
Quantity of Exports©	MT'000	162	102	123	-
Value of Export	US\$ Mn	85	110	123	-
Total Revenue		208,583	253,345	358,002	260,711
Domestic Sales	Rs. Mn	199,869	245,080	345,096	260,711
Exports	Rs. Mn	8,714	8,265	12,906	
Direct Production Cost	Rs. Mn	187,231	221,723	341,497	222,397
Overheads	Rs. Mn	10,360	14,445	15,401	17,038
Operational Profit /(Loss)	Rs. Mn	466	16,641	73	7,543
Local Sales		3,553	3,802		
Petrol (90 Octane)	MT'000	454	361	363	370
Petrol (95 Octane)	MT'000	24	21	20	30
Auto Diesel	MT'000	1,633	1,450	1,371	1,343
Super Diesel	MT'000	9	5	7	7
Kerosene	MT'000	206	168	151	150
Furnace oil	MT'000	912	986	954	945
Aviation Fuel	MT'000	255	199	190	310
Naphtha	MT'000	60	97	142	186
L.P Gas	MT'000	17	16.52	15	18
Local Price (End Period)					
Petrol (90 Octane)	Rs/Litre	92 – 95.00	117	120	109
Petrol (95 Octane)	Rs/Litre	95	120	133	134
Auto Diesel	Rs/Litre	60	75	70	75
Super Diesel	Rs/Litre	65.30	80.30	85	85
Kerosene	Rs/Litre	48	68.65	52	62
Furnace oil	Rs/Litre	41- 46.30	51.70	31.7	38
Refinery Capacity	MT'000	2,300	1,899	1,870	2,170
Storage Capacity	MT'000	439	465	465	465
Refinery Output	MT'000	2,048	1,800	1,774	2,064
Value of Production	Rs. Mn	110,639	111,807	159,545	107,592

Source: Ceylon Petroleum Corporation

National Water Supply and Drainage Board (NWS& DB)

The National Water Supply and Drainage Board operates 309 water supply schemes that reach to 32 percent of the total population. During 2008, total water connections have increased to 1,186,931 from 1,081,392 in 2007.

The unit cost of water has increased to Rs.35.37 per unit in 2008 from Rs.31.32 per unit in 2007. The Board recovers only Rs.22.82 per unit of water. The number of employees per 1000 connection has decreased to 7.59 in 2008 from 8.4 in 2007.

Chart 3. 18



Table 3.20
National Water Supply and Drainage Board

	Unit	2006	2007	2008
Operating Assets	Rs. Mn.	89,863	100,697	115,177
Long Term Investments	Rs. Mn.	129	115	91
Current Assets	Millions	13,620	13,094	15,236
Current Liabilities	Millions	2,136	2,852	5,310
Working Capital	Millions	11,484	10,242	9926
Non – Current Liabilities	Millions	17,301	18,257	20,281
Turnover	Millions	6,944	7,611	8,134
Direct Operating Expenses	Millions	4,081	4,903	6,089
Gross Profit / (Loss)	Millions	1,789	1,579	654
Non – Operating Income	Millions	114	203	60
Administration Overheads	Millions	1,349	1,762	1,890
Depreciation	Millions	1,100	1,381	1,398
Other Operating Expenses	Millions	160	140	422
Finance Cost	Millions	512	852	1,193
Tsunami Losses	Millions	8	-	-
Profit / (Loss) Before Taxation	Millions	(151)	(1,224)	(2,797)
Taxation	Millions	64	55	67
Net (Loss) for the year	Millions	(215)	(1,279)	(2,863)
Water Connections	Nos	989,395	1,081,392	1,186,931
Cost Per Unit Sold	Rs.	27.30	31.32	35.37
Water Production	Mn. Cbm	398	424	440
Water Connections per Employee	Nos	120	123	132
Water Supply Schemes (Revenue Units)	Nos	295	308	309
Revenue per Employee (month)	Rs.	59,251	61,606	62,396
Cost of Employment (month)	Rs.	29,497	35,479	36,602
Energy Cost	Rs. Mn.	1,361	1,588	2,105
Total Employees -	Nos	8,255	8,768	9,006
Managerial		549	766	856
Other		7,706	8,002	8,150

Source: National Water Supply and Drainage Board.

3. Performance of Public Enterprises

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The total assets of the NWS&DB has increased to Rs.115 billion in 2008 from Rs.101 billion in 2007.

The NWS&DB utilized 87 percent of its total donor funds received to the water supply & sanitation section projects in 2008. The NWS&DB should focus more on the timely completion of the development projects. It is noted that the Board needs to prioritize utilizations of capital funds effectively. Issues of free water supplied to tenement gardens needs to be looked at as it has a substantial impact on the total operational costs of the NWS&DB.

Airport and Aviation Services (Sri Lanka) Limited (AASL)

The AASL continued to be a profit earning entity in 2008, generating an operating profit of Rs. 1,787 million. The non-aeronautical sector generates more revenue than the aeronautical sector. The AASL incurred no financial cost in 2008 as against Rs.70,840 incurred in 2007. Property, Plant & Equipment of AASL has been valued at Rs. 396 million as at end 2008 which is a significant increase.

Chart 3. 19



Table 3.21
Financial Highlights of AASL

	Rs. mn			
	2005	2006	2007	2008
Total Revenue	2619	4454	5340	5831
Total Expenditure	(1,950)	(2,334)	(2,870)	(4,043)
Staff cost	(1325)	(1576)	(1984)	(2918)
Other cost	(625)	(758)	(886)	(1125)
Operating profit before Tax	669	2120	2469	1787
Profit/(loss) after Tax	423	1373	1508	1152
Total Assets	2608	4758	6414	7934
Total Non Current Assets	128	477	576	999
property, Plant & Equipment	128	109	160	396
Differed Income Tax Assets		368	416	603
Total Current Assets	2480	4276	5837	6935
Short term Investments	1563	2764	4069	4583
Cash & Bank Balances	121	530	548	416
Other Receivables	796	988	1220	1936
Total Shareholders Equity	1098	2772	4190	5342
Earnings per Share	2115	6865	7542	5703
Return on Net Assets (%)	39	50	39	22
Net Profit Ratio (%)	26	48	46	31

Source: Airport & Aviation Services (SL) Ltd

Sri Lanka Ports Authority (SLPA)

The SLPA has been facing severe financial challenges during the year 2008 most of which are beyond their control. Changes which were taken place in the shipping industry and the global financial crisis are some of these key issues. As a result total revenue of the SLPA records a marginal decrease by 2.87% in 2008 when compared with 2007. Further the operating profit has also reordered a decrease by 15.38% in 2008 over the period from 2007. The SLPA made a significant loss of Rs.10, 035 million in 2008 mainly due to exchange variations on the Japanese yen Loan. It has also incurred an operational loss due to the reduction of productivity per tonnage.

3. Performance of Public Enterprises

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Although the SLPA has incurred considerable losses in 2008 and 2007 its liquidity position recorded a surplus. The total foreign loans outstanding in 2008 are Rs.55, 387 million. The Treasury has arranged a loan facility of Rs.11,583.2 million to the SLPA for the development of Colombo South Break Water Project, the Hambantota, Port Development Project, Galle Port Expansion Project and Olivil Port Development Project and Gall Face Green Project.

No contribution has been made to the government in the form of special levy or dividend due to the decline in its profitability. The cost of wages & salaries and overtime has decreased by 4.4 percent in 2008. Further, the overall cost of operation and administration expenses also has decreased to Rs.6,289 million in 2008 from Rs. 6,849 million in 2007.

Table 3.22
Financial highlights of Sri Lanka Ports Authority

	Unit	2006	2007	2008
Vessels Arrived	Nos	5,117	5,366	5,430
Colombo	"	4,623	4,760	4,771
Galle		267	304	333
Trincomalee		267	302	326
Total cargo handled		30,817,953	31,826,571	33,545,687
Revenue	Rs. Mn.	23,004	25,913	25,143
Colombo		22,318	25,296	24,561
Galle		465	361	268
Tincomalee		221	256	314
Total expenditure	Rs.Mn.	18,216	23,562	23,398
Colombo		17,196	22,265	22,159
Galle		515	636	647
Tincomalee		506	661	592
Employment	Nos.	13,691	13,667	13,658
Colombo		12,383	12,470	12,495
Galle		689	577	613
Tincomalee		619	620	550
Revenue per Employee	Rs. Mn.	1.7	1.9	1.8
Cost per Employees	Rs. Mn	1.3	1.7	1.7
Total cost of employment per Tone	Rs./Ton	8,936	14,013	13,388
Net profit per Tone	Rs./Ton	155	74	52
Foreign loan	Rs. Mn	38,521	39,334	51,188
Interest on foreign loan	Rs. Mn.	1,115	1,147	1,211
Foreign Exchange gain/loss	"	(1,168)	(3,944)	(11,790)

Source: Department of Public Enterprises / Sri Lanka Ports Authority

3. Performance of Public Enterprises

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Sri Lanka Transport Board (SLTB)

The number of buses operated by the SLTB has increased to 4246 in 2008 from 4074 in 2007. The operated passenger Kilometers per day has also increased from 851,119 in 2007 to 857,033 in 2008. However, the annual revenue was inadequate to meet operational expenditure of SLTB in year 2008 since the cost of employment has increased. The failure to implement the proposed Voluntary Retirement

Scheme (VRS) has caused an increase in the total cost of employment. The financial woes would have also been attributed to the facts that the SLTB has not been allowed to increase bus fare to meet the cost. Therefore, the Treasury increased its allocations to the SLTB for the year 2008. It is expected that in 2009 the SLTB should be able to bring to the breakeven with the low fuel prices provided that the proposed VRS scheme is implemented.

Table 3.23
Overall Performance of SLTB

	Unit	2006	2007	2008
No of Operated Buses	No	3,776	4,074	4,246
Operated Passenger	Km/Day	713,753	851,119	857,033
Revenue per Km	Rs/Km	46.56	50.60	50.65
Total Revenue	Rs.Mn	12,665	15,440	18,083
Waybill	"	7,917	10,695	12,973
Season Tickets	"	199	359	293
Special hires	"	150	233	326
Advertising	"	6	3	235
School Season tickets	"	227	473	
Uneconomic Route subsidy	"	197	281	358
Other Income	"	422	345	1,078
Salary Subsidy	"	3,547	3,051	2,820
Total Expenditure	Rs.Mn	13,653	15,807	19,351
Fuel cost	"	4,696	6,228	8,505
Cost of tyres & Tubes	"	1,576	1,886	1,126
Government Contribution	Rs.Mn			
Recurrent	"	4,976	3,654	5,638
Capital	"	3,984	2,612	1,884
Net Loss	"	(984)	(366)	(1,268)
Total number of employees	No.	38,952	37,149	36,043
Total Cost of employees	Rs.Mn	4,745	4,781	6,933
Revenue per employee	Rs '000	325,144	415,624	501,706

Source: Sri Lanka Transport Board.

3. Performance of Public Enterprises

Industrial sector

The industrial sector Public Enterprises in Sri Lanka play a vital role in the economy. There are 12 PEs that carry out industrial functions having a net worth Rs.4,642 million in 2008. Eight industrial PEs were profitable while 4 PEs

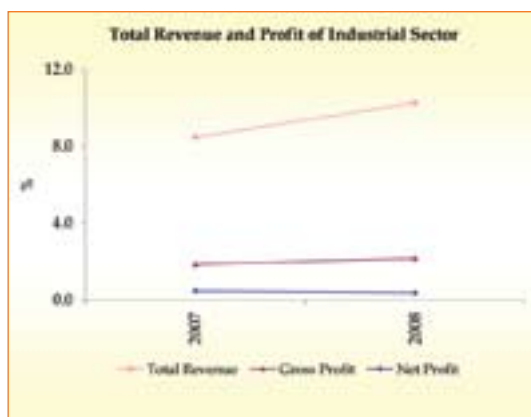
continued to incur losses in 2008. Lanka Mineral Sands, Lanka Phosphate, Paranthan Chemicals & Manthai Salt contributed Rs.43.6 million as Dividends to the Treasury in 2008.

Table 3.24
Financial Highlights of Industrial Enterprises

Institute	Total Revenue		Gross Profit		Net Profit	
	2008	2007	2008	2007	2008	2007
Central Engineering Consultancy Bureau	4,267	3,474	1,212	872	199	5
State Engineering Corporation of Sri Lanka	2,652	2,247	240	243	60	128
State Development & Construction Corporation	1,671	831	236	161	62	64
Ceylon Ceramic Corporation	259	265	(5)	10	(43)	(20)
Sri Lanka Cement Corporation	170	41	2	(3)	8	0
Paranthan Chemicals Co. Ltd	205	162	82	54	41	21
Lanka Mineral Sands Ltd	805	1,087	374	427	233	333
Lanka Phosphate Ltd *	283	222	102	102	16	11
Manthai Salt Ltd *	37	29	14	11	10	7
Northsea Ltd *	7	8	(4)	0	(7)	(12)
National Paper Company Limited *	70	101	(78)	(27)	(198)	(57)
Total	10,426	8,467	2,175	1,850	381	480

Source: Financial Statements of Public Enterprises

Chart 3.20



Service Sector public enterprises

Sri Lanka Broadcasting Corporation (SLBC)

While competing with private channels the SLBC operates 23 channels covering 255 hours and 55 minutes per day.

Table 3.25
Number of Channels of SLBC

Name of the Channel	Number of Channels
Main channels	7
Area channels	5
Public channels	5
Foreign channels	6
Total	23

Source: Sri Lanka Broadcasting Corporation.

3. Performance of Public Enterprises

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In 2008, the SLBC faced severe shortage of working capital. It's accumulated losses stood at Rs.766 million by the end of 2008. Treasury has granted supplementary allocation of Rs.100 million for the payment of salaries. Higher overhead expenses mainly due the excess staff of 485 out of total staff of 1033, higher operational cost of provincial and overseas channels are the major reasons for the inefficiency of the SLBC.

Table 3. 26
Brief Financial Performance Rs. mn

Item	2007	2008
Turnover/revenue	671	712
Gross profit/Loss	(37)	(18)
Net profit	(37)	(18)
Taxes paid	Nil	Nil
Dividends/levy	Nil	Nil
Cash balances	(27)	24
Number of staff	1156	1142

Source: Annual Accounts of SLBC

Table 3.27
Brief Financial Performance of Sri Lanka Rupavahini Corporation

Item	Rs. mn		
	2006	2007	2008
Turnover/revenue	1708	1761	1638
Gross profit/Loss	206	30	30
Net profit	137	3	5
Taxes paid	69	26	25
Dividends/levy	Nil	Nil	1
Investments	527	435	568
Cash balances	54	171	17
Number of staff	1100	979	970
Key performance indicators			
Net Profit Ratio % (NPAT/Total income)	8	0.18	0.3
Net Profit bef. Fin. Charges & Tax to Equity %	11.7	1.9	1.9
Net Profit bef. Fin. Charges & Tax to Total Assets%	9.1	1.4	1.4
Current Ratio(C.Assets : C. liabilities)	2.9:1	3.5:1	3.1:1
Administration cost to income %	41.7	46.1	51.1
Total Cost of Employment per Employee Rs. `000`	592	622	625

Source: Sri Lanka Rupavahini Corporation

State Printing Corporation (SPC)

Due to printing of large volumes of school text books the SPC does not undertake private or individual publication contracts. The old fashion outdated machinery has hindered the competing power of the SPC with other private printers. The capacity of corporation has to be improved to meet the modern technological printing demands

Plantation Sector

The plantation sector public enterprise include 23 Regional plantation Companies (RPCs), Sri Lanka State Plantation Corporation, Janatha Estate Development Board, Kantale Sugar Industries Ltd., Hingurana Sugar Industries Ltd., Cashew Corporation and Palmyra Development Board.

Table 3.28
Financial performance of SPC

	2005	2006	2007	Rs.mn 2008
Total Revenue	596	574	663	966
Gross Profit	135	154	180	248.8
Net Profit before Interest and Tax	36	38	50	78
Financial Charges	15	27	28	55
Net Profit After Tax	4.1	7.7	11	12.2
Total Cost of Employment	151	170	203	
Administration & Establishment Expenses	102	117	91	121
Selling & Distribution Expenses	5.4	4.2	3	8
Non-Current Assets as at end of the year	67	62	55	53
Current Assets as at end of the year	325	309	528	545
Quick Assets	131	133	305	366
Current Liabilities as at end of the year	268	258	469	472
Equity as at end of the year	123	113	114	126
Capital Employed	70.4	70.4	70.4	70.4
Number of Employees as at end of the year (Nos)	580	597	588	539
Gross Profit Ratio %	22.6	26.8	27.4	28.3
Net Profit Ratio %	0.68	1.34	1.66	1.26
Net Profit bef. Fin. Charges & Tax to Equity %	29	34	44	62
Net Profit bef. Fin. Charges & Tax to Total Assets%	9	10	9	13
Current Ratio	1.21:1	1.19:1	1.12:1	1.15:1
Quick Ratio	0.48:1	0.51:1	0.65:1	0.77:1
Total Cost of Employment per Employee Rs. `000`	260	284	345	

Source: State Printing Corporation

3. Performance of Public Enterprises

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The Janatha Estate Development Board (JEDB) and the Sri Lanka State Plantation Corporation (SLSPC) were experiencing losses during several years. During the year 2008 actions were taken to restructure the JEDB & SLSPC. As a result, the JEDB has been able to reduce its loss of Rs. 109 million in year 2007 to Rs. 19 million in 2008. The SLSPC has reduced its loss from Rs. 45.89 million in 2007 to Rs. 4.3 million in 2008.

The major issues in relation to the regional plantation companies (RPCs) are irregular sub-leases by plantation companies without golden shareholder approval; disputes between sub leasers and subleases which lead to non-functioning of the estates; charging higher management fees depriving the interests of minor shareholders ; non-declaration of dividends for minority shareholders; weak monitoring system on capital investments by plantation companies which is important to ensure the sustainability of plantation sector; and issues related to lease agreements.

Table 3.29
Dividends Received by the Government from RPCs

RPC	Govt % Holding	2008	2007	2006	2005	2004	2003	2002	2001	2000	Total
Elpitiya Plantations Ltd	39	-	-	-	-	-	-	-	-	-	-
Maturata Plantations Ltd	39	-	-	-	-	-	-	-	-	-	-
Pussellawa Plantations Ltd	32	-	-	-	-	-	-	-	-	-	-
Agarapathana Plantat. Ltd	30	.001	-	-	-	-	-	.948	-	-	4.949
Balangoda Plantations Ltd	20	0.003	-	-	0.006	-	-	0.006	.012	-	0.027
Namunukula Plantat. Ltd	16	6.774	-	-	-	-	-	-	-	-	6.774
Madulsima Plantat. Ltd	13	-	-	-	-	-	-	2.569	5.708	3.806	12.083
Kotagala Plantations Ltd	11	10.262	10.262	.421	2.565	-	-	-	-	-	26.510
Bogawantalawa Plantat. Ltd	0.03	0.004	-	0.004	0.004	-	-	-	-	0.008	0.020
Horana Plantations Ltd	0.02	0.011	0.008	.005	-	-	-	-	-	-	0.024
Total		17.055	10.270	3.430	2.575	-	-	7.523	5.720	3.814	50.387

Source: Regional Plantations Corporations.

Health Sector

The State Pharmaceuticals Corporation (SPC), State Pharmaceuticals Manufacturing Corporation (SPMC) and Sri Lanka Ayurvedic Drugs Corporation play a significant role in manufacturing, importing and supplying safe, effective and high quality medicinal products and health services at an affordable price. They are the major suppliers of the Government hospitals. During the year 2008 these Public Enterprises (SPC and SPMC) have supplied Rs. 9843 million worth of medicinal products to the Medical Supplies Division (MSD) of the Healthcare & Nutrition Ministry. It is an 8% increase from the year 2007.

State Pharmaceuticals Corporation

During the year 2008 total turnover of the SPC has increased by 7% from Rs. 11437 million in 2007 mainly due to increasing sales to the department of health services. The profit after tax has marginally increased to Rs.215 million in 2008 from Rs. 187 million in 2007.

Table 3.30
Financial Highlights of SPC

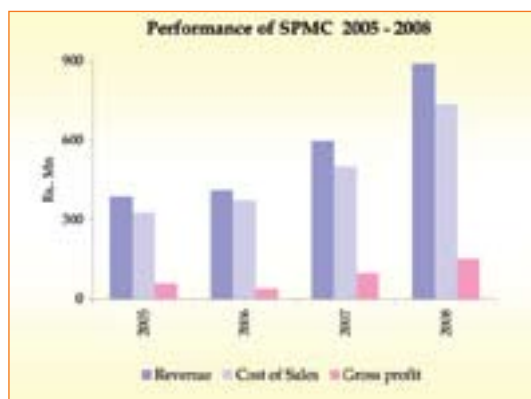
	2004	2005	2006	2007	Rs. mn 2008
Revenue - SPC	2299	2276	2467	2621	2934
- Director of Health Services	4067	5360	5617	8816	9306
Total Revenue	6366	7636	8084	11,437	12,241
Net Profit after int. & Tax	183	213	179	258	215

Source: State Pharmaceuticals Corporation

State Pharmaceuticals Manufacturing Corporation (SPMC)

The operating profit of SPMC has increased from Rs. 37.14 million in 2007 to Rs.74.19 million in 2008 indicating a 99.75% increase. The revenues of SPMC in 2005, 2006, 2007 and 2008 have been of Rs. 388 million, Rs. 411 million, Rs. 599 million and Rs.890.24 million respectively. This performance increase is mainly due to the increasing sales to the Department of Health Services.

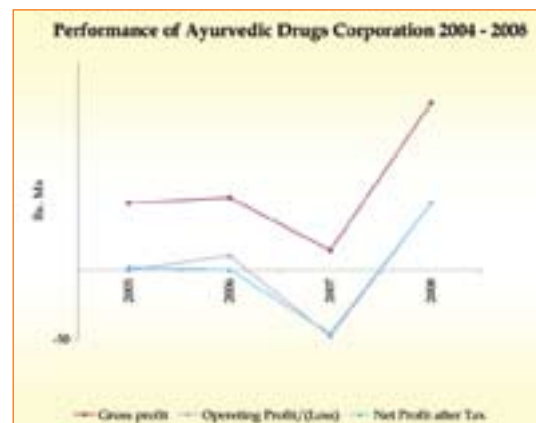
Chart 3.21



Sri Lanka Ayurvedic Drugs Corporation

The Sri Lanka Ayurvedic Drugs Corporation has been able to increase its total revenue by 40% in 2008 as against 2007. The gross profit of the corporation has increased by 587% in 2008 mainly due to the decrease in the cost of sales. This is a remarkable achievement because the corporation incurred an operating loss and a net loss in 2007.

Chart 3.22



Trade Sector

State Timber Corporation (STC)

The turnover of the STC has been increasing gradually from Rs.1208 Mn in 2004 to Rs. 2,737 million in 2008. The gross profit has decreased from 51% in 2007 to 44% in 2008 while the net profit before tax as a percentage of sales has reduced from 24% in 2007 to 22% in 2008. The main reason for this is the increase of cost of sale in the year 2008.

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Table 3.31
Financial Highlights of STC

Description	Rs. mn		
	2006	2007	2008
Timber Sales	1,878	2,298	2,737
Other Income	228	422	250
Cost of Sales	912	1,133	1,526
Gross Profit	966	1,165	1,211
Expenditure	713	909	813
Net Profit before Tax	481	678	648
Taxes and Levy	343	339	365
Net Profit after Tax	138	339	283
Non-Current assets	1,580	1,339	1,524
Current Assets	963	1,545	1,407
Capital and Reserves	1,673	1,823	2,113
Non-Current Liabilities	342	371	362
Current Liabilities	528	691	455

Source: STC Annual Report

Lanka Sathosa Limited (LSL)

The Lanka Sathosa Limited (LSL) was established under Mahinda Chinthana to make the commodities available at reasonable prices to the general public. The LSL has recorded a turnover of 3637 million for the year 2008 with a profit of 22 million. The LSL has been able to reduce the cost of employment by employing only on average 9 employees per unit and that is below the industry level. The LSL has recorded average sale per employee is Rs.3.3million in 2008.

Table 3.32
Financial Highlights of LSL

Description	Rs. mn.	
	2007	2008
Turnover	2206	3637
Other Income	6	11
Cost of Sales	1943	3232
Gross Profit	263	405
Expenditure	252	394
Net Profit	17	22
Non-Current assets	108	129
Current Assets	335	619
Capital and Reserves	231	370
Current Liabilities	212	378

Source: Lanka Sathosa Limited

Challenges of Public Enterprises

Professionalizing the boards of management is the major challenge faced by Public Enterprises. Often time the capacity and commitment of board members is inadequate to manage complex board affairs. Therefore a scheme should be developed to identify and appoint most suitable members to the boards of managements of important public enterprises.

The PEs being one of the largest employers in the country should have strong human resource management strategy. However, the many Public Enterprises do not have a human resource management plan. While some public enterprises have a large number of redundant or uneconomical staff some enterprises do not have adequate professional staff to meet their present day needs. Therefore the entire Human Resource profile of PEs needs to be re-evaluated and actions should be taken to build a human resource capacity of these institutions to improve the efficiency and productivity. Most importantly, the senior management of PEs should be strengthened with relevant professional staff to improve the performance of PEs.

The Commercial Public Enterprises continue to face difficulties in adopting sound pricing policies that make these institutions commercial viable. Often times, the PEs have to take into account the social and political factors in adopting their pricing policies. As a result, the prices of the goods and services offered by the Public Enterprises can be below the cost of production, which leads to continuous losses to the institution. In these situations, the government has to bear the gap between unit cost of production and the sales prices. Therefore in order to make all Public Enterprises profitable without burden to the Treasury, the existing pricing and tariff strategy needs to be changed. However, this change needs strong political commitment.

Several key Public Enterprises such as Ceylon Electricity Board, National Water Supply and Drainage Board, Ceylon Petroleum Corporation do not have adequate investment portfolio to meet the growing demand. The investment portfolio of important PEs should be analyzed and long term actions should be taken to avoid these enterprises taking ad-hoc financing arrangements which increase the costs of finance.

Attracting the private sector investments is one of the solutions to meet the investment gaps. The private public partnership (PPP) has been proposed to overcome this situation. The institutional and regulatory framework for sound PPP projects has to be developed as a matter of priority.

3. Performance of Public Enterprises

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Table: 3.33
Commercial Public Enterprises

Name of the Enterprise	Total Revenue (Rs. mn)	Total Assets (Rs. mn)	Total Number of Employees
Category 1 : Strategic Commercial Enterprises			
Ceylon Petroleum Corporation	238,364	97,667	2,931
Ceylon Electricity Board	87,575	417,636	14,230
Bank of Ceylon	48,875	453,251	5,253
People's Bank	47,984	395,992	8,416
National Savings Bank	30,868	270,831	2,867
Ports Authority	25,913	145,717	13,667
Sri Lanka Central Transport Board	15,440		38,952
State Pharmaceuticals Corporation	11,437	4,533	731
Employees Trust Fund Board (ETF)	8,328	78,425	826
National Water Supply and Drainage Board	6,481	113,907	8,530
Airport Aviations Services (Sri Lanka) Ltd.	5,340	6,509	3001
Category 2 A : Large Commercial Enterprises			
State Timber Corporation	2,298	2,884	2,738
National Livestock Development Board(NLDB)	648	1,099	2,449
Janatha Estates Development Board (JEDB)	594	1,678	6,175
Sri Lanka State Plantations Corp (SPC)	534	1,320	6,630
National Lotteries Board (NLB)	6271	3,181	287
Development Lotteries Board (DLB)	4,008	949	182
Central Engineering Consultancy Bureau (CECB)	3,474	4,533	1,007
Milk Industries Ltd. Company (MILCO)	2,720	1,721	1,483
State Engineering Corporation (SEC)	2,318	2,400	1,213
Sri Lanka Rupavahini Corporation	1,761	2,210	985
Ceylon Fisheries Corporation	1,745	1,164	763
Housing Dev. Finance Corp. Bank SL (HDFC)	1,742	13,736	289
Ceylon Fertilizer Company Ltd	1,598	8,419	490
State Mortgage & Investment Bank (SMIB)	1,571	12,181	334
Wayamba Development Bank	1,406	8,480	375
Tea Shakthi Fund	1,388	1,224	211
Sri Jayawardenapura Hos.Board	1,209	1,055	1,439
Sabaragamuwa Development Bank	1,023	6,463	441
Sri Lanka Land Reclamation Dev.Corp.	907	4,975	1,363
Urban Development Authority (UDA)	646	8,511	1,636
Ruhuna Development Bank	948	6,131	440
Lanka Mineral Sands Ltd	897	1,941	639
Uva Development Bank	446	3,407	263
Agricultural and Agrarian Insurance Board(AAIB)	443	3,078	395
Rajarata Development Bank	398	2,634	177
State Development and Cons Corp (SD&CC)	802	2,114	550
Ceylon Fishery Harbour Corporation	173	5,178	687
Kandurata Development Bank	626	3,968	290
Category 2 B :Medium Commercial Enterprises			
National Development Trust Fund (NDTF)	1273	2022	60
Colombo Commercial Fertilizer Co	980	5796	117
Lanka Sathosa Ltd.	902	214	508
Independent Television Network	685	800	498
Ceylon Shipping Corporation	675	611	150
State Printing Corporation	663	583	580
State Pharmaceuticals Manu. Corporation	599	836	189
SL Broadcasting Corporation (SLBC)	672	979	1099
Kurunegala Plantations Ltd.	294	667	1095
Chilaw Plantations Ltd.	171	745	795
Lankaputhra Development Bank	347	4175	114

Source: Department of Public Enterprises.

Reform Initiatives

An Overview

2008 can be viewed as the last year of a three year medium term with regard to the overall reform agenda of the Government noting the completion of certain key reform initiatives, thereby paving the way to formulate new initiatives to deepen reforms. Major reform initiatives completed during 2008 within the three year medium term framework 2006 – 2008 cover diverse areas including fiscal management, banking and finance, trade, administered pricing, utility services, public private partnership building and Tourism. Several achievements can be highlighted from a sectoral perspective and also from the point of view of individual organizations.

The Fiscal Management Reform Program (FMRP) supported by the Asian Development Bank concluded its activities in the year 2008 with the exception of the continuation of the automation process and ongoing training. In a bid to strengthen the organizational structure of the Ministry of Finance and Planning, a Management Audit Department, a Legal Affairs Department and a Project Monitoring Bureau were setup in February 2008 with computers, office equipment etc. having being provided by the Fiscal Management Reform Program. The third and the final tranche of the program loan of USD 45Mn. was released to the Treasury in 2008. Preparatory work to venture into deepening fiscal reforms has commenced with Project Preparatory Technical Assistance (PPTA) extended by the Asian Development Bank.

In relation to Treasury Operations, a modified Treasury Single Account System (MTSA) was operationalized during the year 2008 improving efficiency in releasing cash to government agencies. Further, the automated mechanism used to release imprest to various government ministries, departments etc. was further improved enabling fund transfers to be made through electronic means to the respective bank accounts of Government institutions, maintained with Bank of Ceylon or Peoples' Bank. The implementation of the MTSA System has yielded many direct and indirect benefits to the Government. It has contained the interest cost, reduced transaction costs, and enhanced efficiency consequent to been able to effect

such electronic transfers.

Institutional and Capacity Building of the Auditor General's Department and the Census and Statistics Department was commenced in 2008 with the facilitation of the World Bank.

In the area of legislative reforms, Strategic Development Projects Act, No. 14 of 2008, Environment Conservation Levy Act No.26 of 2008, National Thoroughfares Act, No. 40 of 2008, Pradeshiya Sanwardana Bank Act No. 41 of 2008 and Credit Information Bureau of Sri Lanka (Amendment) Act, No.42 of 2008 are key statutes enacted during the year. In the area of Banking and Finance, progress has been made by the Central Bank of Sri Lanka towards finalizing amendments to the Finance Companies Act to prohibit persons and companies from conducting unauthorized finance businesses and deposit taking and also to enhance the powers of the Central Bank pertaining to examination of Finance Companies and in the determination of capital and other prudential requirements.

With regard to Capital Market development, Securitization Act and the Secured Transactions Act were finalized. These Acts have already been submitted to Parliament. The Securities and Exchange Commission has given greater emphasis to create awareness on capital market related activities, having involved students and undergraduates through quiz programs, research competitions and distribution of publications and having included related aspects as a subject in the school curricula.

In the area of trade related activities, tariff revisions undertaken to be made effective in respect of selected imports under various bilateral and multilateral agreements that fell due in 2008 have been implemented in a timely manner. As such, the remaining items in the Residual List under the Indo Sri Lanka Free Trade Agreement (ISFTA) were made duty free thereby complying fully with all revisions agreed to be made effective under the ISFTA., Items in the 'Phasing Out List' under the Pakistan Sri Lanka Trade Agreement were given a preferential reduction of 20 per cent as had been agreed and preferential tariff reductions due in 2008

under SAFTA for developing member countries as well as for least developed member countries of SAARC were implemented. In addition, certain tariff revisions required in terms of various policy changes of the Government in order to provide an impetus to local industries and further improve domestic economic activities were also introduced in 2008 after a process of stakeholder consultations.

Revision of bus and railway fares and electricity and water tariffs, effected during 2008/ early 2009 are notable pricing reforms implemented in 2008. Having commenced in 2001.

The National Transport Commission proceeded to revise bus fares in March 2008 in the backdrop of high costs impacting the transportation sector by stipulating maximum bus fare for specified distances. With this revision the Private Sector Bus fares on average increased by 27.2 percent while the public sector fares were increased by an average of 19 per cent. Further, the National Transport Commission has since May 2008 introduced integrated rotated timetables for operators on long-distance bus routes. These timetables have provided for the dispatch of buses on the basis of the actual observed demand patterns, where both state owned and private buses have been integrated to reduce any over supply and intense on-road competition with each other. In the case of the private sector which is made up of individual operators, time slots are rotated daily so that all operators would be provided with an equitable chance of earning revenue. These time tables have also resulted in reducing illegal operations, accidents, intense over loading etc. Further since April 2009, pilot bus companies have been registered and allowed to handle supervised management of time tables, public relations, public complaints etc. as a move to improve the management of bus routes. The Ministry of Transport together with the National Transport Commission has finalized a Policy Documents on Transport in 2008. This sets out intended reforms in terms of expansion of regulation to cover all modes of transport, studies were carried out on how transport planning could be used to manage urban congestion through more efficient road utilization and promotion of public transport. More than 200 new buses were added to the existing fleet while a further

200 busses were made road worthy, improving public sector transport more efficient.

For the first time since 2005 August, railway fares were revised on average by 61 per cent in March 2008 with a view to reduce operational losses. Marking a notable improvement in the recent history of Railways, around 100 carriages and several diesel locomotives were added to the existing fleet, strengthening railway service delivery. Significant improvements were made to railway tracks, signal system as well railway bridges.

In the water sector, the Water Board had taken steps to ensure its commercial viability. Costs associated with the provision of pipe borne water showed a continuous increase over the past years and in 2008 it recorded a 13 per cent increase over 2007. In this backdrop, adjusting water tariff was felt as an acute need to recover a larger portion of the cost of operations & maintenance and also to explore the possibility of reinvestment on assets. Having made findings in 2008, the water Board revised its tariff from January 2009 to reduce the prevailing gap between the cost of delivery and the amount recovered from consumers after giving a cash grant to the vulnerable groups of the society to be able to meet related costs. Although prior to 2008, the cost of operations of the sewerage network of the Water Board was recovered from the income derived from national water tariff, with effect from April 2008, a national tariff was introduced for 10,000 consumers who have sewerage connections managed by the Water Board outside Colombo. Water Board has earned around Rs. 30 Mn. in 2008 through this measure and has consequently been able to recover 18 percent of the cost of its sewerage operations. With a view to increase the overall efficiency in operations of the Water Board, a program is in place from 2008 stipulating operational performance targets to its regional centers.

Work in relation to the finalization of a new Electricity Act was completed in 2008. The Act inter alia provides for the regulation of generation, transmission, distribution, supply and use of electricity in order to ensure that an economical and efficient service is provided to consumers. The Act

4. Reform Initiatives

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also provides that a limited number of persons who are authorized by licenses granted or exempted under the Act, by the Public Utilities Commission, could carry out such activities. Further, the Act gives effect to the national policy on electricity. The administration of the provisions of the Act is vested with the Public Utilities Commission (PUC) established under the Public Utilities Commission on the basis that Ceylon Electricity Board (CEB) will function as a single entity. Further, in line with the National Energy Policy aimed at ensuring a cost reflective tariff structure, an electricity tariff revision was undertaken in 2008. This resulted in a tariff increase of 23 per cent enabling a partial recovery of the total cost incurred in electricity generation.

The tourism sector that witnessed a consolidation with the public / private partnership that emerged with the introduction of the new Tourism Act No: 38 of 2005 witnessed further stabilization in 2008. A 4 year national

strategy for Sri Lanka Tourism including a marketing and communication strategy, initiatives to improve the hospitality sector including training and development, expansion of the domestic tourism sector, enhancement of the participation level of the SME sector was formulated in 2008 through a combined effort of the public /private sector officials and industry leaders , supported by Commonwealth Technical Assistance. Sri Lanka Institute of Tourism & Hotel Management was established in 2008 as an autonomous body to handle tourism related matters and associated Human Resource Development initiatives.

Finance/Revenue/Commercial Law Related Statutes (2008)

Api Wenuwen Api Act No.6 of 2008	An Act to provide for the establishment of a Fund to grant loans for the construction or purchase of houses for armed service personnel. The objective of the Fund is to formulate schemes to provide financial assistance for the construction of houses, extend financial assistance to purchase houses or repay existing loans in the event of death or permanent disability or injury of an armed service personnel, in action or otherwise. Profits and income of this Fund are exempt from tax and donations to the Fund will be treated as a deduction under qualifying payments in terms of the Inland Revenue Act.
Finance (Amendment) Act No.7 of 2008	An Act to extend the subscribers levy so far applicable to only mobile phones to cordless land telephones, as well.
Finance (Amendment) Act No.8 of 2008	An Act to increase the imposition of Social Responsibility Levy from 1 percent to 1.5 percent.
Inland Revenue Act No.9 of 2008	An Act to provide tax relief to cooperative societies, shift tax holidays to a time bound framework , exempt foreign earnings from income tax, grant tax relief for new investments in the eastern province, grant tax relief for relocation or the commencement of new undertakings in districts other than Colombo and Gampaha, treat income tax calculation of any non citizen individual employed in Sri Lanka to be similar to a Sri Lankan employee, treat that any losses from the business of leasing can be set off only against profits of such businesses, introduce a concessionary income tax rate of 2.5 per cent to be charged on the value of gems sold at gem auctions conducted by the National Gem and Jewellery Authority.

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Finance/Revenue/Commercial Law Related Statutes (2008)

Stamp Duty (Special Provisions) (Amendment) Act No. 10 of 2008	An Act to enable the payment of stamp duty on leases and mortgages of immovable property so that either the receipt of such payment or stamps could be affixed on the lease or mortgage instrument.
Economic Service Charge (Amendment) Act No. 11 of 2008	To increase the ESC rate on the sale of liquor and motor vehicles from 0.5 to 1 per cent and charges payable by an export business on any export income, to be subject to a maximum of 0.25 per cent.
Regional Infrastructure Development Levy (Amendment) Act No.12 of 2008	The rates applicable to be increased by 2.5 per cent .
Strategic Development Projects Act No. 14 of 2008	An Act to provide for the grant of time bound tax concessions to identified strategic development projects.
Value Added Tax (Amendment) Act No. 15 of 2008	<p>An Act to provide VAT exemptions for the supply of goods and services by Cooperative Societies, supply of goods and services required for projects identified under the Strategic Development Projects Act and goods and services required for special projects identified by the Minister as essential for the development of the economy (the service providers of such projects to be eligible to get input tax credit) where the VAT is payable by the Government, milk products made out of milk produced in Sri Lanka, products made out of rice produced in Sri Lanka, domestically supplied prawns, health care services by any medical institution which has entered into an agreement under the BOI Law on or after 01/01/2001 where the total cost of the project is not less than Rs. 10 Mn. (effective 01/01/2008), locally manufactured chemical Naphtha (effective 17/07/2007), locally manufactured clay roof tiles, locally produced unprocessed vegetables and fruits, unprocessed fish and importation of rattan (effective 01/07/2007), plant and machinery imported for business purposes by enterprises qualified for a tax holiday under the 'Nagenahira Udanaya' program, importation of yarn for the textile industry (effective 01/01/2008), import of air craft engines or air craft parts(effective 17/07/2007).</p> <p>Reduction of the VAT rate from 15 to 5 percent on the importation and supply of petroleum, imported electric filaments or discharge lamps and arc lamp carbon for the domestic film industry (effective 01/01/2008), imported canned fish, chickpeas and green gram (effective 05/06/2007).</p> <p>Deferment facility availed for the importation of plant and equipment used for long term development projects to be extended until project completion, with the approval of Minister (effective 7/07/2007).</p>
Environment Conservation Levy Act No. 26 of 2008	An Act to provide for the imposition of an environmental conservation levy on certain items owned by consumers, specified items imported into or manufactured in Sri Lanka or specified services provided in Sri Lanka, likely to harm the environment.

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Finance/Revenue/Commercial Law Related Statutes (2008)

National Thoroughfares Act No. 40 of 2008	An Act to provide for the planning, designing, construction, development, maintenance and administration of an integrated public road network and to facilitate private sector investment/participation in such development activities, to make provision to enable Provincial Councils and local authorities to develop and maintain roads and to promote and facilitate community based organizations to engage in related development activities, to enable charging a fee on user fee national highways.
Pradeshiya Sanwardana Bank Act No. 41 of 2008	An Act to provide for the establishment of a Pradeshiya Sanwardana Bank with a stronger financial standing, having amalgamated Regional Development Banks, to facilitate overall economic development of the country.
Credit Information Bureau (Amendment) Act No.42 of 2008	An Act to enable the CRIB to expand its services to other credit granting institutions such as insurance companies, utility service providers and state agencies, to empower the CRIB to collect information on returned cheques etc, to facilitate any person to obtain a self inquiry credit report from the CRIB enabling any incorrect information to be challenged.
Appropriation Act No. 43 of 2008	An Act on servicing financial year 2008, to authorize the raising of loans in or outside Sri Lanka for the purpose of such servicing; to make financial provisions in respect of activities of the government, to enable payments by way of advances out of the Consolidated Fund or any other fund or monies of or at the disposal of the government, of monies required during the financial year for expenditure on such activities, to provide for the refund of such monies to the Consolidated Fund.

SALIENT FEATURES IN KEY LEGISLATION PASSED BY PARLIAMENT IN 2008

Strategic Development Projects Act No.14 of 2008

The objective of this Act is to provide a time bound tax free period to identified development projects of Strategic importance, to be exempt from the applicability of the provisions of the statutes set out in the schedule being;

- Inland Revenue Act No. 10 of 2006
- Value Added Tax Act No. 14 of 2002
- Finance Act No. 11 of 2002
- Finance Act No. 5 of 2005
- Excise (Special Provisions) Act No. 13 of 1989
- Economic Service Charge Act No. 13 of 2006
- Debit Tax Act No. 16 of 2002
- Customs Ordinance (Chapter 235 of the CLE)



Identification process of a strategic development project and the notification procedure in relation to gazette is laid down in the Act. Upon the expiry of a period of 30 days from such initial gazetting, the Minister in Charge of the subject of Investment, in consultation with the Minister in charge of the subject of Finance is required to inform the Cabinet of Ministers the rationale for considering such project as a Strategic Development Project and the period of exemption proposed to be granted, which cannot exceed 25 years.

If approved by the Cabinet of Ministers, the Minister in charge of the subject of Investment is required to gazette within 6 weeks from the date of such Cabinet approval, the name of such project and the period within which the exemption from tax is operative. Such order is required to be placed before Parliament within 3 months of gazetting and becomes operative only once approved by Parliament.

The interpretation of a Strategic Development Project - means a project which is in the national interest and which is also likely to change the landscape of the country primarily due to the strategic importance attached through the proposed provision of goods/ services which will be of benefit to the public, a project that results in a substantial inflow of foreign exchange to the country, or generates substantial employment or income earning opportunities or envisages transformation of technology.

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Environment Conservation Levy Act No.26 of 2008

Recognizing the emphasis placed on environment conservation in the backdrop of implementation of an accelerated development process, the Government deemed it necessary to introduce legislative measures to assure the protection of the environment and thereby promote sustainable development. The objective of this Act is to impose an Environment Conservation Levy on certain items owned by consumers, specified items imported into or manufactured in Sri Lanka or specified services provided in Sri Lanka, which are likely to harm the environment.

As per the provisions of the Act, the rates to be imposed would be calculated on either ad volorem or specific basis, to be specified by the Minister of Finance in consultation with the Minister in charge of the subject of Environment. The related Gazette Order will specify the rate and the category of goods or services in respect of which the Levy would be imposed. The Levy if imposed on consumers, will be collected through an institution specified in such Order and if imposed on an importer, will be collected by the Director General of Customs in terms of the Customs Ordinance. The levy if imposed on a domestic manufacturer or a service provider will be collected by the Director General of the Customs in terms of Excise (Special Provisions) Act, No. 13 of 1989.

Such collection authorities are responsible for the collection, administration and recovery of the ECL and to ensure that proceeds are remitted to the Environmental Conservation Levy Account of the Consolidated Fund. In case of a default, the Central Environmental Authority is empowered to instruct the Director General of Customs to proceed to recover the amount in default and any related penalty. Further the authority itself also may take necessary steps to recover the amount in default and any related penalty.

**ENVIRONMENT CONSERVATION LEVY
ACT, No. 26 OF 2008**

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National Thoroughfares Act, No. 40 of 2008

The Government having recognized the importance of formulating a policy in relation to national highways and the need to develop a modern and integrated public road network within the country to ensure connectivity among regions and promote accelerated development, introduced the National Thoroughfares Act, No. 40 of 2008, to provide a legal framework necessary to facilitate the realization of such objectives.

The Act inter alia provides a legal framework to enable private sector investment and participation in road construction, development and maintenance, and to extend assistance to Provincial Councils and Local Authorities, in relation to such activities. It also provides that community based organizations could engage in the construction, maintenance and management of roads/public roads.

The Act enables the establishment of a Road Network Development Advisory Council, to provide advisory support for the formulation of the Hierarchical Public Road Network Policy for Sri Lanka and to develop a hierarchical road network strategy that would facilitate improvements of the quality of roads, identify steps required to be taken in relation to road research, planning and development technology and road safety as well as planning of roads, national highways, expressways and restricted access highways.

The Act recognizes that lands required for the construction of new roads or to widen roads could be acquired. The Road Development Authority is entrusted with the powers to acquire lands as specified in the National Thoroughfares Act, No. 40 of 2008, Land Acquisition Act and the Crown Lands Ordinance. Further, there is provision that the Authority may purchase any land with the approval of the Minister and with the consent of owners, for the purpose of resettlement of persons displaced or affected due to the implementation of any of the provisions of this Act.

The Act contains provisions for the protection of different categories of roads, their maintenance, to specify building limits alongside such roads. It also provides a valuation mechanism to be followed in determining compensation for any land acquired with buildings on it being authorized structures, notwithstanding anything to the contrary contained in the Land Acquisition Act. The Act also provides for the imposition of a fee from vehicles used in a user fee national highway, as may be prescribed by the Minister.

[Certified on 01st December, 2008]

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Pradeshiya Sanwardana Bank Act No. 41 of 2008

In order to further strengthen country's regional development bank network and to create a single bank with a strong capital base that will be able to effectively compete with its counterparts in the banking sector to be able to give a greater service to the society, the Regional Development Banks established under Regional Development Banks Act No. 6 of 1997 were vested in a single entity, called the Pradeshiya Sanwardhana Bank, in terms of this Act. With the operation of this Act, the assets, liabilities, contracts, employees, etc., of the Regional Development Banks vested with the Pradeshiya Sanwardhana Bank which is empowered to exercise any or all of the activities permitted, in terms of the new license issued by the Central Bank under the Banking Act.

The capital of the new Bank will comprise of the total of capital contributions made by the Government, Bank of Ceylon, People's Bank and National Savings Bank, to the Regional Development Banks and hence the shareholders of the new Bank will be the Government, Bank of Ceylon, People's Bank and National Savings Bank. In order to ensure that shares of the proposed bank will not be owned by the private sector, there is provision that any subsequent increase of the share capital can be only among the original shareholders and further that any transfer of shares can also be only be among the original shareholders, as may be approved by the Board.

The purposes of the new Bank is to facilitate overall regional economic development in Sri Lanka by promoting and developing agriculture, industry, trade, commerce, and livestock, fisheries activities and women empowerment mainly through financial assistance extended to Micro, Small and Medium Enterprises. Recognizing the need to be able to divert resources to priority sectors in terms of Government policy, provisions have been made that the Minister may by order published in the Gazette stipulate such percentage of lending that should be channeled to any priority sector, on the basis of development priorities of the Government. The management of the Bank will be through a Board of Directors, consisting of Ex-officio Directors and Nominated Directors to be appointed by the Minister and the Minister will appoint the Chairman from among Nominated Directors. There will be a General Manager who will also be the Chief Executive Officer and there will be 4 Deputy General Managers to assist him. There will also be Regional General Managers to be in charge of each regional office, to be appointed by the Board, who will be responsible to mobilize savings, to ensure commensurate lending and promote regionally focused development activities.

[Certified on 01st December, 2008]

To ensure transparency and accountability, the accounts of the Bank will be audited by the Auditor General and there will be a statutory requirement for the timely submission of the Annual Report to the Minister/ Parliament.

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Credit Information Bureau of Sri Lanka (Amnd.) Act No.42 of 2008

Considering prevailing demands of the banking and Finance sector and also considering the importance of adhering with related international best practices, amendments were proposed to expand and improve the services provided by the Credit Information Bureau. In order to protect the autonomy and in view of the sensitivity of activities carried out by the Bureau, it is required that at all times the majority shareholding of the Credit Information Bureau shall be held by the Monetary Board of the Central Bank of Sri Lanka or any other public sector lending institutions. Other members, namely credit granting institutions, insurance companies, government agencies etc. will only be associate members.

Enabling to move away from collecting only limited information from banking and financial institutions, the amendments provide that CRIB could proceed to collect wider data, gathered from any credit grantors, utility providers, insurance companies etc. These additional data will facilitate SMEs and lower income earners to build a good payment history, providing them a gateway for greater access to credit.

In line with these amendments, CRIB has launched a Modernization Project to acquire state-of-the-art technology to convert its business setup into fully on-line status, that can provide a range of related services in keeping with international standards and best practices.

A notable feature that has been introduced through the amendments is that an interested person can obtain a Self Inquiry Credit Report directly from the CRIB with a right to dispute error records, if any. This process will improve the quality and integrity of data available with the CRIB.

CREDIT INFORMATION BUREAU OF
SRI LANKA (AMENDMENT)
ACT, No. 42 OF 2008

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SALIENT FEATURES OF KEY BILLS PENDING TO BE PASSED BY PARLIAMENT

Default Taxes (Special Provisions) Bill

In the backdrop of a notable level of taxes in default which have got accumulated in the books of the Inland Revenue Department consequent to there being no mechanism to write off taxes which are obviously non recoverable due to bankruptcies etc. or amounts that represent accumulated taxes in default of government institutions, most of which are presently non operational or redundant, the 2008 Budget proposed to introduce a special Act to provide for a streamlined and speedier process to recover or write - off such identified taxes in default, in a time bound manner.

The proposed Act will be applicable to taxes charged or levied on or before 31st December 2007 or where an installment payment plan has been agreed upon between a defaulter and the Inland Revenue Department but not honoured, in relation to laws listed out in the Schedule to the proposed Act, and also where such taxes have been in default for over two years.

There will be a Supervisory Committee appointed to expedite the recovery process. This Committee will be required to respond to any communication from the Commissioner General of Inland Revenue (CGIR) relating to writing-off such taxes in default, recommend to write-off such taxes in default to the CGIR and advise the CGIR/ Minister on any matter referred by them to the Committee. There will also be a dedicated Default Tax Recovery Unit setup under the purview of the CGIR with a Deputy Commissioner General placed in charge of the Unit, to expedite the process.

In order to take a stock of the present position of taxes in default, the CGIR is required to prepare a report within six months from the date of appointment of the Committee, identifying separately such tax defaulters which are either Public Corporations, Government Owned Business Undertakings acquired by or vested in the Government

under the Business Undertakings (Acquisition) Act No. 35 of 1971, such Government Owned Business Undertakings established as Corporations in terms of Conversion of Business Undertakings into Public Corporations Act No. 22 of 1987, Government Ministries and Departments, pertaining to which the statutory period specified for the recovery under any law set out in the Schedule has lapsed. The CGIR is required to make available such information after verification, to the Committee. Three months thereafter, the CGIR is required to either write-off such taxes in arrears or take such other action as provided for in the Act.

Notwithstanding any secrecy provisions contained in any law under which such taxes in default have been levied, information on any taxes so written -off is required to be published in the gazette within thirty days from the date such write-off, to ensure transparency. Further, in the event of any write - off, there will be no refunds allowed even if a part payment had been made previously.

Other than in a situation where the CGIR had already instituted action in a Court under a law set out in the Schedule in terms of which a tax had been levied, the CGIR is required to notify to the defaulter the amount of taxes in default, requesting that such taxes be settled within sixty days of the notice. At this point, a defaulter may prior to the expiry of the sixty days, request CGIR to permit him to settle the taxes in default in installments, or raise objections with regard to the taxes in default referred to in the notice. The CGIR upon receiving a request to permit for installment payments may permit to make the entire payment in a given manner within three years from the date of such agreement, after having informed the Committee in that regard. In the event of an objection on the taxes in default, the CGIR needs to make a determination within sixty days and where the objection involves a re-determination of the tax liability, the CGIR can discharge any amount excessive. If a person fails to respond to a notice within the allowed period or fails to pay according to an agreed installment plan for over thirty

days, the CGIR is required to issue a Notice of Default on such person and collect such taxes in default by filing action in the Commercial High Court, to ensure expeditious recovery.

To compel the tax administration to work dedicatedly towards collecting Government revenue with a sense of accountability, there will be a requirement that the aggregate of taxes, excluding any penalties accrued or tax held-over or differed, which is in default under any relevant law as at end of any calendar year ending December 31, 2008, over that of the immediately preceding year, should not exceed 3 per cent. The CGIR is required to submit a report to the Minister within four months from each year end, if such aggregate taxes exceed 3 per cent, giving reasons for the excess and making recommendations or proposing remedial action to overcome the situation. The Minister could either accept the report, request CGIR to give effect to his recommendations or give written instructions to the CGIR to comply with the requirements imposed on him in terms of this Act within a period of six months. In the event the CGIR failing to comply, the Cabinet of Minister could take appropriate action in that regard.

Secured Transactions Bill

Although there is already a mechanism in place to register transactions/ encumbrances etc. relating to immovable property such as land at the Land Registries, there is no structured mechanism to register such aspects relating to movable property. The proposed Act aims at bridging prevailing gaps in relation to transactions involving moveable property through the establishment of a Secured Transactions Filing Office.

It is expected that the establishment of this Filing Office will facilitate commercial activities to be conducted in a more structured environment, securing obligations inter alia in relation to loans granted on the security of easily saleable moveable property, as identified in the Act.

The Filing Office will also enable tracing of information on prior security interests of movable property so that financial intuitions or any interested parties could make well informed business decisions. As such, a prospective lender could find out if another lender already has a security interest in relation to a collateral proposed to be offered by a customer.

The proposed Act also contains provisions on providing priority to lenders based on the date of the related Mortgage Bond which is registered at the Secured Transaction Filing Office. It also recognizes a procedure through which priority will be accorded to conflicting claims depending on the date and time of filing of the connected notices in the Filing Office. This will strengthen security interests of secured creditors in a debtor's movable property as against buyers and subsequent creditors and in the event of insolvency of a borrower. The Act also contains provisions on how a priority of right in respect of a mortgage transaction will operate and sets out a procedure relating to connected registrations.

The Credit Information Bureau (CRIB) established in terms of the Credit Information Bureau Act No.18 of 1990, has the required infrastructure already in place to be able to operate a Secured Transactions Filing Office relating to movables. Consequential amendments have been made to the Credit Information Bureau Act, to authorize CRIB to undertake these functions, in addition to its present operations. Since the CRIB is a fully automated set up, dissemination of required information will be more effective and simpler.

Securitization Bill

Securitization is considered as a mechanism for the development of active capital and debt markets. The ability to access securitization as a mechanism to permit the issue of asset backed securities together with access to alternate sources of funding is expected to encourage the development of Sri Lanka's capital and debt markets. It can further assist to systematically manage and reduce risks in the banking and non-banking financial sectors and facilitate capital mobilization for investment.

The proposed Securitization Act is intended to govern the securitization of financial assets in order to ensure that the interest of depositors of institutions participating in securitization, as well as rights of related investors, are safeguarded. Therefore, the provisions in the proposed Act will ensure greater benefits to financial institutions while also improving investor confidence on investing in securitization transactions, through greater transparency on asset performance.

As such, the proposed Act will provide for the promotion of securitization as a mechanism for the development of capital and debt markets in Sri Lanka, identifies the Securities & Exchange Commission of Sri Lanka (SEC) as the related

regulator, enables Special Purpose Vehicles (SPVs) to be created as Trusts in terms of the Trust Ordinance to hold assets which are assigned to SPVs by Banks as originators of securitization transactions, empowers such SPVs to acquire assets through such Trusts, puts in place the necessary structural and risk management mechanisms and also provides for the SPVs to manage and collect related assets and enforce rights, obligations and make distributions to investors in asset backed securities. The proposed Act also requires the formation of related prudential guidelines to ensure accountability of the SPVs, towards investors in asset backed securities. It also recognizes that action could be taken against Trustees of SPVs for any wrong on their part and contains regulatory provisions relating to activities of financial intermediaries involved in the securitization industry.

Greater Information on Budgeting

Up to Appropriation Act No. 61 of 2007 for 2008, only two Schedules relating to Government expenditure were included;

- 'Sums Payable for General Services' showing recurrent and capital expenditure for general services provided annually from the Consolidated Fund-Schedule I.
- 'Limits of Advance Account Activities' - Schedule II

Greater information on Government spending was given in the Appropriation Act No. 43 of 2008 with the inclusion of 3 schedules, as follows;

- 'Sums Payable for General Services' - Schedule I
- 'Expenditure of the Government authorized by law and to be charged on the Consolidated Fund' - Schedule II (a New Schedule)
- 'Limits of Advance Account Activities' - Schedule III

The 'Pool Provision' (commonly known as the 'Treasury Miscellaneous Provision') voted under the Budgetary Support and Contingent Liability Budget of the National Budget Department under Head 240 was used to provide additional allocations to meet specific expenditure which has arisen due to unforeseen or unexpected circumstances.

Although this process was carried out after having done needs assessments and having followed a due process as set out in the Appropriation Act, it was felt that providing further disaggregated information is even more appropriate. Although there was no legal requirement at the time, Guidelines to be followed when allocating funds from the "Budgetary Support and Contingent Liabilities" Project, formed part of Annual Printed Budget Estimates in 2007. The Appropriation Act No. 43 of 2008 has made this a legal requirement.

The 2008 Act further requires that a report has to be submitted to Parliament within a period of 02 months from the date of any such allocation, setting out details of related expenditure.

Even though there was no legal requirement at the time, details pertaining to such allocations were also included into the Fiscal Management Report submitted to Parliament in terms of Sections 4 to 9 of the Fiscal Management (Responsibility) Act No. 3 of 2003, commencing from the November 2007 report.

Appropriation Act No. 43 of 2008 also requires that such details must be included in the relevant Reports published under the Fiscal Management (Responsibility) Act, including the Annual Report published in terms of Section 13 of the Fiscal Management (Responsibility) Act.

FISCAL MANAGEMENT REFORM PROGRAM

Fiscal Management Reform Program (FMRP) supported by the Asian Development Bank, facilitates reforms carried on at the Ministry of Finance and Planning, Inland Revenue Department, Customs Department, Excise Department and the Finance Commission. This Program which is led by the Secretary to the Treasury as Chairman of the Steering Committee and assisted by heads of Treasury Departments and key revenue Departments substantially concluded its activities in the year 2008. The third and the final tranche of the program loan of USD 45Mn. was released to the Treasury in 2008 while the continuous capacity development and technology enhancement components financed through the balance of the two Project Loans totaling US \$ 25 Mn are being continued. The Capacity Development component of FMRP has created a positive impact by improving quality and efficiency of those attached to related institutions. Up to end 2008, more than 1750 officers have benefitted through capacity development opportunities provided under this program. In relation to automation aspects, worldwide tenders were called for the supply of hardware to setup a Local Area Network (LAN) and a Wide Area Network (WAN) at the Inland Revenue Department. The evaluation process has been virtually finalized and the award is due to be made. The associated Revenue Management Information System (RAMIS) software is proposed to be procured through the proposed FMRP II.

4. Reform Initiatives

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Table 4.1
Training Provided Under the Fiscal Management Reform Program upto 2008

Name of the Institution	Area of Study	No. of Participants
ASYCUDA Headquarters, Malaysia	Integrated Government Financial Management Information System	02
Inland Revenue Authority, Singapore	Auditing Techniques using Computers, Investigation and Computer Forensic	60
IBFD – International Tax Academy, Netherlands	Comparative and International Taxation	03
Sixteenth Tax Conference, Tokyo, Japan	Taxation	01
National Institute of Public Finance and Policy, India	Practical Issues of Tax Policy & Tax Administration in Developing Countries	761
National Institute of Public Finance and Policy, India	Fiscal Decentralization	79
National Academy of Direct Taxes, Nagpur, India	Investigation and Management Techniques	88
Asian Institute of Technology, Bangkok	Project Planning and Management Techniques	28
Duke University, USA	Budgeting and Financial Management in the Public Sector	04
China Association for International Exchange of Personnel, Beijing	Public Finance and Government Budget Management	27
Association of Government Accounting Organisation of South Asia, India	Experience Sharing Program	04
National Institute of Financial Management, India	Accounting and Government Audit	35
	Fiscal Planning and Management	35
	Contemporary Fiscal Challenges in Transition Economies: Reforming the Fiscal Scenario in Sri Lanka	140
	Accounting and Financial Management in Government: The best global practices and the agenda for reforms in Sri Lanka	70
	Significance and Role of Forecasts in Planning and Development (for the Department of Census and Statistics)	30
Revenue Department, Thailand	Inland Revenue Modernization	15
National Academy of Direct Taxes, Nagpur, India	Investigation, Assessment and International Taxation	250
Annamalai University, India	Excellence in Management for Officers of the Excise Department	94
Association of Government Accounting Organization of South Asia, India	Experience sharing program	04
National Institute of Public Finance and Policy, India	Practical Issues of Tax Policy in Indirect Taxation & Tax Administration in Developing Countries	22

Source: Fiscal Management Reform Program Project

4. Reform Initiatives

Table 4.2
FMRP Capacity Development- (Local) upto 2008

Specially designed programs were conducted with the assistance of the British Council on Effective Speech and Interpersonal Skills for the benefit of around 1500 officers of the Inland Revenue Department. The targeted groups of the program were Deputy Commissioners, Assessors and Tax Officers.

A program on 'Positive Tomorrow' was organized for around 450 officials of the Ministry of Finance and Planning, Customs Department and Excise Department. The objective of the program was to create awareness on how to be more productive and work with an entrepreneur mindset.

Source; FMRP Project Office

Table 4.3
FMRP Capacity Development- (Foreign) upto 2008

140 officers of the Ministry of Finance and Planning attended a program on 'Contemporary Fiscal Challenges in Transition Economies; Reforming the Fiscal Scenario in Sri Lanka' at the National Institute of Public Finance and Policy, India

70 officers of the Ministry of Finance and Planning attended a program on 'Accounting and Financial Management in Government: The best global practices and the agenda for reforms in Sri Lanka' at the National Institute of Public Finance and Policy, India

30 officers of the Department of Census and Statistics attended a program on 'Significance and Role of Forecasts in Planning and Development' at the National Institute of Public Finance and Policy, India

250 officers of the Inland Revenue Department attended a program on 'Investigation, Assessment and International Taxation' at the National Academy of Direct Taxes, Nagpur, India.

94 officers of the Excise Department attended a program on 'Excellence Management for the Officials of the Excise Department' at the Annamalai University, India

4 officers of the Ministry of Finance and Planning attended an experience sharing program at the Association of Government Accounting Organization of South Asia, India

Source; FMRP Project Office

Table 4.4
Other Initiatives Facilitated by the FMRP - upto 2008

Code of Conduct and Ethics of the Ministry of Finance and Planning was translated in to Tamil, to make the code available userfriendly to all highlighting general principles of conduct and ethics applicable to public servants.

Introducing Information Technology improvements is one of the key objectives of the Project. After making an expert assessment, the introduction of a comprehensive Revenue Administration Management IT System to the IRD was commenced with the first phase of this component being the introduction of a LAN/WAN. An International Competitive Bidding Process was followed in calling for Bids and both Technical and Financial Bid evaluations are already completed. The contract award is due to be made.

Around 3,000 out of a total of 3,300 persons from the Inland Revenue Department, Customs Department and Excise Department were given basic computer training.

Two fully equipped IT labs were set up in the IRD with 35 computers each to facilitate computer training for employees of the IRD.

The metropolitan branch of Inland Revenue was opened at Jawatte Road with modern IT and other facilities for the convenience of tax payers.

33 Computers and other office equipment along with software, anti-virus protection etc. were provided to the newly established departments in the MOFP being the Legal Affairs Department, Management Audit Department and the Project Management Bureau and also to the Finance Commission.

'Randora' Auditorium of the Ministry of Finance and Planning a modern state of art auditorium with modern audio and video conferencing facilities.

Source; FMRP Project Office

Project Preparatory Technical Assistance -

Deepening Fiscal Management Reforms

Considering the need to deepen the achievements gained through the implementation of the Fiscal Management Reform Program I (FMRP I) that was successfully concluded in 2008 having substantially achieved its targets and also with a view to ensure sustainability of fiscal reforms perused through FMRP I, the Government requested the Asian Development Bank to provide Project Preparatory Technical Assistance (PPTA) to carry out a preliminary study in close consultation with relevant Government Officials, to identify areas that warrant further reform.

The key components being looked at are the following;

- A Public Expenditure Review of target areas i.e. Highways, Health and Education
- A review of the capacity in relation to the Service Delivery Framework of Highways, Health and Education Ministries.
- A review proposing how Management Audit aspect could be improved on par with sector best practices, with regard to ex-post monitoring and effectiveness of public spending.
- A review on how the Treasury Fund Transfer System could be improved to be on par with sector best practices i.e. further measures to be taken to improve the Treasury Single Account System, measures required to be taken to adopt a Public Accounting and Financial Management Information System (PAFMIS).
- A review of systems and procedures relating to revenue administration and fiscal operations at provincial level - 2 selected Provinces.
- A capacity development review considering training already given/in progress – pertaining to Treasury Departments and Provincial Councils, with emphasis on public expenditure and fiscal management.

PRESIDENTIAL COMMISSION ON TAXATION

A Presidential Commission on Taxation is to be appointed to carry out a comprehensive study of the prevailing tax system in the country with emphasis on specific areas noted hereunder. The proposals submitted by the Commission will be encompassed into the National Tax Policy proposed to be introduced from the year 2010, as envisaged in Budget Speech 2009, to bring about a broad based, simple and people friendly tax system in Sri Lanka.

While the Interim Report of the Commission that is expected to be released by end October 2009, the Final report will be released by end June 2010. Major reforms in the area of taxation are expected to be achieved through the implementation of such recommendations.

TERMS OF REFERENCE – PRESIDENTIAL COMMISSION ON TAXATION

- Study country's tax system and make an assessment as to why tax revenue in relation to GDP has declined over the years and make proposals as to how a tax/ GDP ratio that is comparable with other emerging economies could be achieved through a buoyant performance in tax revenue and that will also prevent the need to make frequent changes to taxation.
- Study various taxes operational at different levels of Government and propose as to how such taxes could be rationalized at national, provincial and local government levels, with a view to maximize revenue objectives at each level.
- Study the operations of numerous taxes at national level and propose as to how such taxes could be harmonized having regard to their revenue yield, administrative convenience and specific objectives for which such taxes have been introduced.
- Study the framework of both personal and corporate income taxation and propose measures to raise income tax revenue as a percentage of tax revenue by expanding the base and overcoming legal, administrative and procedural obstacles that hamper tax compliance, keeping in line with other comparable emerging economies.
- Study concessions that have been granted since 1977 by way of tax holidays and exemptions under the Inland Revenue, Customs and Board of Investment laws, with the intention of promoting investment and;
- Make a cost benefit analysis of such concessions in terms of promoting foreign direct investment and revenue foregone.
- Identify complexities or anomalies that such concessions have caused by creating different tax treatment for similar entrepreneurs and examine ways and means of rationalizing such concessions, considering the discrimination caused to local entrepreneurs who are expected to remain competitive in international trade, the likely impact on the tax base and the overall investment regime.
- Propose a rational and equitable mechanism through which strategically important foreign and domestic investments could continue to be attracted.
- Study broad problems connected with the implementation of Value Added Tax (VAT), the associated refund mechanism, the possibilities of expanding VAT and how Provincial Turnover Tax could be rationalized with VAT and make recommendations as to how VAT could be made operative as an effective and simple indirect tax.
- Study the prevailing Customs Tariff regime while recognizing the applicability of international trade agreements and propose desirable changes to make the related mechanism more compliant, simpler and cost effective.
- Study the prevailing excise tax regime under the Excise (Special Provisions) Act and the Excise Ordinance and propose how best excise taxes could be used as a revenue source.
- Study the various 'Cess' in operation and make recommendations as to how income derived through such 'Cess' could be better utilized to ensure greater development of their respective sectors.
- Study the system of devolved taxes and duties that have been assigned to Provincial Councils under the 13th Amendment to the Constitution and make recommendations as to how the potential revenue collection could be improved while ensuring effective revenue sharing and usage between central, provincial and local government units.
- Study the administrative structure of the Inland Revenue Department (IRD), the Customs Department (CD) and the Excise Department (ED) and their respective statutes and propose how best these 3 departments could be reformed to suit modern day needs through changes to the organizational structures and the relevant statutes with special emphasis on how these departments could be coordinated for effective implementation of tax policy and administration.
- Study in close consultation with the Public Services Commission, Salaries and Cadre Commission, the Management Services Department and the Establishments Department with due regard to relevant service minutes and administrative practices and propose appropriate changes to ensure efficient functioning of the IRD, CD and ED.

TERMS OF REFERENCE – PRESIDENTIAL COMMISSION ON TAXATION

- Propose reform initiatives to be implemented to bring about more transparency in the tax system through greater coordination between different revenue administration institutions such as the Inland Revenue Department, Sri Lanka Customs and the Board of Investment and suggest how such institutions and other investment promoting institutions such as the Export Development Board and the Industrial Development Board could be harmonized to augment revenue, while also proposing desirable changes to the associated legal framework to facilitate this process.
- Study the adequacy of skills involved in tax administration in the backdrop of major challenges associated with revenue collection efforts, while recognizing gaps, lapses or anomalies relating to procedural and internal controls that have left room for possible malpractices and abuses, and propose desirable institutional and capacity building measures to overcome such drawbacks.
- Study the extent to which Information Technology is being used to facilitate revenue collection efforts and propose as to how best Information Technology could be used to link revenue collection agencies and investment promotion agencies to enhance efficiency and bring about a compliant and taxpayer friendly investment climate.
- Propose as to how the relationship between the Ministry of Finance and Planning (MOFP) and the IRD, CD and ED could be strengthened in terms of policy formulation, implementation and performance review, while ensuring that the MOFP could perform an effective supervisory control in discharging its duties in terms of the Constitution, while also facilitating effective functioning of the 3 departments.

'MATHATA THITHA'

In line with 'Mahinda Chinthana' policy framework which promotes Mathata Thitha – A Stop to Liquor Consumption, the Excise Department has adopted an approach that discourages liquor consumption, despite related adverse impact on revenue. In this backdrop, several programs have been initiated since 2005 to reduce liquor consumption. Regular upward revisions of excise duties are imposed on liquor in order to discourage consumption. Further, issue of new excise licenses have also been curtailed and such licenses are generally issued only to Tourist Board approved hotels.

As can be seen from the following Table, although there had been a 4 per cent increase of hard liquor production in 2007 over 2006, it has reduced by 2 per cent in 2008 over 2007. Although a decrease in hard liquor production can be seen in 2008, the soft liquor production has increased by 15 per cent. However, the annual total excise revenue increase as a percentage has dropped from 25 per cent in 2004 to 14 percent in 2008 reflecting an overall declining revenue trend.

chart 4.1

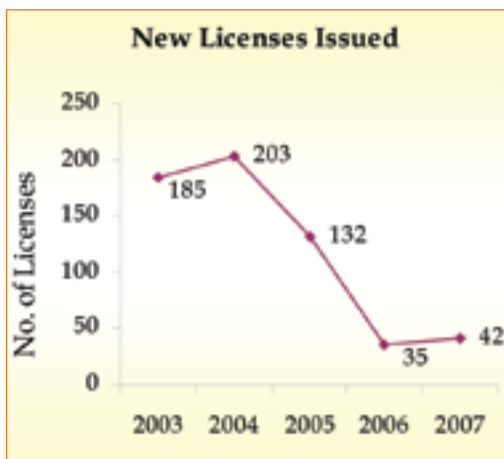


Table 4.5
Annual Hard Liquor Production

Year	Hard Liquor Production proof Ltrs - Million	Increase %
2003	32.0	-
2004	34.5	8
2005	38.5	11
2006	45.4	18
2007	47.2	4
2008	45.72	-2

Source; Department of Excise

Table 4.6
Annual Soft Liquor Production

Year	Beer Production Proof Ltr Million	Increase %
2003	47.8	-
2004	48.3	1
2005	51.5	6
2006	46.9	(9)
2007	49.7	6
2008	57.3	15

Source; Department of Excise

chart 4.2



Table 4.7
Excise Revenue

Year	Hard Liquor		Beer		Total Revenue Rs..Mn.	Increase %
	Tax Rs. Mn.	Increase %	Tax Rs. Mn.	Increase %		
2003	10,068	-	950	-	11,018	-
2004	12,444	23	1,401	47	13,845	25
2005	14,500	16	1,820	29	16,320	18
2006	18,633	28	2,108	15	20,741	27
2007	21,544	15	2,336	11	23,880	15
2008	24,292	12	2,972	27	27,264	14

Source; Department of Excise

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Table 4.8
Overall Excise Duty Revenue

Date Amended	Arrack per proof Ltr	Foreign Liquor for Proof Ltr	Beer - ¹ per Ltr - ¹	Beer- ² per Ltr	Wine per proof Ltr
2003.01.01	299	399	15.00	25.00	149
2003.09.09	330	440	20.00	35.00	149
2004.01.01	351	470	22.50	38.50	190
2004.11.19	366	490	27.50	43.50	200
2005.11.19	381	510	32.50	48.50	225
2005.12.09	396	525	37.50	53.50	250
2006.10.05	421	550	37.50	53.50	275
2007.03.13	446	575	37.50	53.50	300
2007.10.24	510	640	38.00	54.00	365
2008.10.08	560	690	48.00	64.00	415

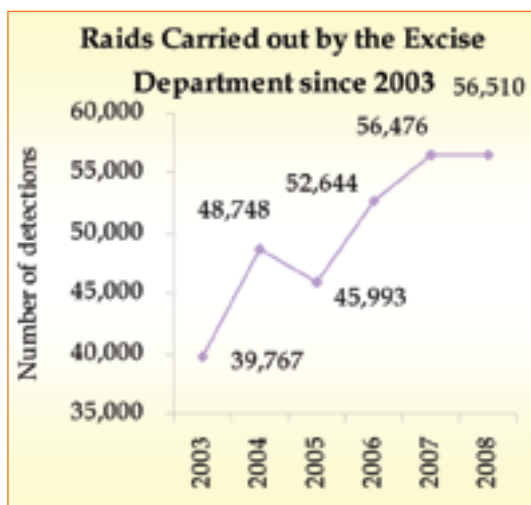
Source; Department of Excise

¹ Alcohol percentage below 5% - Beer

² Alcohol percentage over 5% - Beer

Reflecting a more stringent regulatory approach, there has been an increased number of raids carried out by the Excise Department and Police Department, in an attempt to eradicate the production of illicit liquor.

Chart 4.3



SECURITIES AND EXCHANGE COMMISSION

The Securities and Exchange Commission of Sri Lanka (SEC) in a bid to achieve its objectives to create and maintain a securities market that is fair, efficient and transparent, has undertaken the following initiatives in 2008.

As per the Capital Market Master Plan, SEC has proceeded to introduction of Securitization to the Capital Market of Sri Lanka. In working towards this objective, SEC undertook the coordination of drafting of the Securitization Act. The Bill was finalized in 2008 having gone through an intensive review carried out by the SEC together with representatives of the Central Bank, Attorney General's Department, Legal Draftsman's Department and the Ministry of Finance and Planning. The Bill has been finalized and submitted to the Parliament and the preparation of consequential amendments to other statutes to facilitate the successful implementation of the Securitization Act is in progress.

SEC as a part of its Corporate Plan has identified the need to amend the SEC Act No 36 of 1987 in its totality to address needs of changing trends in the world, and also to pave the

way for Sri Lanka to become a vibrant financial hub in the Region.

In 2008, the SEC analyzed the existing legal framework of the Sri Lankan Capital Market Law against current needs, by identifying measures that can be taken to regulate diverse financial products, to enhance protection to investors in the primary and secondary markets in respect of public offers, by deciding on definitions that could capture codified capital market offences including prohibited business conduct, by recognising new methodologies to be able to deal with Capital Market offenders providing for both criminal and civil sanctions, by exploring licensing possibilities for both mutual and demutualized exchanges and by identifying required changes relating to holding companies, clearing corporations, brokers, dealers and market intermediaries while also strengthening the independence of the SEC.

SEC is working towards demutualization i.e. changing the legal status of the exchange from a mutual association into a company limited by shares. It is also working towards providing necessary regulatory empowerment to enable licensing demutualized exchanges under the SEC Act and to introduce subordinate regulation to enable demutualization of the CSE at an appropriate time.

Further studies were also conducted on Corporate bond development as an alternative source of funding/investment and on how best to regulate Over the Counter (OTC) activities in the light of the large quantum of public funds mobilized in the form of unlisted securities. New product development initiatives made progress including the development of Unit Trusts, derivatives, Real Estate Investment Trusts and Exchange Traded Funds in order to increase the depth and breadth of the market whilst providing tools for risk management. SEC also worked towards the procurement of a surveillance system to improve the effectiveness of monitoring stock market activities. With the intention of enhancing the financial literacy level of the Journalists, a two day residential workshop on Financial Journalism was organized jointly with FSA to educate the media personal and 30 media personal representing electronic and print media participated. Publications, Quiz Programs and research

competitions were conducted to disseminate knowledge relating on Capital Market operations. SEC working within the framework of the capital market master plan established the first Capital Market Information Center in 2008, being a platform to disseminate knowledge on capital markets to University undergraduates and researchers in the University of Sabaragamuwa. SEC also established information centers at Rajarata, Sri Jayawardhanapura and Ruhuna Universities.

OFFICE OF THE TAX OMBUDSMAN

The appointment of the Tax Ombudsman in September 2005, can be seen as the initial step towards creating a forum for Tax- Payers to tender their complaints pertaining to alleged grievances or injustices caused to them in consequence of any maladministration on the part of any officers in the Inland Revenue Department.

Table 4.9
Redress by the Tax Ombudsman 2005- 2008

	2005	2006	2007	2008
No. of Complaints received	28	75	67	53
No. determined & concluded	15	49	35	39
No. rejected clause - 17	02	08	13	06
No. on which CGIR failed to send observations on time	02	Nil	05	04
No. on which recommendations not complied with by CGIR	Nil	Nil	Nil	Nil

Source: Tax Ombudsman's Office

The general nature of new complaints received in 2008 is with regard to initiating legal proceedings without giving any hearing to Tax-payers grievances, failure to make GST and VAT refunds, seeking permission to pay arrears of taxes on an installment basis, seeking to set-off penalties and requesting to accommodate delayed returns on reasonable

grounds, facts of courtesy from Inland Revenue Officers, insufficient information set out in the returns and seeking to obtain concessions extended to senior citizens.

Out of 53 complaints received, 39 have been resolved at the initial stages of calling observations or of inquiry.

The independent friendly environment facilitated by the office of the Tax Ombudsman and the obligation cast upon officers of the Inland Revenue Department to come prepared with all relevant facts when attending such inquiries, have made it possible to resolve tax payer grievances without delay.

'BIM SAVIYA'

Bim Saviya program initiated in 2006 to enable effective land ownership registration, carryout plans to clear ownership of lands and for the establishment of a proper land data base, made progress during 2008. Flowing from the approval granted in 2006, by the National Steering Committee and the Cabinet of Ministers for the Bim Saviya program proposed to be implemented over a period of 15 years, work in the following 18 divisional Secretarial divisions was carried out in the year 2008.

Balangoda, Divulapitiya, Doluwa, Homagama, Tambuttegama, Ridigama, Talawa, Weligepola, Moratuwa, Siyambalanduwa, Tissamaharama, Ridimaliyedda, Udunuwara, Meerigama, Medirigiriya, Lunugamwehera, Rajanganaya and Ampara.

Issue of land ownership certificates for land given by the Government, also commenced. Accordingly work in Ampara, Hasalaka, Nikaweratiya and Rajanganaya divisions commenced in 2008 along with a voluntary program to obtain ownership certificates on request.

In 2008, related awareness programs have been carried out in Bank of Ceylon, National Savings Bank, Lankaputhra Development Bank and Sampath Bank at both national and divisional levels. Accordingly, major banks have been enlightened of the Bim Saviya program promoting the grant of loans accepting such ownership certificates as security.

The general public has been educated through programs such as "Mahajana Sevaya Pinisai", through newspapers, monthly magazine etc. Further, members of Sri Lanka Notaries Association, Chartered Surveyors and Pradeshiya Sabha members were also educated on land ownership registration with the assistance of officers who have been specially trained. The divisional offices were improved with the introduction of a Local Area Network with the intention of connecting all offices through a Wide Area Network. Information on registered lands is now being fed into the computerized data system.

Foreign Financing of the Budget

An Overview

In the context of the challenges posed by the global economic crisis and in line with the development vision of the Government, "Mahinda Chintana: Vision for a New Sri Lanka - A Ten Year Horizon Development Framework 2006-2016", a stronger emphasis was placed on improving the effectiveness of foreign aid utilization and making maximum possible use of foreign financing.

Accordingly, foreign aid commitments as well as disbursements reached recorded highest levels in 2008. The total foreign financing commitments made by bilateral donors, multilateral agencies and the export credit agencies in 2008 was US\$ 2,067 million. The previous highest level of commitments of US\$ 1,740 million was registered in 2005 and that was in the aftermath of the Tsunami devastation. The disbursements reached US\$ 1,226 million in 2008. The previous highest level of disbursements i.e US\$ 1,146 million was in 2006. The figures indicated a 23.5 percent rise in aid commitments and 8.7 percent increase in aid disbursements compared with the previous year.

Reflecting the trust on infrastructure development, the proportion for infrastructure development in the total commitments has increased to 77 percent in 2008 from 70 percent in 2007. Given the Government strong commitment to fill the infrastructure gap in the country and mobilize foreign resources with that aim in the medium-term development strategy the share of the infrastructure development component has been increasing consecutively during the last three years. Furthermore, this reflects the Government's firm commitment on bringing the benefits of development to rural and underprivileged areas of the country in order to minimize the regional disparities. The Country Partnership Strategies for the period 2009-2011 with the World Bank and ADB were finalized with a funding envelope of US\$ 900 million from the World Bank and US\$ 820 million from the ADB in support of the Government medium-term development programme. Sri Lanka also finalized its aid programme with UN agencies under the United Nations Development Framework for the period 2008 - 2012. However, the highest increase in the new commitments as well as in disbursement of funds has been in the form of export credits.

Commitments from export credit agencies have increased by 48 percent while disbursement of funds from them has increased by 94 percent over the previous year. With Iran emerging as a new development partner in addition to the strong relationship in trade, the Iranian Government made its first loan facility for the Uma Oya Hydro Electric and Irrigation Project amounting to US\$ 450 million through the Export Development Bank. Mixing the development funding facilities with this type of funding is becoming a new reality given that Sri Lanka is an emerging middle income country. Efforts have been made to use possible other sources of financing such as attracting new donors and mobilizing export credits for key infrastructure projects.

The Government borrowings from the capital market sources were limited to the US\$ 150 million loan obtained from the Standard Chartered Bank given the tight liquidity conditions in the international financial markets in the context of the global financial crisis.

The cumulative undisbursed balance of the commitments as at end of December 2008 stood at US \$ 5.7 billion. Based on the existing portfolio and the expected foreign financing of US\$ 4.6 billion for the period 2009-2010, the total foreign financing available for utilization in the medium term would be around US\$ 10.3 billion.

Foreign Financing Commitments

The total foreign financing commitments made by the development partners and the credit agencies in 2008 was US\$ 2,067 million of which project loans accounted for US\$ 1,831 million and grants accounted for US\$ 236 million. The list of loan/grant agreement signed in 2008 is given in Annex 5-1.

The commitment made in 2008 is significant as this is the highest commitment reported in the history. Total commitment increased by US\$ 393 million or 23.5 percent compared to the commitment of the year 2007. Export credits increased by US \$ 262 million or 48 percent. Commitments from bilateral donors have increased to US\$ 761 million in 2008 from US\$ 553 million in 2007. This is an increase of US\$ 209 million or 12 percent compared to the

commitment of 2007. However, commitments from multilateral donors in 2008 have slightly decreased by US\$ 77 million or 5 percent.

Government of Iran, as a new bilateral development partner, extended an export credit facility of US\$ 450 million for Uma Oya Hydro Electric and Irrigation Project. Iranian

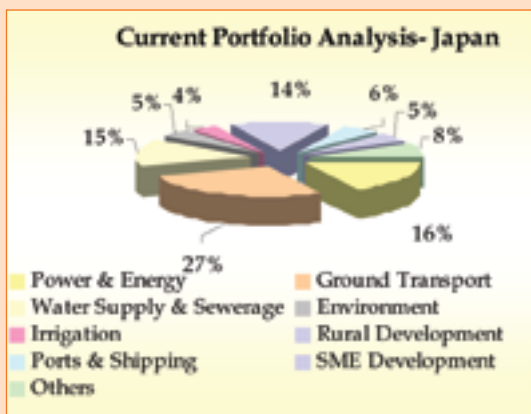
commitment represents 55.5 percent of the export credits and 22 percent of the total commitment in 2008. The major traditional development partners Japan, the World Bank and the ADB displayed their strong commitment to support the Governments development efforts. These development partners together accounted US\$ 724 million or 35 percent of the total commitment made in 2008.

Box 5.1
Development Assistance from Japan

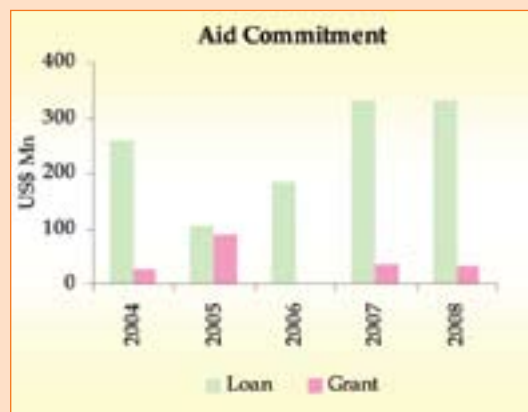
Development Assistance from Japan

Japan accounted for about 18% of the annual aid flow to Sri Lanka in 2008. Of the bilateral assistance received during the past 5 years Japan accounted for about 30% of such assistance.

About 90% of the Japanese assistance is provided in the form of soft loans, covering a wide spectrum of sectors.



During the period of 2004-2008 Japan has provided US \$ 1206.4 million as soft loans, US \$ 182.6 million as grants and US \$ 11.4 million as export credit .



During the period from 2004 to 2008, the annual average disbursement was about US \$ 266 million which accounted for around 23% of the total aid disbursement to Sri Lanka. The highest ever disbursement in the recent past amounting to US \$ 302 million was achieved in 2006. US \$ 278.7 million has been disbursed in year 2008.



Box 5.1
Development Assistance from Japan Contd.

Recently Completed key Projects

- Walawe Left Bank Irrigation Upgrading and Extension Project - Phase II (US\$ 95 mn)
- Kalu Ganga Water Supply Project (US\$ 115 mn)
- Kandy Water Supply Project (US\$ 52 mn)
- Improvement of National Blood Transfusion Services (US\$ 15 mn)

Key Projects proposed to be implemented

In order to achieve the goals of the Ten Year Development Framework, the following key projects are expected to be implemented with Japanese assistance during the next two to three years;

- Development of Bandaranaike International Airport - Phase II (US\$ 350 mn)
- Moragahakanda Development Project (US\$ 167 mn)
- Rehabilitation of Infrastructure Facilities in the Eastern Province (US\$ 75 mn)
- Provincial Road Improvement Project (US\$ 100 mn)
- Kandy Waste Water Treatment Project (US\$ 100 mn)

Major Projects being implemented

Japan has played a significant role in contributing to construct major infrastructure facilities in the country. Some of the key projects currently being implemented are:

- Southern Highway Construction Project (Kottawa – Kurudugahahatekma) (US\$ 370 mn)
- Outer Circular Highway Project
 - (Kottawa – Kaduwela) (US\$ 223 mn)
 - (Kaduwela – Kadawatha) (US\$ 260 mn)
- Upper Kotmale Hydropower Project – (US\$ 410 mn)
- Galle Port Development Project – (US\$ 147 mn)
- Water Sector Development Project I– (US\$ 135 mn)
- Water Sector Development Project II– (US\$ 85 mn)
- Construction of Mannar Bridge and Causeway (US\$ 18 mn)
- Development of Anuradhapura Teaching Hospital (US\$ 22 mn)

Technical Cooperation

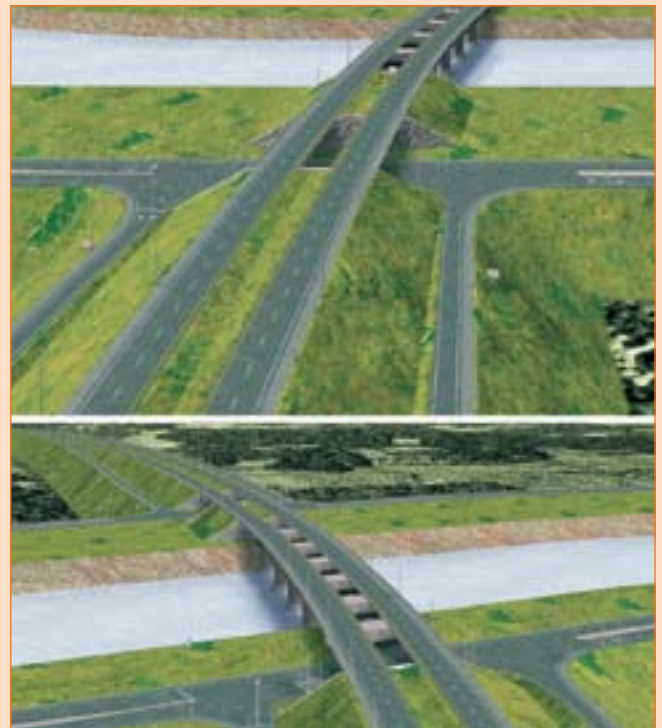
The Government of Japan has also made a significant contribution for human resource development through their

technical assistance programme. The Government of Sri Lanka received 721 numbers of training awards during the year 2008 of which 201 placements were received from the Government of Japan in the areas of IT, agriculture, health, environment governance and small and medium industry development.

Outer Circular Highway Project

The project includes construction of an outer circular highway (OCH) to the Colombo City, linking seven high priority trunk roads and proposed expressways to mitigate traffic congestion in the Colombo Metropolitan area and enhance the connectivity with other regions, thereby contributing to strengthening economic infrastructure of the country. This highway will be a four-lane access controlled road which can be widened up to six-lanes in the future.

The OCH will connect the Southern Expressway at Kottawa and the Colombo - Katunayaka Expressway at Kerawalapitiya.



Perspective view of the outer circular highway

Box 5.1
Development Assistance from Japan Contd.

Upper Kotmale Hydropower Project

A 150 MW Hydro Power Plant is being constructed at Thalawakele which will add 409 Gw/h annually for the country's power generation by diverting the water of Kotmale Oya at Thalawakele intake dam to a 12.5km length headrace tunnel and then to the power house which is located at about 1 km downstream of Pundalu Oya and Kotmale Oya.

The main civil works and hydro & electro mechanical works are underway. The power plant is expected to be commissioned in 2011.



Layout of the Galle Port



Work in Progress at Diversion Tunnel Area

Galle Port Development Project

The Government of Japan has offered a loan of US \$ 135 mn to develop the Port of Galle as a regional port by constructing an outer breakwater to maintain calmness of the port to facilitate the berth of large vessels and a new multipurpose terminal to meet the future demand and to reallocate break bulk cargo handling from the Colombo Port. The new terminal will help to reduce the waiting time of the vessels, berth occupancy ratio and cater to large vessels. Furthermore the project will greatly facilitate the Southern area development plan presently being implemented. This project will increase the cargo handling capacity up to 3.3 million metric ton per annum.

5. Foreign Financing of the Budget

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Table 5.1
Foreign Financing Commitments* by Donor 2008 (US\$ mn)

Donor	2008			2007
	Loan	Grant	Total	
Bilateral	634.1	127.2	761.3	552.7
China			79.4	
France	23.6		23.6	22.3
Germany			17.3	
India	200.0	9.2	209.2	
Japan	325.9	30.9	356.7	371.0
Korea	61.7	6.2	67.8	16.1
Netherlands		63.6	63.6	
USA		16.2	16.2	4.3
Other Bilateral	23.0	1.2	24.2	42.3
Multilateral	385.9	109.2	495.1	572.5
Asian Development Bank	90.0		90.0	449.4
World Bank	275.2	1.9	277.1	47.3
UN Agencies	20.7	107.3	128.0	57.9
Other Multilateral			17.8	
Export Credit	810.8		810.8	549.1
China				306.7
Sweden				91.9
Australia	16.1		16.1	
Austria	43.4		43.4	12.7
Denmark	155.2		155.2	
France	55.2		55.2	
Iran	450.0		450.0	
Japan	11.4		11.4	
Netherlands	79.5		79.5	6.6
United Kingdom				127.2
Norway				4.0
Total	1,830.7	236.5	2,067.2	1674.3

Source: Department of External Resources

* Note: Capital Market borrowing of US\$ 150 million not included

Chart 5.1



and the World Bank provided US\$ 93 million as additional financing for Road Sector Assistance Project.

Water Supply and Sanitation sector received US\$ 233 million or 11 percent of the total commitments. Government of Denmark committed US\$ 83 million through an export credit facility for Kelani Right Bank Water Treatment Plant. The Government of Netherlands provided a grant facility of US\$ 31 million and an export credit facility of US\$ 26 million for the Negombo Water Supply Project. Austria committed US\$ 15 million export credit for Rehabilitation of Kirindi Oya Water Supply Project and Japan US\$ 78 million for the Water Sector Development Project Phase II.

Of the new commitments, US\$ 1,587 million or 77 percent was for infrastructure development in road, bridges and transport, port development, water supply, power and energy and irrigation. The highest commitment of US\$ 623 million was for development of Agriculture, Fisheries and Irrigation which includes the Iranian commitment of US\$ 450 million for Uma Oya Hydro Electric and Irrigation Project. Government of Netherlands provided grant assistance of US\$ 26 million and an export credit facility of US\$ 43 million for the construction of Dikowita Fishery Harbor. The World Bank committed US\$ 42 million for Dam Safety and Water Resources Planning Project.

Roads and transport sector recorded the second highest in mobilizing foreign financing amounting to US\$ 581 million. Government of Japan was the main donor in this sector and has committed US\$ 216 million for two projects. Of this, US\$ 163 million was for additional financing requirements of the Construction of the Southern Expressway Project and the balance US\$ 53 million was for Greater Colombo Transport Development Project Phase II (Outer Circular Road). The Asian Development Bank also made a supplementary commitment of US\$ 90 million to meet the financing requirements of the Construction of the Southern Expressway. The Government of Korea provided US\$ 55 million for improvement of Padeniya – Anuradhapura road

5. Foreign Financing of the Budget

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Table 5.2
Foreign Financing Commitments 2008 - Sector-wise in US\$ Million

Sector	Loan	Grant	Total	% of Total
Roads and Transport	581.5	0.0	581.5	28.1
Ports	72.5	0.0	72.5	3.5
Water Supply & Sanitation	201.5	31.1	232.6	11.2
Tsunami Rehabilitation	20.7	0.5	21.2	1.0
Health, Education & Vocational Training	68.2	91.7	159.8	7.7
Power & Energy	74.2	0.0	74.2	3.6
Agriculture, Fisheries, Irrigation and Land	576.1	47.0	623.2	30.1
Conflict Affected Areas Rehabilitation	0.0	49.1	49.1	2.4
Rural Development	41.6	0.0	41.6	2.0
Environment & Natural Resources	0.0	5.5	5.5	0.3
IT, Science & Technology	6.7	0.0	6.7	0.3
Housing & Urban Development	41.1	0.0	41.1	2.0
Other	146.6	11.6	158.2	7.7
Total	1830.7	236.5	2067.2	100.0

Source: Department of External Resources

Chart 5.2



Committed Un-disbursed Balance

The total Committed Un-disbursed Balance (CUB) of foreign financing available at the end of 2008 was US\$ 5.77 billion. These commitments will be utilized within 2 to 5 year period based on the duration of projects for which such funds were committed. Table 5.3 and 5.4 indicates sector-wise and donor-wise classification of committed undisbursed balance, respectively.

Table 5.3
Committed Un-disbursed Balance
(On Sectoral Basis as at 31 Dec 2008)

Sector	US\$ mn	% of Total
Roads, and Transport	1349.2	23.4
Ports	773.9	13.4
Water Supply & Sanitation	559.9	9.7
Tsunami Rehabilitation	358.3	6.2
Health, Education & Vocational Training	365.5	6.3
Power & Energy	756.0	13.1
Private Sector Development	112.8	2.0
Agriculture, Fisheries, Irrigation and Land	774.3	13.4
Conflict Affected Areas Rehabilitation	92.7	1.6
Rural Development	87.7	1.5
Environment & Natural Resources	68.4	1.2
IT, Science & Technology	46.6	0.8
Housing & Urban Development	71.2	1.2
Other	355.3	6.2
Total	5,771.7	

Source: Department of External Resources

Table 5.4
Committed Un-disbursed Balance Donor-wise
in US\$ Million

Donor	CUB as at 31 Dec 2008
Bilateral	2,656.4
Japan	1,582.0
China	372.4
Denmark	10.3
France	116.6
Germany	23.7
India	228.8
Korea	89.8
Kuwait	24.1
Netherlands	93.2
Saudi Fund	34.9
USA	30.4
Other Bilateral	50.2
Multilateral	1,841.8
ADB	1,091.4
World Bank	502.8
European Investment Bank	63.4
European Union	51.4
UN Agencies	126.1
Other Multilateral	6.6
Export Credit	1,273.5
Total	5,771.7

Source: Department of External Resources

Box 5.2
Development Assistance from the Asian Development Bank

Country Partnership Strategy of the Asian Development Bank for 2009-2011 was prepared in line with the Government priorities which focus on investments in large-scale infrastructure and urban/rural development to promote lagging regions.

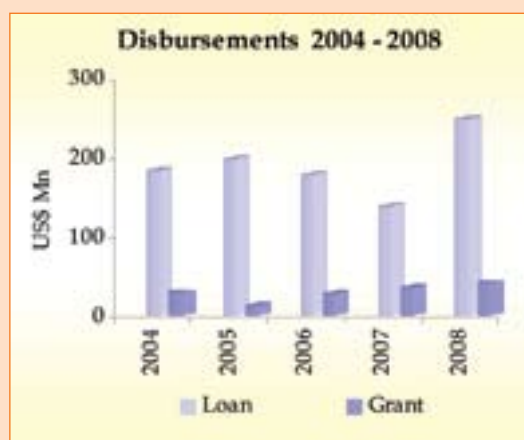
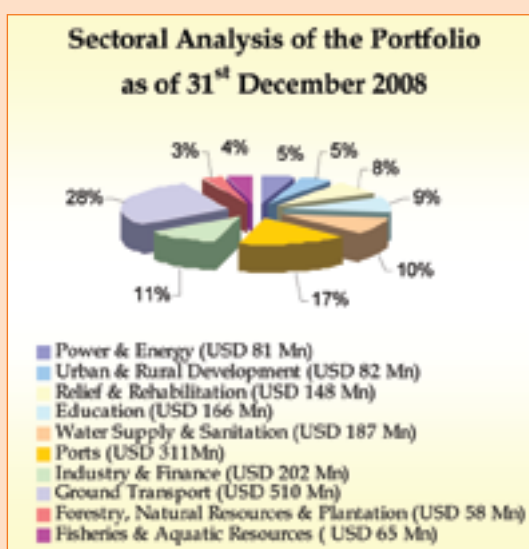
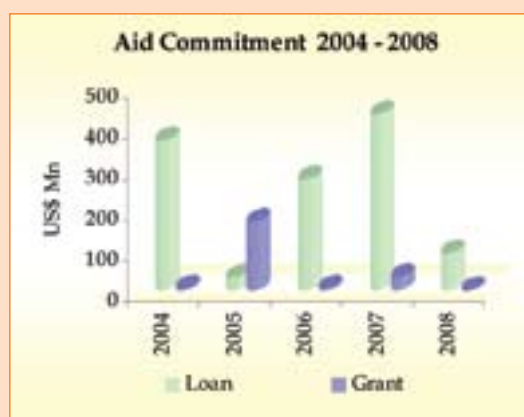
During the last 5 years ADB has provided around US\$ 1588 mn of loans for the implementation of development projects in Sri Lanka. The total value of all ongoing projects is approximately US\$ 2 billion. It includes US\$ 1162 million concessional loans, US\$ 730 mn semi concessional loans and US\$ 164 mn grants.

In 2008 programme, ADB has agreed to provide US\$ 165 mn for the Power Sector, US\$ 85mn for Water Supply and Sanitation in the Dry zone areas in the North Western, US\$ 70 million for the Rehabilitation of Provincial Roads in the Eastern province and North Central province, US\$ 100 million for Greater Colombo Waste Water Management Project and US\$ 90million for the Supplementary Loan for the Southern Expressway. Only the Supplementary Loan Agreement of the Southern Expressway Project was concluded in the year 2008 and the conclusion of other loan Agreements were kept for the year 2009 due to delay in project readiness.

Sectoral Analysis of the Portfolio

The main sectors funded by the ADB are Road, Port, Water Supply, Finance, Education and rehabilitation work in the Tsunami and conflict affected areas.

During the period of 2004-2008 the average annual commitment made by the Asian Development Bank was US\$ 280 million which accounted around 22% of the total aid commitments. However, in 2007 ADB committed US\$ 448.5 million, which is the highest ever commitment for Sri Lanka reflecting ADB's strong assistance for the implementation of medium Term Development Plan of the Government. The flagship projects included in the commitments are; US\$ 300 million for Colombo Port development, US\$ 80 million for improving the Education Sector, US\$ 50 million for development of SME sector and a supplementary loan of US\$ 13.6 million for Secondary Towns water supply project.



Box 5.2
Development Assistance from the Asian Development Bank Contd.

During the period of 2004-2008 the average annual disbursement made by the Government from the ADB was US\$ 218 million. However, in the year 2008 Sri Lanka was able to disburse US\$ 290 million. This was an achievement of 118% of the targeted disbursement of US\$ 210 million. The disbursement ratio went up to 20 percent in 2008.

Key projects being implemented

- Colombo Port Expansion Project - US\$ 300 mn
- Distance Education Modernization Project - US\$ 43 mn
- Education for Knowledge Society Project - US\$ 80 mn
- Local Governments Infrastructure Improvement Project - US\$ 53 mn
- National Highways Sector Project - US\$ 150 mn
- Secondary Towns Rural Community Based Water Supply & Sanitation Project - US\$ 120 mn
- Southern Transport Development Project - US\$ 180 mn
- Small & Medium Sector Regional Development Project - US\$ 50 mn

Colombo Port Expansion Project - US\$ 300 mn

The Asian Development Bank provided US\$ 300 million for the implementation of the Colombo Port Expansion Project (CPE) to promote economic growth by improving Sri Lanka's Competitiveness in the port sector through expanding existing capacity of the Colombo Port with high economic return.

The proposed expansion includes dredging and break water construction sufficient to accommodate three terminals, and small boats harbor. Relocation of existing submarine oil pipelines and improved shore facilities and provision of navigational aids will also be a part of this expansion.

The CPEP will increase the container handling capacity of the Colombo Port from 3.3 mn TEU in 2006, 5.7 mn TEU by 2010 and 8.1 mn TEU by 2015



Construction of Colombo Port Breakwater

National Highways Sector Project

The project will provide funding for the construction and upgrading 270 km of national highways in the country. It includes the development of Puttlam-Anuradhapura road (53 km), Nuwara Eliya - Badulla road (54 km), Udatenna-Mahiyangana road (41 km), and Habarana-Kantale road (44 km). The project will be completed by 2010.

Recently completed key projects

- Coastal Resources Management Project - US\$ 41 mn
- North East Community Restoration & Development Project - US\$ 28 mn
- Protected Areas Management & Wildlife Conservation Project - US\$ 13.5 mn
- Road Network Improvement Project - US\$ 94 mn
- Road Sector Development Project - US\$ 63 mn
- Third Water Supply & Sanitation Project - US\$ 80 mn

Road Network Improvement Project -US\$ 94 mn

The Road Network Improvement Project (RNIP) has completed 189 Km of class A and B roads with strengthening pavements of about 156 Km. In addition, structures of 47 bridges were rehabilitated and widened in the same roads in order to provide and maintain an appropriate strategic road network, connecting cluster cities to contribute economic and social development in the areas. Some of the rehabilitated roads are Katugastota – Kurunegala,

Box 5.2
Development Assistance from the Asian Development Bank Contd.

Panadura - Ingiriya, Weerawila – Kataragama, Ambatale – Kaduwela, Pasyala - Mirigama, Pelmadulla – Embilipitiya , Nittambuwa - Urapola, Ambalangoda – Elpitiya, Nawalpitiya – Ginigathena, and Nagoda – Agalawatte.



Rehabilitated Pelmadulla – Madampe Road

Coastal Resources Management Project - US\$ 41 mn

The project supported to establish 3 fishery harbours at Hambanthota, Chilaw and Ambalangoda and renovated fish selling center at Negombo. Various coast line stabilization measures were taken for sea erosion control at the degraded sites of Western coastal belt of the Island while introducing special areas management plans for habitat conservation and resource management of Bar Reef, Negombo, Lunawa, Koggala, Tangalle, Mawella and Kalametiy lagoons and Muthurajawela Wet Land, Maduganga Estuary, Hikkaduwa Reef and Habaraduwa - Unawatuna Bay ecological sites. To sustain the coastal eco systems in the areas of Maduganga, Kalametitya, Kalpitiya, and Negombo lagoons, visitor/ community centers were established.



Fishery Harbour - Ambalangoda

Key projects to be implemented

- **Clean Energy & Access Improvement Project - US\$164.2 mn**
 The project will improve the power transmission and distribution network in Sri Lanka
- **Greater Colombo Wastewater Management Project - US\$ 100 mn**
 The project will rehabilitate the existing sewerage network in Colombo, Kollonnawa and Dehiwala/Mount Lavinia municipalities.
- **Dry Zone Urban Water & Sanitation Project - US\$ 85 mn**
 The loan supports for the rehabilitation, expansion and development of water and sanitation infrastructure in the major towns of Vavniya, Mannar, Puttlam, Chilaw in the dry zone.
- **Eastern & North Central Provincial Roads Project – 1st Phase - US\$ 70 mn**

The project will reconstruct 506 km of provincial roads in Eastern and North Central Province.

Disbursement of Foreign Funds 2008

Total disbursement made during the year 2008 was US\$ 1,226 million. Of which loans accounted for US\$ 932 million (76 percent) and grants accounted for US\$ 294 million (24 percent).

The disbursement in 2008 is remarkable as it is the highest disbursement reported in the history. Until 2008, US\$ 1146 million was the highest disbursement recorded in 2006. Table 5.5 gives disbursement of funds by donors/creditors during 2008.

Table 5.5
Disbursement of Foreign Financing 2007 – 2008 in US\$ Million

Donor	2008			2007
	Loan	Grant	Total	
Bilateral	397.4	79.9	477.3	656.0
Japan	263.3	15.4	278.7	229.4
China	46.3	0.8	47.1	180.8
Denmark	9.2		9.2	20.8
France	20.9		20.9	11.2
Germany	8.7	27.9	36.6	79.9
India	0.5		0.5	14.7
Korea	14.2	2.8	17.0	38.8
Kuwait	8.2		8.2	4.6
Sweden	0.8	1.4	2.2	16.5
Spain	20.2		20.2	13.3
USA		30.6	30.6	32.2
Other Bilateral	5.1	1.0	6.1	13.8
Multilateral	380.1	213.7	593.8	392.3
ADB	248.2	41.7	289.9	173.6
World Bank	96.0	49.6	145.6	122.0
European Investment Bank	28.7		28.7	42.0
European Union		24.0	24.0	11.0
UN Agencies	5.3	98.4	103.7	36.3
Other Multilateral	1.9		1.9	7.4
Export Credit	154.5		154.5	79.6
Total	932.0	293.6	1,225.6	1,127.8

Source: Department of External Resources

* Note: Capital Market borrowing of US\$ 150 million not included

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Total disbursement in 2008 has increased by US\$ 98 million or 8.7 percent compared to 2007. Disbursements from the multilateral donors have increased by US\$ 202 million or 51 percent in 2008 whereas disbursements from bilateral donors have decreased by US\$ 179 million or 27 percent. Utilization of funds from export credit agencies have increased sharply from US\$ 80 million to 155 million which represents an increase of 94 percent compared to the previous year disbursement.

Southern Expressway Project, Upper Kotmale Hydro Power Project, Provincial Road Improvement Project and Walawe Left Bank Irrigation Project. The World Bank disbursed US\$ 144 million mainly for Road Sector Assistance Project, Gami Diriya Project and North East Housing Reconstruction Project recorded the highest disbursement.

Chart 5.3



The Asian Development Bank, the Government of Japan and the World Bank were the three main donors reported highest disbursement during 2008. These donors disbursed US\$ 714 million or 58 percent of the total disbursement. The Asian Development Bank disbursed US\$ 290 million mainly from the projects in roads, water supply, power and port sectors. Colombo Port Expansion Project, Secondary Towns Rural Community Water Supply/Sanitation Project and Southern Expressway Development Project were the main projects which reported highest disbursements during 2008. The Government of Japan disbursed US\$ 279 million mainly for

5. Foreign Financing of the Budget

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Table 5.6
Projects with Disbursement over US\$10 million in 2008

Project Name	Donor	US\$ mn
Southern Expressway Development Project	Japan	60.8
Upper Kotmale Hydro Power		57.1
Provincial Road Improvement Project		17.7
Walawe Left Bank Irrigation Project		17.0
Environmentally Friendly Solution Fund - II		12.1
Lunawa Environment Improvement and Community Dev. Project		11.9
Rural Development Project		11.5
Colombo Electricity Distribution Development Project		10.7
Kaluganga Water Supply Project		10.2
Colombo Port Expansion Project	ADB	43.0
Secondary Towns and Rural Community Water/Sanitation		35.0
Southern Expressway Development Project		31.3
Tsunami Affected Areas Rebuilding Project		31.2
Power Sector Development Project		21.4
Fiscal Management Programme		15.0
National Highway Sector Development Project		11.1
Road Sector Assistance Project	World Bank	45.2
"Gami Diriya" Project		15.6
North East Housing Reconstruction Project		20.2
Health Sector Development Project		10.5
Education Sector Development Project		12.2
Puttlam Coal Power Project	China	23.2
Supply of 15 Nos. Diesel Multiple Units		10.7
Tsunami Affected Areas Rebuilding Project	European Union	19.3
Reconstruction of Water Supply in Galle District	Germany	10.2
Setting up of two Water Treatment Plants at Galle and Negombo	Spain	13.5
Towns South of Kandy Water Supply Project	Denmark	14.1
Kelani Right Bank Water Treatment Plant		12.8
Tsunami Recovery and Reconstruction Support	USA	23.3
DFCC Global Loan II	European Inv. Bank	15.1
Trincomalee integrated Infrastructure Development Project	France	10.8
Regional Bridge Project	United Kingdom	49.7
Ratmalana & Ja-Ela Water Treatment Facilities	Sweden	17.7
Assistance to Vulnerable Groups for Peace Building in Conflict Affected Areas	World Food Programme	68.5
UNICEF Country Programme 2008 -2012	UNICEF	21.5

Source: Department of External Resources

Foreign Aid Utilization Rate

Foreign aid utilization rate (or foreign aid disbursement ratio) total disbursement to total committed undisbursed balance, indicates the efficiency of utilization of foreign aid committed by the donor agencies.

Foreign aid utilization ratio depends on the average project/loan portfolio life. For instance, if the average portfolio

life is five years, one fifth of the loan should be disbursed annually and therefore, the utilization ratio should be around 20 percent. About 90 percent of the projects in the aid portfolio have life spans between 4 to 5 years and hence, the satisfactory levels of the overall utilization ratio should be between 20 percent and 25 percent.

Table 5.7
Utilization Rates

Donor	2008	2007
Japan	22.6	16.9
ADB	21.1	12.8
WB	29.0	24.6
China	22.9	28.5
Germany	33.5	53.7
France	13.6	1.8
Netherlands	0.3	0.5
Sweden	4.9	28.7
Korea	31.0	44.4
U.S.A.	58.9	40.3
Spain	63.0	32.4
Export Credit	11.8	43.1
FAO	15.0	60.3
IFAD	6.4	7.1
NDF	15.3	48.0
India	0.4	34.3
Kuwait	23.7	7.0
Denmark	32.0	69.1
Norway	0.2	3.1
Switzerland	21.1	45.1
Saudi Fund	10.0	21.7
EIB	30.5	33.9
OPEC	27.3	38.1
WFP	69.7	23.5
Other UN Agencies	22.0	14.7
Other donors	21.2	2.0
Overall	20.6	21.3

Source: Department of External Resources

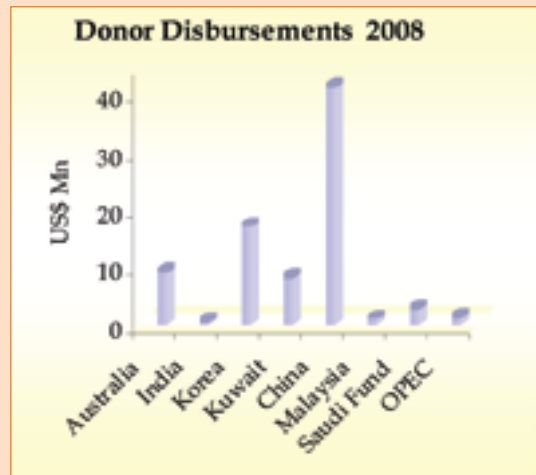
Box 5.3
Development Assistance from Bilateral Eastern Countries

Commitments

The Government of Iran committed a loan amounting US\$ 450 million through the Export Development Bank of Iran (EDBI) to finance the Uma Oya Hydro Electric and Irrigation project which was the major commitment during the year 2008. Further a significant commitment was made by the Government of India by two loans amounting US\$ 100 million for implementation of the Upgrading of Southern Railway Line from Colombo – Matara and US\$ 100 million for purchasing of equipments from India.

Disbursements

Major disbursement was made under the Puttlam Coal Power Project and Supply of 15 Nos. Diesel Multiple Units funded by the Government of China. The total costs of the two projects are US\$ 455 mn and US\$ 38.68 mn respectively. A considerable amount was disbursed under the Rehabilitation of Balangoda -Bandarawela Road project and the Upgrading of Niyagama National Vocational Training Centre funded by Korean Government



Key Projects being implemented

Donor	Project Name	Loan /Grant	Cost in US \$ million
India	Upgrading of Railway Line Colombo Matara.	Loan	100
	Establishment of 150-Bed District Hospital at Dickoya,Hatton	Grant	8.53
Kuwait	Bridges Reconstruction & Rehabilitation	Loan	17.04
	Strengthening of Tertiary Education & Administrative Infrastructure in Tsunami Affected Areas	Loan	20.54
Korea	Re- Engineering Government Component of e-Sri Lanka (Stage 1)	Loan	15
	Re- Engineering Government Component of e-Sri Lanka (Stage II)	Loan	6.65
	Administrative Complex in Hambantota	Loan	20
	Upgrading of Niyagama National Vocational Training Centre	Loan	8.78
	Improvement of Padeniya - Anuradhapura Road	Loan	55

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Box 5.3 Development Assistance from Bilateral Eastern Countries Contd.

Key Projects being implemented Contd.			
Donor	Project Name	Loan /Grant	Cost in US \$ million
China			
	National Performance Art Theater	Loan	10.86
	Puttlam Coal Power Project	Laon	455
	Supply of 15 Nos. Diesel Multiple Units	Loan	38.68
	Maintenance Requirements at the BMICH	Loan	7.2
Saudi Fund For Arab Economic Development			
	Mahaweli Ganga Dev. Proj.System B L.Bank	Loan	24.7
	Baticaloa-Trincomalee Road	Loan	10.67
	Epilepsy Hospital & Health Centers	Loan	20
	Development of Health Facilities in Colombo	Loan	18
Australia	Sustainable Water Assistance Management Project - phase II	Loan	16.1
Export Development Bank of Iran			
	Uma Oya Hydro Electric and Irrigation Project	Loan	450
Projects Completed in 2008			
Donor	Project Name	Cost in US \$ million	
Australia	Natural Resources Management project	9.2	
China	Procurement of 100 Carriages for Sri Lanka Railways	27.2	
	Rural Electrification VII	24.2	
Korea	Greater Galle Water Supply project Phase II	14.8	
	Rehabilitation of Balangoda -Bandarawela Road	17.64	
Key Projects to be implemented			
Donor	Project Name	Cost in US \$ mn	
EDCF/Korea			
	Anuradhapura Trincomalee road Project	75.10	
	Lanka Government Network stage II project	7.25	
	Ruhunupura Water supply	76.3	
KOICA/Korea			
	Establishment of Waste Management System in high level road region in Colombo district	5.18	
	Establishment of the emergency response system in Sri Lanka	2.07	
	Korea Sri Lanka friendship hospital -Godagama	6.56	
China			
	Colombo Katunayaka Expressway	248.00	
	Hambantota Port Development Project, Phase II	100.00	
	Hambantota Bunkering Facility & Development Project	75.00	
	Purchase of six Commercial Aircraft	81.14	
	Puttlam Coal Power Project-Phase II	372.9	
	Rehabilitation of Southern Breakwater and the Approach Channels of the Panadura Harbour	5.18	
	Housing Project for Public Servants	22.50	
	Repair & Refurbish the Superior Courts Complex	0.39	
Kuwait			
	Technical Assistance Moragolla Power (27mw) Project	0.86	
	Moragahakanda & Kaluganga Development Project	37.00	

Source: Department of External Resoruces

Box 5.3
Development Assistance from Bilateral Eastern Countries Contd.

Administrative Complex in Hambantota



The objective of the project is to construct a four storied Administrative Complex in Hambantota to provide office space for most of the Central, Provincial and Local Government institutions which are presently located in private buildings as the tsunami tidal waves destroyed a large number of Government buildings. Main activities of the project are to construct main building, accommodation units, library building and local authority building. The total cost of the project is US\$ 25mn of which US\$ 20 million will be provided by the Government of Korea as a soft loan and the balance of US\$ 5 mn is provided by the Government of Sri Lanka. The project is expected to be completed in October, 2009.

Improvement of Padeniya-Anuradhapura Road

The objective of the project is to improve the existing Padeniya Anuradhapura road to provide high mobility road from Padeniya to Anuradhapura. The project includes widening and improvement of 80.8 km long Padeniya Anuradhapura road with 2 lane facility and 4 lane facilities at town section. The total cost of the project is US\$ 70mn of which the Government of Korea will provide US\$ 55 million on concessional terms.

The implementation of this project will shorten the travel time, reduce the vehicle operating costs and decrease the traffic accidents and thereby improve the quality of

public transportation services between Padeniya and Anuradhapura.

The improvement will also contribute to the tourism development plan of the Northern part of Sri Lanka, especially world heritage sites of Anuradhapura, Kandy and Polonnaruwa which form the cultural triangle.

US\$ 100 mn Indian line of Credit for the Reconstruction of the Southern Railway

The Government of India has agreed to provide assistance for implementation of the Upgrading of Southern Railway Line from Colombo – Matara under the funds pledged for Tsunami recovery activities. The total cost of the project is estimated at US\$ 212.4 million of which US\$ 167.4 million is expected from foreign sources and the balance US\$ 45 million will be financed by the Government of Sri Lanka.

The project will upgrade the track from Colombo to Matara to the standard allowing a maximum speed of 100 km/ph. It will increase the average operating speed from 40 km/ph at present to 80 km/ph allowing a passenger express train to cover the Colombo – Galle distance approximately within 2 hours. Further, 20 Diesel Multiple Units (DMU's) and 3 units of locomotives will be purchased under the project.

Box 5.3
Development Assistance from Bilateral Eastern Countries Contd.

Puttlam Coal Power Plant Project

The objective of the project is to build a coal power plant to meet the growing electricity demand in the country at a minimum cost. The power plant will be built in three phases of 300 MW capacities each and the total capacity of the power plant will be 900 MW. The Government of China through the Exim Bank of China has extended a loan of US\$ 455mn for the implementation of the 1st Phase of the project. The 1st Phase includes installation of a 300 MW coal power, 1.2km of Coal unloading Jetty with Conveyor Belt, 115km of 220k V Power Transmission line from Norochcholai to Veyangoda, all auxiliary equipment/system for generation of 300MW power and building a coal yard including common facilities and other ancillary requirements. It is expected to complete Phase I of the project in 2012 and Phase 2 and 3 in 2013.

Uma Oya Hydro Electric and Irrigation Project

The objective of Uma Oya Hydro Electric & Irrigation Project is to provide 100-150 MW hydro power and irrigated water for 4000-5000 hectares of dry lands and drinking water

for Hambantota and Monaragala districts. The project includes construction of 2 dams at Puhulpola and Dyraba in Welimada, a 23 km long transbasin tunnel, an underground power house with an annual power output in the range of 312 GWH. The Government of Iran has agreed to provide a loan not exceeding US\$ 450 million through the Export Development Bank of Iran (EDBI) to finance the Uma Oya Hydro Electric and Irrigation project. The total cost of the project is US\$ 529 mn. The Iranian loan will cover 85% of the project cost and the Government of Sri Lanka will finance the balance 15%. The project will commence in 2009.

During the state visit of the President of the Islamic Republic of Iran to Sri-Lanka the loan agreement for the Uma Oya Hydro Electric & Irrigation Project and a MOU for Housing project were signed.

Possibility of providing Iranian assistance for the Sapugaskanda Oil Refinery Expansion and Modernisation (SOREM) Project was also discussed during this visit.

Table 5.8
Under-performed projects in 2008

Donor	Name of the Project	Loan Amount US\$ mn	Disbursement Target 2008 US\$ mn	Not Utilized in 2008 US\$ mn	Reasons for variations and Current status
ADB	Secondary Towns Rural Community Based Water Supply & Sanitation Project	120.0	21.0	20.0	Due to heavy cost overrun, the supplementary loan was also not adequate. Therefore, additional funding amounting to US\$ 45.58 is required for Polonnaruwa, Muttur water schemes and construction of Hambantota Salinity Barrier.
	Technical Education Development Project	21.0	5.0	3.0	Delays in finalization of Diploma and Degree programs.

Table 5.8
Under-performed projects in 2008 Contd.

Donor	Name of the Project	Loan Amount US\$ mn	Disbursement Target 2008 US\$ mn	Not Utilized in 2008 US\$ mn	Reasons for variations and Current status
Japan	Greater Colombo Urban Transport Development Project	223.0	30.5	29.2	Civil work contract was not awarded due to high bid prices. Re-tendering is being done.
	SMILE III	98.0	18.2	12.2	Delay in granting approval for sub-loans by PMU. Disbursements were temporary suspended due to non submission of settlement certificate on audit observations by the PMU.
	Galle Port Development Project	147.0	15.5	14.1	Civil work contract was not awarded due to high bid prices. Cabinet approval was granted to cancel the tender and advise to re-negotiate the terms of the loan with JICA to adopt the international competitive bidding.
Japan	Tourism Resource Improvement Project	26.0	6.6	5.5	Delay in awarding contracts by Project Implementing Agencies (PIAs).
	PEACE Project	61.0	11.8	7.4	poor performance of contractors (Farmer's organizations)
WB	Infrastructure and Housing Development in Puttlam Project	32.0	14.0	4.0	Delay in awarding contracts under the Water component.
	Reawakening Project	64.7	13.5	6.6	Instability condition in the project areas.
Korea	Administrative Complex in Hambantota	20.0	6.0	2.1	Due to the poor performance the main contractor of the project has been changed. Therefore, the implementation of the project is delayed.

Source: Department of External Resources

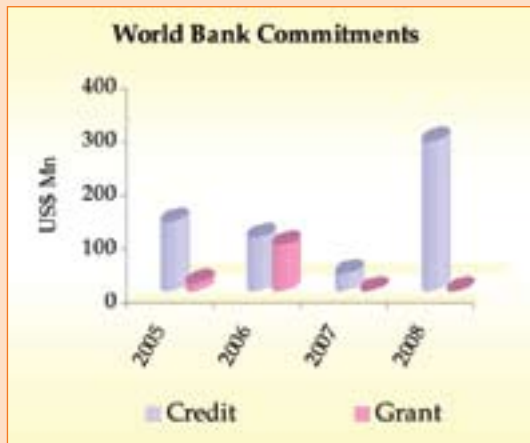
Box 5.4
Development Assistance from World Bank

The World Bank portfolio comprises of 16 projects with an average project implementation period of four years. The total value of the resource envelope is approximately US\$ 987.5 mn of which about US\$ 260 mn is in the form of grants.

During the period from 2005 to 2008 the World Bank has provided US\$ 539 million as soft loans and US\$ 102 million as grants in which the highest amount of commitment was recorded in 2008 of US\$ 281million. The annual average of the World Bank commitment for these years was US\$ 160 million.

World Bank Commitment (US\$ mn)

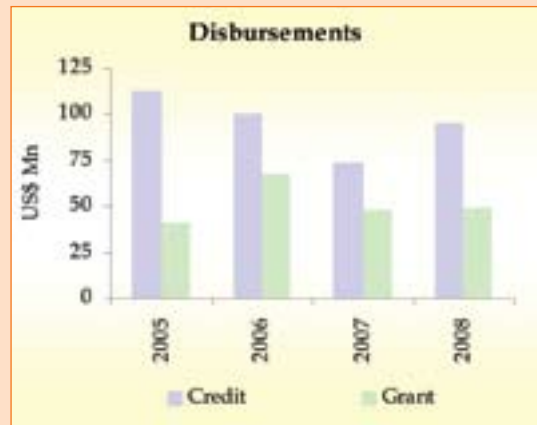
Year	2005	2006	2007	2008	Total
Credit	128	100	32	279	539
Grant	15	85	0	2	102
Total	143	185	32	281	641



During the period from 2005 to 2008 the annual average disbursement of the World Bank assistance was US\$ 147 million.

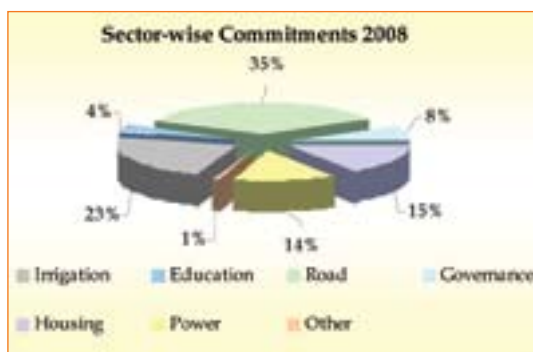
Disbursement(US\$ mn)

Year	2005	2006	2007	2008
Credit	112.9	100.1	74.07	95.1
Grant	41.4	67.8	47.91	48.7
Total	154.3	167.9	121.98	143.8



Sector wise commitments for the year 2008

In year 2008, the highest commitment of the World Bank assistance was for the road sector and the second highest was for the irrigation sector, US\$ 98 million (35 percent) and US\$ 65 million (23 percent) respectively.



Recently Completed Key Projects

- Tsunami Emergency Recovery Project (US\$ 150 mn)
- Economic Reform TA Project (US\$ 15mn)
- Empowering Poor Women & Girls Project (US\$ 1.98 mn)

Key Projects to be implemented

- Integrated Community Development – Gama Neguma Project (US\$ 75mn)
- Provincial Roads Project (US\$ 105 mn)

Key Projects Being Implemented

- Renewable Energy for Rural Economic Development – US\$ 123 mn
- Community Water Supply & Sanitation – US\$ II 39.8 mn
- Improving Relevancy & Quality of Undergraduate Education – US\$ 40.3 mn
- Health Sector Development – US\$ 60 mn
- Reawakening Project (Yali Pibidemu) – US\$ 64.7 mn
- Community Development and Livelihood Improvement ‘Gemi Diriya’ – US\$ 51mn
- E-Sri Lanka – US\$ 53 mn
- North East Housing Reconstruction – US\$ 75 mn
- North East Housing Reconstruction- additional financing– US\$ 43 mn

- Road Sector Assistance – US\$ 198 mn
- Education Sector Development– US\$ 70 mn
- Dam Safety and Water Resources Planning (DSWRPP) – US\$ 65.3 mn
- Infrastructure and Housing Development Project-Puttalam – US\$ 32 mn

e- Sri Lanka Development project (US\$ 53 mn)

The project has been designed in a way to take the dividends of Information and Communication Technology (ICT) to every village and every citizen in Sri Lanka.

As part of this project, ICTA has successfully established over 570 Nenasala centers island-wide which has received a high priority under Mahinda Chinthana. In addition, the Re-engineering Government component is picking up pace deploying systems for efficient delivery of Government services. With the assistance of Government of Korea, 1325 Government agencies were connected to the Lanka Government Hub. Further, Government of Korea provided another US\$ 6.6 on concessional terms for the phase 11 of Lanka Government Network project to facilitate connection of another 150 Government organizations.



Opening of Nenasala Centre in Jaffna

North East Housing Reconstruction Programme

This project is being implemented to reconstruct 53,400 damaged housing units. It provides cash grants to affected families to reconstruct and improve the conditions of their damaged houses by themselves. Out of the target total caseload 53,400, reconstruction work has completed with 25,269 houses by 31st December 2008.

In addition, the technical assistance which will be provided under the programme will help to meet the long term housing needs in the North and East through improved construction standards, enhanced community involvement in housing construction and simplified mechanism to resolve property disputes.

Dam Safety and Water Resources Planning Project

The project focuses on the Dam Safety and Operational Efficiency Improvement, Upgrading Modernization of Hydro-Meteorological Information System (HMIS) and Multi Sectoral Water resources planning. Under the project

32 large dams of the country which have been identified as high risk to the public safety will be rehabilitated and 80 large dams will be provided basic safety facilities. Project is expected to complete in 2012.



Kotmale Reservoir to be reconstructed under the Dam Safety Project.

Box 5.5
Development Assistance from Bilateral Western Countries

The total amount committed by the Bilateral West Donors in 2008 was US\$ 437.8 million. Of this US\$ 81.0 million was in Grants and US\$ 356.8 million was in concessionary loans and export credit. There were 91 ongoing projects in the Division portfolio in 2008 with a total commitment US\$ 1428.5 million of which US\$ 274.6 million in grants and US\$ 1153.9 million in loans. Bilateral West Division has disbursed US\$ 255 million for development projects in 2008.

Key projects being implemented	US \$ (mn)
Ratmalana & Ja-Ela Waste Water Treatment Facilities (Sweden)	91.9
DFCC Global Loan II (EIB)	68.2
Netherlands Sri Lanka Cultural Assistance	4.1
Regional Bridge Project – UK Export Credit	101.8
Tsunami Affected Areas Rebuilding Project (EU)	69.2
Construction of Bridges (Spain)	29.5
EIB Post Tsunami Line of Credit - Contract B	27.3
Tsunami Recovery & Reconstruction Support (USA)	59.1

Trincomalee Integrated Infrastructure Project (France)	87.3
Increase Competitiveness in the Global market Place (USA)	28.7
Construction of Steel Bridges (Austria)	14.4
Rural Electrification Project IV (Sweden)	28.0
Negambo Water Supply Project (Netherlands)	56.9
Dikkowita Fishery Harbour (Netherlands)	70.0
Kelani Right Bank Water Treatment Plant (Denmark)	82.7
Oluwil Port Development Project (Denmark)	72.5
Rehabilitation of Wimalasurendra and New Laxapana (France)	55.2
Kirindi Oya Water Supply Project (Austria)	14.8

Box 5.5
Development Assistance from Bilateral Western Countries Contd.

Projects completed in 2008	US \$ (mn)
Colombo Sewerage Rehabilitation Project	US \$ 30.3 mn
Extension of Railway Tracts by Construction of Railway Bridges	Euro 17.3 mn
Provision of Solar Energy for the Development of Education and Health	Euro 26.5 mn
Key projects to be implemented	US \$ (mn)
Hambantota Hospital	45.7
Rehabilitation of Sewers in Northern and Southern Catchment of Colombo	70.0
Dankotuwa Water Supply Project	40.0
Rehabilitation of Old Laxapana	33.0
Labugama, Kalatuwawa Water Supply Project	50.0

Netherlands Sri Lanka Cultural Assistance Project

There had been a close connection between the two countries during the past 400 years. With the new trends during the past ten years after the establishment of the Mutual Heritage Centre (MHC), the commitment to conserve the common heritage activities developed. After signing of the Joint Policy Framework in 2003 and Joint Statement in January 2006 the Ministry of Cultural Affairs and National Heritage prepared project proposals and five agreements were signed in May 2006 for conservation and preservation of built heritage mainly in the Southern Cultural Triangle to the value of Euros 5.6 Million (Rs 702 Million) covering 18 standalone projects for a period of 3 1/2 years.

A new agreement has been signed in May 2008 for the conservation of the Old Dutch Naval Commissioner's House in Trincomalee in the Eastern Province to the value of Rs. 56.0 million.



Restoration of Galle Fort



Restoration of Dutch Naval Commissioner's House - Trincomalee

Negombo Water Supply Project

The total cost of this project is US\$ 56.9 million. Of this US\$ 31.0 million was in grants under the ORET Programme of the Netherlands Government and US\$ 25.9 million was in an export credit facility. The project is expected to construct a 12,000 cubic meter per day water treatment plant, two ground reservoirs each with capacity of 3000 and 1500 cubic meter, laying of 15.5 km long transmission mains, new distribution system to Kochchikade and Duwapitipana, improving existing distribution system, supply and installation of pumps and equipment. The project is implemented by the National Water Supply & Drainage Board.

Box 5.5
Development Assistance from Bilateral Western Countries Contd.

Dikkowita Fishery Harbour

The Dikkowita Fishery Harbour will have a 13 ha of harbour area enclosed by 1,100 meters of rubble mound breakwaters with berthing facility for 490 fishing boats of different sizes with maximum draft of 2.3 meters and 1,150 meters of berthing length for parking of boats. It will also have the facilities such as buildings for catch receiving, fish cleaning and auctioning, cold stores, freezing facilities and ice plants, other buildings related to fishery activities, slipways for ship repairs and utilities.

Kelani Right Bank Water Treatment Plant

The Government Denmark provided an interest free loan of US\$ 82.7 million for the construction of the Kelani Right Bank Water Treatment Plant under the Danish Mixed Credit programme. The project is proposed to improve the water supply to Colombo City and the towns north of the Colombo City. The project is proposed to develop head works of the 40 MGD Water Treatment Plant in Gampaha District and serve 350,000 population with existing connections presently experiencing inadequate water supply.

Oluvil Port Development Project

The Government Denmark provided US\$ 72.5 million interest free loan to construct the Oluvil Port. The project is proposed to improve the capability to cater to large ships with in-built tanks exceeding the eight meter depth level mark. The main harbour is expected to be spread over 16 hectares and during stage two the depth is to be increased to 11 metres enabling to cater to large vessels weighing over 16,000 tons.

Rehabilitation of Wimalasurendra and New Laxapana Power Station

The Government of France provided a loan of US\$ 55.2 million to rehabilitate the New Laxapana and Wimalasurendra Power Stations. These two power stations were constructed in 1974 and 1965 respectively.

Most of the mechanical and electrical equipment in these power stations are very old and have exceeded their life span. Under this project, it is expected to increase power generation of the two power stations by 25 percent after

refurbishment. It will also reduce the number of failures and shut down time due to such failures.

Supply of Modern Medical Equipments for Teaching Hospital in Kurunegala

The Government of Austria provided US\$ 11.5 million an interest free Credit Facility to supply medical equipment for the Teaching Hospital in Kurunegala and other essential Government Hospitals in Sri Lanka. The Kurunegala Teaching Hospital is being developed under a Master Plan prepared by the Ministry of Healthcare and Nutrition to enhance the capacity of patients care in cardiology, oncology and maternity.

Kirindiya Oya Water Supply Project

The Government of Austria provided an interest free loan of US\$ 14.80 million for the rehabilitation and augmentation of Kirindiya Oya Water Supply Project. The project was designed for the improvements in the water resources from Veheragala Scheme. The main components of the project are to increase the capacity of the water treatment plant by 6500m³/day and to extend the water supply system to Lunugamvehera, Weerawila, Pannegamuwa, Bandagiriyaya and Beralihela areas.

Regional Bridge Project

The Regional Bridge Project is being financed with Export Credit facility guaranteed by the Government of the United Kingdom amounting to US\$ 101.8 million (stg.50 m.) Scope of the project is to construct 59 bridges and 7 flyovers with the twin objectives of increasing economic and social mobility of in the regions and easing traffic burden in the city of Colombo and suburbs. Flyovers are designed to construct at Kelaniya railway crossing, Nugegoda Junction, Dehiwala, Rajagiriyaya and Panadura Junction where traffic is heavy in most of the time. At present flyovers at Kelaniya and Nugegoda are in operation. Flyovers at Dehiwala Junction, Rajagiriyaya and Panadura are scheduled to commence in 2009.

The other 59 bridges are scattered throughout the island mostly in rural areas where linkage is necessary to regional centres to promote development by increasing the access.

Box 5.5
Development Assistance from Bilateral Western Countries Contd.

The progress is in different stages. The civil work of 7 bridges in the East were in progress and tenders called for 12 bridges. The balances are in design and study stages.



Nugegoda flyover

Ampara, Nawalapitiya and Koggala Water Supply Projects

The KfW Bank of Germany provided US\$ 19.2 million for Augmentation of Ampara, Nawalapitiya and Koggala Water Supply Schemes. The purpose of the Ampara Water

Supply Project is to provide safe drinking water throughout the year to the people in Ampara. The project activities included water extraction and treatment a pumping station for supply of water and expansion of the distribution network. The Nawalapitiya Water Supply Project is to enhance capacity to 0.75mn gallon a day covering 17,000 persons in the year 2010. It is expected to provide safe drinking water to the people and to reduce prevalence of water related diseases.

The Koggala Water Supply Project is to ensure safe drinking water supply by extension of water supply system and of sewerage disposal system in Koggala Export Processing Zone and the surrounding areas covering 27,000 inhabitants. Project is expected to complete the project by December 2009.

Box 5.6
Development Assistance from United Nations Agencies

In line with the Mahinda Chinthana- 10 year Development Framework, the UN Agencies and the Government of Sri Lanka have signed the United Nations development Assistance Framework (UNDAF) for 2008-2012 providing assistance to development priorities of the Government of Sri Lanka. Under this Framework, the UN Agencies have agreed to raise US\$ 365 million over five years period starting from 2008.

Recently completed key projects

UNDP

- Capacity Development for Recovery Programmes (CADREP) –US\$ 4.6mn
- Modernization of Parliament Phase 1 – US\$ 1.5mn
- Equal Access to Justice Phase 1-US\$ 3mn
- Capacity Development for Disaster Management US\$ 1.5mn

- Sustaining Tsunami Recovery by Organizations Networking at the Grassroots Level through Promoting Local Accountability & Capacity Enhancement System (STRONG PLACES)-US\$ 1.4mn

WFP

- Protracted Relief & Recovery Operation for Conflict Affected People in Sri Lanka -US\$ 92.5mn

Key projects being implemented

UNDP

- Transition Recovery Programme- US\$ 47mn
- Mine Action Project in Sri Lanka –US\$ 9.7mn
- MDGs Country Support Programme – US\$ 1.6mn
- Support Efforts & Action Against Corruption –US\$ 0.5mn

Box 5.6
Development Assistance from United Nations Agencies Contd.

IFAD

- Dry Zone Livelihood Support and Participatory Programme -US\$ 22.5mn
- Coastal Rehabilitation & Resource Management Programme- US\$ 30mn
- Post Tsunami Dry Zone Livelihood Support and Partnership Programme - US\$ 4.9mn
- Small Holder Plantations Entrepreneurship Development Programme -US\$ 22.5mn

FAO

- Technical Cooperation Programme for the Preparation of a Fisheries Sector Master Plan -US\$ 0.16mn
- Emergency assistance to improve the Food Security and Agriculture Livelihood of the Conflict-affected Households in the North and East provinces of Sri Lanka -US\$ -US\$ 1 mn.

Key projects to be implemented

UNDP

- Access to Justice 2nd Phase -US\$ 8.3mn

WFP

- Implementation of WFP Food Aid Assistance under PRRO 10756.0 for conflict affected people in Sri Lanka -US\$ 81.78mn

IFAD

- Agri-business Project -US\$ 25mn

FAO

- Regional Fisheries Livelihood Programme for South and Southeast Asia- US\$19.55mn
- Capacity Building and Regional Collaboration for Enhancing the Conservation and Sustainable Use of Plant Genetic Resources in Asia-US\$ 1.4mn

UNDP Support to Mine Action in Sri Lanka Project -US\$ 9.7mn

This project was designed to fully support the National Mine Action activities in the country, particularly after the phase-out of the project. The specific aim of the project is to provide mine action coordination support and technical management capacity to the National Mine Action Programme, Government Agents and Local Mine Action Focal Points in the mine-affected districts. It is reported

that the total area cleared under this project from 2002 to end of September 2008 is 405.38KM². This will enable the government to commence resettlement, reconstruction and livelihood activities in the conflict affected areas.



WFP Assistance to Protracted Relief & Recovery Operation for Conflict Affected People in Sri Lanka -US\$ 92.5mn

The purpose of this project was to support the Government in its efforts to improve the food security of vulnerable people in conflict affected areas and to develop social cohesion and reconciliation and thereby contributing to peace building through food aid intervention. For this purpose, a Letter of Understanding (LOU) was signed on 1st March 2005 between the Government and WFP providing food assistance of US\$ 25mn. The first and second amendments to the LOU were signed on 19th November 2007 and 30th December 2008 respectively to Increase in the WFP food contribution up to US\$ 92.5mn.

Box 5.6
Development Assistance from United Nations Agencies Contd.



The main components of the project are as follows:

- Mother and Child Nutrition
- Food for Education
- Food for Asset Creation

- Internally Displaced and other Conflict-Affected Group Feeding
- Food for Training

This project now completed and WFP has already agreed to provide food assistance of US\$ 81.78mn to Sri Lanka for the period 2009-2010.

New Project Initiatives for Foreign Financing

The project pipeline for foreign financing for the next three years have been finalized to implement the infrastructure projects identified in the 10 year Horizon Development Framework 2006–2016. Sri Lanka has been able to attract new donors such as China and Iran as partners of development and expected financing from all the development partners for the period 2009 – 2010 is approximately US\$ 4.6 billion. The project pipeline for 2009 - 2010 years is given in Annex 5-2.

External Debt Stock

External debt of the Government as at 31st December 2008 stood at US\$ 12.31 billion as against the US\$ 11.33 billion as at end 2007. This was an increase of 8.7 percent compared to 2007. However, External Debt/GDP ratio declined to 32.8 percent in 2008 from 37.1 percent in 2007. Of the total debt stock, 45 percent was from bilateral donors, 44 percent from multilateral, 5 percent from export credit agencies and the balance 6 percent from commercial banks. The composition of the debt stock as at end December 2008, by major donor category, is given in Chart 5.4.

Chart 5.4



As shown in the Chart 5.5 below, 51 percent of the debt stock will mature during the 10 year period commencing from 2009 and 34 percent will mature during the next 10 year period commencing from 2018. The balance 15 percent will mature after 20 years.

Chart 5.5



External Debt Service Payments

The total external debt service payment during 2008 was US\$ 812 million. Of which principal payments accounted for US\$ 582 million and the interest payment accounted for US\$ 230 million. The higher level of debt service payment is expected in 2012 due to the scheduled retirement of US\$ 500 million international bonds issued in 2007. Table 5.9 gives a summary of the debt service payment from 2008 to 2013 while Table 5.10 gives breakdown of the debt service from 2007 – 2013 by major donors.

Table 5.9

Debt Service Payments 2008-2013

Item	(in US\$ million)					
	Actual			Forecast		
	2008	2009	2010	2011	2012	2013
Total Outstanding Debt	12,318.6	11,673.0	11,120.4	10,366.9	9,233.3	8,582.4
Principal repayments	581.5	645.6	552.6	753.5	1,133.6	650.9
Interest payments	230.2	250.4	234.7	222.3	208.9	154.4
Total debt service payments	811.7	896.0	787.3	975.8	1,342.5	805.3

Source: Department of External Resources

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Table 5.10
Debt Service Payment Forecast on Existing Portfolio

Donor/Creditor	(in US\$ million)						
	Actual	Forecast					
	2007	2008	2009	2010	2011	2012	2013
Bilateral	358.5	383.6	470.6	443.0	454.9	447.6	449.1
Japan	210.7	230.2	308.2	306.4	311.5	313.2	316.0
Canada	5.3	5.1	5.0	3.9	3.9	3.9	3.9
Denmark	1.2	4.2	6.0	5.6	5.6	5.6	5.6
France	11.4	11.9	11.7	9.0	8.4	7.7	7.5
India	6.4	7.1	14.8	14.3	13.0	11.3	11.2
Kuwait	5.2	4.7	4.5	4.7	4.8	4.8	4.7
Korea	11.2	9.1	8.4	6.9	6.6	7.8	7.8
Netherlands	6.5	5.5	4.4	1.7	0.9		
Germany	43.1	45.1	44.1	37.8	33.9	29.1	29.0
China	3.6	7.1	10.6	9.5	23.8	22.3	22.0
USA	53.0	52.1	51.3	40.5	39.8	39.2	38.0
Saudi Fund	0.9	1.4	1.0	1.2	1.2	1.2	1.2
Other Bilateral		0.1	0.6	1.5	1.5	1.5	2.2
Multilateral	165.0	196.7	225.5	238.8	263.2	274.9	280.5
ADB	87.7	110.9	130.8	141.5	153.5	158.8	161.5
World Bank	66.5	72.2	77.5	80.2	88.0	91.1	94.5
IFAD	3.0	3.1	3.0	3.5	3.5	3.5	3.4
European Investment Bank	5.1	7.4	10.9	10.2	14.8	18.2	17.8
Nordic Development Fund	0.3	0.4	0.6	0.7	0.8	0.8	0.8
OPEC Fund	2.4	2.7	2.7	2.7	2.6	2.5	2.5
Market Borrowings	97.1	188.0	159.8	53.8	200.5	547.3	4.8
Export Credits	36.4	43.4	40.1	51.7	57.2	72.7	70.9
Grand Total	657.0	811.7	896.0	787.3	975.8	1,342.5	805.3

Source: Department of External Resources

Note: Exchange rate as at 31st December 2008 (Rs 113.1398 = 1 US\$) has been used for the calculation of future debt services.

5. Foreign Financing of the Budget

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Annex 5 - I Foreign Aid Commitment During the year 2008

Sector	Donor	Project	Amount US\$	
			Loan	Grant
Road, Bridges, Ground Transport	France	Trincomalee Integrated Infrastructure Project	23,598,002.0	
	India	Upgrading of Railway Line Colombo-Matara	100,000,000.0	
	Japan	Greater Colombo Urban Transport Development Project Phase 2 (1)	53,236,592.0	
	Japan	Southern Highway Construction Project (II)	162,921,847.0	
	Korea	Improvement of Padeniya - Anuradhapura Road	55,000,000.0	
	Austria	Railway Bridges to Extend Rail tracks	3,256,955.0	
	ADB	Southern Highway Construction Project - Supplementary	90,000,000.0	
	World Bank	Road Sector Assistance Project - Additional Financing	93,522,703.0	
	Sub Total		581,536,099.0	0.0
Port & Shipping	Denmark	Oluvil Port Development Project	72,517,241.0	
	Sub Total		72,517,241.0	0.0
Water Supply & Sanitation	Japan	Water Sector Development Project (II)	78,095,232.0	
	Austria	Rehabilitation and Augmentation of Kirindi Oya Water Supply Project	14,801,197.0	
	Netherlands	Negombo Water Supply Project	25,874,338.0	
	Denmark	Kelani Right Bank Water Treatment Plant	82,709,632.0	
	Netherlands	Negombo Water Supply and Optimization Project		31,031,587.0
	ADB	Regulatory Framework for Water Supply and Sanitation		40,000.0
	Sub Total		201,480,399.0	31,071,587.0
Power & Energy	Japan	Energy Diversification Enhancement Project	7,634,489.0	
	Japan	Ukuwela Power Station Rehabilitation Project	11,396,710.0	
	France	Rehabilitation of Wimalasurendra and New Laxapana Power Stations	55,205,525.0	
	Sub Total		74,236,724.0	00

5. Foreign Financing of the Budget

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Annex 5 - I Contd. Foreign Aid Commitment During the year 2008 Contd.

Sector	Donor	Project	Amount US\$	
			Loan	Grant
Tsunami Rehabilitation	IFAD	Post -Tsunami Coastal Rehabilitation & Resources Mgt. Project II	17,994,133.0	
		Post -Tsunami Livelihood Support & Partnership Programme II	2,711,445.0	
	Sub Total		20,705,578.0	0.0
Education & Vocational Training	Netherlands	Improvements of the Facilities and Programmes of SLIATE	10,315,218.0	
	Austria	Upgrading of Technical Education (SLIATE)	13,767,605.0	
	World Bank	Education Sector Development Project - Additional Financing	9,571,955.0	
	Nordic Dev. Fund	Skills Development Project	34,540.0	
	India	Setting up of Facilities at Rural Vocational Training Centre, Nagawillu, Puttalam		657,642.0
	Netherlands	Enhancement and Upgrading of Technical Education		5,307,069.0
	Sub Total		33,689,318.0	5,964,711.0
Health and Social Welfare	Saudi Fund	Epilepsy Hospital & Health Centers Project	20,028,723.0	
		Development of Health Facilities in Colombo (Additional Financing)	2,937,546.0	
	Austria	Supply of Modern Medical Equipments for Teaching Hospital Kurunegala	11,522,248.0	
	India	Establishment of 150 Bed District Hospital at Dickoya-Hatton		8,534,282.0
	Japan	Improvement of Anuradhapura Teaching Hospital		993,640.0
		Improvement of the Curative Healthcare Services at the Anuradhapura Teaching Hospital		17,368,261.0
	USA	Improved Integration of Targeted Disadvantaged Groups into the Community		1,267,889.0
	UNFPA	UNFPA Country Programme 2008-2012		18,000,000.0
	UNICEF	UNICEF Country Programme 2008-2012		39,000,000.0
	FAO	Input Support to Vulnerable Populations under International Soaring Food Prices		500,000.0
	Sub Total		34,488,517.0	85,664,072.0

5. Foreign Financing of the Budget

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Annex 5 - I Contd. Foreign Aid Commitment During the year 2008 Contd.

Sector	Donor	Project	Amount US\$	
			Loan	Grant
Agriculture, Fisheries, Irrigation & Land	Iran	Uma Oya Hydro Electric and Irrigation Project	450,000,000.0	
	Australia	Supply and Installation of 5000 Solar Powered Drip Irrigation and Fertilizing Systems	16,100,000.0	
	Netherlands	Development of Dikkowita Fishery Harbour	43,283,497.0	26,151,192.0
		Development of Dikkowita Fishery Harbour - Consultancy Services		567,567.0
	World Bank	Dam Safety and Water Resources Planning	66,737,224.0	
		Avian Influenza Preparedness and Response Project		1,433,000.0
	Japan	Japanese Commodity Grant Aid		12,522,873.0
	FAO	Assistance for Marine Resources Surveys & Stock Assessments		1,177,686.0
		Improvement of Pepper Production		476,000.0
		Restoration and Improvement of Fish Landing Centres		4,716,981.0
		Minimum Standard for Fish Handling & Reducing Post-Harvest Losses		521,799.0
	Sub Total		576,120,721.0	47,567,098.0
Rehabilitation	USA	Support for Peace Process - Enhancement		6,160,000.0
	World Food Programme	Assistance to Vulnerable Groups for Peace Building in Conflict Affected Areas		41,000,000.0
	FAO	Agricultural Assistance in Support of Households Returnees to Batticaloa		441,390.0
		Agricultural Assistance in Support of Households Returnees -IDPs		1,071,393.0
		Food Security Assistance to Vulnerable IDPs		401,704.0
	Sub Total		0.0	49,074,487.0
Rural Development	World Bank	Renewable Energy for Rural Economic Development	41,632,355.0	
	Sub Total		41,632,355.0	
Environment & Natural Resources	Norway	Delimitation of the Outer Edge of the Continental margin of Sri Lanka		1,200,000.0
	Korea	Integrated Waste management System in High Level Road Region		4,311,155.0
	Sub Total		0.0	5,511,155.0

5. Foreign Financing of the Budget

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Annex 5 - I Contd.
Foreign Aid Commitment During the year 2008 Contd.

Sector	Donor	Project	Amount US\$	
			Loan	Grant
IT, Science & Technology, Institutional Development	Korea	Lanka Government Network Stage II Project	6,653,000.0	
	World Bank	Public Sector Capacity Development Project	22,578,796.0	
		Strengthening Parliamentary Oversight Committees		494,000.0
	Sub Total		29,231,796.0	494,000.0
Housing & Urban Development	World Bank	North-East Housing Reconstruction Project - Additional Financing	41,112,329.0	
	Sub Total		41,112,329.0	0.0
Other	India	India Dollar Credit Line Agreement	100,000,000.0	
	Japan	Poverty Alleviation Micro Finance Project II	23,974,156.0	
	Netherlands	Conservation & Restoration of the Old Dutch Naval Commissioner's House in Trincomalee		519,552.0
	Korea	Establishment of the Emergency Response System in Sri Lanka		1,858,645.0
	USA	Increased Competitiveness in the Global Market Place		8,753,000.0
	Sub Total		123,974,156.0	11,131,197.0
	Total		1,830,725,233.0	236,478,307.0
	Grand Total			2,067,203,540.0

5. Foreign Financing of the Budget

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Annex 5-2
Project Pipeline 2009 - 2010
USD mn

Sector	Donor	Project Name	Grant	Loan	Year	
					2009	2010
Water & Sanitation	Japan	Water Sector Development Project - Phase IV		100.0		100.0
	ADB	Dry zone Urban Water & Sanitation Project	25.2	59.8	85.0	
	ADB	Jaffna Water Supply Project		80.0	80.0	
	ADB	Greater Colombo Waste Water Management		100.0	100.0	
	Hungary	Labuagama Kalatuwawe Water Supply		50.0	50.0	
	Canada	Dankotuwa Water Supply Project		40.0	40.0	
	Belgium	Kollonna Balangoda Water Supply		18.8		18.8
	Belgium	Rehabilitation of Sewers in Northern and Southern Catchment of Colombo		70.0	70.0	
	Spain	Ratnapura Water Supply		31.0	31.0	
	Korea	Ruhunupura Water Supply		76.3	76.3	
		Sub Total	25.2	625.9	532.3	100.0
Ports & Aviation	Japan	Development of Bandaranaike International Airport - Phase II		250.0	150.0	100.0
	Belgium	Desalination Plant for Hambantota Port		19.2		19.2
	China	Hambantota Port Bunkering and Oil Tank Farm Facility		75.0	75.0	
		Sub Total	0.0	344.2	225.0	119.2
Roads, Highways & Bridges	Japan	Greater Colombo Urban Transport project - Phase II (Construction of Southern Section of Outer Circular Highway (OCH) from Kaduwela to Kadawatha Flyovers in Colombo City)		140.0		140.0
	Japan	Rehabilitation of Five Bridges in Eastern Province	7.0			7.0
	Japan	Provincial Road Development Project		100.0	100.0	
	ADB	Southern Transport Development Project - Supplementary (Non Sovereign)		150.0	150.0	
	ADB	Road Network (Provincial Roads)		100.0		100.0
	ADB	Eastern and North Central Provincial Roads Projects		320.0	70.0	
	World Bank	Provincial Roads		105.0		105.0
	World Bank	National Roads		115.0		115.0
	World Bank	National & Provincial Roads		115.0		115.0
	China	Colombo Katunayake Expressway		248.0	248.0	
		Sub Total	7.0	1393.0	568.0	582.0

5. Foreign Financing of the Budget

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Annex 5-2 Contd.
Project Pipeline 2009 - 2010 Contd.
USD mn

Sector	Donor	Project Name	Grant	Loan	Year	
					2009	2010
Power & Energy	Iran	Oil Refinery Project (Govt. Guarantee)		800.0	800.0	
	Germany	Rehabilitation of Old Laxapana		33.0	33.0	
	ADB	Clean Energy and Access Improvement Project	4.2	160.0	164.2	
	ADB	Power Support II		100.0		100.0
			Sub Total	4.2	1493.0	997.2
Health	Japan	Improvement of Central Functions of Jaffna Teaching Hospital	16.0			16.0
	Japan	National Workers' Hospital & Nursing Training School	40.0			40.0
	Japan	Power Sector Development Project -Upper Kotmale Hydro Power Project (Balance Financing)		70.0	70.0	
	Spain	Improvement to Karapitiya Hospital & Other Health-care Institutions		16.0	16.0	
	Netherlands	Hambantota Hospital		45.7		45.7
	Netherlands	Nuwara Eliya Hospital		45.7		45.7
	Belgium	Medical Waste Treatment Project		11.5		11.5
	Austria	Improvement of Beliatte Hospital		15.0		15.0
	World Bank	Health Sector Development (Additional Financing)		15.0	15.0	
	Austria	Air force Hospital		38.0	38.0	
	France	Intravenous Solution Plants		7.0	7.0	
	France	Operating Theaters at Oxygen Concentrators for Selected Hospitals		5.0	5.0	
			Sub Total	56.0	268.9	151.0
Agriculture Irrigation, & Environment	Japan	Moragahakanda & Kaluganga Development Project		250.0		150.0
	Kuwait	Moragahakanda & Kaluganga Development Project		37.0	37.0	
	OPEC	Moragahakanda & Kaluganga Development Project		20.5		20.5
	Saudi Fund	Moragahakanda & Kaluganga Development Project		46.0		46.0
	IFAD	Agri-business Project		25.0	25.0	
	World Bank	Environment Resource Management		20.0		20.0
	World Bank	Agriculture Research and Productivity Improvement		35.0		
			Sub Total	0.0	433.5	62.0
Finance	ADB	Fiscal Management Reform II		40.0	40.0	
		Sub Total	0.0	40.0	40.0	0.0

5. Foreign Financing of the Budget

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Annex 5-2 Contd.
Project Pipeline 2009 - 2010 Contd.
USD mn

Sector	Donor	Project Name	Grant	Loan	Year	
					2009	2010
Education & Vocational Training	World Bank	Higher Education		40.0		40.0
	Norway	Puttalam Tec. College Development Project		2.8	2.8	
	Sub Total			0.0	42.8	2.8
Railway	Belgium	Railway Bridge Rehabilitation		12.8	12.8	
	Austria	Rehabilitation of Railway Track Valachchanai-Batticaloa	6.5	19.5	26.0	
	Sub Total			6.5	32.3	38.8
Other	Netherlands	Disaster Response Network II		32.0	32.0	
	World Bank	North and East Local Service Improvement		50.0		50.0
	World Bank	Private Sector Development in Tourism Resources		15.0	15.0	
	World Bank	Gama Neguma		75.0	75.0	
	Japan	Eastern Infrastructure Development Project		75.0	75.0	
Sub Total			0.0	247.0	197.0	50.0
Grand Total			98.9	4920.6	2814.1	1801.6

A Sectoral Perspective

An Overview

The growth of the Sri Lankan economy was sustained in 2008, despite the challenging external and domestic environment. Real GDP grew by 6.0 percent, albeit at a slower pace from the 6.8 percent achieved in 2007. The growth was led particularly by domestic agriculture and plantation sector, transport, post and telecommunication, banking and insurance sectors. The deepening of the global financial and economic crisis was manifested in the decline in exports of goods and services in the latter part of 2008. With these adverse external impacts, the nine months average of 6.5 percent decelerated to 4.3 percent in the fourth quarter of 2008. Continuation of the highest contribution to GDP, the service sector represented 57.3 percent with the industry and agriculture sectors contributing 29.4 percent and 13.4 percent respectively.

Chart 6.1

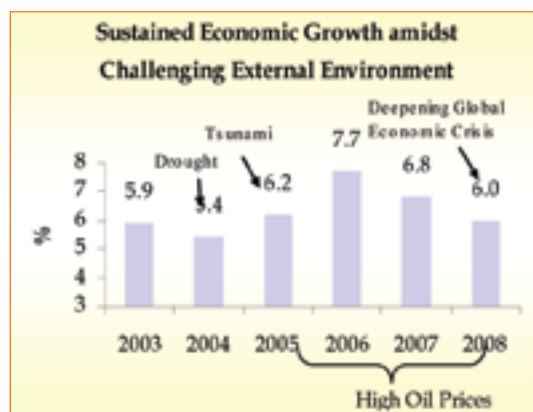
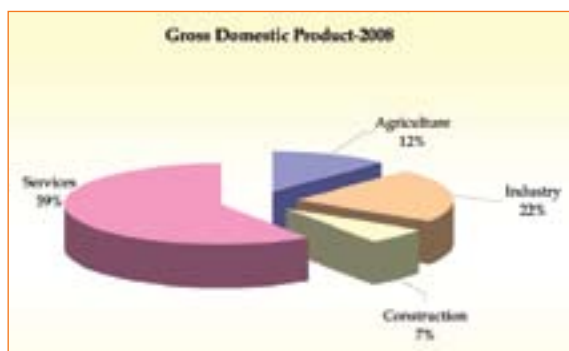


Chart 6.2



Services

The services sector expanded at a decelerated rate of 5.6 percent in 2008 from 7.1 percent in 2007 particularly with a negative growth of the hotels and restaurants sub-sector. The major contributors to the services sector performance were import trade, post and telecommunication sectors. All other sub-sectors such as export trade, transport and financial activities recorded a slower pace due to the world economic slow-down, triggered in the second half of 2008.

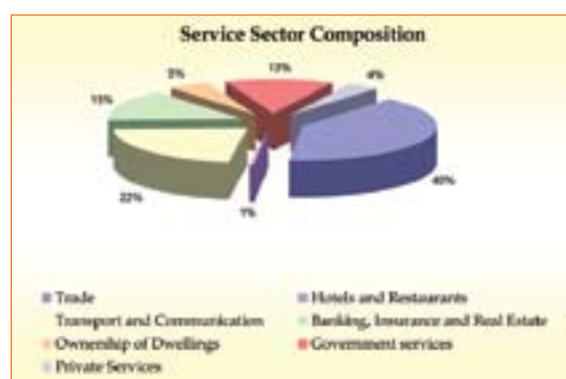
Table 6.1
Sectoral Growth rate of GDP (%)

Category	2006	2007	2008
Agriculture	6.3	3.4	7.5
Industry	8.1	7.6	5.9
Services	7.7	7.1	5.6
Overall GDP	7.7	6.8	6.0

Source : Department of Census and Statistics

In real terms, the total production value in the service sector amounted to Rs. 1,406 billion in 2008 compared to Rs. 1,331 billion achieved in 2007 whereas in terms of current prices it was Rs. 2,525 billion in 2008.

Chart 6.3



The wholesale and retail trade sub sector grew by 4.7 percent in 2008 as against 7.1 percent achieved in the previous year. The hotels and restaurants sub sector contracted by 5 percent as against the previous year. The transport and telecommunication sector grew by 8.1 percent in 2008 compared to the 10.5 percent witnessed in 2007 while the banking and real estate sub-sector grew by 6.6 percent in 2008 in comparison to 8.7 percent in 2007.

Table 6.2
Services Valued at 2002 Prices*

Sector	2005	2006	2007	2008
Trade	480	515	546	572
Import	184	197	203	213
Export	92	96	104	105
Domestic	204	222	239	254
Hotels and Restaurants	9	9	9	9
Transport and Telecommunications	231	260	287	310
Transport	199	221	242	257
Port and Aviation	11	14	15	16
Post and Telecommunication	21	25	30	37
Banking, Insurance and Real Estate etc	164	178	193	206
Ownership of Dwellings	71	72	72	73
Government Services	154	162	171	181
Private Services	45	49	53	56
Total Production Value	1,154	1,243	1,332	1,407

(Rs. bn.)

Source: Department of Census and Statistics

* Valued at 2002 Constant Prices for GDP Computation

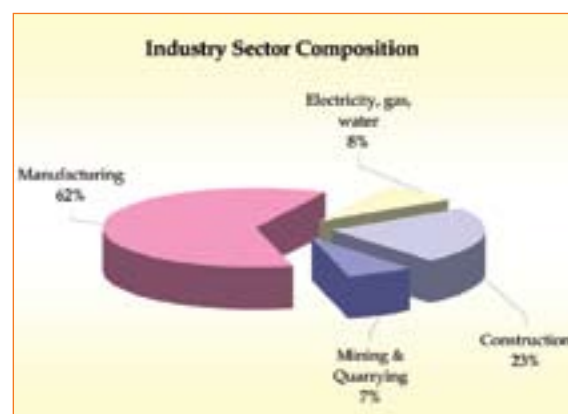
Industries

The industry sector, which accounted for almost a third (29.4 percent) of total GDP, grew by 5.9 percent in 2008 compared to 7.6 percent in 2007. This slow pace was mainly due to the world economic slowdown accelerating in the latter part of 2008. The tea, rubber and coconut processing sector represented a high growth rate in 2008. The upward trend of the construction sub-sector somewhat contracted in 2008 recording a moderate growth rate of 7.8 percent in comparison to a growth of 9 percent in the preceding three year period of 2005-2007. Textile and apparel sector decelerated to 3.1 percent in 2008 over the previous year growth rate of 7.3 percent owing to the slowdown in external demand. The manufacturing sectors such as food and beverages, chemical, petroleum, coal, rubber, plastic and ceramics industry witnessed a slower pace in 2008 with a declined external demand, high cost of production and collapsed automobile industry.

Industrial exports

Industrial exports contributed to 76 percent of total exports and recorded a moderate growth of 3.2 percent in 2008. The industrial exports amounted to US\$ 6,159 million in the year. This slowdown is due to the sluggish demand for textile and

Chart 6.4



apparel, comparatively high cost of production, and sharp depreciation of currencies against US dollar in major export destinations created by the global financial and economic crisis. The textile and apparel exports recorded a slow growth of 3.9 percent amounting US\$ 3,459 million in 2008 as against 8.5 percent achieved in 2007. The decelerated demand for apparel from the major buyers such as USA followed by UK, Italy and Germany adversely affected to the growth of the sector. However, Sri Lankan apparel industry somewhat benefited due to the continuation of the GSP+ scheme.

6. A Sectoral Perspective

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Table 6.3
Industry Valued at 2002 Prices

(Rs. bn.)

Sector	2005	2006	2007	2008
Production ⁽¹⁾	426	459	492	519
Mining and Quarrying	29	36	43	48
Manufacturing	351	370	394	414
Processing (Tea, Rubber, coconut)	14	14	14	15
Factory Industry	315	333	356	373
Cottage Industry	22	23	25	26
Energy and Water	46	53	55	57
Electricity	40	46	48	50
Petroleum and Gas	4	4	5	4
Water	2	2	2	3
Exports ⁽²⁾	498	562	660	667
Food, Beverages and Tobacco	32	38	57	50
Textiles and Garments	291	321	369	376
Chemical Products	8	9	9	8
Petroleum Products	13	20	19	28
Rubber Products	40	47	54	59
Ceramic Products	5	5	5	5
Leather, Paper and Wood	13	13	22	24
Plastics and articles thereof	6	6	6	6
Machinery, Mechanical and Electrical Equipment	33	41	60	50
Jewellery	1	2	2	2
Diamonds	27	32	39	45
Other	28	29	19	15

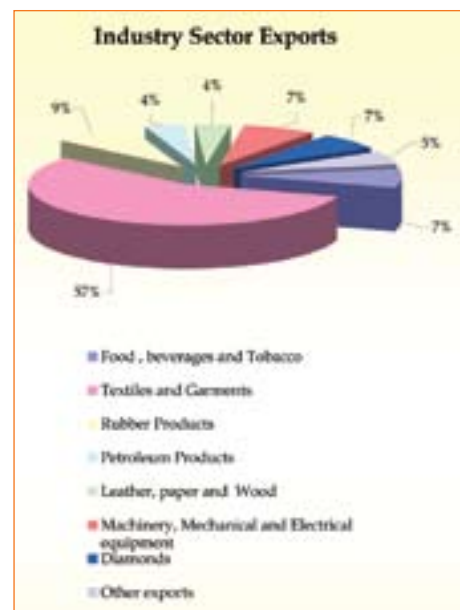
Source: Department of Census and Statistics

⁽¹⁾ Valued at 2002 Constant Prices for GDP Computation

⁽²⁾ Export at Current Market Prices

A significant improvement in export earnings was witnessed in 2008 in the industrial products such as leather, rubber, paper and wood, processed diamonds and petroleum products.

Chart 6.5



Box 6.1
Industrial Development Initiatives

Industrial Estates

Development work of the Industrial Estate at Puttalam was completed in 2008 while the development work of Industrial Estates at Embilipitiya, Galigamuwa, and Pallegodawatte (Matugama) commenced. Rs. 319 million was spent on new industrial estates and maintenance of existing industrial estates. The Industrial Estate Programme commenced in 2006, creating 15,974 employment opportunities. 23 Industrial Estates have been set up throughout the country in which 209 industries are in commercial operation while the construction work of another 52 factories are in progress.

300 Industry Programme (Gamata Karmantha)

The programme was initiated in 2006 to cater the demand of local industrialists who wish to invest at regional level. 119 industries have been approved which would expect to generate 27,207 employment opportunities with an investment of Rs.18.8 billion.

Manufacturing Sector under BOI

US\$ 889 million worth of Foreign Direct Investment (FDI) was attracted by the Board of Investment of Sri Lanka (BOI) in 2008. This investment includes Manufacturing (US \$ 189.1 mn), Services (US \$ 36.2 mn), Infrastructure (US \$ 660.8 mn) and Agriculture (US \$2.65 mn). The total employment in the manufacturing sector under BOI companies was 389,094 and the manufacturing exports amounted to Rs. 432 billion in 2008.

Under the 300 Enterprise Programme (Nipayum Sri Lanka), 3,926 employment opportunities were created and Rs, 2,428 million has been invested.

Investment Promotion Zones

Studies were carried out to ascertain the suitability of identified lands in Trincomalee, Puttlam, Hambantota and Ampara Districts in 2008.

Apparels and Textiles

10.45 million meters of school uniform material were locally manufactured in 2008. 20 local manufacturers were benefited with this scheme. The Board of Investment sponsored the "Sri Lanka Fashion Show" conducted at the BMICH during the SAARC Conference to showcase the development of the apparel sector in Sri Lanka.

Legal arrangements were made to establish a new institution namely, "Sri Lanka Institute of Textiles and Apparels" for the development of the sector.

Footwear

10 local footwear manufacturers were trained in India to improve their designing skills.

Die & Mould

20 persons were trained in India with a view of introducing new technology and building up a team of skilled personnel.

Processed Food

The annual "Profood/Propack International Exhibition" was held in August 2008 with the participation of Japan, India, Pakistan and Thailand. 150 local companies also participated in the exhibition.

Financial Assistance to Industries

The Environment Friendly Solutions Fund II (E-Friends II) Project was implemented to provide technical assistance and concessionary loans for industrialists for finding solutions for environmental problems. 180 loans amounting to Rs. 1,313 million were approved. Under the Small & Micro Industries Leader & Entrepreneur Promotion III Project (SMILE III), Rs. 678.7 million worth of loans were approved in 2008 in order to develop the small and micro industries, while creating 1,390 numbers of employment opportunities.

Transfer of Knowledge in Science and Technology

34 Vidatha Centers were established in 2008 with the aim of transferring technology to rural areas totaling to 240 centres. 597 technology transfer programmes were conducted by these Centers for about 2,000 entrepreneurs.

Nano Technology Initiatives

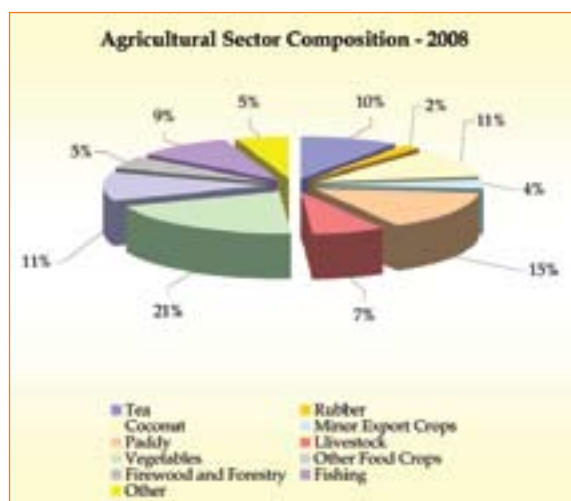
SLINTEC Private Limited was established in April 2008 with the private sector partners namely MAS Holdings, Brandix, Haycarb, Loadstar and Dialog. A plot of 50 acres was allocated to setup a Nano Technology Park at Homagama.

Agriculture

Agriculture continues to play an important role in the economy and it is the major source of employment for about 33 percent of the labour force. Enhanced production in paddy and fisheries sectors coupled with encouraged performance in the plantation sector provided an added momentum for the agriculture sector in 2008. The highest sectoral growth of 7.5 percent recorded in 2008 compared to the growth of 3.4 percent achieved in 2007.

The agriculture sector accumulated a total value of Rs. 285.9 billion in real terms in 2008 over Rs. 265.8 billion in 2007. This upturn largely came from a stronger performance in paddy which witnessed a 23 percent annual growth in 2008 while, fishing, plantation and vegetable sectors contributing positively to the growth.

Chart 6.6



The cessation of terrorist activities in the East, the favorable weather condition that prevailed throughout the year, the continuation of the Urea, TSP and MOP fertilizer subsidy for paddy farmers at Rs. 350/= per 50 kg bag, the extended urea fertilizer subsidy to the smallholder plantation sector who owned less than 50 acres of land, comparatively less labour disputes in the tea plantation sector and the high average international prices obtained for tea, rubber and coconut mainly in the first half of 2008 coupled with government

fiscal and development incentives given to mitigate the impact of higher input costs, helped to boost the agriculture sector.

However, the minor export agriculture sector consisting of cinnamon, coffee, clove, betel and nutmeg etc contracted by 2.1 percent in 2008 compared to the 5.1 percent growth recorded in the year 2007. This was due to the declined export demand resulting from the global economic slowdown.

Table 6.4
Agriculture Valued at 2002 Prices

(Rs. bn)

Sector	2005	2006	2007	2008
Production ⁽¹⁾	242	257	266	286
Agriculture, Livestock and Forestry	228	236	241	259
Tea	28	27	27	28
Rubber	5	5	5	6
Coconut	27	29	30	32
Minor export Crops	10	10	11	11
Paddy	37	38	35	43
Highland Crops	26	27	28	29
Vegetables	52	53	55	58
Fruits	2	2	2	2
Plantation Development	5	6	6	6
Other Agricultural Products	8	9	9	9
Livestock	17	18	19	21
Fishing	14	21	25	27
Firewood and Forestry	12	13	14	15
Exports ⁽²⁾	116	134	167	201
Tea	81	92	114	138
Rubber	5	10	12	14
Coconut	11	13	16	19
Other Agricultural Products	18	20	26	31

Source: Department of Census and Statistics

⁽¹⁾ Valued at 2002 Constant Prices for GDP Computation

⁽²⁾ Export at Current Market Prices

Non Plantation Crops

A Bountiful Paddy Harvest

The highest ever paddy production to the tune of 3.87 million metric tons was recorded in 2008, with a substantial increase of 24 percent over 2007. This is equivalent to 2.63 million metric tons of rice which is nearly the level of self-sufficiency. This was mainly due to the continued distribution of all varieties of fertilizer at the subsidized rate of Rs. 350 per 50 kg bag despite soaring international fertilizer prices, the increased average producer prices of paddy from Rs. 18.60 per kg in 2007 to Rs. 32.60 per kg in 2008, the 29 percent increase in the extent harvested from 714 to 925 thousands hectares, the increase in paddy production by

51 percent in the Yala season which normally records a relatively lower production, the improved security situation in the North and East and finally favourable weather that prevailed throughout the country. Further, the promotion of the local food production drive, “*Api Wavamu-Rata Nagamu*” programme strongly contributed to the resurgent of the cultivation habits of the people.

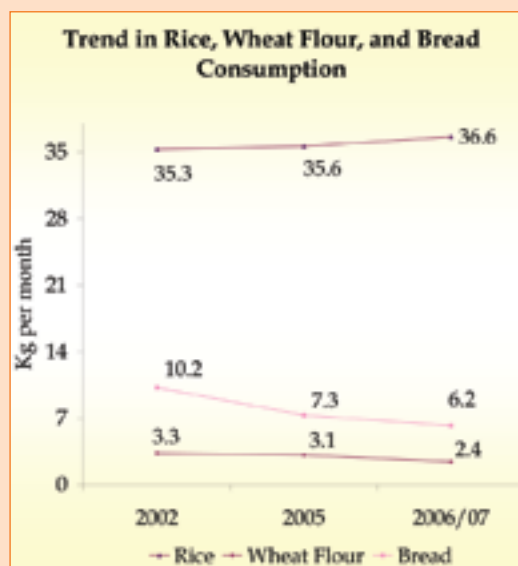
However, a sharp increase in prices of rice was observed mainly in the first half of 2008. As a consequence, the government intervened by implementing a maximum retail price for different grades of rice to stabilize the domestic market prices.

Table 6.5
The Highest ever Growth in Paddy Sector

Category	Unit	2005	2006	2007	2008
Production	mt'000	3,246	3,342	3,131	3,875
Area Sown	hectares'000	937	910	816	1,053
Area Harvested	hectares'000	819	808	714	925
Average Yield	kg/ha	3,963	4,137	4,389	4,184
Average Producer Price	Rs/kg	13.3	13.9	18.6	32.6
Rice Imported	mt'000	52	12	88	84
Credit Granted	Rs. Mn.	1,364	990	1,030	1,440
Annual Usage of Fertilizer	mt '000	353	418	389	602

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

Shift in Consumption Pattern from Wheat Flour and allied products to Rice

Increased Monthly Household Consumption of Food Items
(except Wheat Flour and Bread)

Food item	Unit	2002	2005	2006/07
Rice	kg	35.3	35.6	36.6
Wheat flour	kg	3.3	3.1	2.4
Bread	kg	10.2	7.3	6.2
Condiments	kg	4.8	5.2	5.7
Pulses	kg	3	2.9	3.1
Coconuts	no.	30	30	30
Meat	kg	1.3	1.6	1.4
Fish	kg	2.9	3.8	3.7
Dried fish	kg	1.4	1.3	1.4
Milk	litres	0.4	0.7	1.4
Eggs	no.	10	10	11
Sugar	kg	5.3	5.6	5.2

Source: Household and Expenditure Survey- 2006/07, Department of Census and Statistics

Other Field Crops (OFC)

This category constitutes mainly of condiments (Onion and Chillies), coarse grains (Kurakkan), grain legumes (Green Gram, Maize), oil crops (Sesame and Soya) and tuber crops (Potatoes). The cultivated extent under OFC increased to 129,000 ha in 2008, with an increase of over 12 percent than 2007. The total domestic production also increased substantially to 395,000 metric tons in 2008 compared to the 284,000 metric tons in 2007. This improvement was mainly due to the increased cultivation and production of maize, green gram, cowpea, black gram, finger millet, and ground nuts.

Table 6.6
Production of Other Field Crops

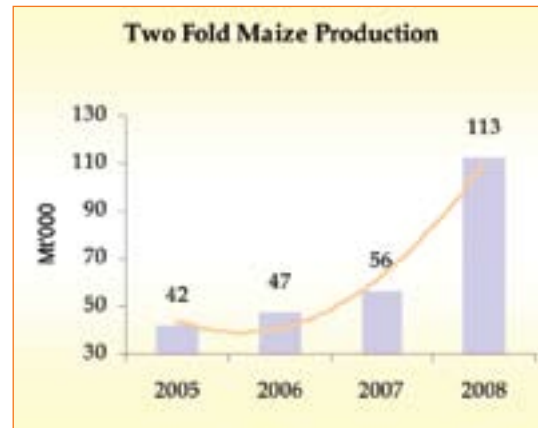
Crops	(Mt'000)			
	2005	2006	2007	2008
Big Onions	50.4	76.4	92.2	57.4
Red Onions	53.1	54.6	57.0	49.3
Chillie	13.2	12.7	48.7	51.1
Green Gram	9.0	7.9	8.5	8.9
Cowpea	11.1	10.2	10.9	12.1
Black Gram	6.9	7.5	7.8	9.5
Soy Bean	5.0	5.2	4.8	3.0
Kurakkan	6.5	6.3	5.5	6.6
Maize	41.8	47.3	56.4	112.5
Potatoes	79.4	79.5	78.3	74.8
Ground Nuts	9.0	9.8	9.8	10.3

Source: Department of Census and Statistics

Maize production showed an extraordinary growth in 2008, twice the production over 2007. It was about 51 percent of the national requirement of maize. Crops such as green gram, cowpea, black gram and Kurakkan recorded slight increases in production.

However, the production of potatoes recorded a marginal decrease over the years resulting in a considerable increase in the imports of potatoes. The imports amounted to 105,544 metric tons in 2008, with an increase of 10 percent over 2007. Although the big and red onion production decreased in 2008, the amount of imports remained unchanged.

Chart 6.7

**Exploiting the Potential of Horticulture**

The fruit and vegetable sector has a vital role in farm income enhancement, poverty alleviation, food security and sustainable agriculture in Sri Lanka. This sector, however, suffers greatly from post harvest losses. Some raw estimates suggest that about 30-40 percent of the fruit and vegetables are loss or abandoned after leaving the farm gate.

Table 6.7
Exports Trends in Fruits and Vegetables Sector

Category	Unit	2005	2006	2007	2008
Fruits					
Export Volume	Mt	6,566	12,979	11,792	14,415
Export Value	Rs. mn	609	982	1,317	1,508
Vegetables					
Export Volume	Mt	14,071	11,005	12,487	19,398
Export Value	Rs. mn	1,153	1,005	1,252	2,717
Processed fruits and vegetables					
Fruits Tinned or Bottled	Rs. mn	23	22	62	127
Fruits and Vegetables Juices	Rs. mn	358	507	1,765	3,013

Source: Central Bank of Sri Lanka

Sri Lanka is now geared to exploit the lucrative fruits and vegetables sector for both domestic and export markets and it is considered as priority industry for development of rural economy. Farmers are encouraged to grow quality fruits and vegetables for which there is a potential demand with the introduction of new technology, modern agricultural implements and new crops with high returns in order to further revive and boost the industry.

Sri Lanka exported 19,400 metric tons of vegetables valued at Rs. 2,717 million in 2008, an increase of 117 percent earning over 2007. Meanwhile, the fruit sector earned Rs. 1,508 million in 2008 by exporting 14,415 metric tons of fresh and dried fruits.

Chart 6.8



Dragon Fruit, a new found favour

The present level of fruit and vegetable production is estimated to be around 1,366,000 metric tons. The vegetable production increased by 5.3 percent in 2008 due to the higher producer prices and the, favourable weather condition coupled with the extension programmes for vegetable cultivation in the Upcountry tea plantations and the Eastern Province.

Plantation

Sri Lanka's plantation sector contributes 23 percent to agricultural production. The plantation sector provided employment for about 1.5 million persons in 2008. About 750,000 ha. of land has been occupied. The plantation agriculture recorded an average growth of 5.2 percent in the year 2008 compared to the 2 percent witnessed in 2007. The developments were attributed to the 4.3 percent growth in tea, 10.3 percent growth in rubber and 5.2 percent growth in the coconut sector. The overall growth in supplementary plantations such as sugar, cashew and palmyrah decelerated to 3.5 percent in 2008 compared to 5.8 percent growth recorded in 2007.

The Highest ever Tea Production

The tea industry for the first time in the history recorded a highest production amounting to 318 million Kg. in 2008, a 4 percent increase over 2007.

With the continuous efforts to enhance the quality of Sri Lankan tea, higher global demand in the first half of 2008 and increased value addition led the tea exports to rise to Rs. 137.6 billion and constitutes about 20 percent of the total export earnings.

The price of tea was conducive for growers throughout the year except the last few months in 2008. The average FOB price of made tea was US \$ 3.89 per kilogram in 2008, surpassing the price of US \$ 3.13 per kilogram recorded in 2007. The average unit price of all elevational categories was well above the previous year and averaged at around Rs 310 per kilogram in 2008. The price of low grown tea averaged at around Rs. 337 per kilogram.

Chart 6.9



The tea production increased by 19 percent in the first half of 2008 recording buoyant performance in the sector. This impressive achievement is mainly caused by several factors such as attractive price regime prevailed over the first three quarters in the year, favorable climatic factors and incentives provided by the government. However, this growth was crippled by the lower external demand making the annual growth stationed at 4 percent.

Table 6.8
Performance of the Tea Sector

Category	Unit	2005	2006	2007	2008
Total production	Mn Kg	317.2	310.8	305.2	318
High	Mn Kg	80.4	74.7	73.9	84
Medium	Mn Kg	55.1	51.5	50.9	49
Low	Mn Kg	181.8	184.6	180.4	185
Extent					
Total extent	'000 ha	222	222	222	222
Extent bearing	'000 ha	193	193	193	193
Replanting	ha	1351	1293	1445	1380
New planting	ha	212	16	7	11
Cost of production	Rs/kg	168.41	188.40	236.50	262.60
Average price					
Colombo Auction	Rs/kg	185.84	198.87	279.10	301.63
Export (f.o.b)	Rs/kg	263.31	279.97	364.28	430.40
Export earnings	US \$ mn	815	917	1,025	1,272
Domestic wholesale price	Rs/kg	178	193.7	265	285.3

Sources: Sri Lanka Tea Board
Tea Smallholding Authority

Table 6.9
Gross Unit Price by Elevations(Rs/Kg)

Elevation	2007	2008
High Grown	253.41	276.06
Medium Grown	245.72	272.73
Low Grown	299.35	336.61
All Elevations	279.52	310.53

Source: Sri Lanka Tea Board

During the last quarter of the year, the industry was affected by the world financial crisis with a drop of demand from the major buyers, the Middle East countries and Russia/CIS countries. As a result, 50 per cent of low grown tea was unsold in the auction in October. In order to revive the industry, the government immediately introduced a concessionary loan scheme to provide the working capital for factory owners. The Sri Lanka Tea Board carried out a number of sales promotion programmes to popularize the different brands of pure Ceylon tea in overseas countries.

Further, Sri Lanka Tea Board introduced a mechanism to purchase the unsold tea at the Colombo Auction.

Coconut – Surge in Export Earnings

The export earnings from coconut amounted to Rs. 19 billion in 2008, a 19 percent increase over 2007. This was mainly achieved through the export of non-kernel products which has accounted for about 50 percent of the total exports in 2008.

The coconut production rose to 2,909 million nuts registering 1.4 percent marginal increase over the previous year. The area under coconut cultivation was marginally increased in 2008. The pest outbreak, "Weligama Wilt" in the Southern quadrant of the country and the severe drought prevailed in 2007 were the main reason for the decelerated production in 2008.

Several measures have been taken by the Coconut Research Institute (CRI) and the Coconut Cultivation Board (CCB)

Table 6.10
Performance of the Coconut Sector

Category	Unit	2005	2006	2007	2008
Production	mn nuts	2,515	2,785	2,869	2,909
Total extent	'000 ha	395	395	395	400
Export earnings	Rs. bn.	11.4	12.9	15.6	18.5
Cost of production	Rs/kg	76.12	97.20	112.69	114.00
Avg. domestic market price (Rs/nuts)	nut	16.65	15.65	21.83	27.57
Replanting extent	ha	1,257	2,372	5,192	1,818
New planting	ha	1,032	922	2,034	2,130

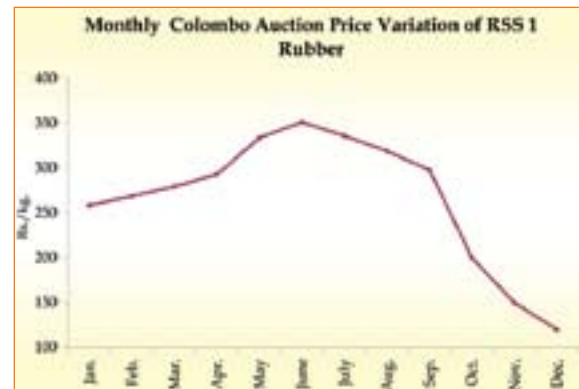
Sources: Central Bank of Sri Lanka
Coconut Development Authority

to improve the performance of the coconut sector in 2008. The Land Rehabilitation Programme has shown a rapid improvement and covered an extent of 3,240 ha. in coconut growing districts. The home gardening programme was continued covering an extent of 40,500 ha. in 2008. Under Kapruka Concessionary Credit Scheme, 1,563 ha. have been developed. About 3.65 million seedlings have been distributed by the Coconut Cultivation Board among smallholders and corporate sector.

Revival of the Rubber Industry

The rubber sector benefited by attractive prices with the increasing demand for natural rubber due to escalating oil prices in the first half of 2008. The natural rubber recoded a highest ever price of Rs. 368 per kilogram in May 2008 at the Colombo Rubber Auction. Though, there was a short term drop of prices by October 2008, the average price of rubber in the first three quarters remained at above Rs. 250 per kilogram. This was mainly due to the high demand for natural rubber in the overseas markets. However, rubber prices declined in the second half of 2008 in the presence of global financial crisis due to lower demand stemming from cutbacks in production by large manufactures particularly the major auto markets in USA and Japan.

Chart 6.10



The development gained at the field level benefiting by the subsidies granted by the Government for planting/replanting was noteworthy and as a result, the extent under rubber cultivation increased to 122,000 ha in 2008. This is an addition of 2,000 ha. to the existing cultivation. The matured area under rubber has increased to 95,000 ha in 2008.

The rubber production increased to 129 million Kg. in 2008, an increase of 10 percent as against 2007. This substantial increase was mainly due to a rise in demand for natural rubber. The rubber exports climbed to Rs. 13.5 billion in 2008 compared to Rs. 12 billion recorded in 2007. It was about 10 per cent surge over 2007.

Table 6.11
Performance of the Rubber Sector

Category	Unit	2005	2006	2007	2008
Production	Kg mn	104.4	109.2	117.6	129.2
Total extent	'000 ha	116	120	120	122
Area under tapping	'000 ha	91	97	94	96
Yield	Kg/ha	1,144	1,128	1,261	1,353
Export earnings	Rs. bn	4.7	9.7	12.0	13.5
Cost of production	Rs/Kg	76.12	97.20	112.69	114.00
Average price					
Colombo Auction- RSS-1	Rs/kg	140.99	202.23	234.22	269.51
Export (f.o.b)	Rs/Kg	147.98	204.70	234.48	278.20
Replanting extent	ha	1,257	2,372	5,192	1,818
New planting	ha	1,032	922	2,034	2,130

Sources: Rubber Development Department
Central Bank of Sri Lanka

To revive of the rubber industry from the adverse impact of global recession, the Government announced a price subsidy of Rs. 20 per kilogram of rubber purchased by the manufacturers. Government also banned the importation of natural rubber and increased the tax on synthetic rubber imports in 2008 in order to protect the smallholders.

Sugar – An Emerging Industry

Continuous efforts have been made to revitalize the sugar industry in Sri Lanka with the aim of realizing the envisaged target of producing 50 percent of the sugar requirement by 2015. However, at present, the production is sufficient only to meet 7 percent of the requirement of the country.

The domestic sugar production increased to 39,000 metric tons in 2008 over the production of 32,000 metric tons in the previous year. This was mainly attributed to the increase of production in the Pelwatte and Sevanagala sugar factories and the increase in the average yield of sugar cane.

Several attempts have been made in 2008 to increase the domestic sugar production. Accordingly, action have been taken to re-establish the abandoned sugar factories at Kantale and Hingurana. Two companies namely LOLC

and Browns have already entered into an agreement to commence the cultivation in order to operationalize these factories. Under the program of planting of sugarcane in non traditional areas, initial studies have been completed for Anuradhapura, Bibile and Siyambalanduwa areas which ascertained a successful feasibility for cultivation.

Cashew

A significant improvement in the area of new cultivation and the seedling production in the cashew industry were witnessed in 2008. About 2,187 ha. of new lands have been added to the existing cultivation in 2008. The production of bud plants and the seedlings were 739,000 and 53,700 respectively. However, the cashew production in 2008 was adversely affected by the unfavourable weather conditions, resulting in the annual nut production dropping by nearly 60 percent. The production was limited to 5,000 metric tons, which is well below the averaged production of 8000 – 10,000 metric tons over the years.

Table 6.12
Performance of the Sugar, Cashew and Palmyrah Plantations

Category	Unit	2005	2006	2007	2008
Sugar					
Total area under cane with ratoons	ha	8,445	8,831	7,544	7,317
Area harvested	ha	6,432	8,390	6,185	6,476
Cane harvested	'000 mt	375	462	264	349
Private cane purchased	'000 mt	281	204	119	161
Quantity of cane crushed	'000 mt	660	660	382	509
Average yield	mt/ha	58	56	48	56
Sugar production without sweepings	'000 mt	54	56	29	38
Sugar recovery rate	percentage	8.2	8.5	7.7	7.4
Cashew					
Extent under cashew	ha	37,167	38,846	39,751	41,950
Replanting / new planting	ha	1,454	1,670	1,174.09	2,145.75
Production	mt	9,036	9,721	11,635	5,000
Palmyrah					
No. of Palms	mn. no.	10.9.	11.01	11.07	11.3
Re planting/new planting	'000 plants	180	195	210	230

Source: Ministry of Supplementary Plantation Crops

Palmyrah

Under the Restoration and the Development Programme of palmyrah, about 100,000 plants have been planted in Jaffna, Mannar and Vavuniya districts. Fifteen model farms in the Northern Province have been rehabilitated to cater to the needs of growers.

Minor Export Crops

The production of minor export crops shows a moderate growth in 2008 with the increased production of cocoa, cloves, arecanuts and coffee. The highest harvest of clove was recorded in 2008. The production of cocoa and cloves increased by 87 percent and 169 percent respectively. The production of predominant export crops such as cinnamon, pepper, cardamoms and cashew kernels declined during the year. Cinnamon and pepper, the large export agricultural commodities in the minor export commodity basket, decelerated the growth by 3.5 percent and 21 percent respectively in 2008. This slow down was due to the declined world demand coupled with heavy rainfall observed particularly in the pepper growing areas.

Table 6.13
Production of Minor Export Crops

Category	2005	2006	2007	2008
Coffee	3,525	3,500	2,979	3,035
Cocoa	900	810	393	735
Cinnamon	14,450	15,900	16,505	15,924
Pepper	14,270	14,400	16,597	13,175
Cloves	6,080	3,575	2,990	8,053
Cardamoms	80	80	90	71
Nutmeg and Mace	1,860	1,925	5,553	4,702
Cashew Kernels	1,811	1,944	2,331	1,000

Source: Central Bank of Sri Lanka

The prices of minor export agricultural commodities dropped during the year. As a result, the government initiated an assistance programme to revive the sector particularly for the cinnamon exporters.

Livestock

The livestock sector mainly consists of the dairy and poultry sub sectors. The special attention has been paid for the development of the livestock sector which is considered as one of the high priority areas for future growth, investment and poverty alleviation. A number of priority programmes were implemented in order to improve breeds, the availability of quality fodder/pasture, better animal health, and a developed collection network. The Dairy Village Programme, Liquid Milk Consumption Promotion Programme, Improvement of Service Delivery System, Calf Rearing Programme, and Livestock Breeding Project continued in 2008 with a greater participation of the private sector.

Steps have been taken to establish a Veterinary Hospital at Nuwara-Eliya and three Veterinary Investigation Centres (VICs) in Colombo, Ampara and Trincomalee with the aim of providing effective disease investigations and diagnosis facilities. In addition, 148 Divisional Veterinary Offices have been equipped to improve the service delivery system. Nearly 9,000 improved heifer calves were distributed among farmers under the Heifer Calf Rearing Project in 2008. Animal Act No. 29 of 1958 was amended with the aim of controlling the slaughtering of breedable cows which is the major cause of depletion of cattle population.

The livestock sector in real terms grew by 5.6 percent in 2008 and the contribution of the sector to the GDP amounted nearly 1 percent. The total milk production reached to 208 million litres in 2008, an increase of 3 percent over 2007. This includes 172 million litres of cow milk and 36 million litres of buffaloes milk. At present, 26 percent of national milk requirement is met by the local production indicating the importance of diverting more resources on milk production to achieve the envisaged target of 50 percent self sufficiency by 2015.

The Government heavily intervened in the promotion of Liquid Milk Consumption Programmes in 2008 with greater private sector participation. The year 2008 was declared as “*Kiri Ithurum Mangalya*” to create awareness among public on the value of fresh milk consumption. 67 dairy villages, 38 animal breeding farms have been established benefiting



Towards the Healthy Nation: Fresh Milk Consumption Outlet

1,538 farm families during the year 2008. In addition, 154 fresh milk sales centers and 30 milk chilling centers have also been established in view of promoting fresh milk consumption in the country.

Fisheries and Aquatic Resources

The highest ever annual fish production was recorded in 2008 amounting to 319,000 metric tons, a 10 percent increase over 2007. This constitutes of 275,000 metric tons of marine fish production and 44,000 metric tons of aquaculture and inland fisheries. The marine fish production and the inland and aquaculture fish production grew by 8.7 per cent and 16 per cent respectively with the resumption of economic activities in the East coast and the favourable weather condition.

Several measures have been taken to increase fish production in promoting offshore and deep sea fishing. The selected fishermen were given a subsidy for the construction of 58 multi-day boats and 25 one -day boats in the year. The fishing fleet was increased by 7 per cent in 2008 due to granted subsidies and other development interventions. Rehabilitation of all the existing fishery harbours and the construction of 3 new fishery harbours at Hambantota, Ambalangoda and Chilaw were completed. The preliminary work for the construction of Dickowita fishery harbour has been undertaken in 2008 and expected to be completed by 2010. Action was taken to improve the anchorages at Sainthamaruthu, Vakara, Suduwella, Kinniya and Kaikawala with the support of donor funds.

Table 6.14
Key Livestock Statistics

Description	Unit	2005	2006	2007	2008
Production					
Milk production	mn litres	193	197	202	208
Cow milk	mn litres	162	164	170	172
Buffaloes milk	mn litres	31	32	32	36
Imports of milk and milk products	Kg. mn	56	73	62	63
Imports of milk and milk products	Rs. bn	13	18	21	32
Egg production	mn	864	1,422	1,240	1,413
Meat production	'000 mt	17	83	96	102
Population					
Neat cattle	No. '000	1,188	1,185	1,206	1,196
Buffaloes	No. '000	307	314	318	319
Goats	No. '000	395	382	389	377
Sheep	No. '000	10	14	16	10
Swine	No. '000	85	92	94	89
Poultry					
Total chicken	No. '000	11,636	13,117	13,779	14,331
Ducks	No. '000	16	16	16	18

Source: Department of Census and Statistics

Table 6.15
Performance of the Fisheries Sector

Description	Unit	2006	2007	2008
Fish Production	'000 mt.	251	291	319
Import Value	Rs. mn.	9,681	11,961	12,521
Export Value	Rs. mn.	14,440	19,123	19,077
Multi-day Boat	No.	2,230	2,460	2,809
One Day Boat				
In Board	No.	860	1060	1940
Out Board	No.	14,700	15,200	14,747
Traditional Boat				
Out Board	No.	1,680	1,680	3,179
Traditional Non motorized	No.	14,700	16,640	17,042

Source: Ministry of Fisheries and Aquatic Resources

In terms of the inland fisheries sector, several steps have been taken to improve the infrastructure facilities, enterprise development, and community empowerment under the Aquatic Resources Development and Quality Improvement Project funded by the Asian Development Bank (ADB). All Regional Aquatic Development Centres improved under the project. Loans amounted to Rs. 10 million were distributed among micro enterprises to improve the fishing operations. Fingerlings were stocked in 31 perennial tanks under the Community Based Management Project. In addition, 1,061,475 fingerlings were released to tanks free of charge by the National Aquatic Resources Development Authority (NAQDA) during the year.

Several measures were introduced to improve the marketing facilities of wholesale and retail distribution of fish under the modern standards. A guaranteed price scheme continued in 2008 and 161 metric tons of fish were purchased by the Ceylon fisheries Corporation (CFC). The construction of the wholesale and retail fish market at Peliyagoda had commenced. The construction of fish markets in Trincomalee, Hambantota, Polonnaruwa and Puttlam were also completed in 2008.

Importation of food items

The import expenditure on food and beverages sector increased by 41 percent in 2008 amounting to US\$ 1,505 million. This accounts to 16.2 percent of the total imports. Particularly due to the increased international prices of wheat, milk powder and sugar observed in the first half of 2008. A wider spectrum of imports of food items indicates the future need and prospects for increased local food production, to reach self sufficiency and value addition. Accordingly, a local food production drive, "Api Wavamu-Rata Nagamu" programme was initiated to achieve these policy objectives. Government continued channeling funds for enhancing agricultural credit facilities, developing irrigation facilities, providing quality seeds and planting material, providing fertilizer subsidy while measures were implemented to safeguard from unfair import competition. Also, agriculture has been exempted from income tax, VAT and Nation Building Tax.

Table 6.16
Major Food Items Imports

Year Item	2005		2006		2007		2008 (Provisional)	
	Quantity (MT)	Value CIF (Rs. mn.)	Quantity (MT)	Value CIF (Rs. mn.)	Quantity (MT)	Value CIF (Rs. mn.)	Quantity (MT)	Value CIF (Rs. mn.)
Rice	51,729	1,554	11,536	577	88,003	1,261	118,554	5,067
Wheat	956,148	15,798	1,174,604	20,473	854,864	22,756	661,421	40,820
Wheat Flour	150,436	3,200	13,578	321	5,797	229	1,969	92
Sugar	444,244	14,096	520,599	22,970	470,706	16,346	541,568	22,000
Dhal	84,396	3,100	104,807	3,802	103,195	6,593	79,751	9,001
Chillies	27,261	1,629	29,410	2,739	31,242	4,080	35,284	4,579
Red Onions	10,233	304	10,859	377	23,754	949	28,019	1,622
Big Onions	110,713	1,826	119,478	1,940	140,728	4,392	154,498	3,790
Potatoes	46,464	1,117	48,799	1,266	85,929	2,211	105,544	2,672
Dried Fish	50,284	3,784	50,455	5,507	51,743	6,253	48,924	6,110
Milk Powder	52,800	12,581	68,105	16,716	62,081	19,318	63,774	30,581
Vegetables	925	98	708	119	733	154	309	62
Fruits	38,656	1,336	40,806	1,498	37,242	1,551	39,062	1,471
Fish	5,310	775	6,986	1,291	11,152	1,863	5,136	389
Meat	2,560	291	1,065	186	1,710	258	1,394	173
Total		61,489		79,782		88,214		128,409

Source: Statistics Division, Department of Sri Lanka Customs

Empowering the Rural Economy

Access to Electricity

82 percent of households are electrified with grid connected electricity whilst 3 percent are served by off-grid facilities such as mini hydro, solar, wind and dendro power etc. Yet, the regional gap in supplying electricity still exists. The average electricity coverage in urban and rural areas is about 80-85 percent and 50-60 percent respectively.

A substantial amount of investment has been made over the years to enhance the supply of electricity to the envisaged level of 90 percent from the national grid and twice the off-grid supply by 2010. To narrow down the gap between the urban and rural electricity coverage, an allocation of Rs. 4,953 million was provided for rural electrification projects in 2008.

4,997 rural electrification schemes were completed in 2008 which raised the total electrified households in the country, to 82 percent. These schemes were implemented under rural electrification project 6 & 7, *Gama Neguma, Rajarata Navodaya* and funds provided under the De-centralized and Provincial Council Budgets.

In 2008, "Lighting Sri Lanka" project was implemented covering Hambantota, Moneragala, Kegalle, Ratnapura and Trincomalee districts in order to improve transmission and distribution network in respective rural areas.

Table 6.17
Rural Electrification Schemes Completed in 2007 & 2008

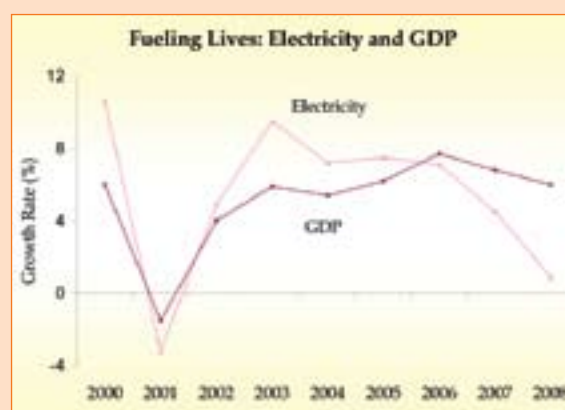
Area	Number of Schemes Completed	
	2007	2008
Southern	914	936
North Central	589	589
Central	1143	1,164
Uva	138	150
West -South	317	324
West -North	170	177
Eastern	407	414
Sabaragamuwa	601	583
North- Western	626	629
Northern	27	31
Total	4,932	4,997

Source: Ministry of Power & Energy

Box 6.2 Electricity: Energizing Growth

It is the long term vision of the electricity sector to provide a reliable and sustainable supply of electricity with the least cost and environmental safeguards to the entire population of the country. The high priority is placed upon increasing in power generation, distribution, and reduction of transmission losses in the electricity sector to realize this goal.

Electricity and GDP highly co-related.

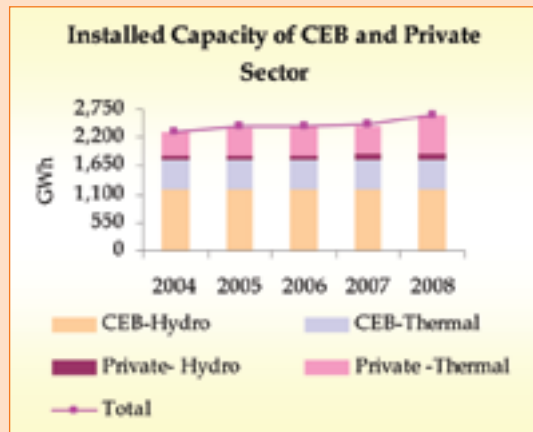


Box 6.2
Electricity: Energizing Growth Contd.

Power Generation

The annual increase of demand for electricity is around 7- 8 percent. Therefore, around 200 MW needs to be added to the system annually. To meet this, the total installed capacity was increased from 2,444 MW in 2007 to 2,644 MW in 2008, which included the installed capacity of the private sector as well as the hired plants. The installed capacity of CEB plants were 1,758 MW and the private plants were 886 MW.

The installed capacity owned by Ceylon Electricity Board remained unchanged in 2008. However, capacity of the private sector has increased by 28 percent due to the addition of more mini hydro power plants which provide electricity to the national grid. The thermal power installed capacity of the private sector has also increased by 30 percent due to the addition of 170 MW to the national grid with the operation of the Kerawalapitiya Power Plant in 2008.

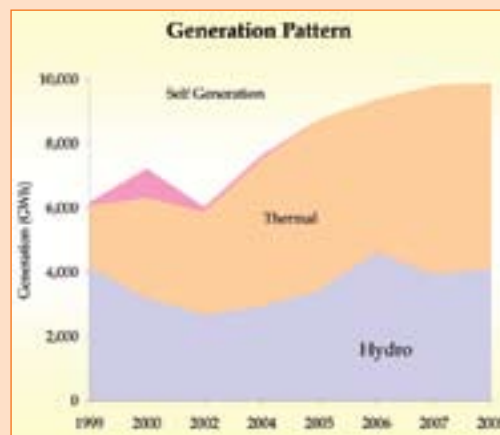


In terms of power generation, the total power generated by both the public and private sector increased by 0.89 percent to 9,901 GWh in 2008. The hydropower generated by the Ceylon Electricity Board increased by 2.7 percent in 2008 over 2007 due to the heavy rain prevailed in the catchments areas. In contrast, thermal power generation by the CEB decreased by 11 percent in 2008. The total power generation by the private sector increased by 6 percent; hydropower generation by 24 percent and thermal power generation by 4.3 percent.

Power and Energy Sector Performance

Category	Unit	2005	2006	2007	2008
Installed capacity	MW	2,411	2,434	2,444	2,644
CEB					
Hydro	MW	1,207	1,207	1,207	1,207
Thermal	MW	548	548	548	548
Wind	MW	3	3	3	3
Private					
Hydro	MW	84	107	117	137
Thermal	MW	567	567	567	737
Units Generated	GWh	8,769	9,389	9,814	9,901
CEB					
Hydro	GWh	3,173	4,290	3,603	3,700
Thermal	GWh	2,162	1,669	2,336	2,083
Wind	GWh	2	2	2	3
Private					
Hydro	GWh	277	345	344	428
Thermal	GWh	3,152	3,082	3,528	3,680

Source: Ceylon Electricity Board

**Diminishing of Hydropower Domination**

At present, electricity generation in Sri Lanka heavily depends on crude oil. This has resulted in increasing costs of power generation. Therefore, a balance in power generation with appropriate combination of hydro, coal, crude oil, solar power and wind is required. To achieve this, lower cost electricity generating facility projects such as Norochcholai Coal Power plant, Upper Kotmale Hydro Power Project, Trincomalee Coal Power Plant and medium scale hydropower plants i.e. Broadlands, Moragolla, Uma Oya, Ginganaga hydropower Projects are in progress.

Box 6.2
Electricity: Energizing Growth Contd.

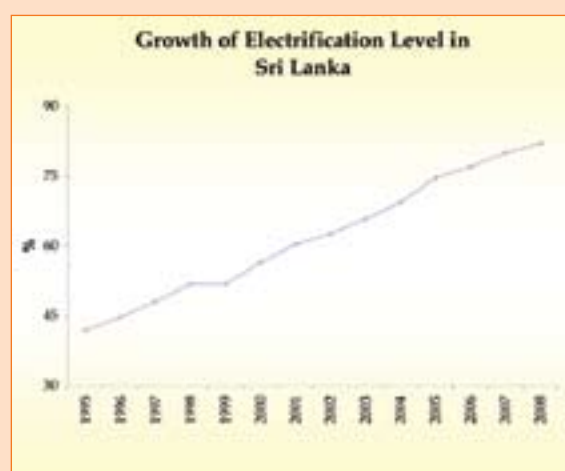
Progress of the Flagships Projects -2008

Project	Total Investment Rs. Mn.	Expected Completion Year
<p>Kerawalapitiya Combined Cycle Power Project (170 MW)</p> <p>The project started commercial operation in 2008 by adding 170 MW to the national grid.</p>	34,267	2008
<p>Norhcolai Coal Power plant (300 MW)</p> <p>Filling in the construction site was completed and the construction work on the foundation of the power plant has been commenced.</p> <p>All surveys related to the construction of transmission line were completed.</p> <p>Preliminary work for the construction of the jetty for coal handling was completed.</p> <p>74 houses were constructed for affected families.</p>	50,050	2010/11
<p>Upper Kotmale Hydro Power project (150 MW)</p> <p>Construction of quarters for employers and engineers was completed. Two 33 kv transmission lines were completed. Generating equipment work contract was awarded.</p> <p>River diversions work, excavations of access tunnel and cable tunnel was completed. Cofferdam in the outlet area was completed.</p>	32,267	2009/10
<p>Trincomalee Coal power plant (500 MW)</p> <p>The site selection was completed and the MOU signed with National Thermal Power Corporation in India.</p>	60,000	2011/12
<p>Uma Oya (90 MW)</p> <p>A loan agreement was signed in April 2008 with the Export Development Bank of Iran (EDBI) for the implementation of the project. The total loan amount is US \$ 450 mn.</p>	51,750	2012/13

Transmission Development

To ensure reliable power supply, reducing the present transmission losses of 15 percent of net generation to a level of 12 percent has been identified as a priority. Hence, a number of transmission development and improvement projects were implemented in 2008 at a cost of Rs 2,212 million.

Power Sector Development Transmission Project (Part C)
Kerawalapitiya - Kotugoda Transmission Line Project
New Galle Transmission Development Project
Killinochchi - Chunnakam Transmission Line Project
Trincomalee - Veyangoda Transmission Line Project
Phase I of Lighting Sri Lanka Hambantota – Transmission
Phase II of Greater Colombo Grid Substation Project (KFW)
Colombo City Electricity Development Project



Distribution Development

4,997 rural electrification schemes were completed and electrified about 82 percent of the total households in the country under different ongoing projects and programmes.

Rural Electrification project 6 & 7

Gama Neguma

Rajarata Navodaya

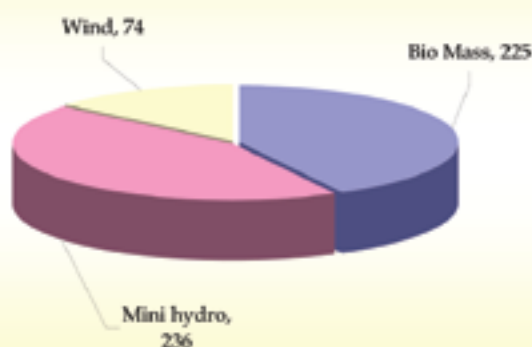
“Lighting Sri Lanka” project was continued in order to improve the transmission and distribution network in the Hambantota, Moneragala, Kegalle, Ratnapura and Trincomalee districts

System Losses

Transmission and distribution losses is a key issue in the sector. At present, system losses as a percentage of net generation stand at 15 percent. These losses are due to technical losses such as overheating cables and transformers, and commercial losses such as unmetered connections etc. The high cost of generation of electricity presently prevailing in Sri Lanka, and the consequent value of energy lost, making reduction is a prime concern for immediate investment. As such, the improvement of identified sections of the transmission and distribution network, replacing/upgrading the network, improvement of service quality in terms of voltage, and upgrading the meters and metering system have been carried out to reduce technical and commercial losses to 12 percent of net generation in the medium term.

Energy Conservation and Renewable Energy Development

The Sustainable Energy Authority (SEA) continued a

Approval Granted to Renewable Energy Power Plants in 2008 (MW)

number of projects and programmes such as Energy Security Enhancement Project, Renewable Energy Development Programme and Energy Efficiency Improvement Programme in 2008. Approvals were granted to construct 159 new renewable energy power plants with a capacity of 534 MW in 2008 and 90 MW was added to the national grid with these projects.

Investment in Power sector

A total sum of Rs. 17 billion has been invested on the power development sector in 2008. The total expenditure has increased from Rs. 4.5 billion in 2006 to Rs. 17 billion in 2008. A major share has been devoted for the development of power generation sector particularly in 2007 due to the initiatives taken place in commencing two mega power generation projects, Norochcholai Coal Power Project and Upper Kotmale Hydro Power Project.

Total Investment in Electricity: Catalyst for Development

Category	2006	2007	2008	2009 ^(a)	2010 ^(a)	2011 ^(a)
Power Generation	1,506	20,920	10,575	6,693	23,675	1,020
Distribution	2,051	2,737	4,020	4,427	2,850	800
Transmission	928	289	2,212	7,728	2,340	1,550
Total	4,485	23,946	16,807	36,050	28,865	3,370

Source: Department of National Budget

^(a) Estimate

Access to Postal Services

Two sub post offices have been upgraded to the post offices with modern communication facilities in 2008. However, the post office network remained unchanged in 2008. Additional revenue sources have been added/improved to the system such as providing banking facilities, insurance premium collection, and selling pre-paid phone cards etc.

The total investment in the postal sector was increased by Rs. 135 million in 2008 compared to 2007. Rs. 183.8 million

was allocated for construction of new buildings and Rs. 17.2 mn. was allocated for renovation works of post offices. Various strategies such as international money transfer through Western Unions are being introduced for generation of new income avenues to the postal system. The postal losses remained extremely high at Rs. 2,143 million in 2008. However, the postal revenue increased by 71 percent in 2008 due to the increase in postal charges.

Table 6.18
Postal Networking and Investment

Postal Services	2005	2006	2007	2008
Delivery Areas(No)	6,729	6,729	6,729	6,729
Post Offices(No)	4,704	4,727	4,737	4,737
Public	4,041	4,043	4,053	4,053
Main Post Offices	633	636	641	643
Sub Post Offices	3,408	3,407	3,412	3,410
Private	663	684	684	684
Agency Post Offices	442	463	463	463
Rural Agency Post Offices	156	156	156	156
Estate Agency Post Offices	65	65	65	65
Area Served by a Post Office (Sq.Km)	13.9	13.8	13.8	13.8
Population served by a Post Office(No)	4,100	4,167	4,252	4,259
Letters per Inhabitant(No)	25	24	23	21
Public Investment(Rs.Mn)	211	617	297	432

Source: Department of Postal

Access to Housing

Government as a facilitator in housing development, continued a number of projects and programmes in 2008 to provide affordable houses particularly for low income households and several targeted groups.

904 housing units were completed in 2008 on a self-help basis under the State Housing Loan Programme with a total disbursement of Rs. 141 million. 1,094 new houses and 131 partly built houses were completed in 2008 under the Housing for Displaced Families (Puttlam) Programme. This provided permanent shelter for IDP's living in welfare camps in the Puttlam District.

Townships for Service Personnel Project continued in 2008 to construct 1,700 houses with other infrastructure facilities for Tri-Services personnel at Ipalogama in the Anuradhapura district. Road work at a cost of Rs. 276 million and 500 housing units were completed during the year.

North East Housing Reconstruction Programme commenced with the objective of assisting the conflict affected communities in the Northern and Eastern provinces through the improvement and reconstruction of housing where 24,580 housing units were completed and the construction work of another 13,976 housing units are in progress.

the Public Servants Housing Project continued in 2008 with the construction work of 576 housing units at Habaraduwa (Galle district) and 640 units at Wekugoda (Matara district) in progress.



Arantalawa Housing Scheme

9,154 housing units were completed with an investment of Rs. 573 million under the Gama Neguma Housing Programme while the *Jana Sevana* Housing Grant Programme assisted in completing 275 housing units.

The urban Housing Programme, implemented by the National Housing Development Authority (NHDA) for the low income families living in deprivation without permanent abode within the areas of municipal and urban councils erected 138 houses in urban areas. Expenditure incurred for this programme was Rs. 8 million. Houses have been constructed in the districts of Colombo (40), Ampara (29), Kurunegala (34), and Polonnaruwa (35) under this programme.

Access to Public Services

With a view of making the public service closer to the people, the Ministry of Public Administration and Home Affairs carried out a number of projects and programmes in 2008.

The second stage of "*Janatha Sathkaraka Sewawa*" was successfully implemented in twelve districts with the aim of delivering a productive service under one shelter. More emphasis was put on rural areas where there were no facilities to receive public services in one stop. About

205,416 people have been assisted through these services and 129,369 cases were resolved.

The Citizens Charter has been introduced to strengthen the existing public service mechanism. Computerization in issuing Birth, Death and Marriage Certificates within 10 minutes has been initiated with an investment of Rs. 50 million. The project was implemented in Divisional Secretariat areas at Attanagalla, Mirigama, Gampaha, Kalpitiya, Vavuniya, Gangawata Korale, Nuwara Eliya, Anuradhapura, Kurunegala, Kamburupitiya and Akuressa. In addition, computerization of issuing certificates of Births, Deaths, and Marriages in 11 Tsunami affected Divisional Secretariats has also been completed with the Asian Development Bank financing. Rs. 108 million.

The Strengthening of Civil Administration Programme (SCAP) was carried out in Tsunami affected areas with the assistance of the Kuwaiti Fund. Under the project, 5 District Secretariat Offices, 12 Divisional Secretariat Offices and 1 Service Counter had been constructed.

Promotion of Human Rights

A number of measures have been taken by the government for the promotion and protection of human rights with special attention to IDPs. A National Action Plan on the Human Rights Promotion and Protection was drafted.

Disaster Mitigation and Risk Management

The Ministry of Disaster Management and Human Rights with the assistance of other relevant institutions has implemented a number of projects and programmes to mitigate and minimize the possible adverse impacts and damages due to natural calamities.

A District Disaster Preparedness and Response Plan was prepared covering 15 Districts and activities have commenced to prepare plans in relevance to Divisional Secretariats area needs.

Rs.145 million was invested to undertake mitigation activities to minimize the effect of various disasters in 2008. As a result the impact of floods occurred in Kolonnawa, Bandaragama and Colombo Central was minimal in 2008.

Development Finance

An Overview

In the past two decades, the Small and Medium Enterprise (SME) sectors in most economies have become a significant component of economic growth. In India among the industries, 95 percent are considered SME while in France and Japan it is 80 percent and 72 percent respectively. In Sri Lanka SMEE represent 90 percent of the industrial sector and create employment to around 70 percent of the work force and contributes about 20 percent value addition. In addition, over 50 percent of the country's GDP is produced by the SME sector. They also form the incubators for the development of larger enterprises. Having recognized the importance of this sector in achieving a balanced economic growth coupled with equitable regional distribution and increasing employment and productivity levels, the Government has adopted various policies for accelerating development of the SME sector. However, it has been identified that the growth and expansion of SMEE are constrained by problems relating to finance, products and markets which have reduced the potential contribution of the sector to the national economy.

Micro Finance has gained global recognition as a key initiative to alleviate poverty. Many Asian countries as well as developing countries view Micro Finance, not only as a medium of alleviation of poverty, but also as a creator of economic independence and an instrument for revival of marginalized people. Micro Finance creates conditions to transform the people at the bottom of the pyramid out of poverty by empowering them to seek opportunities in the corporate world. The Sri Lankan financial market is essentially a micro finance market with more than 80 percent of households having total borrowing below Rs.100,000. Outreach of financial institution has been identified satisfactory with 82.5 percent of households having accessed financial institutes for their credit and savings requirements. Nevertheless, the sector generally suffers from weak governance, poor repayments rates, high transaction costs, recurring losses and significant deficiencies in regulation and supervision and lack of insurance products offered by the Micro Finance Institutions.

Under the above milieu, the Government shoulders a heavy responsibility in creating a conducive environment for the sustainability of both the SME and the Micro Finance sectors. In this exertion, during the year 2008, the Department of Development Finance, coming under the purview of the Ministry of Finance and Planning, made some tireless efforts to strengthen these sectors through:

- Mobilizing financial resources while removing the market impediments of the small and medium industries and micro enterprises
- Stimulating private sector initiatives in small and medium enterprises development
- Promoting , encouraging and assisting the development of small and medium scale enterprises
- Safeguarding and protecting the business interest of small and medium enterprises
- Strengthening the institutional capacity for development of financial markets
- Provision of subsidies to the targeted groups



PERFORMANCE DURING 2008**SME Development***New Comprehensive Rural Credit Scheme (NCRCS)*

During 2008 the Government continued with the provision of interest subsidy to lending banks for loans advanced by them out of their own resources for cultivation of paddy and other subsidiary food crops, production of seeds and planting material on a commercial scale, and to buyers for purchasing agricultural produce, produced under Forward Sales Contracts. The lending banks were required to grant loans to farmers for cultivation and also to commodity buyers who enter into Forward Sales Contracts with the farmers at the same interest rate with 2 percent commission under NCRCS. The Government provided the interest subsidy at 8 percent for cultivation loans and 6 percent for purchasing loans per annum to the lending banks who lent out of their own funds under this scheme.

Accordingly, the Department has released approximately Rs. 155 mn for the lending banks as interest subsidy for the year 2008 and the details are given in Table 7.1.

Under the above programme Rs. 2,750.1 mn among 67,397 farmers and Rs. 7,784.9 mn among 1,373 paddy collectors have been distributed as cultivation and purchasing loans respectively during the year 2008. The highest contribution for both the cultivation and the purchasing loans has been achieved by the Bank of Ceylon granting Rs. 897.1 mn and Rs. 2,811.8 under both programmes utilizing their own funds. The details of above information are provided in Table 7.2, Chart 7.1 and Chart 7.2.

Table 7.1
Subsidy Payments of the year 2008

Name of the Bank	Amount paid (Rs mn)
Bank of Ceylon	48.5
People's Bank	21.1
Commercial Bank	7.7
Hatton National Bank	29.5
Sampath Bank	2.9
Seylan Bank	11.9
Kadurata Development Bank	4.9
Rajarata Development Bank	17.8
Ruhuna Development Bank	6.8
Uva Development Bank	3.4
Wayamba Development Bank	0.3
Total	154.8

Source: Department of Development Finance

7. Development Finance

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Table 7.2
Loans granted by Banks under NCRCS in year 2008

Bank	Cultivation		Purchasing	
	No	Value	No (Rs. mn)	Value (Rs. mn)
Bank of Ceylon	22,553	897.1	283	2,613.0
People's Bank	10,150	370.2	271	1,657.5
Commercial Bank	888	88.0	123	749.2
Hatton National Bank	6,629	383.9	349	1,382.6
Sampath Bank	5	1.1	70	441.1
Seylan Bank	3,510	160.4	75	509.8
Kadurata Deve: Bank	3,601	102.8	-	-
Rajarata Deve: Bank	11,670	466.2	70	111.2
Ruhuna Deve: Bank	5,571	192.8	69	75.3
Uva Deve: Bank	2,456	75.5	51	34.8
Wayamba Deve: Bank	364	12.1	6	3.6
Sabaragamuwa Deve: Bank	-	-	4	5.2
Lankaputhra Deve: Bank	-	-	2	2.8
Total	67,397	2,750.1	1,373	7,586.1

Source: Central Bank of Sri Lanka

Chart 7.1

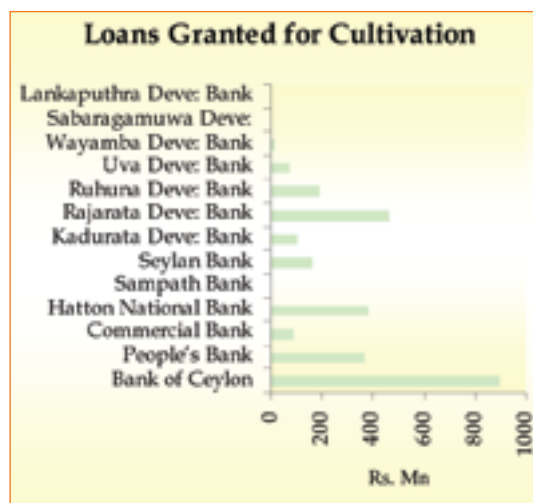


Chart 7.2

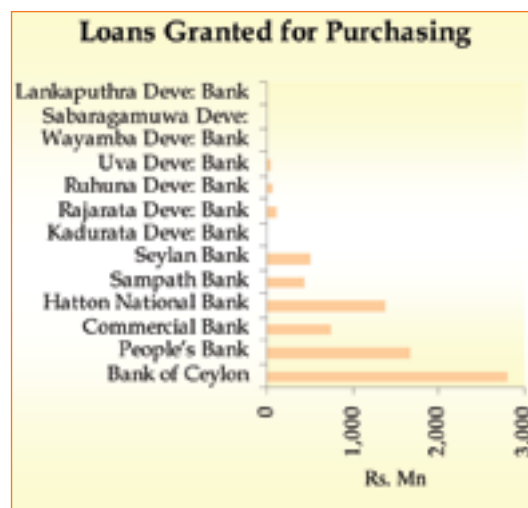


Table 7.3 depicts the progress of the NCRCS by districts for year 2008. The highest number i.e. 19,588 of loans under the cultivation category have been disbursed in Anuradhapura District followed by Polonnaruwa and Hambantota Districts providing 13,937 and 9300 loans respectively. In terms

of the amount disbursed under the purchasing category, Polonnaruwa District took the lead providing Rs. 3034.9 and followed by Anuradhapura and Hambantota Districts providing Rs. 1557.8 and Rs. 1147.1 respectively.

Table 7.3
Loans granted under NCRCS by Districts in year 2008

District	Cultivation		Purchasing	
	No	Value (Rs. mn)	No	Value (Rs. mn)
Ampara	2,356	121.6	67	217.4
Anuradhapura	19,588	704.4	230	1,557.8
Badulla	5,199	224.5	82	285.9
Batticaloa	253	16.8	1	10.0
Colombo	-	-	6	216.1
Gampaha	-	-	9	25.8
Hambantota	9,300	342.7	391	1,147.1
Jaffna	2,861	131.3	2	10.0
Kalutara	261	7.9	-	-
Kandy	1,120	40.0	-	-
Kegalle	8	0.1	-	-
Killinochchi	30	4.1	-	-
Kurunegala	1,467	46.6	29	513.4
Mannar	350	13.5	-	-
Matale	4,564	175.2	59	231.3
Matara	276	8.5	2	1.5
Monaragala	1,447	69.0	21	53.5
Mullativu	273	10.7	-	-
Nuwara Eliya	1,515	187.5	-	-
Polonnaruwa	13,937	514.9	390	3,034.9
Puttalam	213	10.0	1	0.5
Ratnapura	850	30.0	45	131.4
Trincomalee	1,126	65.7	19	47.7
Vavuniya	405	25.2	19	101.8
Total	67,399	2,750.1	1,373	7,586.1

Source: Central Bank of Sri Lanka

Krushi Navodaya Loan Scheme

Krushi Navodaya programme introduced by the Government was targeted to meet the capital requirement of the small farmers island wide, aimed at empowering them by provision of finance to acquire agricultural inputs on time at an affordable cost.

It was expected to disburse a total amount of Rs. 3000 million per annum as credit through 14 Participatory Financial Institutions (PFII) i.e. Bank of Ceylon, People's Bank, Hatton National Bank, Commercial Bank, Sampath

Bank, Seylan Bank, SANASA Development Bank, Lankaputhra Development Bank, Ruhuna Development Bank, Rajarata Development Bank, Wayamba Development Bank, Sabaragamuwa Development Bank, and Kandurata Development Bank, among the farming community with loan amounts ranging from Rs. 10,000 to Rs. 100,000. The loans were granted by PFII using their own capital on cost sharing basis at 12 percent per annum while the government bearing the remaining part of the cost of funding at 8 percent per annum.

Table 7.4
Loans disbursed by banks

Bank	No of Loans	Loan Amount (Rs.)
Bank of Ceylon	4,938	288,485,450
People's Bank	2,885	238,140,300
Commercial Bank of Ceylon	686	51,957,277
Hatton National Bank	176	14,094,444
Sampath Bank	-	-
Sanasa Development Bank	968	66,449,500
Rajarata Development Bank	75	6,000,000
Ruhuna Development Bank	1,487	121,775,185
Wayamba Development Bank	78	4,735,000
Uva Development Bank	130	9,785,000
Kandurata Development bank	63	4,380,000
Sabaragamuwa Development Bank	51	4,183,000
Lankaputhra Development bank	898	75,148,350
Total	12,435	885,133,506

Source: Central Bank of Sri Lanka

Cumulative number of loans and amounts granted by participatory banks during the year 2008 are given in Table 7.4. Accordingly, 12,435 loans amounting to Rs. 885.1 mn have been disbursed among farmers to fulfill their capital

requirements. The highest loan disbursement has been achieved by the Bank of Ceylon granting 4,938 loans and followed by People's Bank and Ruhuna Development Bank providing 2,885 and 1,487 within the period respectively.

Table 7.5
Loans disbursed by Districts

District	No of Loans	Loan Amount (Rs.)
Hambantota	2,317	194,037,131
Jaffna	1,734	96,234,944
Matara	1,009	82,755,104
Galle	1,036	87,718,600
Kurunegala	842	65,022,100
Ampara	897	56,544,000
Batticaloa	444	20,354,000
Kalutara	457	32,665,600
Polonnaruwa	373	28,952,350
Anuradhapura	511	34,053,450
Kandy	749	38,497,000
Kegalle	331	23,834,000
Badulla	353	24,169,427
Nuwara Eliya	243	15,338,000
Monaragala	250	17,682,800
Gampaha	182	16,580,000
Matale	178	11,917,500
Puttalam	177	13,295,000
Ratnapura	282	20,363,500
Colombo	41	3,505,000
Tricomalee	20	1,114,000
Mullattivu	7	350,000
Vavuniya	1	100,000
Killinochchi	1	50,000
Total	12,435	885,133,506

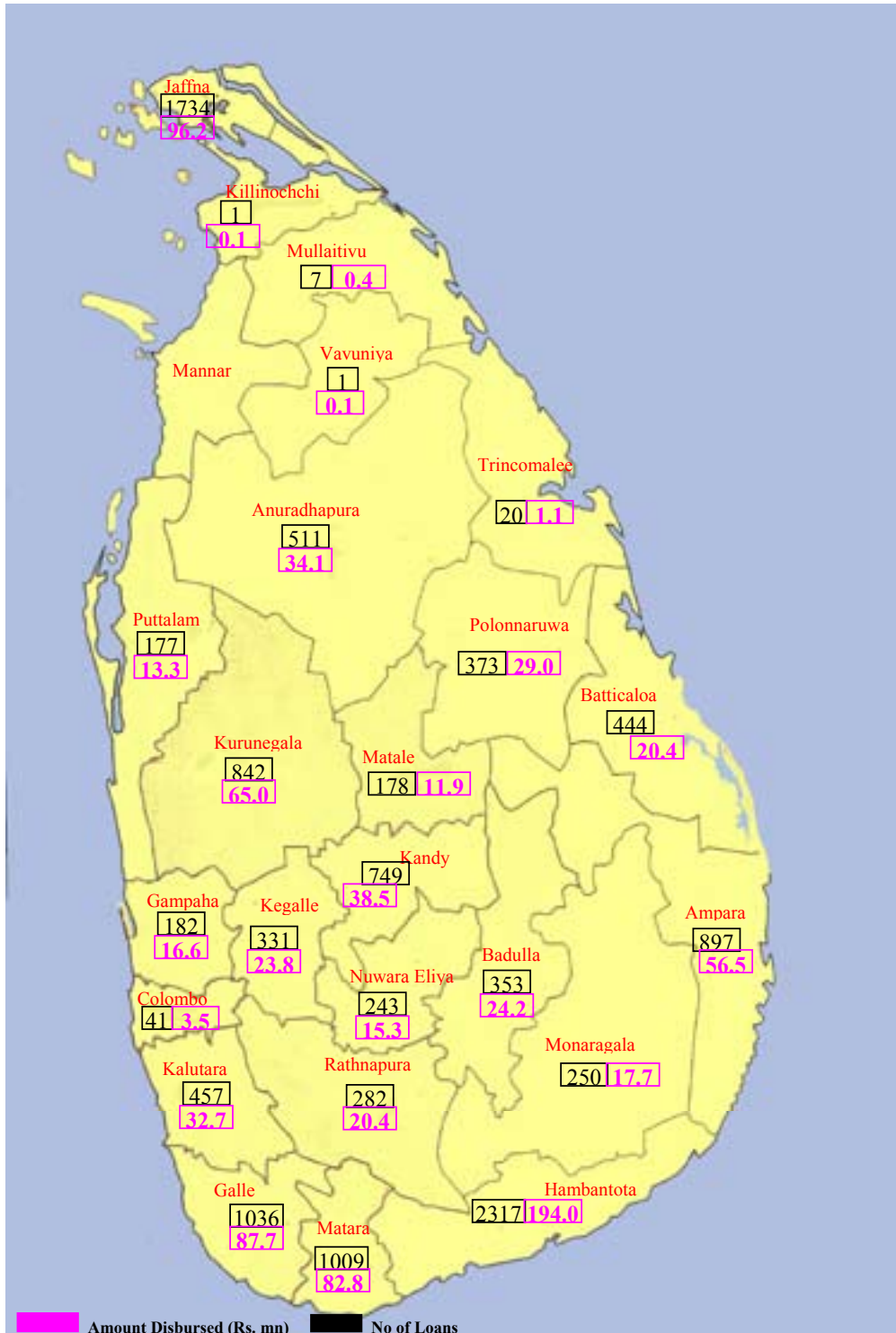
Source: Central Bank of Sri Lanka

Around 19 percent out of total number of loans and around 22 percent out of total amount disbursed have been recorded by Hambantota District. The salient feature in Table 7.5 which gives the progress of loans disbursement by Districts, is that Jaffna District has been ranked 2nd in terms of the number of loans and the amount disbursed. This table also

indicates that Hambantota, Jaffna, Matara and Galle Districts have recorded higher number of loans in terms of disbursements than the agricultural districts such as Anuradapura and Polonnaruwa probably for the reason that the loan scheme is more attractive to the small farmers than the large scale farmers.

7. Development Finance

KRUSHI NAVODAYA –
No of Loans and amount disbursed by Districts



Source: Central Bank of Sri Lanka

Box 7.1

KRUSHI NAVODAYA - Helped them for productive self employment income generating activities.

**Mr. W.A. Podinilame**

4 1/2, Mile Post, Tabuththegama.

I started a small sawmill with the financial assistance of the People's Bank in 1996. It was developed within a very short period as a medium level saw mill. Nevertheless, it was my dream to engage in farming from my childhood. Therefore, I bought a two acre plot using my own funds and cultivated around 2,000 banana plants utilizing the Rs. 100,000 credit facility provided by the Tabuththegama branch, People's Bank under the Krushi Navodaya loan scheme. At present, I am proud to say that it is the most successful Banana cultivation in the area. Thanks to a well thought of loan scheme for the small farmers.

Mr. G. Samantha,

Muruthawela, Walasmulla.

Our family is engaged in the cultivation of Pineapple on small scale as the main source of earning for long time. However, the income generated by this cultivation was not enough to cover the day today expenses of my family. Hence, we needed to expand our pineapple cultivation, but I was not in a position to expand it into a more profitable business due to lack of capital. In this background, I applied for a loan from the Walasmulla branch, Bank of Ceylon and they granted me Rs. 100,000 under the Krushi Navodaya loan scheme to expand the cultivated extent up to two acres. At present it is a well developed pineapple cultivation and the harvest is being sold retail as well as wholesale enabling me to own a lucrative business.

**Mr. M. Sutharshan,**

Kalawanchikudi

The two acres of my family owned land was cultivated with chilie, utilizing the Rs. 100,000 credit facility provided by the Kulavanchikudi branch, People's Bank under the Krushi Navodaya loan scheme. In addition, I have cultivated coconut and banana in the same land to maximize the utilization of the land. Apart from this a water pumping system has been introduced to ensure the supply of water for the cultivation. I am confident that this would be my main source of income in the near future.

Agro Livestock Development Programme

The government announced a concessionary loan scheme in the budget 2008 for the small dairy farmers with a view to meeting their capital needs, in order to enhance local milk production. This loan scheme was also extended to milk processors and agriculture crop processors with the objective of enhancing the quality of the processing activities.

Accordingly, two separate loan schemes were formulated to disburse Rs. 5000 mn within the forthcoming three years through 14 Participatory Financial Institutions (PFII) to the small dairy farmers and also to those who are engaged in the milk and crop processing industries. The basic features of the loan scheme are as follows.

Loan Scheme	Maximum Loan Amount	On – Lending rate	Interest subsidy
1. Small Dairy projects	Rs. 400,000	12 %	5%
2. Liquid Milk Processing and Agriculture Crop Processing	Rs. 300 million	14%	5%

The loan scheme was launched in May 2008 and Rs. 153.7 mn has been disbursed among 557 dairy farmers, crop and milk processors in the year 2008. The details of the progress made in this connection are given below.

Debt Relief Package for Small and Medium Scale Paddy Millers

As a result of the withdrawal of government intervention for the paddy purchasing programme, a considerable amount of loans have been provided particularly by the state banks to paddy millers and collectors. This loans scheme was implemented during the last decade in the interest of ensuring the purchase of paddy by the private sector. Nevertheless, some of these borrowers were unable to pay their loans due to the unprotected nature of the industry and natural disasters prevailed during the past. Taking into consideration the difficulties faced by the Small & Medium Scale Paddy Millers and Collectors, the Cabinet at its meetings held on 21st July 2004 and 2nd November 2004, granted the relief package in order to ease the situation.

However, the paddy millers made further representations regarding their inability to honor the repayment under the above relief package due to the heavy debt burden. As a result of the meeting the small and medium scale paddy

Table 7.6
Loans Disbursed by Sector in year 2008 (Rs. Mn.)

Bank	Livestock Development		Liquid Milk Processing		Agro Processing Institutions		Total	
	No.	Value	No.	Value	No.	Value	No.	Value
People's Bank	236	18.72	6	5.25	-	-	242	23.97
Bank of Ceylon	45	4.45	-	-	-	-	45	4.45
Uva Deve. Bank	26	1.37	-	-	-	-	26	1.37
Sabaragamuwa Deve. Bank	60	5.08	1	0.06	-	-	61	5.14
Hatton National Bank	3	0.52	2	1.90	-	-	5	2.42
Kadurata Deve. Bank	62	3.85	-	-	-	-	68	3.85
Rajarata Deve. Bank	57	5.43	6	0.62	-	-	57	6.05
Wayamba Deve. Bank	48	5.65	-	-	-	-	48	5.65
Commercial Bank	5	0.80	-	-	-	-	5	0.80
Total	542	45.87	15	7.83	-	-	557	53.70

Source: Central Bank of Sri Lanka

millers had with the H.E. the President on 04th April 2006, it was decided to release the borrowers who have repaid more than 75 percent of the capital outstanding on the loans granted during 1997 to 2000.

Although, majority of the defaulters made a genuine effort to repay their loans, some were not keen to repay their loans. Therefore, a considerable amount of loans that were granted to paddy millers and paddy collectors during 1997 to 2000 were remaining in the non-performing category of the banks and it badly affected the profit and liquidity ratio of the banks.

In view of the above, Rs. 100 mn was set apart in the 2008 budget to write off the loans that were granted to paddy millers during 1997 to 2000. Accordingly, following concessions were provided to the paddy millers in order to activate the defunct Small and Medium Scale Paddy Milling sector.

- To write off the outstanding amount of the borrowers who have paid 60 percent or more. (The loss of Rs. 90 mn. was borne by the Treasury)
- To write off the total accumulated interest of the above loans until end of 31.12.2007. (The loss of Rs. 25 mn. was borne by the banks)

The progress made in this concessional programme during the year is given below.

Fertilizer Subsidy

It is generally accepted that increasing agricultural productivity is critical to stimulating the rate of economic growth in developing countries where agriculture plays a vital role in the economy. Among the key complementary determinants of agriculture productivity, fertilizer is considered as one of the most significant productivity determinants. The role of fertilizer subsidy in stimulating growth and addressing food security and poverty alleviation objectives has emerged as an important agricultural policy of the present government. The sudden and sharp increase in world food and fertilizer prices during 2007 and 2008 have created the need for prompt action in meeting productivity and social welfare goals putting the fertilizer subsidy program high on the list of options of the government. Apart from fulfilling the food security in the short run, income gains transferred to farmers through the subsidy are expected to result in increased savings and investment in complimentary productive assets while contributing to growth in the long run. In addition, it is expected that the income transferred to farmers will address the social and political objectives of poverty alleviation and enhanced equity.

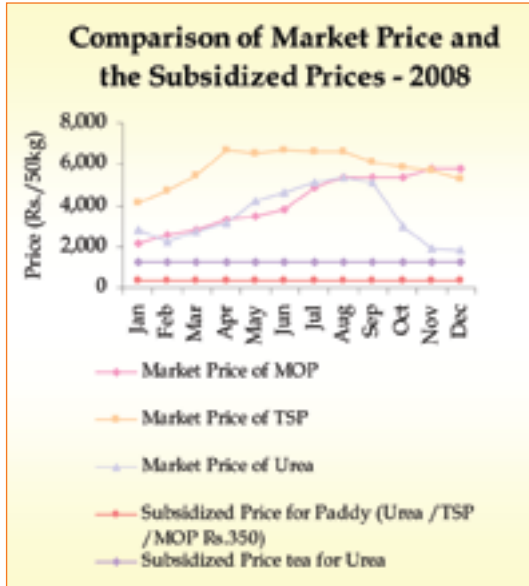
In this backdrop, the government continued its pledge to provide the major fertilizers namely Urea, TSP and MOP at Rs. 350 a 50 kg. bag for the paddy farmers during the year 2008 as well, despite the soaring fertilizer prices.

Table 7.7
Loans written off by banks

Bank	Total Amount on 31.12.2007		More than 60% repaid up to 31.12.2007		
	No of Borrowers	Value (Rs. mn)	No of Borrowers	Interest (Rs. mn)	Value (Rs. mn)
Bank of Ceylon	41	17.9	38	14.2	2.6
People's Bank	345	252.8	137	65.5	19.7
Rajarata Deve: Bank	110	21.9	73	9.5	2.7
Total	496	292.6	248	89.2	25.0

Source: Department of Development Finance

Chart 7.3



In an effort to ensuring that the major fertilizers are available at Rs. 350 per 50 kg bag for the paddy sector, more than 90 percent of the cost of the fertilizer was borne by the Government.

Table 7.8

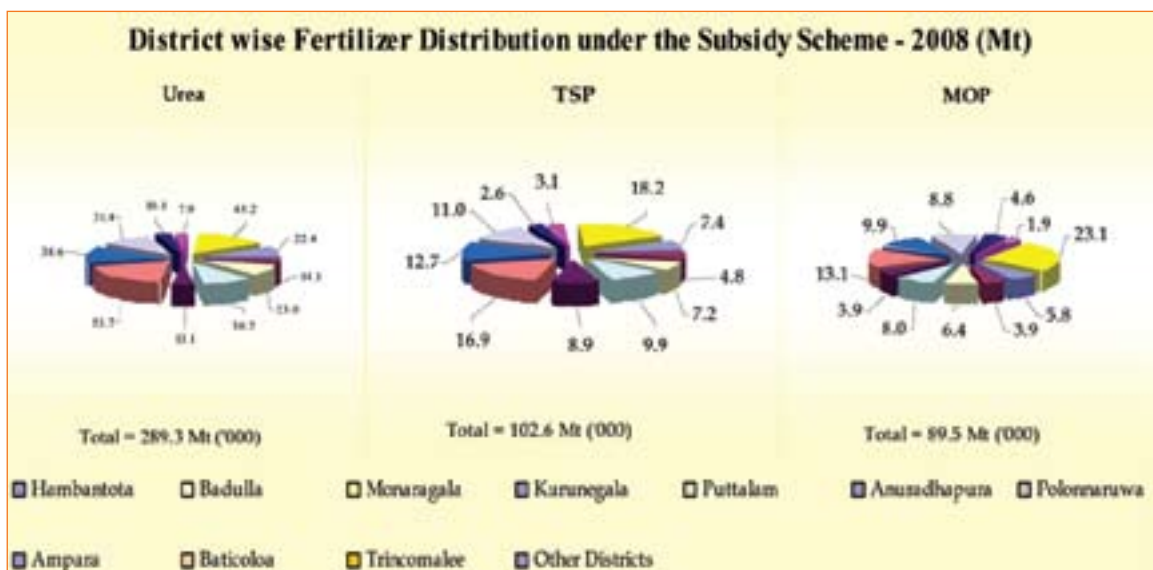
Value of the subsidized component as a percentage of market price

Variety Fertilizer	Average market price of 50kg bag in 2008 Rs.	Subsidized price of 50kg bag Rs.	Subsidized amount as a percentage of market price
Urea	3490	350	90
TSP	5850	350	94
MOP	4225	350	91

Source: Department Of Development Finance

The Urea fertilizer subsidy which was granted for the smallholder plantation sector less than 5 acres was extended up to 50 acres in order to provide relief to the much needed foreign exchange earners in the tea sector. The subsidized fertilizer for the paddy sector was being distributed through the state fertilizer companies machinery along with the distribution arm of the Agrarian Services Centers, Co-operatives, Mahaweli Authority etc. while the plantation sector was catered basically by the private fertilizer companies.

Chart 7.4
District wise Fertilizer Distribution under the Subsidy Scheme - 2008 (Mt)



The increasing trend in world market prices of all fertilizers compelled the Government to increase the budgetary allocation of Rs. 15,000 million with a supplementary budget of Rs. 11,800 million altogether totaling to Rs. Mn. 26,800 for fertilizer subsidy during the year 2008. This is almost 135 percent increase when compared with the last year's commitment of the government for the same.

Chart 7.5



However, realizing the long term negative impacts of the continued use of chemical fertilizers and the increasing commitment by the Government, several programmes have been launched to promote the production of organic fertilizers and to encourage the farmers to use organic fertilizers wherever possible in appropriate quantities with chemical fertilizers. For the above purpose a Rs. 500 million allocation was made available during the year.

The Sri Lanka Savings Bank (SLSB)

The Sri Lanka Savings Bank (SLSB) was established on July 7th 2006 as a public limited liability company under the Companies Act of No. 1982 and registered as a licensed specialized bank. The SLSB which is a wholly owned state bank commenced its operation on March 10th 2008 at No.110, D S Senanayake Mw., Colombo 08.

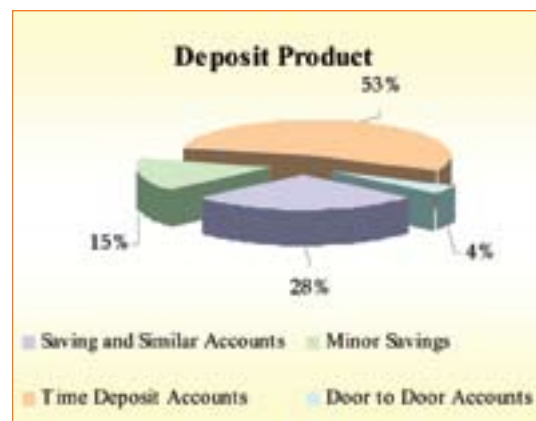
The primary objectives of the Bank are to provide relief to depositors of the defaulted Pramuka Bank and opening and

maintaining of savings accounts and other similar deposit accounts. The SLSB has taken steps to settle deposit liabilities up to Rs.100,000/- with effect from June 2008. The Bank has settled deposits of 3879 depositors valued at Rs.185 million up to December 31st 2008.

After the assets and liabilities of defaulted Pramuka Bank were taken over, the Bank had to make a strenuous effort on reconstructing the accounts of Pramuka Bank. Since the recovery of loans granted by Pramuka Bank considered to be one of the critical success factors of the Bank, the recovery process of loans and advances granted by Pramuka bank have been accelerated while reactivating Pramuka bank borrowers, establishing an institutional structure for monitoring recoveries, and disposing the non-yielding assets. The Bank has made considerable effort to recover dues from defaulters and was able to recover Rs. 202 million for the period ending December 31st 2008.

Further, the SLSB has given top priority to cater to the banking needs of small depositors by extending its campaign to

Chart 7.6



muster savings from small time businesses covering shops, boutiques, traders, vendors and so on through its Door to Door programme. Currently more than 400 customers have enrolled in the programme from Borella, Punchi Borella and Narahenpita vicinities.

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The total savings mobilized through several savings programme has reached Rs. 70 million at the end of 2008.

In addition to the minors, senior citizens and the ladies savings accounts the Bank has offered a unique product line to its customers through an insurance deposit scheme viz. Divisewana and Shakthi which offers unmatched life insurance benefits. The Bank's first branch located at Head Office at No.110, D S Senanayake Mawatha Borella has a customer base of more than 2200 customers.

Table 7.9
Financial Highlights

Item	Amount (Rs. Mn.)
Profit before VAT	155.7
Total Income	214.0
T-Bills, T-Bonds and placement with Banks	1087.4
Total Assets	1295.4

Source: Sri Lanka Savings Bank

As rural population has been identified as the target market of SLSB, steps have been taken to expand low cost service outlets in un-banked and under-banked areas through the postal network during the year.

In addition, actions have been initiated to amend the Articles of Association to engage in micro-financing to carry out social responsible programmes in order to improve living environment of the rural population and to develop income generating opportunities for them.

Lankaputhra Development Bank

Lankaputhra Development Bank was established on 24th February 2006 under the Banking Act No. 30 of 1988 as the only development bank owned by the Government with a view to fulfilling the financial needs of the small and medium scale industries, agriculture, tourism and other service sectors.

The Lankaputhra Development Bank has expanded its operational capacity by opening another two branches in

Kandy and Wennappuwa in year 2008. The bank offered long term development loans at concessionary rates to viable projects particularly in less developed and lagging areas of the country.

The total amount of project loans approved by the bank as at 31st December 2008 was Rs. 3,449.98 mn and the total disbursement was Rs. 2,273.9 mn.

Table 7.10
Loan Approved as at 31.12.2008

Districts	Amount (Rs. Mn.)
Anuradhapura	129.99
Ampara	14.20
Matale	14.80
Badulla	11.05
Colombo	800.58
Galle	58.90
Gampaha	486.40
Hambantota	348.68
Kalutara	347.69
Kegalle	69.01
Kurunegala	103.46
Kandy	136.54
Trincomalee	155.61
Matara	22.70
Nuwara Eliya	17.30
Monaragala	13.95
Puttalam	357.77
Polonnaruwa	256.38
Ratnapura	105.00
Total	3,449.99

Source: Lankaputhra Development Bank

The number of loans and amounts granted and employment opportunities generated by the bank during the year 2008 are given in Table 7.11.

Table 7.11
Sector wise Distribution of Loans & Advances as at
31.12.2008

Sector	No of A/C's	Employment Generation	Loan Amount (Rs. Mn)	%
Agriculture & Fisheries	1,795	2,826	650.29	28.60
Manufacturing	237	3,267	1,091.17	47.99
Tourism	6	160	68.09	2.99
Transport	2	52	103.17	4.54
Trading	27	142	33.36	1.47
Construction	7	63	32.59	1.43
Financial and Business Services	6	8	141.58	6.23
Other Services	41	384	153.64	6.76
Total	2,121	6,902	2,273.90	100.00

Source: Lankaputhra Development Bank

The 2121 projects which obtained loans during the year covered a diversified portfolio in Agriculture & Fisheries, Manufacturing, Tourism, Transport, Trading, Construction, Financial and Business Services, and others sectors. The projects are distributed across a wide geographical area in the country including the Central, North Central, Southern, Uva and also the newly liberated Eastern and Northern Provinces. The highest number of loans has been provided to Agriculture and Fisheries sector granting 1,795 loans and followed by manufacturing.

sector 2,37 loans within the year. In terms of the amount disbursed, Manufacturing sector took the lead providing Rs. 1,091.17 mn and followed by Agriculture & Fisheries and Other Services sectors providing Rs. 650.29 and Rs. 153.64 respectively. Of the total disbursements, 76 percent of the amount disbursed shared between Manufacturing and Agriculture & Fisheries sectors while the Manufacturing sector secured 48 percent and the Agriculture & Fisheries sector 28 percent.

The bank has generated 6,902 employment opportunities particularly out of the Western Province while contributing to reduce income inequalities and youth unemployment in the rural areas. The Manufacturing sector turned out to be the leading sector in view of the employment generation by providing 3,267 employment opportunities and followed by the Agriculture and Fisheries sector. Accordingly, the contribution of the Manufacturing and Agriculture & Fisheries sectors for employment creation accounts for about 47 percent and 40 percent respectively out of the total employment opportunities created by the project loans.

Small and Medium Enterprise Sector

The Government has recognized that a well functioning small and medium enterprises (SME) sector could take the lead in generating employment and economic growth while raising income levels for a large segment of the population. Since regional SMEE (SME out side the Western Province) comprises 75 percent of the total number of registered SMEE in the country, the Government recognizes the importance of SMEE in equitable regional growth. However, regional SMEE have not realized their full potential for contributing to economic growth and employment generation. Hence, regional SME development is one of the key elements of the Government strategy for reducing regional inequalities in the policy framework of the Government.

Small and Medium Enterprise Regional Development Project

The Small and Medium Enterprise Regional Development Project (SMERDP) funded by the Asian Development Bank (ADB) has been designed to accelerate development of the SME sector through start-up SMEE as well as expansion and diversification of existing SMEE outside the Western Province enabling reduction in regional inequalities through increased output and employment generation in order to enhance the private sector share in economic development.

The project covers a three year period commencing from January 2008 to December 2010. The SMERDP loan was made effective on 08th April 2008 and it has commenced implementation on mid of May 2008 after receiving the mobilization advance (US\$ 5.0 mn) on 16th May 2008.

Small and Medium Entrepreneurs who are willing to start-up SME or a SME undertaking expansion or modernization, its with an annual turnover not exceeding Rs. 300 mn. and its fixed assets-excluding land and buildings not exceeding Rs. 100 mn, those employing between 05 and 150 staff are eligible for funding under the SMERDP. The Private Commercial Banks (PCBB) shall on-lend to sub-borrowers (SMEE) at an interest rate that reflects their cost of funds plus a spread to cover transaction cost and risks. The maximum sub-loan size shall be Rs. 20 million that each sub-loan shall not exceed seventy five percent (75%) of total sub-project cost and each sub-loan shall have minimum tenure of 04 years.

The following sub sectors are eligible to obtain financial facilities under SMERDP, namely Fisheries, Dairy and Animal Husbandry, Fruit and Vegetable (horticulture), Aquarium & Floriculture, Food Processing & Beverage, Agro Industries, Spices, Leather and Allied Products, Rubber Products, Construction Materials, Metal Products, Gem & Jewellery, Wood Products, Herbal & Natural Products, Textile & Garments, Plastic Products, Information Technology, Education Handicrafts, Fertilizer and Agro Chemical and services.

The project is implemented through four Private Commercial Banks (PCBB): the DFCC Bank, the Commercial Bank, the National Development Bank, and the Sampath Bank.

Financing Plan: The estimated total cost of the project, US\$ 88.89 mn is being funded as follows.

Table 7.12
Sources of Funds

Source	Total US\$ mn	%
ADB	50.00	56.25
PCBs	16.67	18.75
SMEs	22.22	25.00
Total	88.89	100.00

Source: DFCC, NDB, Commercial Bank, Sampath Bank

The details of the ADB loan amount which has been allocated among the PCBB are given below.

Table 7.13
Details of allocations of funds

Bank	Amount US \$
DFCC Bank	15.00 mn
Commercial Bank	15.00 mn
NDB Bank	10.00 mn
Smapath Bank	10.00 mn

Source: DFCC, NDB, Commercial Bank, Sampath Bank

Progress of Credit Component:

Table 7.14
Progress of Withdrawal of Funds from ADB 16th May to 31st December 2008

Bank	Funds allocated by ADB (US\$ mn.)	Withdrawal (US\$ mn.)	%
DFCC Bank	15.0	4.02	27
Commercial Bank	15.0	2.60	17
Sampath Bank	10.0	1.88	19
NDB Bank	10.0	1.00	10
Total	50.0	9.50	19

Source: DFCC, NDB, Commercial Bank, Sampath Bank

The progress made by the bank during same period is given in table 7.14.

Complementary Component of the SMERDP is as follows

1. Enhancing PCB Governance

- Track PCBs compliance with CBSL code of corporate governance for banks and financial institutions.

2. Strengthening PCB risk management

- Monitor, PCB progress reports under the International Finance Corporation funded South Asia Enterprise Development Fund (SEDF).

3. Fostering Regional SME Bankability

- Catalyze establishment and development of SME value chain clusters. 3-5 SME value chain cluster to be developed in each illustrative sector.

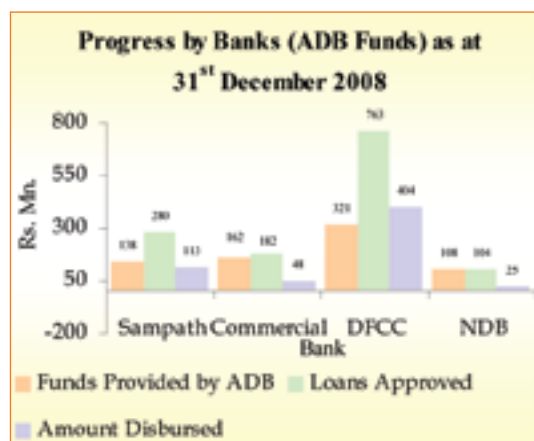
Table 7.15
Progress by Banks from May 16th to 31st December 2008

Bank	No. of Loans	Loan Approved (Rs. mn.)				Amount Disbursed (Rs. mn.)			
		ADB	PSBB	Equity	Total	No. of Loans	ADB	PSBB	Total
Sampath	82	279.7	92.7	473.1	845.5	47	113.0	38.9	151.9
Commercial	24	182.1	60.8	272.1	514.9	9	47.6	15.9	63.5
DFCC	154	762.7	254.2	856.4	1873.3	104	403.6	135.0	538.7
NDB	15	103.8	34.6	86.3	224.7	7	25.3	8.4	33.7
Total	275	1328.2	442.3	1687.9	3458.4	167	589.5	198.2	787.7

Source: DFCC, NDB, Commercial Bank, Sampath Bank

The progress recorded by the respective banks with regard to the loans approved and amounts disbursed from the ADB funds are shown below.

Chart 7.7



It is also reported that 3,750 direct and 4,404 indirect employment opportunities has been created in 16 districts during 2008 as follows.

Table 7.16
No of Employment Opportunities created by Districts from 16th May to 31st December 2008

District	Employment Opportunities	
	Direct	Indirect
Baddulla	238	473
Matara	661	609
Rathnapura	376	375
Hambanthota	170	55
Matale	65	20
Kandy	638	540
Galle	487	870
Kurunegala	427	825
Monaragala	2	0
Ampara	167	0
Puttalam	51	24
Trincomalee	2	0
Anuradapura	60	234
Polonnaruwa	65	181
Kegalle	49	178
Nuwaraeliya	253	0
Total	3750	4404

Source: DFCC, NDB, Commercial Bank, Sampath Bank

Chart 7.8

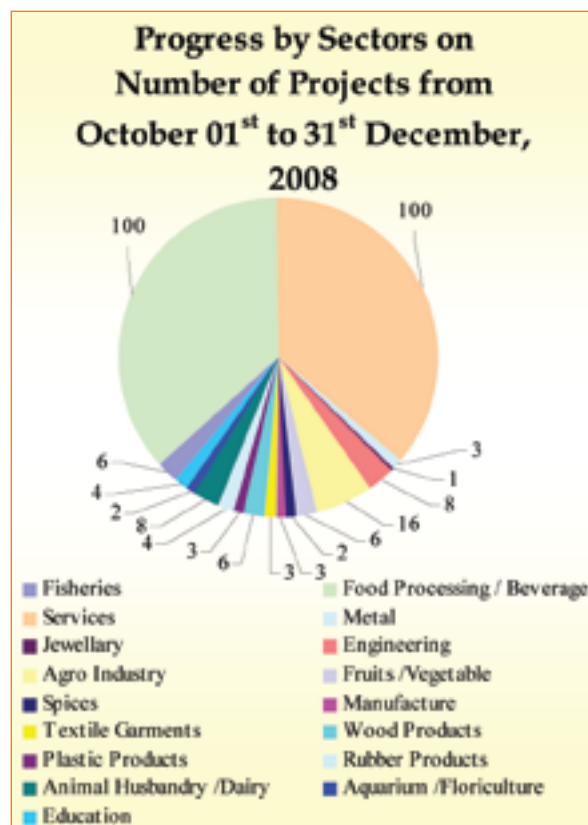


Table 7.17 provides the details of the progress by Districts during the period of May 16th 2008 to 31st December 2008. Kurunagala approved the highest number of loans and followed by Kandy and Badulla Districts approving same number of loans. In terms of the amount disbursed Kurunagala District accounts for Rs.133.2 mn where as Matara and Kandy contributed 93.4 mn and 75 mn respectively. This trend shows that Kandy, Badulla, Galle, Matara and Ratnapura Districts have contributed around 60 percent out of total disbursement since the loan seems to be more attractive in the tea sector.

Table 7.17
Progress by Districts from May 16th to 31st December, 2008

District	No. of Loans	Loans Approved (Rs. mn.)				Amounts Disbursed (Rs. mn.)			
		ADB	PCBs	Equity	Total	ADB	PCBs	Total	
Galle	31	231.6	77.3	142.4	451.2	14	66.4	22.2	88.6
Puttalam	5	19.0	6.4	45.7	71.1	1	1.5	0.5	2.0
Matara	30	178.5	59.5	179.8	417.8	21	93.4	31.3	124.7
Ratnapura	29	124.1	41.3	169.2	334.6	15	51.4	17.2	68.6
Hambantota	13	34.0	11.4	68.2	113.6	10	28.3	10.4	38.7
Kandy	33	223.6	74.6	264.5	562.7	17	75.0	24.9	99.9
Kurunegala	51	208.9	68.9	329.4	607.2	34	133.2	44.7	178.0
Ampara	5	9.0	3.1	26.7	38.8	3	3.0	1.0	4.0
Badulla	33	103.3	34.5	115.1	252.9	26	61.4	20.5	81.8
Anuradhapura	11	42.0	14.0	72.9	128.8	5	26.5	9.3	35.8
Kegalle	6	21.7	7.3	26.5	55.5	2	4.8	1.7	6.5
Monaragala	1	3.8	1.3	3.6	8.7	0	0.0	0.0	0.0
Kalutara	1	3.5	1.2	3.6	8.3	0	0.0	0.0	0.0
Nuwara Eliya	4	38.0	12.7	61.4	112.1	1	0.4	0.1	0.5
Matale	3	33.3	11.1	59.6	104.0	2	17.5	5.8	23.3
Polonnaruwa	16	38.8	12.9	90.7	142.4	14	24.4	8.2	32.6
Tricomalee	3	15.8	5.3	28.9	50.0	2	2.6	0.9	3.5
Grand Total	275	1328.8	442.6	1688.1	3459.6	167	589.7	198.7	788.4

Source: DFCC, NDB, Commercial Bank, Sampath Bank

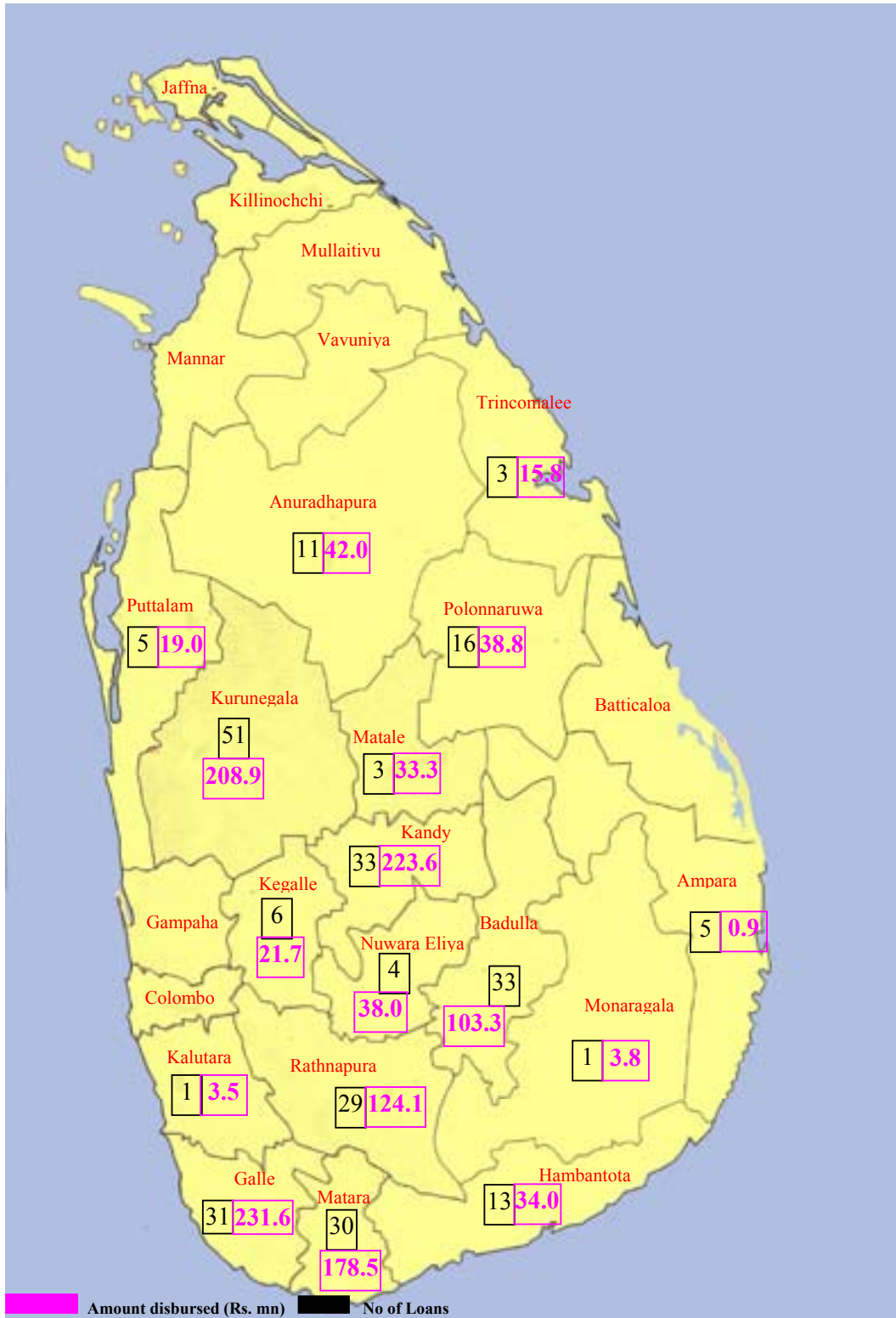
Table 7.17 present the progress by districts for the period of May 16th to 31st December 2008 which reveals the following.

- A total of 275 loans amounting to Rs. 1328.8 mn have been approved and 167 numbers of loans amounting to Rs. 589.7 mn have already been released for SMEE by utilizing ADB funds throughout the island.
- Kurunegala District has recorded the highest number of approved loans i.e. 51 followed by Kandy and Badulla Districts by obtaining approval for 33 loans each while Galle and Matara Districts approving 31 and 30 loans respectively.
- In terms of the amount disbursed Kurunagala District once again ranked No. 1 by providing loans amounting to Rs. 133.2 mn where Matara and Galle Districts disbursed 93.4 mn and 66.4 mn respectively. It is also observed that around 50 percent disbursed out of total ADB funds have been distributed in Kurunegala Matara, and Galle districts.
- The loans are more popular among the tea cultivated districts such as Matara, Galle, Badulla, Kandy and Rathnapura Districts due to the demand of the tea smallholders due to the global meltdown.

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No of Loans and amount disbursed by Districts under SMERDP - 2008



Source: DFCC, NDB, Commercial Bank, Sampath Bank

Credit Guarantee Insurance Scheme

Easy Access to credit facilities is vital for the enterprise development. Lending institutions however tend to cater mainly to profitable and low risk sectors while meeting increasing prudential norms and standards. The Micro, Small and Medium Enterprises (MSME) sector is generally considered a high credit risk area due to the unavailability of collateral among MSME entrepreneurs. Most of the Banks have their own loan scheme to cater to MSME Sector, but no incentives are provided to mitigate the risk involve in lending to this sector.

In order to fill this vacuum, the successive government of Sri Lanka has undertaken various policy measures such as credit guarantee schemes, refinance facilities and venture capital funding to support SMEE. In this endeavor, the budget 2008 proposed to implement a Credit Guarantee Scheme for the Gem and Jewellery sub- sector.

Treasury has released the initial seed capital of Rs 20 million to the Central Bank of Sri Lanka for implementation of the Credit Guarantee Scheme for the Gem and Jewellery Sub-sector, under the Production Unit Modernization Scheme (PUMS) of the Ministry of Enterprise Development and Investment Promotion (MEDIP). The objective of the scheme is to assist 50 Small and Medium Enterprises engaged in Gem and Jewellery sector to obtain financial assistance from Participatory Financial Institutions (PFII) to purchase the machinery and upgrade the technology in the industry.

Fifty loans, granted under the PUMS of the MEDIP to SMEE registered with National Gems and Jewellery Authority and/or Sri Lanka – Export Development Board will qualify for the guarantee cover under this guarantee scheme. The maximum loan amount covered under the Credit Guarantee would be confined to Rs 1.2 million per borrower with a repayment period of 10 years including grace period of two years. The extent of guarantee cover will be eighty percent of the principal loan amount granted or amount in default whichever is lower.

This scheme is implemented through the Participatory Financial Institution namely; National Development Bank,

Development Finance Credit Cooperation, Bank of Ceylon, Commercial Bank, Sampath Bank, Kadurata Development Bank and Wayaba Development Bank. The Credit guarantee scheme commenced its' operation with effect from 30 September 2008. The Central Bank of Sri Lanka has initiated the scheme by conducting several awareness programme for the PFII during the year.

Development of Small and Medium Scale Industries

In the budget 2008 it has been proposed to grant concessionary loans up to a maximum of Rs 15 million, at an interest rate of 10 percent, for the small and medium scale garment factories situated outside Colombo district to enable the modernization.

The loan scheme was implemented through the Lankaputhra Development Bank for modernization of the on-going operational factories. The Department of Development Finance developed the eligibility criteria for the loan scheme in consultation with the Ministry of Textile Development, representative from the Joint Apparel Association Forum (JAAF) and the Lankaputhra Development Bank. As per the criteria set-out for the loan scheme, firms were entitled to obtain financial facilities for modernization of building and upgrading and purchasing machineries for the industry with 350 employees and annual turnover less than Rs 100 million. It was also decided to include the indirect exporters for this scheme.

The eligible firms were selected through paper advertisement and during the year, Lankaputhra Development Bank has evaluated 11 proposals amounting to a total estimated cost of Rs 125 million. These proposals were sent to the Ministry of Textile Development for further evaluation and three proposals were recommended to the initial phase of the loan scheme. Accordingly, the treasury has agreed to release funds to LDB in January 2009.

Micro Finance

The Micro Finance (MF) sector has been identified as a vital sector in the economy due to its contribution to poverty alleviation and income generation, particularly, in rural sector. The Rural Finance Sector Development Programme

(RFSDP) funded by Asian Development Bank (ADB) established a sustainable rural finance systems through policy adjustments and improved the operations of the Rural Finance Sector Institutions (RFSII) by providing training in Rural Finance, efficient service delivery, sector supervision, and outreach expansion. Strengthening of these key sectors of the institutions have increased the access of rural households to Rural Finance services

The project commenced in year 2004 and completed the project activities as scheduled on 31 Dec 2007. The reforms introduced fundamental changes in RFII, namely Cooperative Rural Banks (CRBB), Regional Development Banks (RDBB), the National Development trust Fund (NDTF), and Samurdhi Banking Societies (SBS). The direct financial supports of RFSDP were about 30,000 small and micro enterprises and 150 community sub projects. In addition RFSDP redefined the Rural Economy Resuscitation Fund (RERF) for extending skills, technical and marketing support to enable the rural poor to utilize rural finance services efficiently.

A part of the loan proceeds has been utilized for installation of MIS system in 48 Co-operative Rural Banks (including 210 branches) and 106 Samurdhi Banking Societies. In the year 2008, RFSDP finalized the activities related to the MIS installation. Most of the activities of these Banks have been manually operated in the past and therefore, they were time-consuming. The possibility of obtaining the Trial Balance, Balance sheet & the profit and loss Account on a given date could be considered as a major achievement in the computerization process.



Making sustainable Rural Finance Institutions enabling them to enhance their outreach. (Athala Samurdhi Bank Society)

The functionality requirements relating to support of savings, fixed deposits, loans, pawning and general ledgers of branches are able to obtain by the computerization of these Banks. The system creates and maintains a customer database which includes the name with initials, surname, title, address, occupation or profession, telephone numbers, national ID number and/or passport number, date of birth, member/non member flag, introducer (name, address, profession, account number or membership number), priority status/tag, etc. The system generates a unique customer number for each member.

The following functionality features are obtained by the computerization of these Banks.

- Support for savings, fixed deposits, loans, pawning and general ledger for branches.
- Support for member registration and related functions.
- Facilitation of front office teller operations and also Customer Relation Management [CRM] functions to facilitate customer services functions such as global customer information facility.
- Consolidation of general ledger functions
- Facilitation of general ledger transactions from other sources and/or manually operated branches.
- Facilitating of the entries of accounting transactions from day to day office operations such as petty cash, travelling etc.
- Support for management information requirements for all levels of managers and specific external reporting such as the Department of Cooperative Development, Central Bank etc.
- Support for report writing facilities so that authorized users could develop ad-hoc reports at head office I.T. unit.

- Support for database technology and front end interfaces.
- Facilitation of detail audit trail of all transactions performed with a facility to track the user who performed the transaction, by time and date.
- Facilitation of password security functions with multi level users and should facilitate users to be defined/controlled by menu function and/or task.
- Support for Sinhalese and/or Tamil language for front-end screens and reports in addition to English. Data storage in Sinhalese or Tamil language.



Enhanced operations efficiency of the Rural RFII
Polonnaruwa Cooperative Rural Bank

Development of Micro Enterprises in Sri Lanka

The project set up by the Cosorzio Etimos Bank of Italy in 2005 as a recovery tool for the micro enterprises affected by tsunami,

extended its services to the other areas in Sri Lanka during the last 2 years. Further, the bank signed a new agreement in 2008 with the Government of Sri Lanka to invest Euro 200 million from Italy in order to provide loans to the private entrepreneurs to develop their enterprises through partner organizations and to create more employment opportunities than the previous years.

Though the bank expected to provide Rs. 150 million as loans to these entrepreneurs in 2008, it was unable to fulfill the task due to the impact of the global financial crises. However, it is targeted to achieve this within the year 2009.

GTZ - ProMiS Project

Promotion of Microfinance Sector Project (ProMiS) funded by GTZ

The Promotion of Microfinance Sector project in Sri Lanka (ProMiS) is being implemented by the German Technical Cooperation (GTZ) under the purview of the Department of Development Finance of the Ministry of Finance and Planning. Duration of the project is four years (August 2006 to August 2009) and the total cost of the project is Euro 4.0 million.

The main objective of the project is to develop the microfinance sector in Sri Lanka under the three major components.

- Micro finance sector policy
- Micro finance service providers
- Capacity building of microfinance institutions

Under these three components, the project has completed the following activities within year 2008.

Macro Level

Objectives: The capacities of national government institutions towards the integration of the microfinance institutions into the formal financial system are strengthened.

- Inland wide demand and supply studies have been completed. Ample use of the demand study has been made. The media has very positively reacted on the study. Microcapital.org has published it as news on their website.
- Study on post-tsunami microfinance has been finalized and is being distributed among major stakeholders in Sri Lanka.

- Paper on “Microfinance and Conflict in Sri Lanka. Towards a Sustainable Development in the North and East” written and distributed. The paper has been downloaded more than 300 times from the website www.microfinance.lk and additionally from other websites (e.g. quick website)
- Exposure Visits to Cambodia and Bangladesh included members from Central Bank and MoFP service provides NGOO. Central Bank staff has become aware of necessity to implement regulation and supervision. The idea that all MFII need to be supervised has been dropped, instead an asset-threshold has been introduced.
- A dialog forum between major stakeholders of the sector is established and operational. At least eight coordinating meetings been conducted after the tsunami in December 2004, where current topics of the Sri Lankan microfinance sector have been discussed.
- An outline of national microfinance strategy has been drafted and communicated to the stakeholders. An initial workshop on microfinance policy for Sri Lanka has been carried out with members of Central Bank, LMFFPA, GTZ, Stromme et al. A focus group has been established by the LMFFPA which is now the driving seat to formulate a national strategy in line with the Mahinda Chintana.
- The website has been established and is continuously updated. It is widely renowned as information provider for the sector. Over an annual average (Sept 07 - Aug 08) the number of clicks is 600 per day. It is the number one website on microfinance in Sri Lanka, includes Sinhala and Tamil language sections.
- A microfinance network (Lanka Microfinance Practitioners' Association, LMPA) has been established and is operational.
- A microfinance diploma course is being established as cooperation between Frankfurt School, IBSL and GTZ. The course will start its first training session early 2009.
- A pool of Sinhala and Tamil trainers has been trained (Training of Trainers) in relevant CGAP trainings (Accounting, Financial Analysis, Operational Risk Management, Product Development and others)
- Training and Reading Material has been translated into Sinhala and Tamil Medium. Training material is available upon request but will also be made available for the sector on the website www.microfinance.lk and eventually also on the website of the Lanka Microfinance Practitioner's Association (LMPA)

Micro Level

Objectives: The sustainability and outreach of selected MIFF in disadvantaged regions of Sri Lanka are increased.

- Exposure visits to Cambodia, India (Tamilnadu) and Bangladesh successfully completed for regulators, TSPP and practitioners.
- Computerized Management information Systems have been introduced in 13 partners MFII.
- Various training (CGAP) on accounting, financial analysis and delinquency management and various consulting have been carried out for PROMIS' 18 partner MIFF throughout the country in Sinhala and Tamil medium. As a result the Partner MIFF were institutionally strengthened and achieved in most of the cases operational self-sufficiency and increased their outreach in all parts of the country. in Sinhala and Tamil medium. As a result the Partner MIFF were institutionally strengthened and achieved in most of the cases operational self-sufficiency and increased their outreach in all parts of the country.
- A support central for the MIS system Micro Banker has been established and is operational.

Meso Level

Objectives: The delivery mechanisms of MFI services are enhanced.

- A support central for the MIS system Micro Banker has been established and is operational.

Box 7.2

GTZ - Woman processing cashew using traditional methods.



GTZ funded PROMIS project support women in Mannar district in cashew production with technical and business development training. These women are now organized in Women's Rural Development Societies (WRDS) are facing difficulties in pursuing cashew production due to insufficient training and lack of material maintenance. Further they were not investing in buying raw cashew owing to not being certain of the income which could be generated. They lacked marketing knowledge and the capacity to assess the feasibility of their enterprises. PROMIS engages these women in a process where they are strengthened in technical skills, entrepreneurship, social empowerment, marketing and business development and linked with private and government sector service providers as well as other stakeholders in the industry.

Financial Markets Programme for Private Sector Development
Funded by Asian Development Bank

The Financial Markets Programme for Private Sector Development Programme has been setup in Sri Lanka in 2005 with the financial assistance of the Asian Development Bank to facilitate private sector development by strengthening the financial markets including restructuring and recapitalization of the People's Bank.

The following activities were completed in terms of the second tranche conditions of this programme in 2008.

- Rs. 2 billion of capital injection was made to the People's Bank by the Government of Sri Lanka to meet the minimum risk weighted capital requirement of 10 percent. The profit and the Capital Adequacy Ratio of this Bank have been increased since 2005 due to the Capital injections made by the Government of Sri Lanka in respective years. According to the annual report 2008 of the People's Bank, it is apparent that the bank has recorded a profit before tax of 5.6 billion in 2008 a growth of 13.2 percent over 2007. The bank gained a boost in to their capital reserves with the Government injecting 1.5
- billion, to increase the portfolio to Rs. 15.9 billion from what was
- Rs. 12.9 billion in 2007. This was further augmented with the debenture issue of Rs.2.5 billion, together with ploughed back earnings enabled the Bank to meet the much discussed Capital Adequacy Ratio to 10+ percent under BASEL II, which requires a substantial increase in risk weighted assets due to the inclusion of operational risk. It is also expected that the capital injection of Rs.1.5 billion made in December 2008 also will make significant progress in 2009.
- The Cabinet approval was obtained by the Ministry of Finance and Planning to instruct the Legal Draftsman to draft the following Acts –
 - Secured Transaction Act.
 - Securitization Act
 - Securities and Exchange Commission Act
 - Consequential 11 Acts relevant to the Securitization Act.
- Draft of the Secured Transaction Act was prepared by the Credit Information Bureau which has been

appointed as the implementing agency to maintain the Movable Property Registry in Sri Lanka by the Asian Development Bank. Draft Act has been submitted to the Attorney General Department after reviewed by the Legal Draftsman Department with the coordination and facilitation of the Ministry of Finance and Planning. It is expected to obtain the Cabinet approval to submit this Act to the Parliament within the first quarter of 2009.

- Draft of the Securities and Exchange Commission Act was prepared by the Securities and Exchange Commission of Sri Lanka with the consultation of the Stake Holders and submitted to the Attorney General Department after reviewed by the Legal Draftsman Department with the coordination and facilitation of the Ministry of Finance and Planning. It is expected to obtain the Cabinet approval to submit this Act to the Parliament within the first quarter of 2009.
- Draft of the Securitization Act was prepared by the Securities and Exchange Commission of Sri Lanka with the consultation of the Stake Holders and submitted to the Attorney General Department after reviewed by the Legal Draftsman Department with the coordination and facilitation of the Ministry of Finance and Planning. It is expected to obtain the cabinet approval to submit this Act to the Parliament with thin the first quarter of 2009.
- The first draft of the Strategic Plan of the People's Bank was prepared by the People's Bank and submitted to the Asian Development Bank. It is expected to submit the final report of this plan 1st quarter of 2009.

However, in terms of the decision taken by the Ministry of Finance and Planning with the Asian Development Bank a US\$ 4.5 million deduction was made out of US\$ 5.218 million Technical Assistance Loan (No 2139) as they decided not to recruit the consultants as the implementing agencies have the capacity to implement the identified activities. While the completion date of the project has been extended up to 31st December 2009, it is expected to release the second tranche (US \$ 20 million) and the third tranches (US \$ 20 million) of this project during the 2nd and 3rd quarters of 2009 respectively.

Financial Statements - 2008



Financial Statements

Accompanying Statement of Financial Performance & Statement of Cash Flows for the year, and the Statement of Financial Position as at the end of the year 2008 with relevant explanatory "Notes" and a Statement of Contingent Liabilities have been prepared and presented by the Department of State Accounts of the General Treasury.

These Statements have been prepared in reporting formats introduced in 2006 to present Financial Statements for the year 2005, in full compliance with Generally Accepted Accounting Principles and practices and required guidance has been obtained from Sri Lanka Accounting Standards and International Public Sector Accounting Standards. This is indeed the first step in the transitional stage of preparing and presenting the Government Financial Statements on the Basis of Accrual Accounting as against the present practice of Cash Based Accounting. In designing these formats for presenting these reports, different types of formats adopted by different countries for making advanced Public Sector financial reporting had been considered and ideas were taken from them to have an advanced presentation in consistent with the classification and presentation of the Annual Budget of the Government to enable to provide the reader with a clear view on the Financial Performance of the Government in compared with main targets of the Annual Budget as approved by Parliament.

An incremental approach to implementing accrual accounting has been in place since 2004. Accordingly, documenting process of collecting information to be disclosed outside the Accounting System, pertaining to asset management, commitments and liabilities was designed. This is the second time that relevant information on non-current assets acquired after 01-01-2004 are disclosed in Financial Statements until accrual accounting principles are fully adopted.

These financial statements encompass the financial operations of seventy two Government Ministries, one hundred and eighteen Government Departments and twenty five District Secretariats/ Kachcheries performed in the process of making use of the financial resources allocated to them during the year 2008 in terms of the Annual Budget for implementing the intended work programs and projects for achieving the set goals and objectives. Basic information pertaining to the financial resources allocated by the Government in 2008 to nine Provincial Councils and Public Enterprises comprised of main two categories, i.e. Commercial Public Corporations, thirty three in number and the other Public Corporations and Statutory Boards getting involved in activities in regulatory, manpower development, infrastructure development etc., has also been furnished.

In compiling these reporting statements, the relevant data is collected in a specially designed system taken place in the form of a network involving above mentioned Public Institutions, by making use of electronic data transmission methodologies. Through this network all the financial data generated in the system gets transmitted to the central data base of the Department of State Accounts, being the Central Agency of the Government for financial information processing. In full conformity with the vision of the Department to be the Centre for Excellence in Government Financial Information, all the necessary internal controls, checks and balances and required level of supervision is exercised to maintain the integrity, accuracy and completeness of the data collected, stored and processed in order to assure the quality of information generated and furnished, as it is the main Government Department which is responsible for presenting the Annual Financial Statements of the Government in Parliament to discharge the responsibility for the public accountability on Financial resources utilized by the Government.

Statement of Financial Performance 287

for the year ended 31st December 2008

Budget Estimates 2008 Rs.		Note	2008 Rs.	Actual 2007 Rs.
	REVENUE			
674,568,590,000	Tax Revenue		585,770,456,047	509,216,529,939
143,291,000,000	Income Tax	1	126,541,183,372	107,168,400,031
405,463,590,000	Taxes on Domestic Goods & Services	2	322,270,996,870	300,185,146,641
125,814,000,000	Taxes on External Trade	3	136,958,275,805	101,862,983,267
119,820,910,000	Non Tax Revenue & Others	4	77,828,631,783	62,348,014,277
794,389,500,000	TOTAL REVENUE (a)		663,599,087,830	571,564,544,216
	Less : EXPENDITURE			
180,316,321,423	Wages, Salaries and Other Employment Benefits	5	175,760,107,079	155,658,627,654
112,202,856,798	Other Goods & Services	6	102,015,093,858	68,275,011,076
258,871,137,766	Subsidies, Grants and Transfers	7	246,603,499,778	209,445,019,337
216,031,000,000	Interest Payments	8	212,093,904,543	181,383,803,283
767,421,315,987	Total Recurrent Expenditure (b)		736,472,605,258	614,762,461,350
26,968,184,013	REVENUE SURPLUS/ (DEFICIT) (a) - (b)		(72,873,517,428)	(43,197,917,134)
424,984,012,472	Public Investments	9	297,173,279,278	271,190,996,676
(398,015,828,459)	BUDGET DEFICIT		(370,046,796,706)	(314,388,913,810)
	FINANCING THE BUDGET DEFICIT			
130,000,000,000	Foreign Borrowings	10	120,291,761,846	176,834,397,184
(100,607,700,318)	Foreign Debt Repayments		(93,688,610,487)	(71,140,379,224)
29,392,299,682	NET FOREIGN BORROWINGS		26,603,151,359	105,694,017,960
28,750,000,000	Foreign Grants	11	22,143,248,459	17,372,510,005
58,142,299,682	TOTAL FOREIGN FINANCING		48,746,399,818	123,066,527,964
578,000,000,000	Domestic Non-bank Borrowings	12	535,690,956,497	392,639,676,497
(287,427,489,555)	Domestic Debt Repayments	13	(285,515,698,867)	(236,573,034,188)
290,572,510,445	NET DOMESTIC BORROWINGS		250,175,257,630	156,066,642,309
13,494,000,000	Recoveries from On-lending	14	13,525,904,919	11,676,975,493
	- Divestiture Proceeds & others		119,930,844	545,526,695
	- Net Change in Deposit Accounts and Liabilities		32,488,749,419	12,888,373,010
	- (Increase)/ Decrease in Cash & Cash Equivalents		24,990,554,076	10,144,868,341
362,208,810,127	TOTAL FINANCING		370,046,796,706	314,388,913,812

Statement of Cash Flows

for the year ended 31st December 2008

	2008 Rs.	Actual 2007 Rs.
Cash Flows from Operating Activities		
Total Tax Receipts	585,770,456,046	509,216,529,939
Interest	9,304,854,371	9,242,407,331
Dividends	1,877,254,103	2,533,325,592
Fees, Fines, Penalties and Licenses	8,163,498,951	8,476,013,697
Profit	14,095,513,108	14,589,093,972
Other Receipts	44,387,511,250	27,507,173,686
Total Cash provided from Operations (a)	663,599,087,830	571,564,544,216
<i>Less - Cash was disbursed to:</i>		
Personal Emoluments & Operating Payments	(277,775,200,937)	(223,933,638,729)
Subsidies & Transfer Payments	(246,603,499,778)	(209,445,019,337)
Finance Costs	(212,093,904,543)	(181,383,803,284)
Other Payments	-	-
Total Cash disbursed to Operations (including Tsunami related Disbursements (b))	(736,472,605,258)	(614,762,461,350)
NET CASH FLOWS FROM OPERATING ACTIVITIES (c) = (a) - (b)	(72,873,517,428)	(43,197,917,134)
 Cash Flows from Investing Activities		
Divestiture Proceeds & Sale of Physical Assets	545,526,695	545,526,695
Recoveries from On Lending	11,676,975,493	11,676,975,493
Total Cash provided from Investing Activities (d)	12,222,502,188	12,222,502,188
<i>Less - Cash was disbursed to:</i>		
Purchase or Construction of Physical Assets & Acquisition of Other Investment	(297,173,279,278)	(271,190,996,676)
Total Cash disbursed to Investing Activities (e)	(297,173,279,278)	(271,190,996,676)
NET CASH FLOWS FROM INVESTING ACTIVITIES (f) = (d) - (e)	(284,950,777,090)	(258,968,494,488)
NET CASH FLOWS FROM OPERATING & INVESTING ACTIVITIES (g) = (c) + (f)	(357,824,294,518)	(302,166,411,622)
 Cash Flows from Financing Activities		
Local Borrowings	535,690,956,497	392,639,676,495
Foreign Borrowings	120,291,761,846	176,834,397,184
Grants Received	22,143,248,459	17,372,510,005
Total Cash provided from Financing Activities (h)	678,125,966,802	586,846,583,684
<i>Less - Cash was disbursed to:</i>		
Repayment of Local Borrowings	(285,515,698,867)	(236,573,034,188)
Repayment of Foreign Borrowings	(93,688,610,487)	(71,140,379,224)
Change in Deposit Accounts and Other Liabilities	32,488,749,419	12,888,373,010
Total Cash disbursed to Financing Activities (i)	(346,715,559,935)	(294,825,040,403)
NET CASH FLOWS FROM FINANCING ACTIVITIES (j) = (h) - (i)	331,410,406,867	292,021,543,281
 <i>Net Movement in Cash (k) = (g) - (j)</i>	(26,413,887,651)	(10,144,868,339)
Opening Cash Balance as at 01st January	(29,887,449,975)	(19,742,581,635)
Closing Cash Balance as at 31st December	(56,301,337,626)	(29,887,449,975)

Statement of Financial Position

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As at 31st December 2008

	Note	2007 Rs.	Actual 2006 Rs.
Financial Assets			
Loans to Public Officers	15	22,146,960,663	20,688,363,332
Advances to Govt. Departments	16	7,623,781,750	8,839,401,396
Membership Fees Paid	17	1,885,484,942	1,885,484,943
On Lending	18	253,145,559,314	218,853,579,691
Capital Contribution in State Owned Enterprises	19	114,348,287,201	111,817,301,166
Total Financial Assets		399,150,073,871	362,084,130,528
Liabilities			
Bank Overdrafts		54,878,004,052	29,887,449,976
Advance from the Central Bank	20	76,307,700,000	60,679,200,000
Foreign Loan Revolving Funds	21	16,765,319,553	13,048,314,707
Miscellaneous Funds	22	2,444,801,767	2,289,057,707
Government Borrowings	23	3,166,500,520,898	2,767,500,379,115
Deposits and Other Liabilities	24	82,120,182,649	63,806,542,849
Operating Accounts with Government Departments	25	1,702,693,387	3,260,015,313
Sundry Accounts	26	(4,038,513,502)	(512,673,826)
Total Liabilities		3,396,680,708,804	2,939,958,285,841
Contingency Fund		140,000,000	140,000,000
Total Liabilities & Contingency Fund Balance		3,396,820,708,804	2,940,098,285,841
Total Liabilities and Contingency Fund Balance over Financial Assets		2,997,670,634,934	2,578,014,155,313
Consolidated Fund- Accumulated Deficit	27	(197,648,988,582)	(140,169,685,087)
Total Investments in Physical Assets and Accumulated Net Revenue Deficit	28	2,800,021,646,352	2,437,844,470,226
		2,997,670,634,934	2,578,014,155,313
Contingencies & Commitments	29	137,080,750,000	78,616,920,000

The accompanying "Statement of Accounting Policies" and "Notes" to Financial Statements form an integral part of these Financial Statements. The Department of State Accounts is responsible for the preparation and presentation of these Financial Statements.



D.P.R.SENADHIPATHY
Director General
Department of State Accounts



SUMITH ABEYSINGHE
Secretary, Ministry of Finance & Planning
and Secretary to the Treasury

General Treasury
Colombo 01.
24th April 2009.

Analysis of Total Expenses of the Statement of Financial Performance

for the year ended 31st December 2008

By Functional Classification	Actual (Rs. Million)							
	2008				2007			
	Recurrent	Capital	Total	%	Recurrent	Capital	Total	%
Governance, Operations and Monitoring	402,559	5,269	7,828	42.36	353,486	57,634	411,120	46.40
National Security	169,139	44,469	213,608	20.67	123,914	36,011	159,925	18.05
Art , Culture and Religion	1,956	1,098	3,054	0.30	1,717	1,075	2,792	0.32
Livelihood and Regional Development	20,694	33,752	4,446	5.27	4,131	5,777	9,908	3.38
Social Protection	1,271	2,284	3,555	0.34	16,956	2,860	19,816	2.24
Human Resource Development	74,763	22,858	97,621	9.44	69,396	24,815	94,211	10.63
Infrastructure Development	24,008	131,816	155,824	15.08	20,495	102,464	122,959	13.88
Production, Services and Environment	41,247	24,953	66,200	6.40	23,975	20,006	43,981	4.96
Science, Technology, Research and Development	835	674	1,509	0.15	692	549	1,241	0.14
Total Expenses	736,472	297,173	1,033,645	100	614,762	271,191	885,953	100

Note : These figures are presented in Economic format in accordance with Classification of Functions of Government (COFOG) and based on Standard Programmes of Budget Estimate - 2005.

Statement of Accounting Policies

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Reporting Entity

These Financial Statements are of the Government of the Democratic Socialist Republic of Sri Lanka and encompass the Reporting Entity of the Central Government comprised of Government Ministries & Departments, Public Corporations, State Owned Enterprises, Statutory Boards and Provincial Councils are not covered in these statements. However cash outflows to those entities taken place during the reporting year and the total interest the Government is having in the Commercial Public Corporations and State Owned Enterprises in the form of capital contribution and loans granted are recognized in these Financial Statements.

Basis of Preparation

These Financial Statements are prepared under historic cost convention in conformity with Generally Accepted Accounting Principles. Required guidance has been obtained from Sri Lanka Accounting Standards and International Public Sector Accounting Standards. The measurement base applied is historical cost. The Cash based accounting has been used unless otherwise stated.

Reporting Period

The reporting period of these Financial Statements is the year ended 31st December 2007.

Basis of Combination

Ministries & Departments are combined using the classification codes for revenue collected and expenditures incurred. Accordingly total financial assets, liabilities, revenues and expenses are added together line by line.

Revenue

Central Government provides many services and benefits that do not generate revenue. Therefore revenue is raised by way of taxes, fees & charges imposed under various statutes approved by the Parliament.

Revenue is earned by the Government in exchange for the provision of its products and services to the society.

All such revenue collected through the relevant Ministries & Departments is recognized at the time of collection.

Investment Income is recognized in the period it is earned and collected.

Premiums and Discounts

Premiums and discounts on the issue of a debt instrument are treated as (an adjustment to the) cost of borrowings.

Gains

Related gains arising from sale of assets are recognized in the period in which transaction occurs.

Unrealized foreign exchange gains on monetary assets and liabilities are recognized in the Statements of Financial Position as at the end of the Reporting Period.

Expenses

All expenses are recognized in the period in which it is incurred.

Foreign Currency Transactions

Transactions in Foreign currencies are translated into Sri Lanka Rupee using the exchange rate on the date of transaction. Exchange differences arising on settlement of these transactions are recognized in the Statement of Financial Performance.

Assets

Equity investments in State Owned Enterprises are recorded at cost and shown separately, but investments in Statutory Boards are not separately disclosed in the accounts as they operate like other Government Departments relying for their recurrent and capital expenditure from the government.

Liabilities

In the Statement of Financial Position, all local borrowings are recorded at cost. Where foreign borrowings are subject to variation of exchange rates such foreign monetary liabilities are translated at the exchange rate as at the end of the Reporting Period.

292 Statement of Accounting Policies *Contd.*

Employee Entitlements

Employee entitlements to salaries and wages, annual leave, retiring leave and other similar benefits are recognized when they accrue to employees. Retired Government employee entitlements for their pension payments are also recognized in the same manner.

Contingent Liabilities

Contingent liabilities are recorded in the Statement of Contingent Liabilities at the point at which the contingency is evident.

Comparatives

To ensure consistency with the current period and classification method adopted to make a fair presentation of financial information, comparative figures have been restated where appropriate.

Compilation of Government Finance Statistics

The Budget Outturn presented in Economic Classification under Government Finance Statistics (GFS) vary from the information presented in these Financial Statements due to the different classification methods adopted for economic analyses. Figures for the compilation of Budget outturn and related statistics which compiled in accordance with Government Financial Statistical Manual are obtained from this Balance Sheet.

Notes to Financial Statements

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Budget Estimates 2008	Revenue Code	Revenue Title	2008 Rs.	Actual 2007 Rs.
	NOTE - 1	INCOME TAX		
6,169,091,000	1004.10.01	Dividend Tax	3,279,098,979	2,816,868,533
17,715,000,000	1004.10.02	Economic Service Charge	14,475,861,569	12,203,425,025
46,261,909,000	1004.10.09	Corporate Tax & Other	45,938,567,363	40,630,157,800
70,146,000,000	1004.10.00	Total Corporate Tax (a)	63,693,527,910	55,650,451,358
15,447,420,000	1004.20.01	PAYE Tax	14,334,437,247	11,249,682,632
27,281,000,000	1004.20.02	Withholding Tax on Interest	33,081,255,229	25,397,595,426
4,600,000,000	1004.20.03	Specified Fees & Other Withholdings	10,749,369,415	9,909,696,402
25,816,580,000	1004.20.09	Other	4,682,593,570	4,960,974,213
73,145,000,000	1004.20.00	Total Non -Corporate Tax (b)	62,847,655,461	51,517,948,673
143,291,000,000		Total Incom Tax (a+b)	126,541,183,372	107,168,400,031
	NOTE - 2	TAXES ON DOMESTIC GOODS & SERVICES		
244,370,000,000	1002.10.00	Value Added Tax	202,984,413,016	186,990,550,178
90,278,000,000	1002.10.01	Services	78,496,333,374	62,966,902,113
44,153,000,000	1002.10.02	Manufacturing	23,656,632,537	22,523,044,478
109,939,000,000	1002.10.03	Imports	100,831,447,105	101,500,603,587
2,100,000,000	1002.20.00	Goods and Services Tax	126,744,975	142,172,771
	1002.20.01	Services	83,879,661	89,013,751
	1002.20.02	Manufacturing	41,948,381	46,838,801
	1002.20.03	Imports	916,932	6,320,219
2,100,000,000	1002.30.00	National Security Levy	67,616,153	105,013,759
	1002.30.01	Services	42,180,058	25,912,968
	1002.30.02	Manufacturing	25,436,095	75,028,258
	1002.30.03	Imports	-	4,072,533
30,855,000,000	1002.40.00	Excise (Ordinance) Duty	27,403,832,167	23,722,738,912
30,855,000,000	1002.40.01	Liquor	27,403,832,167	23,722,738,912
102,185,000,000	1002.50.00	Excise (Special Provisions) Duty	73,534,428,130	72,928,919,546
38,020,000,000	1002.50.01	Cigarettes	37,255,846,521	31,413,895,664
-	1002.50.02	Liquor	29,870,080	-
22,371,000,000	1002.50.03	Petroleum Products	18,976,567,345	19,124,255,674
35,575,000,000	1002.50.04	Motor Vehicles	11,067,304,714	17,415,447,682
6,219,000,000	1002.50.09	Other	6,204,839,469	4,975,320,526
40,000,000	1002.60.00	Tobacco Tax	32,320,827	32,909,221
6,311,000,000	1002.70.00	Stamp Duty	3,750,584,059	4,026,240,434
9,851,000,000	1002.80.00	Debit Tax	8,410,052,702	7,186,742,288
100,000,000	1002.90.00	Turnover Tax	535,271,046	461,361,956
7,551,590,000	1003.--.00	Licence Taxes and others	4,996,841,842	3,986,295,255
475,000,000	1003.10.00	Motor Vehicle Tax	308,722,764	352,613,816
57,950,000	1003.20.00	Transfer Tax	97,036,633	50,180,113
500,000,000	1003.30.00	Betting & Gaming Levy	269,747,248	267,575,250
4,460,000,000	1003.40.00	Social Responsibility Levy	3,634,775,073	2,847,393,133
500,000,000	1003.50.00	Share Transaction Levy	448,928,874	412,083,582
50,000,000	1003.60.00	Construction Industry Guarantee Fund Levy	229,879,129	56,449,361
1,000,000,000	1003.70.00	Environment Conservation Levy	7,752,120	-
508,640,000	1003.90.00	Other Licences	428,891,954	602,181,487
65,000,000	1003.90.01	Fees for registration of Nursing Homes	54,625,777	54,594,750
128,000,000	1003.90.02	Registration fees relevant to the Dept. of Registrar General's	108,719,870	102,407,976
175,000,000	1003.90.03	Private Timber Transport	115,398,790	224,969,656
18,000,000	1003.90.04	Tax on sale of Motor Vehicles	27,086,062	20,370,925
12,200,000	1003.90.05	Licence Taxes relevant to the Min. of Public Security, Law & Order	10,838,867	13,110,273
10,000,000	1003.90.06	Licence fees relevant to the Dept. of Fisheries & Aquatic Resources	26,804,538	10,826,518
100,440,000	1003.90.09	Other	85,418,048	175,922,222
405,463,590,000		Total Taxes on Domestic Goods & Services	322,270,996,870	300,185,146,641
	NOTE - 3	TAXES ON INTERNATIONAL TRADE		
73,351,000,000	1001.10.00	Import Duties	63,994,291,754	56,286,665,767
25,000,000	1001.20.00	Export Duties	39,523,609	33,397,222
700,000,000	1001.30.00	Import & Export Licences Fees	231,231,811	192,854,028
28,430,000,000	1001.40.00	Ports & Airports Development Levy	31,016,969,591	26,700,463,296
17,073,000,000	1001.50.00	Import Cess Levy	22,800,414,284	17,157,470,578
10,000,000	1001.60.00	Motor Vehicle Concessionary Levy	2,076,365	10,851,635
3,925,000,000	1001.70.00	Regional Infrastructure Development Levy	2,598,938,753	1,481,280,741
2,300,000,000	1001.80.00	Export Cess Levy	1,671,617,048	-
	1001.90.00	Special Commodity Levy	14,603,212,589	-
125,814,000,000		Total Revenue from Taxes on International Trade	136,958,275,805	101,862,983,267
	NOTE - 4	NON-TAX REVENUE AND OTHERS		
3,375,000,000	2001.10.00	Railways	3,671,386,934	2,999,337,435
6,500,000,000	2001.20.00	Postal	4,768,270,901	3,981,741,025
50,000,000	2001.30.00	Advance Accounts (Trading)	146,083,303	76,937,955
9,925,000,000		Revenue From Other Sources (a)	8,585,741,139	7,058,016,415
1,616,300,000	2002.10.00	Rent	2,049,616,126	1,709,395,297
687,550,000	2002.10.01	Rent on Government Building & Housing	612,236,197	559,158,642
473,200,000	2002.10.02	Rent on crown forests	987,870,813	567,352,895
15,550,000	2002.10.03	Rent from Land and Other	18,709,654	17,439,588
380,000,000	2002.10.04	Lease Rental from Regional Plantation Companies	375,110,579	512,588,775
60,000,000	2002.10.09	Other Rental	55,688,883	52,855,397

Notes to Financial Statements *Contd.*

Budget Estimates 2008	Revenue Code	Revenue Title	2008 Rs.	Actual 2007 Rs.
8,604,325,000	2002.20.00	Interest	9,304,854,371	9,242,407,331
7,554,325,000	2002.20.01	On-Lending	7,775,129,237	8,099,756,631
1,050,000,000	2002.20.02	Other	1,529,725,134	1,142,650,700
9,850,000,000	2002.30.00	Profits	5,493,000,000	5,148,867,125
3,760,000,000	2002.40.00	Dividends	1,877,254,103	2,533,325,592
100,000,000	2003.10.00	Departmental Sales	57,314,137	77,596,159
51,475,285,000	2003.20.00	Administrative Fees & Charges	16,592,440,439	13,261,323,275
15,100,000	2003.20.01	Audit Fees	37,194,611	36,935,337
-	2003.20.02	Air Navigation Fees	15,000	-
75,800,000	2003.20.03	Fees under Registration of Persons Act No. 32 of 1968	67,694,716	81,113,125
80,000,000	2003.20.04	Survey Department Fees	84,888,879	101,780,072
175,000,000	2003.20.05	Service Charges of Government press	200,611,143	186,548,803
10,000,000	2003.20.06	Fees under the fauna & flora protection ordinance	2,894,018	6,075,816
4,019,000,000	2003.20.07	Fees of Passports, Visas & Dual Citizenship	3,698,574,480	3,518,187,236
700,000,000	2003.20.08	Embarkation Levy	-	648,967,487
-	2003.20.09	Fees of Valuation Department	50,009,984	52,912,341
45,000,000	2003.20.10	Fees of Registrar of Companies	75,417,432	58,900,035
25,000,000	2003.20.11	Legal Fees from Corporations & Statutory Bodies	29,616,001	23,756,763
385,000	2003.20.12	Fees recovered under the Public Contract Act	1,351,000	463,000
175,000,000	2003.20.13	Examinations & Other Fees	76,693,179	78,266,041
2,830,000,000	2003.20.14	Fees under the Motor Traffic Act & Other receipts	1,724,020,711	2,013,430,065
110,000,000	2003.20.15	Revenue - Botanical Gardens	-	112,391,501
20,000,000	2003.20.16	Air Craft Rentals	14,802,644	26,728,461
40,000,000	2003.20.17	Fee on Local Sale of Garments	54,297,054	47,352,051
65,000,000	2003.20.18	Fees relevant to the Department of Agriculture	55,722,695	37,831,030
-	2003.20.19	Fees relevant to Botanical Gardens	117,289,784	-
8,600,000,000	2003.20.99	Sundries	10,301,347,109	6,229,684,113
2,300,000,000	2003.30.00	Fines & Forfeits	2,087,809,387	1,417,997,282
11,700,000,000	2003.90.00	Other Receipts	13,387,401,888	3,681,628,433
6,500,000,000	2004.10.00	Social Security Contribution-Central Govt.	6,004,865,938	5,760,791,532
4,000,000,000	2004.20.00	Social Security Contribution-Provincial Councils	3,785,817,198	3,016,438,990
8,000,000,000	2005.10.00	Central Bank Profits	8,000,000,000	4,000,000,000
1,990,000,000	2005.20.00	National Lotteries Board & Other Transfers	602,513,108	5,440,226,847
-	2006.30.00	Domestic Capital Transfer	3,950	-
109,895,910,000		Revenue From Other Sources (b)	69,242,890,645	55,289,997,863
119,820,910,000		Total Non - Tax Revenue & Others (a) + (b)	77,828,631,783	62,348,014,277
794,389,500,000		Grand Total (Note 1 - 4) Total Revenue	663,599,087,830	571,564,544,216
NOTE - 5 WAGES, SALARIES & OTHER EMPLOYMENT BENEFITS (OBJECT CODE WISE CLASSIFICATION)				
	Object Code	Object Title		
		Personal Emoluments		
118,740,993,201	1001	Salaries & Wages	116,258,767,644	106,195,960,831
61,575,328,221	1002	Overtime & Other Allowances	59,501,339,436	49,462,666,823
180,316,321,423		Total	175,760,107,079	155,658,627,654
NOTE - 6 OBJECT CODE WISE CLASSIFICATION OF OTHER GOODS AND SERVICES				
		Travelling Expenditure		
7,969,744,003	1101	Domestic	7,468,595,555	6,982,855,807
1,658,738,347	1102	Foreign	1,557,922,527	1,366,065,219
9,628,482,350		Total (a)	9,026,518,082	8,348,921,027
		Supplies		
2,148,224,987	1201	Stationery and Office Requisites	1,958,465,801	1,903,782,532
15,770,480,553	1202	Fuel	15,012,107,586	7,986,958,281
23,730,517,898	1203	Diets & Uniforms	22,267,174,415	12,484,276,472
13,864,983,559	1204	Medical Supplies	12,905,959,475	11,292,348,153
17,241,637,102	1205	Other	14,776,054,873	4,269,120,471
72,755,844,099		Total (b)	66,919,762,150	37,936,485,909
		Maintenance Expenditure		
1,573,353,093	1301	Vehicles	1,411,442,972	1,126,051,202
1,488,415,442	1302	Plant, Machinery & Equipment	1,398,080,963	1,311,934,793
728,372,733	1303	Buildings and Structures	573,075,399	622,836,991
3,790,141,268		Total (c)	3,382,599,334	3,060,822,986
		Services		
3,365,718,920	1401	Transport	3,096,140,504	2,539,688,834
1,989,332,030	1402	Postal & Communication	1,677,257,183	1,615,225,698
6,381,877,639	1403	Electricity & Water	5,842,054,822	4,965,035,485
2,401,684,725	1404	Rents and Local Taxes	2,178,815,032	2,080,196,930
11,885,476,383	1405	Other	9,888,984,590	7,726,534,224
4,299,385	1406	Contingency Services	2,962,162	2,099,983
26,028,389,082		Total (d)	22,686,214,293	18,928,781,155
112,202,856,799		Total (a+b+c+d)	102,015,093,858	68,275,011,076

Notes to Financial Statements *Contd.* 295

Budget Estimates 2008	Revenue Code	Revenue Title	2008 Rs.	Actual 2007 Rs.
	NOTE - 7	OBJECT CODE WISE CLASSIFICATION OF TRANSFERS, GRANTS & SUBSIDIES		
		Transfers		
30,320,321,269	1501	Welfare Programmes	27,612,488,378	24,698,164,777
76,262,322,756	1502	Retirement Benefits	76,090,524,122	68,822,951,068
35,094,307,119	1503	Public Institutions	32,822,138,444	27,638,232,826
27,196,786,500	1504	Development Subsidies	26,750,908,025	11,238,884,261
1,440,886,216	1505	Subscriptions and Contributions Fees	1,237,074,484	1,537,201,062
1,062,539,366	1506	Property Loan Interest to Public Servants	998,983,969	717,002,891
82,537,000,000	1507	Provincial Councils	76,806,597,076	70,815,190,458
4,925,622,267	1508	Other	4,253,447,673	3,977,391,993
31,352,272	1509	Losses and write off	31,337,609	
258,871,137,766		Total	246,603,499,778	209,445,019,337
	NOTE - 8	Interest Payments		
186,031,000,000	1601	Domestic Debt	185,266,621,327	158,944,942,224
30,000,000,000	1602	Foreign Debt	26,827,283,216	22,438,861,059
216,031,000,000		Total	212,093,904,543	181,383,803,283
767,421,315,987		Grand Total (Notes 5 to 8) - Total Recurrent Expenditure	736,472,605,258	614,762,461,350
	NOTE - 9	OBJECT CODE WISE CLASSIFICATION OF PUBLIC INVESTMENT EXPENDITURE, Rehabilitation & Improvements of Capital Assets		
34,533,267,582	2001	Buildings & Structures	31,155,925,645	25,047,958,646
4,459,839,917	2002	Plant, Machinery and Equipment	3,702,147,367	3,440,125,878
4,152,037,565	2003	Vehicles	3,450,056,105	1,553,759,396
43,145,145,064		Total (a)	38,308,129,118	30,041,843,920
		Acquisition of Capital Assets		
19,040,495,712	2101	Vehicles	14,179,543,539	12,274,845,829
4,238,841,542	2102	Furniture & Office Equipment	3,054,585,532	4,314,666,750
27,368,365,377	2103	Plant, Machinery and Equipment	18,760,481,700	15,282,503,366
58,586,093,604	2104	Buildings and Structures	47,301,067,697	29,296,356,554
18,934,786,324	2105	Lands and Land Improvements	11,779,550,421	8,373,760,102
128,168,582,559		Total (b)	95,075,228,888	69,542,132,601
		Capital Transfers		
50,778,607,451	2201	Public Institutions	36,557,357,180	33,304,362,235
4,287,151,897	2202	Development Assistance	1,944,036,965	6,775,799,458
15,907,915,823	2203	Provincial Councils	9,460,233,298	11,535,309,000
4,200,000	2204	Transfers Abroad	-	160,425,000
70,977,875,171		Total (c)	47,961,627,443	51,775,895,694
		Acquisition of Financial Assets		
1,500,000,000	2301	Equity Contribution	1,500,000,000	2,755,000,000
76,974,219,481	2302	On-Lending	43,939,183,345	42,523,670,375
78,474,219,481		Total (d)	45,439,183,345	45,278,670,375
		Capacity Building		
5,768,292,794	2401	Training & Capacity Building	3,424,720,656	3,838,610,660
5,768,292,794		Total (e)	3,424,720,656	3,838,610,660
		Other Capital Expenditure		
3,251,220,462	2501	Restructuring	538,047,219	600,604,474
92,517,648,194	2502	Other Investments	66,295,249,444	54,051,799,500
2,681,028,747	2503	Contingency Services	131,093,164	16,061,439,452
98,449,897,403		Total (f)	66,964,389,828	70,713,843,427
		Public Debt Amortization		-
		Total (g)	-	-
424,984,012,472		TOTAL EXPENDITURE ON PUBLIC INVESTMENTS (a+b+c+d+e+f+g)	297,173,279,278	271,190,996,676
1,192,405,328,459		Grand Total (Notes 5 to 9) - Total Expenditure	1,033,645,884,536	885,953,458,026

Notes to Financial Statements *Contd.***Note 10 - Foreign Borrowings - 2008**

S.No.	Funding Agency	Name of the Project	Amount	
			2008 Rs.	2007 Rs.
		AB SVENSK EXPORT CREDIT	465,273,798	1,928,914,471
1		Fourth Rural Electrification Project	3,536,662	6,331,771
2		Ratmalana & Ja-Ela Westwater Treatment Facilities Project	461,737,136	1,922,582,700
		ASIAN DEVELOPMENT BANK (ADB)	26,505,603,788	15,389,283,435
3		3rd Water Supply and Sanitation Sector	81,740,534	249,805,426
4		Road Network Improvement Project	705,458,233	1,965,383,628
5		Skills Development Project	-	229,722,834
6		Southern Transport Development Project	1,294,453,752	2,108,596,504
7		Coastal Resource Management Project	373,075,119	554,735,443
8		Forest Resources Management Sector Project	302,125,049	440,209,301
9		Secondary Education Modernization project	-	44,025,543
10		Protected Area Management And Wildlife Conservation Project	216,282,566	238,428,773
11		Colombo Port Efficiency And Expansion Project	40,667,401	87,947,375
12		North East Community Restoration And Development	74,116,040	74,255,195
13		Southern Province Rural Economic Advance Project	687,460,187	739,933,871
14		Small And Medium Enterprise Sector Development Program	-	154,153,430
15		Aquatic Resource Development And Quality Improvement	144,381,941	2,597,699
16		Aquatic Resource And Quality Improvement	262,569,262	225,851,867
17		Plantation Development Project	167,082,330	147,935,588
18		Plantation Development Project	118,910,282	161,041,625
19		Power Sector Development Project	2,317,472,374	1,450,251,063
20		Road Sector Development Project	420,617,829	1,351,089,249
21		Secondary Towns And Rural Community Water/Sanitation	1,672,828,968	1,131,720,767
22		Distance Education Modernization Project	703,486,579	550,470,549
23		North East Coastal Community Development Project	320,614,150	148,209,476
24		Rural Finance Sector Development Project	80,932,876	233,596,069
25		Rural Finance Sector Development Project	189,384,396	181,636,435
26		Conflict Affected Areas Rehabilitation	1,055,582,399	-
27		Conflict Affected Areas Rehabilitation	190,468,018	17,031,204
28		TA Loan - Road Project Preparatory Facility	207,364,734	199,973,412
29		North East Community Restoration & Development Project	247,836,279	176,207,352
30		Secondary Education Modernization (ii)	599,851,402	736,277,665
31		Fiscal Management Reform Programme	1,618,350,000	-
32		Strengthening of the Fiscal management Institutions Project	189,127,417	178,415,441
33		Modernization of Revenue administration	25,623,678	41,092,682
34		TA for Financial Markets Programme for Private Sector Development	506,055	451,162
35		Tsunami Affected Areas Rebuilding project	110,157,178	80,199,176
36		North East Community Restore and Development	658,233,997	461,026,242
37		Technical Education Development	206,491,102	30,988,094
38		Local Government Infrastructure Improvement Project	116,313,781	356,570,198
39		National Highways Sector Project	1,205,212,247	68,091,691

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S.No.	Funding Agency	Name of the Project	Amount		
			2008 Rs.	2007 Rs.	
40		Secondary Towns & Rural Community Water Sanitation (OCR)	2275	312,836,745	466,090
41		Secondary Towns & Rural Community Water Sanitation Supply I	2276	1,808,606,475	570,895,317
42		Colombo Port Expansion Project	2319	4,646,618,520	-
43		Education for Knowledge Society Project	2372	319,882,882	-
44		SME Regional Development Project	2381	728,093,364	-
45		Southern Transport Development Project - Supplementary	2413	2,084,787,648	-
		BANK AUSTRIA CREDITANSTALT AG		3,322,420,125	900,656,890
46		Railway Bridges to Extent Railtracks		414,691,639	-
47		Water Supply Weligama, Ambalantota, Kataragama		343,726,294	-
48		Enhancement & Strengthening of the Road Infrastructure by Construction of Five Bridges		1,046,755,841	351,779,440
49		Greater Colombo Sewerage Rehabilitation system II		343,899,481	548,877,450
50		Rehabilitation & Augmentation of Kirindi Oya Water Supply Project		340,964,988	-
51		Supply of Modern Medical equipment for Teaching Hospital Kurunagala		832,381,882	-
		BOERENLEEN BANK		2,725,328,258	824,691,757
52		Disaster Management & Emergency Response System		2,254,345,668	824,691,757
53		Disaster Management Communication & Response Project		205,830,069	-
54		Improvements of the Facilities and Programmes of SLIATE		265,152,521	-
		DANSKE BANK A/S		1,525,551,917	1,336,064,733
55		Towns South of Kandy Water Supply Project		1,525,551,917	1,336,064,733
		EUROPEAN INVESTMENT BANK		3,119,147,300	4,744,845,500
56		Post Tsunami Line of Credit - contract A		843,957,500	3,201,848,000
57		Post Tsunami Line of Credit - contract B		644,820,800	-
58		DFCC Global Loan II		1,630,369,000	1,542,997,500
		HSBC BANK PLC (UK)		3,055,714,681	-
59		Regional Bridge Project HSBC Bank PLC UK		2,521,286,329	-
60		Supply & Installation of 5000 Solar Powered Drip Irrigation & Fertilising Systems		534,428,352	-
		HSBC Ltd (HONGKONG)		2,836,400,000	-
61		Regional Bridge Project HSBC Bank Hongkong		2,836,400,000	-
		INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA)		10,329,881,486	8,707,976,270
62		Forest Sector Development Project		-	499,820,190
63		Private Sector Infrastructure Development Project		-	54,009,522
64		Legal & Judicial Reform Project		-	43,246,481
65		PPF - Dam Safty & Water Resources Planning Project		34,392,038	-
66		Renewable Energy For Rural Economic Development Project	3673	71,810,865	1,083,000,473
67		Renewable Energy For Rural Economic Development Project		965,293,238	547,304,206
68		Economic Reform Technical Assistance Project (Part of Tsunami)		-	381,990,226
69		Improving Relevance & Quality of Undergraduate Education	3781	503,773,602	-
70		Second North East Irrigated Agriculture Project	3935	718,590,097	562,619,899
71		E - Sri-Lanka Development Project	3986	471,787,878	536,015,244
72		North East Housing Reconstruction Project	4014	2,182,414,840	1,976,756,134

298 Notes to Financial Statements *Contd.*

S.No.	Funding Agency	Name of the Project		Amount	
				2008 Rs.	2007 Rs.
73		Tsunami Emergency Recovery Project	4039	583,710,530	
74		Road Sector Assistance Project	4138	4,880,351,763	2,095,819,374
75		Puttalam Housing Project	4261	445,312,992	334,549,930
76		Dam Safty & Water Resources Planning	4406	43,377,751	9,134,062
77		Public Sector Capacity Building Project	4412	12,776,421	-
		ING BANK N.V.		683,693,203	-
78		Negombo Water Supply Project		683,693,203	-
		INTERNATIONAL FUND FOR AGRICULTURE DEVELOPMENT		483,800,944	458,469,738
79		Matale Regional Economic Advancement Project		106,409,738	131,026,850
80		Dry zone livelihood support & partnership programme		41,427,041	57,309,874
81		Post Tsunami Coastal Rehabilitation & Resource Mgt Programme		53,171,952	216,106,412
82		Post Tsunami Livelihood Support & Partnership Programe		119,339,943	54,026,603
83		Smallholder Plantataions Entrepreneurship Dev. Programe		163,452,270	-
		KBC BANK OF BELGIUM		82,950,623	380,363,816
84		Delimitation of the Outer Edge the Continental Margine of SriLanka		82,950,623	380,363,816
		NDF		80,360,129	59,535,140
85		Southern Transport Development Project	324	80,360,129	59,535,140
		NORDEA BANK DENMARK A/S		3,077,428,938	-
86		Kelani Right Bank Water Treatment Plant		1,383,352,170	-
87		Oluvil Port Development Project		1,694,076,768	-
		ORGANISATION OF PETROLEUM EXPORTING COUNTRIES (OPEC)		56,052,408	379,439,840
88		Southern Province Rural Economic Advancement Project	868 P	28,834,628	126,826,656
89		North East Community Restoration & Development	879 P	9,609,139	79,168,532
90		Road Sector Development Project	942 P	17,608,642	173,444,652
		RAIFFEISEN ZENTRAL BANK		344,699,740	-
91		Up-grading of Technical Education (SLIATE)		344,699,740	-
		STANDARD CHARTERED BANK		16,071,288,751	-
92		Syndicated Loan Agreement USD 150 mn		16,071,288,751	-
		GOVERNMENT OF AUSTRALIA		-	250,992,333
93		Railway Bridges to Extent Railtracks		-	104,788,384
94		Water Supply Weligama, Ambalantota, Kataragama		-	146,203,949
		GOVERNMENT OF PEOPLES' REPUBLIC OF CHINA		5,999,897,965	17,826,514,993
95		Supply of 100 Nos Railway Passenger Carriages.		1,081,336,535	1,379,294,077
96		Preferential Buyer's Credit		2,510,607,056	15,792,886,899
97		Supply of 15 Nos. Diesel Multiple Units		2,407,954,374	-
98		Kelanithissa Diesel Storage Tank Project		-	71,183,349
99		Rural Electrification Project (vii)		-	583,150,668
		GOVERNMENT OF DENMARK		993,989,347	2,303,518,337
100		Colombo Sewerage Rehabilitation Project		244,900,938	-
101		Nuwaraeliya District Group Water Supply project		749,088,409	1,038,390,470
102		Colombo Sewerage Rehabilitation Project		-	1,265,127,867
		GOVERNMENT OF FRANCE		3,271,950,328	263,305,308
103		Spatial Information Infrastructure for Reconstruction Monitorin Project		527,988,808	196,109,090
104		Trincomalee Intergrated Infrastructure Project		1,165,190,520	67,196,217
105		Construction Sector Support project (For Post Tsunami Reconstruction)		1,578,771,000	-

Notes to Financial Statements *Contd.* 299

S.No.	Funding Agency	Name of the Project	Amount	
			2008 Rs.	2007 Rs.
GOVERNMENT OF GERMANY			983,218,663	1,064,617,152
106		Koggala Water Supply Project	100,694,461	135,288,783
107		Nawalapitiya Water Supply Project	124,735,634	129,070,468
108		DFCC V Credit Line for SME in the North and East	24,506,167	-
109		Ampara Water Supply Project	60,404,576	73,858,952
110		Colombo Grid Substation Project	138,076,359	8,427,773
111		N.D.B. VI - Small & Micro Enterprises	212,392,552	9,110,012
112		N.D.B. V - Private Sector Promotion Programme	322,408,915	708,861,164
GOVERNMENT OF INDIA			58,003,774	2,523,277,245
113		Import 300,000 Tonnes of Indian Wheat	7,847,284	-
114		Indian Line of Credit	50,156,491	262,304,522
115		Indian Line of Credit - 2003	-	2,260,972,723
GOVERNMENT OF STATE OF KUWAIT			1,118,264,038	272,407,567
116		Bridges Reconstruction & Rehabilitation Project	146,753,968	139,909,442
117		Rehabilitation of Irrigation And Schemes Project	-	32,094,281
118		Strengthening of Tertiary Education & Administrative Infrastructure in Tsunami Affected Areas	971,510,070	100,403,845
GOVERNMENT OF MALAYSIA			175,020,883	44,590,719
119		Setting up of the Disaster Recovery Facility for Passport Printing	175,020,883	44,590,719
GOVERNMENT OF PAKISTAN			-	2,427,320,060
120		Pakistan line of credit	-	2,427,320,060
GOVERNMENT OF SAUDI ARABIA			564,844,054	507,574,448
121		Mahaweli Ganga Development Project System B - Left Bank	177,240,586	7,800,545
122		Development Health Facilities - Colombo Hospital	214,817,322	299,331,091
123		Baticoloa - Trincomalee Road Project	172,786,145	200,442,812
JAPAN / SRI LANKA			28,566,546,073	22,544,082,999
124		Walawe Left Bank Irrigation Upgrading & Extension Project (II)	1,855,466,253	1,496,094,827
125		Colombo North Water Supply Project	-	279,566,837
126		Kaluganga Water Supply Project for Greater Colombo	1,100,381,362	1,161,139,563
127		Road Network Improvement Project	-	506,396,620
128		Improve The National Blood Transfusion Services	260,468,802	194,955,721
129		Southern Highway Construction Project	6,602,722,962	3,542,058,047
130		Greater Kandy Water Supply Project	36,561,447	791,724,838
131		Colombo City Electricity Distribution Development Project	1,158,766,859	63,702,407
132		Lunawa Environment Improvement And Community Development Project	1,292,369,882	608,791,086
133		Upper Kotmale Hydro Power Project	6,192,309,940	2,924,086,961
134		Plantation Reform Project (II)	254,298,157	394,729,122
135		Provincial Road Improvement Project	1,911,402,970	1,093,220,665
136		Pro-poor Economic Advt. & Commu. Enht.	468,039,826	208,624,902
137		Power Sector Restructuring Project (Kerawalapitiya)	1,743,398,139	269,924,220
138		Small Scale Infrastructure Rehabilitation And Upgrading Project	-	58,807,987

300 Notes to Financial Statements *Contd.*

S.No.	Funding Agency	Name of the Project		Amount	
				2008 Rs.	2007 Rs.
139		Small Scale Infrastructure Rehabilitation And Upgrading	80	359,973,504	1,219,910,288
140		Small And Micro Industries Leader And Entrepreneur Promotion	81	634,985,333	2,153,297,941
141		Environmentally Friendly Solution Fund (II)	82	1,308,195,603	1,214,285,624
142		Vavuniya Kilinochchi Transmission Line Project	83	402,573	356,926
143		Sri Lanka Tsunami Affected Area Recovery and Take off Project	84	554,219,712	1,814,294,424
144		The Galle Port Development Project (I)	85	141,126,140	250,966,669
145		Tourism Resources Improvement Project	86	108,829,229	531,661,944
146		Pro - poor Eastern Infrastructure Development Project	87	991,612,730	36,220,401
147		Pro-poor Rural Development Project	88	1,246,293,238	1,664,402,175
148		Greater Colombo Transport Development Project.	89	137,248,645	-
149		Water Sector Development Project	90	207,472,765	64,862,802
		GOVERNMENT OF SPAIN		2,168,415,882	1,767,335,453
150		The Supply and Construction of Pre - fabricated Metal Bridges		715,013,728	1,477,283,480
151		Design Supply & Setting up of Two Water Treatment Plants at Galle & Negambo		1,453,402,155	290,051,973
		SRI LANKA - KOREA	SRI	1,559,672,577	2,968,245,965
152		Balangoda-Bandarawela Road Rehabilitation Project	11	48,213,087	887,322,901
153		Greater Galle Water Supply Project Phase (II)	12	71,987,640	480,367,364
154		Re- Engineering Government Component of E- sri lanka Project	13	96,499,245	791,432,667
155		Administrative Complex in Hambantota Project	14	421,907,323	445,494,367
156		Greater Galle Water Supply Project Phase II Supplementary	15	363,726,471	353,787,756
157		Upgrading of Niyagama National Vocational Training Centre Project	16	557,338,813	9,840,910
		GOVERNMENT OF SWEDEN		66,342,172	84,925,537
158		Education Reforms in Plantation Schools		66,342,172	84,925,537
		OTHERS		-	86,875,447,476
159		2005052 Grater Trincomalee water supply		-	29,211,513
160		NDF Loan No.325 - The Skills Development Project		-	401,172,062
161		2005079 Solar Energy for the Dev.of Health & Education		-	1,280,389,901
162		2007008 BOC Syndicate loan USD 210 Mn		-	23,292,234,000
163		2007045 US 500 Mn Bonds		-	56,233,900,000
164		SLDB Loan USD 50 Mn - NSB		-	5,638,540,000
				120,291,761,846	176,834,397,185

Notes to Financial Statements *Contd.* 301

Note 11 - Foreign Grants Received

	2008 Rs.	Actual 2007 Rs.
Grants Received in the Form of Cash for Projects		
Association of South East Asian Nations (ASEAN)	-	319,714
Canada	21,927,766	7,307,841
European Economic Commission	101,189,374	83,913,000
International Labour Organization	300,000	3,982,568
Japan	117,186,368	150,384,643
Netherlands	419,674,521	449,618,082
Norad	-	48,031,630
Norway	52,493,310	4,382,438
Sweeden	73,776,794	46,634,749
United Nations High Commission for Refugees (UNHCR)	38,593,457	11,027,839
United Kingdom	2,171,726	856,051
United Nations Development Programme(UNDP)	132,365,884	255,069,816
UNESCO	14,145,602	14,275,756
United Nations Fund for Population	4,863,760	39,003,973
United Nations Children's Education Fund	526,340,310	355,751,156
United State of America	25,216,184	30,910,286
World Health Organization	51,957,481	52,355,422
World Bank	152,653,382	99,282,669
United Nations Environment Programm (UNEP)	9,881,542	22,479,249
Italy	61,294,455	8,220,644
IDA	248,577,502	571,870,635
German	15,701,721	1,925,672
GREECE	2,281,906	10,571,198
Other	42,635,619	7,884,385
	2,115,228,664	2,276,059,417
Less: Refunds or adjustments	(185,950,607)	(73,746,381)
Sub Total (a)	1,929,278,057	2,202,313,036
Grants Received in the form of Cash for Non Projects		
The Government of Japan	4,433,915	329,965,266
United Kingdom/ IDA	-	-
Sub Total (b)	4,433,915	329,965,266
Grants Received through Special Foreign Currency Accounts		
International Development Association (IDA)	4,816,564,887	1,667,862,305
USAID	-	4,803,351
Government of Norway	-	7,814,691
Asian Development Bank (ADB)	7,376,149,961	3,712,100,101
Switzerland Development Corporation	56,573,760	211,454,054
United Nations Development Programme(UNDP)	102,913,182	-
KFW	1,172,235	82,939,000
Government of Italy	232,107,278	-
Swedish	4,994,176	-
Sub Total (c)	12,353,374,025	5,924,074,955

302 Notes to Financial Statements *Contd.*

	2008 Rs.	Actual 2007 Rs.
Grants Received and Reported in the Form of Materials & Equipments		
Australian Aid	102,088,890	137,053,122
World Food Programme	3,369,530,000	1,801,698,358
The Government of Netherlands	13,242,247	-
The Government of Korea (KOICA)	22,260,000	560,100,000
The Government of China	6,076,012	-
The Government of India	807,264	-
The Government of Japan	635,862,719	-
JICA	150,000,000	958,126,687
JICS		385,943,674
IDA/ WB	56,825,438	249,954,726
ADB		423,170,732
GTZ		126,848,568
United Nations Development Programme(UNDP)	13,003,227	10,337,313
USAID	1,000,700,000	53,924,293
United Nations Children's Education Fund	666,800,000	817,812,722
Unicef/ UNFPA/ Red Cross		10,981,885
IFRC	426,300,000	-
KFW	765,800,000	2,627,341
USA		10,406,300
Merlin		19,166,001
Government of Italy		74,503,822
Government of Norway		24,555,961
America		61,557,514
IFDA		284,307
World Bank		35,148,959
FINNIDA	218,080,818	6,416,010
Multi Donors		3,596,330,000
KOICA		
Sub Total (d)	7,870,547,346	8,943,777,564
Grand Total - (a)+(b)+(c) + (d)	22,157,633,343	17,400,130,821
Less: Grants Received for Tsunami Related Expenses	-	-
Refunds relating to Prior years	(14,384,884)	(27,620,816)
	22,143,248,459	17,372,510,005

Notes to Financial Statements *Contd.* 303

Note 12 - Domestic Non-Bank Borrowings

	2008 Rs.	Actual 2007 Rs.
Net Borrowings through Treasury Bills - 8085	75,742,071,453	37,094,006,913
Treasury Bonds - 9093	415,534,653,544	302,037,137,766
Rupee Loans - 8249	23,295,543,635	
Foreign Currency Banking Unit - 9107	8,293,312,500	6,235,487,000
Sri Lanka Development Bonds	36,120,919,000	23,591,744,400
CITI Bank	-	152,249,173
Sri Lanka Nation Building Bonds (9128)	-	233,507,609
	535,690,956,497	392,639,676,497

Note 13 - Domestic Debt Repayments

	2008 Rs.	Actual 2007 Rs.
Treasury Bonds	246,731,241,239	212,104,074,186
Rupee Loans	1,500,000,000	8,500,000,000
Sri Lanka Development Bonds	34,474,304,000	-
Local Loans in Foreign Currency	1,663,309,296	14,478,178,075
CITI Bank Loans	445,217,932	445,217,932
Others	701,626,400	1,045,563,994
	285,515,698,867	236,573,034,188

Note :- Net amount payment of Treasury Bills reflects the difference between borrowings through Treasury Bills and their settlements on maturity, taken place during the year as follows.

	Rs.	Rs.
Total Borrowings	700,695,185,680	767,039,188,174
Less: Total Repayments	(624,953,114,227)	(729,945,181,261)
Net Amount of Repayment/ Borrowings	75,742,071,453	37,094,006,913

Note 14 - Recoveries From On-Lending

	2008 Rs.	Actual 2007 Rs.
Foreign Funded Lending		
National Development Bank	1,257,828,888	1,330,645,378
Sri Lanka Ports Authority	3,417,191,761	3,108,997,483
Sri Lanka Telecom	695,789,658	678,123,820
Development Finance Corporation of Ceylon	1,668,050,571	1,441,573,235
Hatton National Bank	49,166,920	17,500,532
Lanka Electricity Company Ltd.	77,422,406	77,422,406
National Water Supply & Drainage Board	350,674,008	356,495,139
Sampath Bank	353,634,979	253,845,103
Commercial Bank	691,388,181	426,123,441
Seylan Bank	36,579,766	18,191,183
Development Banks	271,577,608	1,563,002
Ceylon Petroleum Corporation	647,368,644	647,368,644
National Development Trust Fund	16,032,023	16,032,023
Lanka Oriex Leasing Company	3,783,257	3,783,257
Local Loan Development Fund	32,320,608	1,989,190
Revolving Funds of Central Bank with Reginal Dev.Banks	2,198,108,137	1,436,335,537
Other Institutions	1,292,911,301	1,484,694,825
Sub Total (a)	13,059,828,716	11,300,684,198
Treasury Funded Lending		
AHF Loan Scheme	317,814,003	299,583,718
Provincial Council Loans	36,780,000	36,780,000
Other Loans	111,482,200	39,927,577
Sub Total (b)	466,076,203	376,291,295
Grand Total (a + b)	13,525,904,919	11,676,975,493

304 Notes to Financial Statements *Contd.***Note - 15 : Loans To Public Officers**

	2008 Rs.	Actual 2007 Rs.
Advances to Public Officers Transferred to Provincial Councils (7004)	200,595,030	200,595,030
Advances to Public Officers of the Central Government (8493)	21,946,365,633	20,487,768,302
	22,146,960,663	20,688,363,332

Note - 16 : Advances to Government Departments

Treasury Authorised Advance Accounts (7000)	7,623,781,750	8,839,401,396
	7,623,781,750	8,839,401,396

Note - 17 : Membership Fees Paid

International Monetary Institutions Membership Fees Paid (8234) and (8339)	1,885,484,942	1,885,484,943
	1,885,484,942	1,885,484,943

Note - 18 : On-lending (9116)

S.No.	Name of the Institution	Balance as at 31.12.2007 Rs.	New Loan During 2008 Rs.	Amount Settled During 2008 Rs.	Balance as at 31.12.2008 Rs.
1	Sri Lanka Ports Authority	38,550,965,180	4,787,744,660	3,417,191,761	43,865,410,173
	Less/ Add : Parity Variance	3,943,892,094		12,086,109,845	
	Balance	42,494,857,274	4,787,744,660	3,417,191,761	55,951,520,018
2	Ceylon Electricity Board	51,085,787,448	11,743,158,353	-	62,828,945,802
	Balance	51,085,787,448	11,743,158,353	-	62,828,945,802
3	Development Finance Corporation of Ceylon	17,642,721,077	4,160,998,518	1,668,050,571	20,142,871,544
	Less/ Add : Parity Variance	7,202,520		106,226,552	
	Balance	17,649,923,597	4,160,998,518	1,668,050,571	20,249,098,097
4	Private Sector Infrastructure Development. Co. Ltd.	1,821,500,074	-	13,317,964	1,813,813,539
	Less/ Add : Parity Variance	5,631,428	376,622,559		
	Balance	1,827,131,502	-	13,317,964	2,190,436,098
	Indian Line of Credits				
5	Aliance Finance Co. Ltd.	8,373,939	-	4,186,972	4,186,967
6	Bank of Ceylon	118,111,001	-	53,221,745	64,889,256
7	Ceylease Financial Service Ltd.	761,399	-	761,396	2
8	Ceylinco Leasing Company Ltd.	4,780,465	-	3,824,376	956,089
9	Commercial Bank of Ceylon Ltd.	3,295,421	-	775,396	2,520,025
10	Commercial Leasing Corporation Ltd.	9,240,144	-	9,240,144	0
11	DFCC Bank Ltd.	68,391	-	68,391	0
12	Hatton National Bank Ltd.	27,432,546	-	14,892,958	12,539,588
13	Lanka Orix Leasing Co. Ltd.	372,839	-	372,839	0
14	National Development Bank Ltd.	3,580,194	-	3,580,194	0
15	People's Bank	523,550,913	-	315,664,715	207,886,198
16	Seylan Bank	705,464	-	705,464	0
	Sub Total	700,272,716	-	407,294,590	292,978,126
17	National Development Bank	13,256,866,414	1,076,898,423	1,257,828,888	12,393,558,787
	Less : Parity Variance	(682,377,162)	(677,963,954)		
	Balance	12,574,489,252	1,076,898,423	1,257,828,888	11,715,594,833
18	Sri Lanka Telecom	1,994,249,956	-	695,789,658	1,298,460,298
19	Lanka Electricity Company	519,703,494	-	77,422,406	442,281,088
20	Sampath Bank Ltd.	3,345,376,467	656,115,773	353,634,979	3,647,857,261
21	Hatton National Bank Ceylon Ltd.	2,865,589,871	914,654,539	49,166,920	3,731,077,490
22	Commercial Bank	5,291,510,155	947,164,217	691,388,181	5,547,286,191
23	Seylan Bank	596,965,433	11,404,635	36,579,766	571,790,303
24	Ceylon Petroleum Corporation	5,882,430,425	-	647,368,644	5,235,061,781

Notes to Financial Statements *Contd.*

25	National Development Trust Fund	1,054,514,406	293,630,318	16,032,023	1,332,112,701
26	Sarvodaya	1,452,465,929	115,077,156	127,537,429	1,440,005,657
27	Local Loan Development Fund	2,341,476,298	-	10,728,108	2,330,748,190
28	Lanka Orix Leasing Co. Ltd.	412,009,849	342,653,769	3,783,257	750,880,362
29	National Water Supply & Drainage Board	16,545,507,631	2,692,938,972	350,674,008	18,887,772,595
30	Bank of Ceylon	1,005,668,482	1,422,842,072	132,896,837	2,295,613,717
31	Colombo Dockyard	155,532,996	-	31,075,200	144,717,480
	Add : Parity Variance	20,259,684	1,631,160		
	Balance	175,792,680	-	31,075,200	146,348,640
32	Nation Trust Bank (MILL)	27,674,214	-	9,224,738	18,449,477
33	Urban Development Authority	276,749,960	-	-	276,749,960
34	S.L. Land Reclamation and Dev.Board	491,877,308	-	83,700,000	408,177,308
35	Commercial Leasing Company Ltd.	1,550,374	-	387,594	1,162,781
36	Ceylinco Leasing Company Ltd.	146,496,772	-	-	146,496,772
37	Housing Development Finance Corporation	146,604,996	-	54,976,874	91,628,123
38	State Mortgage & Investment Bank.	118,777,883	-	17,503,189	101,274,694
39	Central Bank of Sri Lanka	683,533,000	390,000,000	105,640,594	967,892,406
40	Prajashakthi District Organization-Badulla	5,820,000	-	-	5,820,000
41	Sanasa Development Bank	12,056,479	-	-	12,056,479
42	Sanasa Development Bank	38,544,920	-	-	38,544,920
43	Min. of Agricultural Dev. Agrarian Services	1,542,095,618.50	-	5,972,474	1,536,123,145
44	Alliance Finance Company Ltd.	10,788,870.36	108,882,567	-	119,671,438
45	Revolving Funds with Central Bank of Sri Lanka	13,930,026,875	-	2,198,108,137	12,414,295,900
	Add : Parity Variance	682,377,162	-	-	677,963,954
	Balance	14,612,404,037	-	2,198,108,137	13,092,259,854
46	Wayamaba Development Bank	46,992,735	6,800,497	6,312,250	47,480,983
47	HDFC / NHDA	438,182,017	-	-	438,182,017
48	Airport & Aviation Services (Sri Lanka) Ltd	13,673,007,730	-	568,649,178	14,308,186,478
	Add : Parity Variance	1,203,827,926	-	-	4,168,287,201
	Balance	14,876,835,656	-	568,649,178	18,476,473,679
	On Lending Based on Foreign Aids	203,292,707,707	29,670,964,472	13,038,236,217	236,664,313,279
49	Provincial Councils	92,340,000	-	36,780,000	55,560,000
50	Local Loans & Development Fund	362,058,025	-	21,592,500	340,465,525
51	Sri Lanka Rubber Manufacture & Dev. Corporation	773,340,000	-	-	773,340,000
52	Sri Lanka Handicraft Development Board	10,896,000	-	1,135,000	9,761,000
53	SME Bank	37,500,000	-	-	37,500,000
54	SME Bank	-	40,000,000	-	40,000,000
55	Hotel Developers Lanka Ltd.	6,796,986,419	1,345,447,754	-	8,142,434,173
56	Other Local Loans	72,350,000	-	3,500,000	68,850,000
57	AHF Loan Scheme 2004/2005	3,295,968,467	-	317,814,003	2,978,154,465
58	Real Estate Exchange Pvt Ltd	250,000,000	-	-	250,000,000
59	Min. of Prtrolilium & Pet.Resos. Dev.	926,500,000	-	106,847,200	819,652,800
60	Sri Lanka Agriculture Products Marketing Authority	1,999,025,150	-	-	1,999,025,150
61	Department of Treasury Operations	916,231,000	-	-	916,231,000
62	Ceylon Hotel Corporations	19,000,000	-	-	19,000,000
63	Ceylon Ceramic Corporations	8,676,923	-	-	8,676,923
64	Ceylon Fisheries Corporations	-	22,595,000	-	22,595,000
	On Lending Based on Domestic Funds	15,560,871,985	1,408,042,754	487,668,703	16,481,246,036
	Total Parity Variance	5,180,813,652	16,738,877,317		
	Total (Before Parity Variance)	213,672,766,039	31,079,007,226	13,525,904,919	236,406,681,998
	Total (After Parity Variance)	218,853,579,691	13,525,904,919	253,145,559,315	

306 Notes to Financial Statements *Contd.***Note - 19 : Capital Contribution or Shareholdings in the Commercial Public Corporations / State Owned Companies / Other Companies / Plantation Companies / Development Banks (8468 / 8548)**

	Balance as at 01.01.2008 Rs.	Additions in 2008 Rs.	Adjustments */Reduction in 2008 Rs.	Balance as at 31.12.2008 Rs.
Note - 19.1 (a) Capital Contribution in Commercial Public Corporations	82,159,272,851	1,500,000,000		83,659,272,851
Note - 19.1 (b) Central Bank of Sri Lanka	15,000,000			15,000,000
Note - 19.2 Shareholdings in Government Owned or Other Companies	26,318,346,430	841,639,000		27,159,985,430
Note - 19.3 Shareholdings in Plantation Companies	986,982,850	232,846,440	58,211,620	1,161,617,670
Note - 19.4 Shareholdings in Companies in US Dollar denomination	213,361,545	14,711,615		228,073,160
Note - 19.5 Shareholdings in Development Banks	2,124,337,490	600		2,124,338,090
Total	111,817,301,166	2,589,197,655	58,211,620	114,348,287,201

Note - 19.1 (a) : Capital Contribution in Commercial Public Corporations

S. No.	Name	Balance as at 01.01.2008 Rs.	Additions in 2008 Rs.	Reduction in 2008 Rs.	Balance as at 31.12.2008 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			51,198,676,120
5	Ceylon Fisheries Corporation	376,710,000			376,710,000
6	Ceylon Petroleum Corporation *	117,820,000			117,820,000
7	Development Lotteries Board	2,200,000			2,200,000
8	Housing Development Finance Corporation Bank	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			1,700,000,000
14	National Water Supply & Drainage Board	185,480,000			185,480,000
15	People's Bank	5,698,133,000	1,500,000,000		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			30,000,000
22	Sri Lanka Handicraft Board	69,629,000			69,629,000
23	Sri Lanka Land Reclamation & Development Corporation	1,000,000			1,000,000
24	Sri Lanka Ports Authority *	7,535,916,027			7,535,916,027
25	Sri Lanka Rupavahini Corporation	537,743,000			537,743,000
26	State Development & Construction Corporation	16,671,650			16,671,650
27	State Engineering Corporation of Sri Lanka	70,000,000			70,000,000
28	State Mortgage & Investment Bank	889,813,000			889,813,000
29	State Pharmaceuticals Corporation of Sri Lanka	59,055,258			59,055,258
30	State Pharmaceuticals Manufacturing Corporation	690,079,000			690,079,000
31	State Printing Corporation	15,000,000			15,000,000
32	State Timber Corporation	41,503,668			41,503,668
33	Urban Development Authority *	1,257,651,060			1,257,651,060
Total (19.1)		82,159,272,851	1,500,000,000		83,659,272,851

Note - 19.1 (b) : Central Bank of Sri Lanka

1	Central Bank of Sri Lanka	15,000,000			15,000,000
	1.Total Equity (Net Worth of Commercial Public Corporation and Central Bank of Sri Lanka) Note 19.1.1 *	659,533,367,000	Not ready by 31.03.2009		
	* (Only to satisfy the disclosure requirement)				

Notes to Financial Statements *Contd.*

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Note - 19.2 : Share holdings in Government Owned or Other Companies

S. No.	Name of Company	Number of Shares				Nominal Value per Share Rs.	Value of the Investment as at 31.12.2007 Rs.	Value of the Investment as at 31.12.2008 Rs.	Percentage of Share holdings by the Treasury Rs.
		As at 01.01.2008 Nos.	Addition Nos.	Deductions Nos.	As at 31.12.2008 Nos.				
1	Airport & Aviation Services (Sri Lanka) Limited	200,000			200,000	100.00	20,000,000	20,000,000	98.00%
2	BCC Lanka Limited	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 Limited	200,000			200,000	10.00	2,000,000	2,000,000	
5	Building Materials Corporation	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	
7	Ceylon fertilizer Co. Ltd	14,445,608			14,445,608	10.00	144,456,080	144,456,080	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 Limited	9,612			9,612	10.00	96,120	96,120	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	2,600,000			2,600,000	10.00	26,000,000	26,000,000	99.90%
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	301,200			301,200	10.00	3,012,000	3,012,000	-
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 Limited	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 Limited	130,000			130,000	10.00	1,300,000	1,300,000	90.00%
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 Limited	40,002			40,002	100.00	4,000,200	4,000,200	9.17%
33	Lanka Cement Limited	22,246,000			22,246,000	10.00	222,460,000	222,460,000	13.00%
34	Lanka Electricity Company (Pvt) Ltd	49,880,000			49,880,000	10.00	498,800,000	498,800,000	43.56%
35	Lanka Fabrics Limited	210,000			210,000	10.00	2,100,000	2,100,000	93.30%
36	Lanka Hydraulic Institute Ltd	50,000			50,000	10.00	500,000	500,000	4.53%
37	Lanka Industrial Estates Ltd	7,800,000			7,800,000	10.00	78,000,000	78,000,000	48.84%
38	Lanka Layland Ltd	2,149,900			2,149,900	10.00	21,499,000	21,499,000	41.77%
39	Lanka Machine Leasers (Pvt) Ltd	588,884			588,884	100.00	58,888,400	58,888,400	
40	Lanka Mineral Sands Ltd	80,000,000			80,000,000	10.00	800,000,000	800,000,000	100.00%
41	Lanka Phosphate Limited	7,251,000			7,251,000	10.00	72,510,000	72,510,000	100.00%
42	Lanka STC General Trading Co. Ltd	10,000,000			10,000,000	10.00	100,000,000	100,000,000	100.00%
43	Lanka Synthetic Fiber Company	956,256			956,256	10.00	9,562,560	9,562,560	-
44	Lanka Textile Mills Emporium Ltd	700,000			700,000	10.00	7,000,000	7,000,000	-
45	Lanka Tractors Limited	5,250,000			5,250,000	10.00	52,500,000	52,500,000	30.00%
46	Mantai Salt Ltd	300,000			300,000	100.00	30,000,000	30,000,000	100.00%
47	Mattegoda Textile Mills Ltd	900,000			900,000	10.00	9,000,000	9,000,000	-
48	Mihin Lanka (Private) Ltd	2,500,004			2,500,004	100.00	25,000,400	25,000,400	-
49	MILCO (Pvt) Ltd - Kiriya Milk Industries	30,649,999			30,649,999	10.00	306,499,990	306,499,990	99.99%
50	National Development Bank	177,300			177,300	10.00	1,773,000	1,773,000	0.32%
51	National Paper Company Ltd	32,300,000			32,300,000	10.00	323,000,000	323,000,000	100.00%
52	National Insurance Corporation Ltd	6,848			6,848	10.00	68,480	68,480	-
53	Orient Lanka Ltd	1,048			1,048	10.00	10,480	10,480	0.035%
54	Paranthan Chemicals Company Ltd	4,000,000			4,000,000	10.00	40,000,000	40,000,000	100.00%
55	Rajarata Food Grain Ltd	350,000			350,000	10.00	3,500,000	3,500,000	-
56	Puttalam Cement Company Ltd	97,071			97,071	10.00	970,710	970,710	-
57	Ruhunu Cement Co. Ltd	10,175,000			10,175,000	10.00	101,750,000	101,750,000	-
58	Shell Gas Lanka Limited	17,616,853			17,616,853	10.00	176,168,530	176,168,530	48.90%
59	Skills Development Fund Ltd	10,200,012			10,200,012	10.00	102,000,120	102,000,120	98.00%
60	SME Bank	149,999,992			149,999,992	10.00	1,499,999,920	1,499,999,920	-
61	Sri Lanka Export Credit Insurance Corporation	1,000,000			1,000,000	10.00	10,000,000	10,000,000	100.00%
62	Sri Lanka Rubber Manufacturing & Export Corporation Ltd	7,798,000			7,798,000	10.00	77,980,000	77,980,000	100.00%
63	Sri Lanka Telecom Limited	893,405,709			893,405,709	10.00	8,934,057,090	8,934,057,090	49.50%
64	Sri Lanka Telecom (Servicers)	1			1	10.00	10	10	-
65	Sri Lankan Airlines Ltd	26,275,436			26,275,436	100.00	2,627,543,600	2,627,543,600	51.05%
66	Statcon Rubber Company Ltd	74,830			74,830	10.00	748,300	748,300	9.00%
67	Tea Smallholder Factories Ltd	49,000,000			49,000,000	10.00	490,000,000	490,000,000	100.00%
68	The Selinsing Company Limited	615			615	10.00	6,150	6,150	1.00%
69	Thomas De La Rue Lanka Currency & Security Print (Pvt) Ltd	2,800,000			2,800,000	10.00	28,000,000	28,000,000	40.00%
70	United Motors Lanka Limited	13			13	10.00	130	130	-
71	Vayangoda Textile Ltd	7,500,000			7,500,000	10.00	75,000,000	75,000,000	-
72	Wakers & Greig Limited	2,850			2,850	2.00	5,700	5,700	-
73	Wakers & Greig Limited	100			100	10.00	1,000	1,000	-
74	West Coast Pwer (Pvt) Ltd (Ordinary)	18,132,470	2,643,410		20,775,880	100.00	1,813,247,000	2,077,588,000	55.73%
75	West Coast Pwer (Pvt) Ltd (Preference)	39,599,640	5,772,980		45,372,620	100.00	3,959,964,000	4,537,262,000	-
	Total	1,840,682,662	8,416,390	-	1,849,099,052	-	26,318,346,430	27,159,985,430	

Notes to Financial Statements *Contd.***Note - 19.3 : Share holding in Plantation Companies**

S. No.	Name of Company	Number of Shares				Nominal Value per Share Rs.	Value of the Investment at cost as at 31.12.2007 Rs.	Value of the Investment at cost as at 31.12.2008 Rs.	Percentage of Share holdings by the Treasury
		As at 01.01.2008	Addition	Deductions	As at 31.12.2008				
		Nos.	Nos.	Nos.	Nos.				
1	Agaraptana Plantation Ltd	5,821,162	23,284,644	5,821,162	23,284,644	10	58,211,620	232,846,440	30.39%
2	Agalawatta Plantation Ltd	741			741	10	7,410	7,410	0.0029%
3	Bagawantalawa Plantation Ltd	14,443			14,443	10	144,430	144,430	0.028%
4	Balangoda Plantation Ltd	4,760			4,760	10	47,600	47,600	0.20%
5	Chilaw Plantation Ltd	20,000,000			20,000,000	10	200,000,000	200,000,000	100.00%
6	Elkaduwa Plantation Ltd	18,000,010			18,000,010	10	180,000,100	180,000,100	100.00%
7	Elpitiya Plantation Ltd	7,806,546			7,806,546	10	78,065,460	78,065,460	39.00%
8	Hapugastenne Plantation Ltd	1			1	10	10	10	19.00%
9	Horana Plantation Ltd	5,889			5,889	10	58,890	58,890	0.024%
10	Kahawatte Plantation Limited	1			1	10	10	10	0.000002%
11	Kegalle Plantation Ltd	4,387			4,387	10	43,870	43,870	-
12	Kelani Valley Plantation Ltd	1			1	10	10	10	-
13	Kotagala Plantation Ltd	3,800,557			3,800,557	10	38,005,570	38,005,570	11.88%
14	Kurunegala Plantation Ltd	20,000,001			20,000,001	10	200,000,010	200,000,010	100.00%
15	Madulsima Plantation Ltd	3,805,652			3,805,652	10	38,056,520	38,056,520	13.12%
16	Malwalta Valley Plantation Ltd.	1			1	10	10	10	-
17	Maskeliya Plantation Ltd.	9,007			9,007	10	90,070	90,070	-
18	Maturata Plantation Ltd.	7,806,020			7,806,020	10	78,060,200	78,060,200	39.00%
19	Namunukula Plantation Ltd.	3,801,598			3,801,598	10	38,015,980	38,015,980	16.00%
20	Pussellawa Plantation Ltd.	7,817,123			7,817,123	10	78,171,230	78,171,230	32.70%
21	Talawakelle Plantations Limited	368			368	10	3,680	3,680	0.0015%
22	Udapussellawa Plantation Ltd	1			1	10	10	10	19.00%
23	Watawala Plantation Ltd.	16			16	10	160	160	-
	Total	98,698,285	23,284,644	5,821,162	116,161,767		986,982,850	1,161,617,670	

Note - 19.4 : Shareholdings in Companies in US Dollar denomination

S. No.	Name of Company	Number of Shares				Nominal Value per Share (Rs.)	Value of the Investment at cost as at 31.12.2007 Rs.	Value of the Investment at cost as at 31.12.2008 Rs.	Percentage of Share holdings by the Treasury
		As at 01.01.2008	Addition	Deductions	As at 31.12.2008				
		Nos.	Nos.	Nos.	Nos.				
1	Asian Reinsurance Corporation	954	26		980	US\$ 1000	103,117,860	111,749,400	-
2	Ceylon Shipping Agency	24,500			24,500	1 (Singapore)	1,829,415	1,951,670	99.00%
3	International Finance Corporation	1,003			1,003	US\$ 1000	108,414,270	114,372,090	-
	Total	26,457	26	-	26,483		213,361,545	228,073,160	

Exchange Rate as at 31.12.2007/ 29.12.2008

Currency	31.12.2007	Rate	29.12.2008
US Dollar	114.03		108.09
Singapore Dollar	79.66		74.67

Note - 19.5 : Shareholdings in Development Banks

S. No.	Name of Company	Number of Shares				Nominal Value per Share Rs.	Value of the Investment at cost as at 31.12.2007 Rs.	Value of the Investment at cost as at 31.12.2008 Rs.	Percentage of Share holdings by the Treasury
		As at 01.01.2008	Addition	Deductions	As at 31.12.2008				
		Nos.	Nos.	Nos.	Nos.				
1	Kandurata Development Bank	11,400,000			11,400,000	10	114,000,000	114,000,000	68.00%
2	Rajarata Development Bank	9,293,809			9,293,809	10	92,938,090	92,938,090	52.00%
3	Ruhunu Development Bank	11,400,000			11,400,000	10	114,000,000	114,000,000	68.00%
4	Sabaragamuwa Development Bank	11,400,000			11,400,000	10	114,000,000	114,000,000	76.00%
5	Uva Development Bank	6,400,000			6,400,000	10	64,000,000	64,000,000	52.00%
6	Wayamba Development Bank	12,540,000			12,540,000	10	125,400,000	125,400,000	60.00%
7	Lankaputhra Development Bank	14,999,994	6		15,000,000	100	1,499,999,400	1,500,000,000	
	Total	77,433,803	6	-	77,433,809		2,124,337,490	2,124,338,090	

S. No.	Summary Company Name	Numbers of Shares	31.12.2008 Nominal Value of Shares (Rs.)
1	General	1,849,099,052	27,159,985,430
2	Plantation	116,161,767	1,161,617,670
3	Shares in Dollar Value	26,483	228,073,160
4	Development Banks	77,433,809	2,124,338,090
	Number of Shares	2,042,721,111	30,674,014,350

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Summary

S No.	Company Name	31.12.2008	
		Numbers of Shares	Nominal Value of Shares (RS.)
1	General	1,849,099,052	27,159,985,430
2	Plantation	116,161,767	1,161,617,670
3	Shares in Dollar Value	26,483	228,073,160
4	Development Banks	77,433,809	2,124,338,090
	Number of Shares	2,042,721,111	30,674,014,350

Note - 19.1.1 (a) : Equity (Net worth) of the Commercial Public Corporations

S. No.	Name	As at 01.01.2008 Rs.	As at 01.01.2007 Rs.
1	Bank of Ceylon	21,050,000,000	17,890,000,000
2	Central Engineering Consultancy Bureau	325,000,000	348,290,000
3	Ceylon Ceramics Corporation	(31,000,000)	(141,943,000)
4	Ceylon Electricity Board	275,647,000,000	210,752,000,000
5	Ceylon Fisheries Corporation	920,000,000	213,527,000
6	Ceylon Petroleum Corporation	13,568,000,000	10,918,000,000
7	Development Lotteries Board	495,000,000	547,541,000
8	Housing Development Finance Corporation	1,789,000,000	1,800,480,000
9	National Films Corporation of Sri Lanka	284,000,000	260,580,000
10	National Institute of Business Management		451,267,000
11	National Livestock Development Board	473,000,000	485,628,000
12	National Lotteries Board	1,377,000,000	2,312,886,000
13	National Savings Bank	13,263,000,000	13,152,488,000
14	National Water Supply & Drainage Board	92,792,000,000	84,327,499,000
15	People's Bank	13,225,000,000	10,456,409,000
16	Sri Lanka Ayurvedic Drugs Corporation	62,000,000	135,466,000
17	Sri Lanka Broadcasting Corporation	374,000,000	345,367,000
18	Sri Lanka Cashew Corporation	149,000,000	134,774,000
19	Sri Lanka Cement Corporation	967,000,000	1,437,311,000
20	Sri Lanka Export Credit Insurance Corporation	857,000,000	800,359,000
21	Sri Lanka Handicraft Board	224,000,000	220,112,000
22	Sri Lanka Land Reclamation & Development Corporation	1,150,000,000	1,056,285,000
23	Sri Lanka Ports Authority	78,093,000,000	98,837,829,000
24	Sri Lanka Rupavahini Corporation	1,882,000,000	1,830,900,000
25	State Development & Construction Corporation	960,000,000	946,526,000
26	State Engineering Corporation of Sri Lanka	96,000,000	58,419,000
27	State Mortgage & Investment Bank	2,524,000,000	3,078,125,000
28	State Pharmaceuticals Corporation of Sri Lanka	2,047,000,000	1,744,855,000
29	State Pharmaceuticals Manufacturing Corporation	1,057,000,000	1,034,242,000
30	State Printing Corporation	114,000,000	113,205,000
31	State Timber Corporation	1,823,000,000	1,725,996,000
32	Urban Development Authority	588,000,000	998,757,000
	Total Equity (Net worth)	528,144,000,000	468,273,180,000
	(Only to satisfy disclosure requirement)		

Note - 19.1.1 (b) : Equity (Net worth) of the Central Bank

S. No.	Name	As at 01.01.2008 Rs.	As at 01.01.2007 Rs.
1	Central Bank of Sri Lanka	131,389,367,000	103,349,505,000
	Total (b) Equity (Net worth)	131,389,367,000	103,349,505,000
	Total (a+b) Equity (Net worth)	659,533,367,000	571,622,685,000
	(Only to satisfy disclosure requirement)		

310 Notes to Financial Statements *Contd.***Note - 20 : Advances From Central Bank Sri Lanka**

	2008 Rs.	Actual 2007 Rs.
Advance From CBSL - Monetary Law Act (8176)	76,307,700,000	60,679,200,000
	76,307,700,000	60,679,200,000

Note - 21 : Foreign loan Revolving Funds

Reimbursable Foreign Aid Revolving Fund (8760)	2,567,189,132	1,921,718,545
IDA Revolving Fund (8814)	5,866,200,245	5,043,358,646
ADB Special Dollar Revolving Fund Account (8919)	2,665,689,091	2,246,506,740
CBSL Special Dollar Account (International Fund for Agr. Dev. Revolving Fund) (8974)	544,317,773	387,181,676
IBRD Revolving Fund Account (8982)	1,570,884,206	1,570,884,206
CBSL Revolving Fund Account (Yen) - (9095)	1,191,870,338	377,062,246
CBSL Special Deutsche Mark Revolving Fund Account (9102)	119,778,843	467,564,816
Central Bank Special Nordic Revolving Fund (9111)	101,206,985	101,053,561
Special Rupee Revolving Fund Account (9120)	(476,985)	
Special Foreign Currency Revolving Fund Account (Euro Italy) (9121)	838,323,800	27,652,200
Special Rupee Revolving Fund Account (9122)	498,950,000	498,950,000
UNDP Revolving Fund Account (9124)	-	102,913,182
Special Foreign Currency Revolving Fund Account (9126)	801,386,124	303,468,890
Netherland & Sri Lanka Cultural Assistance Programme - Special Rupee Revolving Fund (9130)	(2,771,279)	-
Revolving Fund for purchase & Disposal of Famer Products (9131)	2,771,279	
	16,765,319,553	13,048,314,707

Note - 22 : Miscellaneous Funds

Public Service Provident Fund Account (8098)	2,121,943,630	2,012,010,870
Teachers' Widows & Orphans Pension Fund (8186)	222,970,280	177,158,979
Technical Development Fund (IDB) (8365)	99,887,858	99,887,858
	2,444,801,767	2,289,057,707

Note - 23 : Government Borrowings

	2008 Face Value	2008 Rs.	2007 Rs.
Treasury Bills (8085)	408,958,000,000	353,785,198,923	278,043,127,471
Treasury Bonds (9093)	1,299,624,800,000	1,074,173,565,244	905,370,152,939
Sub Total	1,708,582,800,000	1,427,958,764,167	1,183,413,280,410
Rupee Loans (8249)		130,008,584,797	131,508,584,797
Sri Lanka Development Bonds (9105)		145,685,710,264	83,550,801,375
Local Loans In Foreign Currency (9107)		7,841,801,500	47,750,860,549
CITI Bank loan (9112)		890,435,865	1,335,653,797
Sri Lanka Nations Building Bonds (9128)		493,972,071	493,972,071
Total Borrowings - Domestic		1,712,879,268,663	1,448,053,152,999
Foreign Loans (8343) - (Adverse Parity Variance recognised in 2008 was Rs. 114,600,535,290)		1,453,621,252,235	1,319,447,226,116
		3,166,500,520,898	2,767,500,379,115

Note - 24 : Deposits & other Liabilities

Treasury General Deposit Account (6000)	77,927,791,653	60,037,623,993
Treasury Deposit Account for District Secretaries (6003)	3,882,323,527	3,459,691,026
Public Service Mutual Guarantee Association (8013)	10,067,470	9,227,830
Director General Of Customs - Cess Recovery Account (8105)	300,000,000	300,000,000
Treasury Certificate of Deposits (8976)	-	-
	82,120,182,649	63,806,542,849

Notes to Financial Statements *Contd.* **311**

Note - 25 : Operating Accounts With Government Departments [Dr./ (Cr.)]

	2008 Rs.	Actual 2007 Rs.
General Manager - Railway Department (8003)	541,657,804	330,242,088
Director General - Dept. of Customs (8005)	(65,667,744)	(64,901,023)
Post Master General - Department Of Posts (8037)	(6,602,795)	(6,601,148)
Treasury Operations Department (8233) and (8583)	(2,175,216,132)	(3,529,906,299)
Treasury Operations Department (9092)	(56,117,961)	(48,037,818)
State Accounts Department (8584)	(196,257)	(206,428)
Provincial Councils (8657)	783,673	729,289
Collection Of GST (9098)	38,940,420	38,940,420
GST Refund Account (9099)	(986,855)	(986,855)
Non Operating Accounts (9100)	20,712,460	20,712,460
Chief Accountant - Kerala (Foreign Pension) (8190)	-	-
	(1,702,693,387)	(3,260,015,313)

Note - 26 : Sundry Accounts [Dr./ (Cr.)]

Cheque Returned Account (8315)	6,267,481	1,233,070
Sinking Fund Investment Account (8574)	46,492,720	46,492,720
Sinking Fund Account (8575)	(46,492,720)	(46,492,720)
Parity Variance Account on Crown Agent Account (8029)	(16,853,580)	(22,021,293)
Foreign Aid Expenditure Account (8301)	4,047,815,400	581,997,069
Foreign Aid Grant Account (8314)	-	(49,819,220)
Investment Account for National Housing Bonds (8859)	1,284,200	1,284,200
	4,038,513,502	512,673,826

Note - 27 : Statement of Change in Equity**Opening Balance of the Consolidated Fund as at 1st January**

Prior years' Adjustments	(140,169,685,087)	(113,034,062,956)
		(4,102,380,780)

Add Receipts to the Consolidated Fund

Total Cash Provided from Operations	663,599,087,830	571,564,544,216
Total Cash Provided from Investing Activities	13,645,835,763	12,222,502,188
Total Cash Provided from Financing Activities	678,125,966,801	586,846,583,684
Total Cash Receipts (a)	1,355,370,890,395	1,170,633,630,088

Less Total Payments of the Consolidated Fund

Total Cash Disbursement to Operations	(736,472,605,258)	(614,762,461,350)
Total Cash Disbursement to Investing Activities	(297,173,279,278)	(271,190,996,676)
Total Cash Disbursement to Repayment of Debt	(379,204,309,354)	(307,713,413,413)
Total Cash Payments (b)	(1,412,850,193,890)	(1,193,666,871,439)

Net Cash Receipts (a) - (b)

	(57,479,303,495)	(23,033,241,351)
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Closing Balance of the Consolidated Fund as at 31st December (Dr.)

	(197,648,988,582)	(140,169,685,087)
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Note - 28 : Total Investment in Physical Assets and Accumulated Net Revenue Deficit

Accumulated Revenue Deficit (2005-2008)	277,086,248,871	204,212,731,443
Total Accumulated Value of Physical Assets at cost, with Accumulated Net Revenue Deficit Prior to 2004	2,522,935,397,481	2,233,631,738,783
	2,800,021,646,352	2,437,844,470,226

312 Notes to Financial Statements *Contd.*

Explanatory Note on Note- 28

Accumulated Total Investment and Accumulated Revenue Deficit

There are difficulties for making a presentation of the composition of the figure in the Statement of Financial Position by giving the accumulated revenue deficit prior to 2004 separately as that figure could not be ascertained for this newly designed formats, introduced in 2006 in respect of 2005 as relevant information had not been compiled.

Total investments in physical assets includes the accumulated value of property, plant and equipment held by Ministries, Departments and Statutory Boards, at cost.

Among other physical assets held in the form of property, plant and equipment, major items included are the accumulated value of physical assets of the infrastructure facilities provided by the State over the years in Transport, Irrigation, Health, Education etc., at cost.

Therefore, there are difficulties associated in presenting the detailed itemized composition of such assets held by or prevailed under the supervision of the relevant Ministries, Departments and other Institutions as a detailed system of documentation and information had not been maintaining to itemize the total value of the such assets, in the Cash Based Accounting System adopted.

Total accumulated depreciation on those assets is also not calculated in the Cash Based Accounting System.

However for the fulfillment of requirements on the accountability on those physical assets in property, plant and equipment held by Ministries and Departments, specially in respect of movable physical assets, Annual Verification Procedure is followed for reporting the position to the Auditor General in terms of provisions in Section 3 of Chapter XIII of Government Financial Regulations, for securitization.

Note - 29 : Statement of Contingent Liabilities

(A) STATEMENT OF BANK GUARANTEES ISSUED BY THE TREASURY UP TO 31.12.2008.

S. NO:	NAME OF INSTITUTION	NAME OF BANK OR INSTITUTION	GUARANTEE	DATE OF ISSUE	DATE OF EXPIRY	CAPITAL
			AMOUNT (Rs. Million)			OUTSTANDING (Rs. in Million)
1	Merchant Bank of Sri Lanka	Employee's trust Fund Board	430.00	2008.01.10	2010.01.10	430.00
2	Lakdanavi Ltd. West Coast Power (Pvt.) Ltd.	Employee's trust Fund Board	2,992.00	2007.03.01	2022.03.31	2,992.00
3	Merchant Bank of Sri Lanka	National Saving Bank	400.00	2002.12.27	2009.12.05	400.00
4	Urban Development Authority	National Saving Bank	500.00	1999.08.17	2010.07.01	87.50
5	Lakdanavi Ltd. West Coast Power (Pvt) Ltd.	National Saving Bank	2,992.00	2007.02.22	2022.03.31	2,992.00
6	Co-operative Whole Sale Establishment	People's Bank	407.10	2005.02.02	2009.07.31	207.10
7	Sri Lanka Consumer Co-operative Societies Federation Ltd.	People's Bank	50.00	2006.07.31	2009.07.31	50.00
8	Ceylon Petroleum Coporation	People's Bank	17,000.00	1995.04.26	2001.12.31	17,000.00
9	Grayline International (Pvt) Ltd.	People's Bank	351.00	1994.08.11	1996.08.08	351.00
10	Sri Lanka Consumer Co-operative Societies Federation Ltd.	People's Bank	50.00	2007.12.03	2009.03.30	50.00
11	Sri Lanka Co-operative Marketing Federation	People's Bank	113.14	2007.12.06	2008.02.29	113.14
12	Sri Lanka Co-operative Marketing Federation	People's Bank	305.48	2007.12.06	2008.02.29	305.48
13	Overseas Reality Ceylon (Pvt) Ltd.	SR &CC & Terriorism Fund	500.00	2000.02.14	2007.12.31	445.83
14	Galadari Hotel Lanka Ltd.	SR &CC & Terriorism Fund	350.00	2000.02.14	2007.12.31	350.00
15	Hospitality International (Pvt) Ltd.	SR &CC & Terriorism Fund	7.03	2000.02.14	2007.12.31	4.22
16	Galadari Hotel Lanka Ltd.	SR &CC & Terriorism Fund	45.83	2000.02.14	2007.12.31	45.83
17	Hotel Developer's Lanka Ltd.	SR &CC & Terriorism Fund	236.25	2000.02.14	2007.12.31	148.75

A) STATEMENT OF BANK GUARANTEES ISSUED BY THE TREASURY UP TO 31.12.2008. (Contd.)

S. NO:	NAME OF INSTITUTION	NAME OF BANK OR INSTITUTION	GUARANTEE	DATE OF ISSUE	DATE OF EXPIRY	CAPITAL
			AMOUNT (Rs. Million)			OUTSTANDING (Rs. in Million)
18	Mihin Lanka (Pvt) Ltd.	Bank of Ceylon	250.00	2007.04.16	2009.10.16	248.52
19	Ipologama Housing Project	Bank of Ceylon	2,268.00	2007.07.27	2009.07.27	898.68
20	West Coast Power (Pvt) Ltd.	Hongkong & Shanghai Banking Co.	11,060.00	2007.06.28	2022.06.28	11,060.00
21	State Trading (Co-operative Whole) Company Ltd.	People's Bank	113.14	2008.03.13	2009.03.11	90.18
22	Ceylon Electricity Board	People's Bank	4,116.00	2008.05.07	2023.03.03	4,116.00
23	Ceylon Electricity Board	People's Bank	1,675.19	2008.06.11	2023.10.09	1,675.19
24	Ceylon Petroleum Corporation	People's Bank	79,198.00	2008.09.09	2009.12.31	63,675.19
25	Ceylon Electricity Board	People's Bank	2,572.44	2008.09.29	2011.12.31	2,572.44
Total			127,982.60			110,309.05

(B) STATEMENT OF LETTERS OF COMFORT ISSUED TO LOCAL BANKS AND THE LIABILITY AS AT 31.12.2008

S. No.	Name of Institution	Name of Bank	Currency	Total Value of Letters of Comfort Issued	Date of Issue	Liability as at 31.12.2008 (Rs. in Million)
1	Sri Lanka Air Force	People's Bank	USD	19.21	21.12.2004	1,141.35
2	Sri Lanka Air Force	People's Bank	USD	10.33	08.07.2005	226.59
3	Sri Lanka Air Force	People's Bank	USD	5.15	11.07.2005	251.39
4	Sri Lanka Air Force	People's Bank	USD	13.98	17.08.2006	520.49
5	Sri Lanka Air Force	People's Bank	USD	1.18	28.12.2006	38.87
6	Sri Lanka Air Force	People's Bank	USD	2.10	17.09.2007	193.56
7	Sri Lanka Air Force	People's Bank	USD	46.86	19.09.2007	3,589.15
8	Sri Lanka Air Force	People's Bank	USD	0.90	11.06.2008	103.62
9	Sri Lanka Air Force	People's Bank	USD	5.58	30.06.2008	641.21
10	Sri Lanka Air Force	People's Bank	USD	8.52	24.09.2008	979.41
11	Sri Lanka Air Force	People's Bank	USD	8.50	24.12.2008	977.50
12	Sri Lanka Navy	Bank of Ceylon	USD	29.50	10.05.2005	1,594.48
13	Sri Lanka Navy	Bank of Ceylon	USD	6.24	18.10.2006	356.04
14	Sri Lanka Navy	Bank of Ceylon	USD	2.81	20.04.2007	157.48
15	Sri Lanka Navy	Bank of Ceylon	Euro	3.62	06.06.2007	28.40
16	Sri Lanka Navy	Bank of Ceylon	USD	0.72	06.06.2007	4.14
17	Sri Lanka Navy	Bank of Ceylon	USD	4.84	14.06.2007	389.91
18	Sri Lanka Navy	Bank of Ceylon	USD	2.55	18.03.2008	293.80
19	Sri Lanka Navy	Bank of Ceylon	USD	3.05	18.03.2008	350.49
20	Sri Lanka Navy	Bank of Ceylon	USD	1.23	13.10.2008	141.59
21	Sri Lanka Navy	Bank of Ceylon	USD	46.77	11.12.2008	5,378.55
22	Sri Lanka Army	Bank of Ceylon	USD	41.84	20.06.2007	3,866.46
23	Sri Lanka Army	Bank of Ceylon	USD	45.04	31.07.2007	2,838.95
24	Sri Lanka Army	Bank of Ceylon	USD	5.51	22.08.2008	633.30
25	Sri Lanka Army	Bank of Ceylon	USD	2.05	18.11.2008	235.98
Total				318.07		24,932.70

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Non-current Assets Acquired since 01.01.2004

Name of Institution	2004			2005			2006			2007			2008	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
H. E. the President	-	-	30,910	-	-	1,290,899	-	-	1,332,904	1,1095	-	1,332,904	903,943	2,236,847
Office of the Prime Minister	335	-	18,500	1,663	-	39,443	-	-	56,615	-	-	56,615	4,000	60,615
Office of the Cabinet of Ministers	-	-	4,784	-	-	3,490	-	-	8,254	-	-	8,254	6,258	14,512
Parliament	6,800	-	20,935	-	-	-	-	-	27,735	-	-	27,735	56,300	84,035
Office of the Leader of the House of Parliament	78	-	-	-	-	7,458	-	-	13,036	-	-	13,036	-	13,036
Office of the Chief Government whip of Parliament	-	-	7,150	-	-	263	-	-	12,913	-	-	12,913	-	12,913
Office of the Leader of the Opposition of Parliament	80	-	7,432	-	-	-	-	-	8,012	-	-	8,012	-	8,012
Office of the Honer. President(Hon D.B.Wijethunge)	-	-	-	-	-	-	-	-	12,000	-	-	12,000	-	12,000
Public Service Commission	-	-	-	-	-	8,990	-	-	8,990	-	-	8,990	7,170	16,160
Judicial Service Commission	-	-	100	-	-	-	-	-	1,368	-	-	1,368	661	2,509
National Police Commission	-	-	-	-	-	249	-	-	5,560	-	-	5,560	-	5,560
Department of Elections	-	-	-	-	-	-	-	-	23,767	4,026	-	23,767	9,911	33,678
Auditor General	-	-	2,151	-	-	-	-	-	2,543	-	-	2,543	-	2,543
Office of the Finance Commission	-	-	4,850	-	-	-	-	-	7,700	-	-	7,700	-	7,700
National Education Commission	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ministry of Religious Affairs	-	-	-	-	-	5,500	-	-	24,545	-	-	24,545	-	24,545
Ministry of Finance & Planning	4,100	-	38,151	-	-	11,966	-	-	113,815	59,598	-	113,815	15,107	128,922
Ministry of Defence Public Security Law & Order	495	-	5,336	-	-	47,905	150	-	454,798	401,212	-	454,798	2,086,792	2,541,590
Ministry of Plan Implementation & Monitoring	-	-	-	-	-	48,815	-	-	69,650	11,500	-	69,650	-	69,650
Ministry of Nation Building & Estate Infrastructure Development	-	-	-	-	-	-	-	-	47,035	-	-	47,035	12,058	59,093
Ministry of Disaster Management & Human Rights	-	-	-	-	-	18,595	-	-	20,172	-	-	20,172	-	20,172
Ministry of Tourism	1,545	-	5,300	2,350	-	9,956	-	-	56,648	1,600	-	56,648	89	56,737
Ministry of Post & Telecommunications	-	-	5,800	-	-	14,025	-	-	52,725	32,900	-	52,725	-	52,725
Ministry of Justice & Law Reforms	16,717	-	-	-	-	16,748	-	-	34,663	1,198	-	34,663	34,652	69,315
Ministry of Health Care & Nutrition	-	-	-	-	-	-	-	-	18,296	-	-	18,296	612,097	630,393
Ministry of Foreign Affairs	-	-	25,986	-	-	125,205	-	-	281,463	126,519	37,53	281,463	1,667,731	1,949,194
Ministry of Ports & Aviation	-	-	-	-	-	9,446	-	-	9,446	-	-	9,446	12,812	22,258
Ministry of Transport	-	-	-	-	-	4,500	-	-	20,213	15,713	-	20,213	17,000	37,213
Ministry of Petroleum & Petroleum Resources Development	-	-	-	-	-	10,553	-	-	23,303	12,750	-	23,303	10,878	34,181
Ministry of Trade Commerce Consumer Affairs & Marketing Development	-	-	8,450	-	-	8,961	-	-	30,351	12,940	-	30,351	-	30,351
Ministry of Highways and Road Development	-	-	-	-	-	5,432	-	-	67,087	61,655	-	67,087	-	67,087
Ministry of Agriculture Development and Agrarian services	15,047	-	3,227	-	-	22,600	3,778	-	123,672	86,576	-	123,672	60,042	183,714
Ministry of Power & Energy	1,682	-	15,045	-	-	-	-	-	16,727	-	-	16,727	-	16,727
Ministry of Child Development & Women's Empowerment	-	-	3,475	-	-	12,850	-	-	26,175	9,850	-	26,175	-	26,175
Ministry of Public Administration & Home Affairs	7,923	-	561,832	-	-	461,632	-	-	1,031,387	-	-	1,031,387	4,110	1,035,497
Ministry of Mass Media & information	-	-	3,518	90	-	10,279	-	-	52,662	38,955	-	52,662	4,556	57,218
Ministry of Urban Development & Water Supply	-	-	-	-	-	24,333	-	-	24,333	-	-	24,333	-	24,333
Ministry of Social Service & Social Welfare	-	-	-	-	-	28,149	-	-	33,040	4,891	-	33,040	-	33,040
Ministry of Housing and Common Amnities	-	-	174,206	-	-	-	-	-	193,196	18,990	-	193,196	8,000	201,196
Ministry of Education	4,386	-	89,728	-	-	16,540	-	-	177,597	66,943	-	177,597	45,158	222,755
Ministry of Labour Relations & Manpower	-	-	19,050	-	-	11,360	-	-	47,090	16,680	-	47,090	-	47,090
Ministry of Rural Industries & Self Employment Promotion	-	-	-	-	-	-	-	-	26,036	-	-	26,036	10,749	36,785
Ministry of Vocational & Technical Training	241	-	-	-	-	7,490	-	-	31,700	-	-	31,700	-	31,700

Non-current Assets Acquired since 01.01.2004 *Contd.*

Name of Institution	2004			2005			2006			2007			2008	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Local Government & Provincial Councils	-	-	-	-	-	8,131	-	-	8,131	-	-	8,131	72905	81,036
Ministry of Enterprise Development & Investment Promotion	-	-	-	5,600	5,600	-	-	-	25,700	-	-	25,700	19900	45,600
Ministry of Science & Technology	-	-	-	-	-	5,500	-	-	29,206	-	-	34,706	-	34,706
Ministry of Constitutional Affairs & National Integration	-	-	-	9,000	-	-	-	-	33,434	-	-	42,434	-	42,434
Ministry of Plantation Industries	-	-	-	-	-	35,579	-	-	79,572	-	-	115,151	-	115,151
Ministry of Sports and Public Recreation	-	-	-	-	-	-	-	-	-	-	-	4,350	-	4,350
Ministry of Indigenous Medicine	-	-	-	9,242	-	-	-	-	10,975	-	-	35,217	-	35,217
Ministry of Fisheries & Aquatic Resources	2,625	-	-	-	-	8,151	-	-	11,088	-	-	21,864	38361	60,225
Ministry of Livestock Development	-	-	-	-	-	3,390	-	-	42,770	-	-	46,160	12061	58,221
Ministry of Cultural Affairs	-	-	-	20,795	-	-	-	-	25,416	-	-	59,035	9000	68,035
Ministry of Parliamentary Affairs	13,425	-	-	-	-	-	-	-	17,502	-	-	30,927	-	30,927
Ministry of Re-Settlement & Disaster Relief Services	-	-	-	-	-	16,638	-	-	22,725	-	-	39,363	-	39,363
Ministry of Industrial Development	2,667	-	-	-	-	12,871	-	-	29,700	7,900	-	53,138	13590	66,728
Ministry of Foreign Employment Promotion & welfare	-	-	-	-	-	14,515	-	-	-	-	-	14,515	5375	19,890
Ministry of Irrigation & water management	4,758	-	-	-	-	-	-	-	7,535	-	-	12,293	2291	14,584
Ministry of Land and Land Development	-	-	-	-	-	-	-	-	-	-	-	-	94	94
Ministry of Youth Affairs	-	-	-	1,912	-	-	-	-	12,990	-	-	22,402	-	22,402
Ministry of Environmental & Natural Resources	6,550	-	-	17,676	-	-	-	-	7,500	-	-	51,767	-	51,767
Ministry of Youth Empowerment & Socio Economic Development	-	-	-	-	-	-	-	-	20,000	41	-	41	3129	9,540
Ministry of Community Development & Social Inequity Eradication	-	-	-	-	-	-	-	-	3,231	3,180	-	6,411	-	13,950
Ministry of Water Supply & Drainage	-	-	-	-	-	-	-	-	13,950	-	-	13,950	-	13,950
Ministry of export Development and International Trade	-	-	-	-	-	-	-	-	29,130	3,144	-	32,274	-	32,274
Ministry of Construction & Engineering Services	-	-	-	-	-	-	-	-	-	-	-	-	68	68
Ministry of Higher Education	-	-	-	-	-	-	-	-	13,300	-	-	13,300	-	13,300
Department of Muslim Religious & Cultural Affairs	-	-	-	2,775	-	-	-	-	14,795	-	-	14,795	-	14,795
Department of Archaeology	5,573	-	-	-	-	4,200	-	-	765	-	-	10,538	-	10,538
Department of National Museums	-	-	-	3,475	-	-	-	-	-	-	-	3,475	-	3,475
Department of National Archives	2,275	-	-	-	-	-	-	-	-	-	-	2,275	-	2,275
Department of Information	-	-	-	-	-	79	-	-	9,300	-	-	9,379	-	9,379
Department of Government Printer	-	-	-	-	-	-	-	-	20,518	-	-	20,518	-	20,518
Department of Examinations	-	-	-	2,875	-	-	-	-	5,922	-	-	8,797	-	8,797
Department of Technical Education & Training	13,425	-	-	-	-	75,205	-	-	3,500	-	-	78,705	-	78,705
Department of Probation & Child Care Services	-	-	-	-	-	-	-	-	3,877	-	-	3,877	-	3,877
Department of Sports development	-	-	-	-	-	-	-	-	-	-	-	2,828	-	2,828
Department of Ayurveda	-	-	-	-	-	789	-	-	5,795	-	-	6,584	-	6,584
Department of Labour	-	-	-	48	-	-	-	-	20,740	-	-	20,788	-	20,788
Sri Lanka Army	-	-	-	409,651	-	-	-	-	563,473	-	-	1,488,196	740000	2,208,196
Sri Lanka Navy	38,152	-	-	-	-	214,800	1,100	-	509,200	-	-	761,052	176903	937,955
Sri Lanka Air Force	-	-	-	215,579	13,639	199,655	-	-	121,911	-	-	523,506	194580	718,086
Department of Police	-	-	-	-	-	479,644	-	-	212,675	-	-	704,554	1763248	2,467,802
Department of Immigration & Emigration	-	-	-	-	-	10,410	-	-	-	-	-	10,410	-	10,410
Department of registration of Persons	123	-	-	-	-	12,100	-	-	1,935	-	-	14,158	-	14,158
Courts Administration	-	-	-	-	-	1,321	-	-	15,855	-	-	17,176	169620	186,796
Department of Attorney General	-	-	-	-	-	-	-	-	90,400	-	-	90,400	124726	215,126
Department of Legle Draftsman	-	-	-	13,770	-	-	-	-	13,850	-	-	27,620	-	27,620

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Non-current Assets Acquired since 01.01.2004 *Contd.*

Name of Institution	2004			2005			2006			2007			2008	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Department of Prisons	17,813	-	2,120	28	25,592	-	13,307	-	58,804	2,122	-	79,926	-	13,137
Department of Government Analyst	-	-	3,441	-	18,475	-	201,432	-	219,907	-	-	219,907	-	-
Registrar of Supreme Court	-	-	-	-	1,575	-	5,350	-	7,856	-	-	7,856	-	-
Department of Law Communication	-	-	3,800	1,294	-	-	11,400	-	11,400	-	-	11,400	-	-
Department of National Planning	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Department of Fiscal Policy	-	-	-	-	7,973	-	3,625	-	7,100	-	-	7,973	-	-
Department of External Resources	-	-	-	-	3,475	-	12,200	-	12,200	-	-	12,200	-	-
Department of National Budget	-	-	-	-	-	-	2,600	-	2,600	-	-	2,600	-	-
Department of Public Enterprise	-	-	-	-	-	-	2,800	-	2,800	-	-	2,800	-	-
Department of Management Services	-	-	-	-	-	-	8,400	-	8,400	-	-	8,400	-	-
Department of Development Finance	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Department of Trade Tariff & Investment Policy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Department of Public Finance	-	-	-	-	3,500	-	-	-	3,500	5,865	-	9,365	-	-
Department of Inland Revenue	4,999	-	45,609	-	9,900	-	30,167	-	90,675	-	-	90,675	-	-
Department of Customs	-	-	18,562	-	-	-	3,904,780	-	3,923,342	1,554,79	-	4,078,821	-	-
Department of Excise	-	-	-	-	14,407	-	17,337	-	31,744	-	-	31,744	-	-
Department of Treasury Operations	-	-	-	-	-	-	12,818	-	12,818	-	-	12,818	-	-
Department of State Accounts	-	-	-	-	-	-	6,500	-	6,500	-	-	6,500	-	-
Department of Valuation	-	-	-	-	-	-	7,955	-	7,955	-	-	7,955	-	-
Department of Census & Statistics	3,446	-	3,428	-	23,284	1,026	19,511	-	48,643	-	-	48,643	-	-
Department of Pensions	-	-	-	-	3,360	-	10,845	-	14,205	-	-	14,205	-	-
District Secretariat - Colombo	6	-	-	-	-	-	-	-	6	-	-	6	-	-
District Secretariat - Mataira	-	-	17,070	-	-	-	-	-	17,070	-	-	17,070	-	-
District Secretariat - Jaffna	-	-	5,390	-	-	-	-	-	5,390	-	-	5,390	-	-
Department of Agrarian Development	-	-	6,500	-	-	-	-	-	6,500	533	-	7,033	-	-
Department of Irrigation	766	272	-	-	180,749	-	68,207	-	249,450	-	-	249,450	-	-
Department of Forests	3,350	-	-	-	-	-	-	-	3,350	1,072	-	4,422	-	-
Department of Wildlife Conservation	-	-	-	-	-	-	2,643	-	2,643	208,65	-	23,508	-	-
Department of Agriculture	-	-	-	-	-	-	18,850	-	18,850	-	-	18,850	-	-
Department of Land Commissioner	-	-	7,150	-	-	-	-	-	7,150	-	-	7,150	-	-
Department of Survey	-	-	-	-	-	-	11,400	-	11,400	-	-	11,400	-	-
Department of Fisheries and Aquatic Resources	-	-	-	-	-	-	1,521	-	1,521	100,96	-	11,617	-	-
Department of Coast Conservation	181	-	-	-	11,873	-	-	-	12,054	-	-	12,054	-	-
Department of Animal Production & Health	-	-	-	-	7,500	-	-	-	7,500	-	-	7,500	-	-
Department of Rubber Development	-	-	-	-	-	-	2,364	1,098	3,462	-	-	3,462	-	-
Department of National Zoological Garden	-	-	359	-	-	-	6,295	-	6,654	8,225	-	14,879	-	-
Department of Commerce	-	-	-	-	-	-	3,410	-	3,410	-	-	3,410	-	-
Department of Import and Export Control	-	-	-	-	89	-	4,600	-	4,689	3,895	-	8,584	-	-
Department of Measurement Units, Standards & Services	-	-	2,256	-	-	-	-	-	2,256	-	-	2,256	-	-
Department of Food Commissioner	-	-	-	-	-	-	-	-	-	2,476	-	2,476	-	-
Co-operative Employees Commission	-	-	-	-	2,495	-	-	-	2,502	-	-	2,502	-	-
Department of Meteorology	-	-	3,970	-	-	-	-	-	3,970	-	-	3,970	-	-
Department of Sri Lanka Railways	-	-	5,285	-	-	-	3,619,360	-	3,624,645	494,9139	-	8,573,784	-	-
Department of Motor Traffic	-	-	3,227	-	2,000	-	302	-	5,529	-	-	5,529	-	-
Department of Posts	2,095	-	31,130	-	89,987	-	62	-	123,274	28	-	123,302	-	-

Non-current Assets Acquired since 01.01.2004 *Contd.*

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Name of Institution	2004		2005		2006		2007		2008	
	Additions	Disposal	Additions	Disposal	Additions	Disposal	Additions	Disposal	Balance	Balance
Department of Buildings	-	-	4,950	-	350	-	-	-	5,300	5,300
Government Factory	-	-	-	-	4,000	-	-	-	4,000	4,000
Department of National Physical Planning	-	-	-	-	3,630	-	-	-	3,630	3,630
Sabaragamuwa Provincial Council	-	-	-	-	-	-	7,500	-	7,500	7,500
Department of Civil Security	-	-	-	-	-	-	34,065	-	34,065	81,960
Department of National Botanical Gardens	-	-	-	-	-	-	-	-	3,700	3,700
Ministry of Reconstruction & Development	-	-	-	-	22,500	-	-	-	22,500	22,500
Ministry of Mahaweli & River Basin Development & Rajarata Development	-	-	9,998	-	-	-	-	-	9,998	9,998
Ministry of Eastern Development & Muslim Religious Affairs	3,275	-	-	-	-	-	-	-	3,275	3,275
Ministry of Home Affairs Provincial Councils & Local Government	226	-	3,107	-	-	-	-	-	3,107	3,107
Ministry of Interior	-	-	-	-	-	-	-	-	226	226
Ministry of Public Security Law & Order	-	-	4,321	-	-	-	-	-	4,321	4,321
Ministry of Regional Development	-	-	706	-	-	-	7,900	-	8,606	8,606
Ministry of Coconut Development	-	-	-	-	12,975	-	4,750	-	17,725	17,725
Ministry of Small & Rural Industries	-	-	4,753	-	3,099	-	-	-	7,852	7,852
Ministry of Rural Economic Development	-	-	-	-	18,368	-	-	-	18,368	18,368
Ministry of New Railroad Development	-	-	-	-	10,900	-	549	-	11,449	11,449
Ministry of Skills Development & Public Enterprise Reforms	-	-	-	-	17,590	-	-	-	17,590	17,590
Ministry of Relief, Rehabilitation & Reconciliation	24,675	-	122,094	-	-	-	-	-	146,769	146,769
Ministry of Promotion of Botanical & Zoological Gardens	-	-	-	-	16,592	-	3,492	-	20,084	20,084
Ministry of Textile Industrial Development	-	-	-	-	7,487	-	-	-	7,487	7,487
Total	196,409	272	2,074,086	24,664	4,497,294	6,054	11,303,732	46,692	18,087,223	14,179,541
										32,266,764

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Non-current Assets Acquired since 01.01.2004 *Contd.*

Name of Institution	2004			2005			2006			2007			2008	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
H.E.the President	1,723	-	8,803	-	-	127,985	-	-	1,189,607	-	-	1,328,118	97,917	1,426,035
Office of the Prime Minister	1,807	-	8,092	3,049	-	939	39	4,947	127	-	12,824	4,924	17,748	
Office of the Cabinet of Ministers	45	-	32	-	-	230	-	477	-	-	784	19	803	
Parliament	3,313	-	3,518	-	-	4,995	-	5,738	-	-	17,564	9,826	27,390	
Office of the Leader of the House of Parliament	117	-	199	-	-	200	-	107	-	-	623	124	747	
Office of the Chief Government whip of Parliament	234	-	391	-	-	113	-	360	-	-	1,098	-	1,098	
Office of the Leader of the Opposition of Parliament	-	-	382	-	-	100	-	80	-	-	572	55	627	
Office of the Honer President(Hon.D.B.Wijethunge)	98,976	-	38	-	-	30	49	-	-	-	98,995	-	98,995	
Office of the Former Prime Minister (Hon.C.B.Kumaratunge)	-	-	-	-	-	1,400	-	48	-	-	1,448	-	1,448	
The Constitutional Council	42	-	-	-	-	479	-	48	-	-	569	17	586	
Public Service Commission	11,394	-	594	-	-	414	-	460	-	-	12,862	1,905	14,767	
Judicial Service Commission	476	-	102	-	-	873	-	336	-	-	1,787	23	1,810	
National Police Commission	500	-	3,468	-	-	949	-	2,082	-	-	6,999	1,393	8,392	
Administration Appeals Tribunal	144	-	-	-	-	61	-	45	-	-	250	47	297	
Commission to Investigate Allegations of Bribery or Corruption	497	-	699	-	-	696	-	494	-	-	2,386	186	2,572	
Department of Elections	-	-	-	-	-	985	-	2,030	313	-	3,328	1,402	4,730	
Auditor General	1,966	-	3,386	-	-	2,489	-	1,194	-	-	9,035	4,618	13,653	
Office of the Parliamentary Commissioner for Administration	87	-	73	-	-	55	-	180	68	1	229	122	351	
Office of the Finance Commission	194	-	565	-	-	486	-	71	-	-	994	41	1,035	
National Education Commission	424	-	451	-	-	486	-	964	-	-	1,432	313	1,745	
Ministry of Religious Affairs	50	-	170	-	-	2,394	-	964	-	-	3,578	600	4,178	
Ministry of Finance & Planning	2,225	-	5,141	-	-	18,804	10,082	4,984	-	-	21,072	5,138	26,210	
Ministry of Defence Public Security Law & Order	1,876	-	7,236	-	-	25,902	36	36,913	-	-	71,891	74,647	146,538	
Ministry of Plan Implementation & Monitoring	-	-	-	-	-	9,056	-	2,605	-	-	11,661	2,242	13,903	
Ministry of Nation Building & Estate Infrastructure Development	-	-	-	-	-	7,628	-	1,341	-	-	8,969	1,764	10,733	
Ministry of Disaster Management & Human Rights	271	-	745	87	-	497	58	1,358	65	-	2,791	596	3,387	
Ministry of Tourism	-	-	754	-	-	1,083	-	1,904	-	-	3,741	1,179	4,920	
Ministry of Post & Telecommunications	4,937	-	120,148	-	-	196,326	-	70,746	-	-	392,157	3,265	395,422	
Ministry of Justice & Law Reforms	-	-	-	-	-	-	-	68,310	380	-	68,690	143,555	212,245	
Ministry of Health Care Nutrition	1,921	-	12,724	-	-	63,114	294	76,591	23	-	154,079	65,552	219,631	
Ministry of Foreign Affairs	1,627	-	2,140	-	-	1,533	-	439	-	-	5,739	1,419	7,158	
Ministry of Port & Aviation	23,001	-	-	-	-	1,497	-	877	-	-	25,375	1,336	26,711	
Ministry of Petroleum & Petroleum Resources Development	-	-	-	-	-	3,012	-	3,585	-	-	6,597	2,044	8,641	
Ministry of Trade Commerce Consumer Affairs & Marketing Development	161	-	271	-	-	1,849	-	444	-	-	2,725	777	3,502	
Ministry of Highways and Road Development	690	-	1,150	-	-	2,424	-	719	-	-	4,933	8,468	13,451	
Ministry Agricultural Development and Agrarian Savicers	2,484	18	6,150	-	-	6,928	-	5,019	-	-	20,563	2,621	23,184	
Ministry of Power & Energy	227	-	128	-	-	1,936	-	2,203	-	-	4,494	6,243	10,737	
Ministry of Child Development & Women's Empowerment	62	-	5,256	-	-	4,156	-	5,994	-	-	15,468	3,154	18,622	
Ministry of Public Administration & Home Affairs	3,659	-	13,164	-	-	7,319	-	12,259	-	-	36,401	8,519	44,920	
Ministry of Mass Media & Information	-	-	1,783	-	-	3,000	-	1,982	-	-	6,765	462	7,227	
Ministry of Urban development and sacred area	279	-	771	-	-	1,535	-	857	-	-	3,442	887	4,329	
Ministry of Social Service & Social Welfare	1,177	-	4,410	-	-	633	-	2,211	-	-	8,431	1,703	10,134	

Non-current Assets Acquired since 01.01.2004 *Contd.*

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Name of Institution	2004			2005			2006			2007			2008	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Education	20,709	-	1,484,518	-	-	1,402,286	-	-	1,435,051	-	-	4,342,564	795,379	5,137,943
Ministry of Labour Relations & Foreign Employment	-	-	3,158	89	-	4,149	183	-	2,733	150	-	9,918	1,677	11,595
Ministry of Rural Industries & Self Employment Promotion	-	-	-	-	-	-	-	-	-	-	-	765	830	1,595
Ministry of Vocational & Technical Training	5,057	-	349,243	-	-	300	-	-	1,617	-	-	356,217	5,313	361,530
Ministry of Local Government & Provincial Councils	357	-	-	-	-	1,777	-	-	2,085	-	-	4,219	1,578	5,797
Ministry of Enterprise Development & Investment Promotion	-	-	2,276	-	-	5,361	-	-	2,965	-	-	10,602	1,759	12,361
Ministry of Science & Technology	3,265	-	4,265	-	-	6,216	-	-	11,626	-	-	25,372	17,374	42,746
Ministry of Constitutional Affairs & National Intergration	724	-	754	-	-	64	-	-	6,646	-	-	8,188	1,188	9,376
Ministry of Plantation Industries	2,455	-	1,671	-	-	1,495	-	-	1,955	-	-	7,576	695	8,271
Ministry of Sports and Public Recreation	-	-	-	-	-	-	-	-	-	-	-	-	2,375	2,375
Ministry of Indigenous Medicine	-	-	719	-	-	571	-	-	1,586	-	-	2,876	705	3,581
Ministry of Fisheries & Aquatic Resources	1,523	-	5,683	-	-	5,567	-	-	45,230	-	-	58,003	28,193	86,196
Ministry of Livestock Development	-	-	-	-	-	1,016	-	-	2,182	-	-	3,198	1,288	4,486
Ministry of Cultural Affairs	-	-	19,745	-	-	20,721	-	-	1,998	-	-	42,464	20,352	62,816
Ministry of Parliamentary Affairs	532	-	-	-	-	175	-	-	1,127	-	-	1,834	182	2,016
Ministry of Re-Settlement & Disaster relief services	-	-	-	-	-	2,217	-	-	3,550	-	-	5,767	1,635	7,402
Ministry of Industrial Development	446	-	-	-	-	1,668	63	-	1,949	-	-	4,000	2,302	6,302
Ministry of Foreign Employment Promotion	-	-	-	-	-	2,076	-	-	552	-	-	2,628	189	2,817
Ministry of Irrigation	-	-	-	-	-	3,652	-	-	1,560	-	-	5,212	953	6,165
Ministry of Lands	1,943	-	-	-	-	-	-	-	-	-	-	1,943	2,797	4,740
Ministry of Youth Affairs	-	-	2,525	-	-	1,395	-	-	4,800	-	-	8,720	877	9,597
Ministry of Environmental & Natural Resources	146	-	11,174	-	-	947	-	-	4,334	21	-	16,622	1,780	18,402
Ministry of Internal Administration	-	-	-	-	-	-	-	-	524	-	-	524	379	903
Ministry of Youth Empowerment & Socio Economic Development	-	-	-	-	-	-	-	-	5,159	410	-	5,569	1,000	6,569
Ministry of Community Development & Social Inequity Eradication	675	-	-	-	-	-	-	-	3,521	-	-	4,196	455	4,651
Ministry of Nation Heritage	-	-	-	-	-	-	-	-	2,941	-	-	2,941	2,972	5,913
Ministry of Water Supply & Drainage	-	-	-	-	-	-	-	-	3,277	-	-	3,277	1,537	4,814
Ministry of Export Development & International Trade	-	-	-	-	-	-	-	-	1,236	-	-	1,236	180	1,416
Ministry of Public Estate Management & Development	-	-	-	-	-	-	-	-	6,922	-	-	6,922	1,192	8,114
Ministry of Construction & Engineering Services	-	-	-	-	-	-	-	-	12,282	-	-	12,282	2,175	14,457
Ministry of Special Projects	-	-	-	-	-	-	-	-	4,070	-	-	4,070	108	4,178
Ministry of Higher Education	-	-	-	-	-	-	-	-	1,252	-	-	1,252	548,139	549,391
Ministry of Supplementary Plantation Crops Development	-	-	-	-	-	-	-	-	8,654	-	-	8,654	1,272	9,926
Department of Buddhist Affairs	3,795	-	3,549	-	-	964	-	-	980	-	-	9,288	502	9,790
Department of Muslim Religious & Cultural Affairs	616	-	19	-	-	248	-	-	528	-	-	1,411	94	1,505
Department of Christian Religious Affairs	739	-	42	-	-	753	-	-	1,171	-	-	173	590	763
Department of Hindu Religious & Cultural Affairs	-	-	515	-	-	78	-	-	662	-	-	2,705	371	3,076
Department of Public Trustee	-	-	3,078	19	-	1,606	-	-	1,318	-	-	1,255	248	1,503
Department of Cultural Affairs	1,279	-	1,917	-	-	1,404	-	-	5,662	-	-	10,262	5,100	15,362
Department of Archaeology	500	-	4,717	-	-	4,461	-	-	1,548	-	-	11,226	4,360	15,586
Department of National Museums	3,281	-	3,164	-	-	3,554	-	-	7,513	-	-	17,512	1,905	19,417
Department of National Archives	-	-	785	-	-	2,392	-	-	645	-	-	3,822	5,399	9,221
Department of Information	-	-	1,684	-	-	3,780	-	-	2,808	-	-	8,272	1,583	9,855
Department of Government Printer	-	-	499	-	-	1,493	-	-	1,028	-	-	3,020	896	3,916
Department of Examinations	349	-	344	-	-	-	-	-	642	-	-	1,335	468	1,803
Department of Educational Publications	7,444	-	7,496	-	-	10,000	-	-	12,047	-	-	36,987	6,788	43,775
Department of Technical Education & Training	1,257	-	4,383	-	-	3,554	-	-	7,746	-	-	16,950	992	17,942
Department of Social Services	1,021	721	854	-	-	1,155	-	-	839	-	-	3,148	524	3,672
Department of Probation & Child Care	-	-	703	-	-	1,782	-	-	1,047	-	-	3,532	235	3,767
Department of Commissioner General of Samurdhi	2,185,223	-	2,771	-	-	1,221	-	-	940	-	-	2,190,155	259	2,190,414
Department of Sports Development	3,316	-	2,563	-	-	3,932	-	-	4,216	-	-	14,027	5,277	19,304

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Non-current Assets Acquired since 01.01.2004 *Contd.*

Name of Institution	2004			2005			2006			2007			2008		
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance
Department of Labour	10,682	-	52,666	-	-	12,818	-	-	2,911	-	-	79,077	1,339	-	80,416
Sri Lanka Army	-	-	32,916	-	-	72,081	-	-	67,007	-	-	172,004	129,295	-	301,299
Sri Lanka Navy	34,298	-	-	-	-	-	-	-	35,272	-	-	69,570	89,984	-	159,554
Sri Lanka Air Force	2,810	-	29,879	-	-	20,021	2,021	26,985	8,583	-	-	86,257	133,626	-	219,883
Department of Police	-	-	-	-	-	-	-	146,389	-	-	-	146,389	179,729	-	326,118
Department of Immigration & Emigration	573	-	27,947	-	-	8,293	-	2,570	-	-	-	39,383	1,924	-	41,307
Department of registration of Persons	1,312	-	722	-	-	1,006	-	844	-	-	-	3,884	659	-	4,543
Courts Administration	17,204	-	16,662	-	-	25,620	-	35,272	-	-	-	94,758	40,032	-	134,790
Department of Attorney General	3,615	-	2,747	-	-	2,532	-	5,436	-	-	-	14,330	2,709	-	17,039
Department of Legle Draftsman	501	-	711	-	-	553	-	486	-	-	-	2,251	4,095	-	6,346
Department of Debt Conciliation Board	-	-	-	-	-	-	-	231	-	-	-	231	88	-	319
Department of Prisons	1,463	-	2,258	-	-	2,824	-	13,001	-	-	-	19,546	9,534	-	29,080
Department of Government Analyst	995	-	1,461	-	-	996	-	17,997	-	-	-	21,449	17,577	-	39,026
Registrar of Supreme Court	2,415	-	159	-	-	2,736	-	2,993	-	-	-	8,303	3,008	-	11,311
Department of Law Communication	352	-	-	-	-	600	-	1,230	-	-	-	2,182	930	-	3,112
Department of Official Languages	15	-	100	-	-	277	-	256	-	-	-	648	113	-	761
Department of National Planning	1,151	-	5,045	-	-	232	-	3,610	-	-	-	10,038	3,220	-	13,258
Department of Fiscal Policy	-	-	4,163	-	-	334	-	-	-	-	-	4,497	65	-	4,562
Department of External Resources	1,192	-	9,241	-	-	5,976	-	10,888	-	-	-	27,297	752	-	28,049
Department of National Budget	138	-	508	-	-	83	-	228	-	-	-	957	250	-	1,207
Department of Public Enterprise	782	-	523	-	-	175	-	1,129	-	-	-	2,609	1,677	-	4,286
Department of Management Services	1,945	-	1,216	-	-	1,321	-	1,412	-	-	-	5,894	16	-	5,910
Department of Development Finance	-	-	187	-	-	172	-	143	-	-	-	502	-	-	502
Department of Trade Tariff & Investment Policy	-	-	-	-	-	-	-	736	-	-	-	736	720	-	1,456
Department of Public Finance	1,518	-	254	-	-	557	-	3,032	-	-	-	5,361	-	-	5,361
Department of Inland Revenue	986	-	7,259	-	-	32,672	-	8,166	-	-	-	49,083	5,323	-	54,406
Department of Customs	-	-	722	-	-	-	-	17,756	-	-	-	18,478	165,147	-	183,625
Department of Excise	697	-	1,047	-	-	6,902	-	5,346	-	-	-	13,992	3,614	-	17,606
Department of Treasury Operations	-	-	-	-	-	277	-	140	-	-	-	417	114	-	531
Department of State Accounts	846	-	1,257	400	-	374	-	1,095	-	-	-	3,172	6,417	-	9,589
Department of Valuation	396	-	588	-	-	794	-	1,833	-	-	-	3,611	4,775	-	8,386
Department of Census & Statistics	1,016	-	1,994	-	-	1,629	-	1,587	-	98	-	6,324	1,431	-	7,755
Department of Pensions	767	-	3,775	-	-	3,659	-	3,228	-	-	-	11,429	2,882	-	14,311
Department of Registrar General	-	-	2,812	-	-	3,240	-	12,174	-	-	-	18,226	9,431	-	27,657
District Secretariat - Colombo	3,131	-	11,847	-	-	2,447	-	33,888	-	-	-	51,313	3,718	-	55,031
District Secretariat - Gampaha	1,499	-	679	-	-	1,948	-	15,976	-	-	-	20,102	2,764	-	22,866
District Secretariat - Kalutara	920	-	1,498	-	-	2,582	-	22,582	-	-	-	27,961	5,983	-	33,944
District Secretariat - Kandy	746	-	1,496	-	-	2,551	-	39,824	-	-	-	44,617	6,810	-	51,427
District Secretariat - Matale	1,691	-	1,997	-	-	1,850	-	19,502	-	-	-	25,040	3,364	-	28,404
District Secretariat - Nuwara Eliya	475	-	1,993	-	-	1,458	-	15,267	-	-	-	19,193	6,884	-	26,077
District Secretariat - Galle	3,918	-	3,259	-	-	1,984	-	29,992	-	-	-	39,153	7,412	-	46,565
District Secretariat - Matara	1,375	-	8,771	-	-	2,549	-	20,827	-	-	-	33,522	4,631	-	38,153
District Secretariat - Hambantota	2,135	-	2,288	-	-	3,000	-	14,981	-	-	-	22,384	3,718	-	26,102
District Secretariat - Jaffna	-	-	3,797	-	-	3,696	-	19,994	-	-	-	27,487	3,719	-	31,206
District Secretariat-Mannar	-	-	499	-	-	2,748	-	5,414	-	-	-	8,661	4,566	-	13,227
District Secretariat-Vavuniya	-	-	899	-	-	1,240	-	5,874	-	-	-	8,013	3,255	-	11,268
District Secretariat-Mulativu	500	-	394	-	-	2,479	-	4,419	-	-	-	7,792	2,752	-	10,544
District Secretariat-Kilinochchi	365	-	1,000	-	-	1,499	-	8,985	-	-	-	11,849	2,150	-	13,999
District Secretariat-Batticaloa	998	-	5,196	-	-	1,698	-	11,584	-	-	-	19,476	4,330	-	23,806

Non-current Assets Acquired since 01.01.2004 *Contd.*

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Name of Institution	2004			2005			2006			2007			2008	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
District Seretaniat-Ampara	850	-	1,471	-	-	1,458	-	-	17,191	-	-	20,970	2,361	23,331
District Seretaniat-Tincomalee	2,933	-	999	-	-	2,938	-	-	7,801	-	-	14,731	1,098	15,829
District Seretaniat-Kurunegala	4,583	-	3,147	-	-	2,803	-	-	51,421	-	-	61,954	4,845	66,799
District Seretaniat-Puttalam	999	-	1,730	-	-	2,499	-	-	14,999	-	-	20,227	4,394	24,621
District Seretaniat-Anuradhapura	1,186	-	1,797	-	-	2,752	-	-	19,560	-	-	25,295	3,711	29,006
District Seretaniat-Polonnaruwa	-	-	2,000	-	-	1,991	-	-	6,972	-	-	10,963	5,424	16,387
District Seretaniat-Badulla	988	-	2,596	-	-	2,987	-	-	22,206	-	-	28,777	6,163	34,940
District Seretaniat-Monaragala	989	-	2,005	-	-	2,117	-	-	7,870	-	-	12,981	3,323	15,304
District Seretaniat-Ratnapura	1,009	-	1,919	-	-	2,226	-	-	2,764	-	-	7,918	3,190	11,108
District Seretaniat-Kegalle	782	-	2,492	-	-	2,477	-	-	20,011	-	-	25,762	3,988	29,750
Department of Foreign Aid & Budget Monitoring	-	-	1,840	-	-	2,559	-	-	598	-	-	4,997	397	5,394
Department of Agrarian Development	-	-	3,470	-	-	4,678	-	-	9,252	-	-	17,400	10,176	27,576
Department of Irrigation	15,178	1	14,229	6	-	22,105	-	-	18,986	-	-	70,491	3,467	73,958
Department of Forests	490	-	498	-	-	542	-	-	4,958	-	-	6,488	7,538	14,026
Department of Wildlife Conservation	63	-	1,967	-	-	989	-	-	1,122	-	-	4,141	36,412	40,553
Department of Agriculture	10,921	-	4,857	-	-	3,956	-	-	11,521	-	-	31,255	17,943	49,198
Department of Land Commissioner	1,788	-	1,998	-	-	2,968	-	-	2,494	-	-	9,278	1,838	11,116
Department of Land Settlement	198	-	1,373	-	-	1,277	-	-	503	-	-	3,351	800	4,151
Department of Survey	3,386	-	121,978	-	-	2,175	-	-	4,817	46	-	132,310	1,412	133,722
Department of Export Agriculture	2,929	-	-	-	-	-	-	-	32	-	-	2,961	2,296	5,257
Department of Fisheries and Aquatic Resources	298	-	1,795	-	-	1,313	-	-	1,530	-	-	4,936	2,873	7,809
Department of Coast Conservation	692	-	1,884	-	-	696	-	-	736	-	-	4,018	298	4,316
Department of Animal Production and Health	2,296	-	-	-	-	5,145	-	-	4,785	-	-	12,226	7,129	19,355
Department of Rubber Development	-	-	759	-	-	187	-	-	3,078	16	-	4,040	1,104	5,144
Department of National Zoological Garden	211	-	300	-	-	384	-	-	642	-	-	1,537	499	2,036
Department of Commerce	-	-	1,681	-	-	636	-	-	789	-	-	3,106	69	3,175
Department of Import and Export Control	340	13	193	14	-	716	389	-	1,265	-	-	2,098	412	2,510
Department of the Registrar of Companies	2	-	213	-	-	-	-	-	902	-	-	215	-	215
Department of Measurement Units, Standards & Services	301	-	329	-	-	375	-	-	902	-	-	1,907	463	2,370
National Intellectual property Office of Sri Lanka	44	-	-	-	-	-	-	-	-	-	-	44	-	44
Department of Food Commissioner	44	-	45	-	-	561	-	-	850	-	-	1,500	229	1,729
Department of Co-operative Development	-	-	629	-	-	1,180	-	-	493	-	-	2,302	89	2,391
Co-operative Employees Commission	-	-	239	4	-	1,080	6	-	174	3	-	1,546	5	1,551
Department of Textile Industries	494	-	425	-	-	198	-	-	591	-	-	1,708	61	1,769
Department of Meteorology	2,218	-	4,801	-	-	660	-	-	1,942	-	-	9,621	1,105	10,726
Department of Upcountry Peasantry Rehabilitation	49	-	249	-	-	443	-	-	-	-	-	741	348	1,089
Department of Sri Lanka Railways	-	-	5,839	-	-	3,912	-	-	434	-	-	10,185	12,122	22,307
Department of Motor Traffic	-	-	1,988	-	-	5,735	75	-	4,659	-	-	12,317	6569	18,886
Department of Posts	26,557	-	18,987	-	-	7,200	-	-	2,356	-	-	55,100	34611	89,711
Department of Buildings	-	-	1,244	-	-	2,791	-	-	9,181	-	-	13,216	9281	22,497
Government Factory	240	-	770	-	-	862	-	-	971	-	-	2,843	588	3,431
Department of National Physical Planning	1,524	-	874	-	-	1,217	-	-	1,473	-	-	5,088	900	5,988
Department of Civil Security	-	-	-	-	-	-	-	-	28,075	-	-	26,075	18576	44,651
Department of national Botanical Garden	-	-	-	-	-	-	-	-	-	-	-	-	462	462
Office of the former Prime Minister (Hon.R.Wickramanayake)	10	-	-	-	-	-	-	-	-	-	-	10	-	10
Ministry of Policy Development & Implementation	-	-	-	-	-	-	-	-	555	-	-	555	-	555
Ministry of Reconstruction & Development	-	-	-	-	-	25,238	-	-	-	-	-	25,238	-	25,238
Ministry of Infrastructure Development in the Eastern Province	-	-	1,954	-	-	-	-	-	-	-	-	1,954	-	1,954
Ministry of Mahaweli & River Basin Development & Rajarata Development	-	-	2,445	-	-	-	-	-	-	-	-	2,445	-	2,445
Ministry of Eastern Development & Muslim Religious Affairs	996	-	-	-	-	-	-	-	-	-	-	996	-	996
Ministry of Home Affairs Provincial Councils & Local Government	1,467	-	1,907	-	-	-	-	-	-	-	-	3,374	-	3,374
Ministry of Interior	1,130	-	-	-	-	-	-	-	-	-	-	1,130	-	1,130

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Non-current Assets Acquired since 01.01.2004 *Contd.*

Name of Institution	2004		2005		2006		2007		2008	
	Additions	Disposal	Additions	Disposal	Additions	Disposal	Additions	Disposal	Balance	Balance
Ministry of Public Security Law & Order	-	-	4,195	-	-	-	-	-	4,195	4,195
Ministry of Regional Development	-	-	2,000	-	2,397	-	1,093	-	5,490	5,490
Ministry of Infrastructure Development & Fisheries Housing	-	-	-	-	548	-	-	-	548	548
Ministry of Coconut Development	-	-	-	-	3,790	-	276	-	4,066	4,066
Ministry of Small & Rural Industries	-	-	1,496	-	963	-	-	-	2,459	2,459
Ministry of Small Holder Development	288	-	-	-	-	-	-	-	288	288
Ministry of Southern Region Development	4,262	-	-	-	-	-	-	-	4,262	4,262
Ministry of Western Region Development	458	-	-	-	-	-	-	-	458	458
Ministry of Central Region Development	1,013	-	-	-	-	-	-	-	1,013	1,013
Ministry of Rural Economic & Development	1,217	-	-	-	1,702	-	287	-	3,206	3,206
Ministry of Samurdhi & Poverty Alleviation	-	-	-	-	-	-	899	-	899	899
Ministry of Skills Development & Public Enterprise Reforms	-	-	-	-	4,669	-	720	-	5,389	5,389
Ministry of New Railroad Development	-	-	-	-	1,415	-	64	-	1,479	1,479
Ministry of Christian & Parliamentary Affairs	-	-	155	-	-	-	-	-	155	155
Ministry of North West Region Development	1,080	-	-	-	-	-	-	-	1,080	1,080
Ministry of Relief, Rehabilitation & Reconciliation	1,203	-	9,413	-	-	-	-	-	10,616	10,616
Ministry of Assisting Vanni Rehabilitation	398	-	-	-	-	-	-	-	398	398
Ministry of Promotion of Botanical & Zoological Gardens	-	-	-	-	4,031	-	1,317	-	5,348	5,348
Ministry of Textile Industry Development	-	-	-	-	947	-	37	-	984	984
Ministry of Rural Livelihood Development	-	-	-	-	6,721	-	740	-	7,461	7,461
Total	2,616,844	753	2,631,435	3,668	2,407,640	13,341	4,142,974	10,190	11,791,321	14,845,903

Non-current Assets Acquired since 01.01.2004 *Contd.*

Name of Institution	2004			2005			2006			2007			2008	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
H. E. the President	3,000	-	6,582	-	-	411,293	-	-	32,103	-	-	452,978	63,477	516,455
Office of the Prime Minister	2,880	-	57,068	384	-	4,338	-	-	5,049	2	-	68,953	8,685	77,638
Office of the Cabinet of Ministers	2,084	-	433	-	-	1,121	-	-	709	-	-	4,347	-	4,347
Parliament	6,900	-	525	-	-	2,067	-	-	1,500	-	-	10,992	4,468	15,460
The Constitutional Council	25	-	108	-	-	-	-	-	-	-	-	133	10,407	10,540
Public Service Commission	400	-	581	-	-	637	-	-	451	-	-	2,069	139	2,208
Judicial Service Commission	-	-	-	-	-	98	-	-	36	-	-	134	42	176
National Police Commission	152	-	854	-	-	528	-	-	-	-	-	1,534	22	1,556
Administration Appeals Tribunal	165	-	-	-	-	-	-	-	-	-	-	165	-	165
Commission to Investigate Allegations of Bribery or Corruption	1,656	-	865	-	-	1,480	-	-	544	-	-	4,545	148	4,693
Department of Elections	-	-	-	-	-	5,006	-	-	46,192	-	-	51,198	4,657	55,855
Office of the Finance Commission	69	-	108	-	-	220	-	-	80	-	-	477	68	545
National Education Commission	-	-	-	-	-	25	-	-	4	-	-	29	9	38
Ministry of Religious Affairs	3,673	-	1,297	-	-	462	-	-	2,198	-	-	7,630	573	8,203
Ministry of Finance & Planning	14	-	298	-	-	250	-	-	4,056	-	-	4,618	457	5,075
Ministry of Defence, Public Security Law & Order	5,311	-	4,603	-	-	4,911	14	-	99,608	-	-	114,419	545,384	659,803
Ministry of Plan Implementation	-	-	-	-	-	-	-	-	-	-	-	-	1,626	1,626
Ministry of Nation Building & Estate Infrastructure Development	-	-	-	-	-	-	-	-	1,216	-	-	1,216	1,102	2,318
Ministry of Disaster Management & Human Rights	-	-	-	-	-	2,431	-	-	16,677	-	-	19,108	1,294	20,402
Ministry of Tourism	624	-	500	11	-	696	-	-	492	-	-	2,301	666	2,967
Ministry of Post & Telecommunications	-	-	1,234	-	-	3,934	-	-	165	-	-	5,333	499	5,832
Ministry of Justice and Law Reforms	-	-	75	-	-	236	-	-	480	-	-	791	221	1,012
Ministry of Health Care & Nutrition	-	-	-	-	-	-	-	-	321,358	9,585	-	330,943	260,775	2,938,693
Ministry of Foreign Affairs	-	-	5,242	-	-	8,506	5	-	3,708	144	-	17,595	261,98	43,793
Ministry of Port & Aviation	1,583	-	-	-	-	1,050	-	-	2,258	-	-	4,891	1,578	6,469
Ministry of Transport	78,900	-	-	-	-	1,978	-	-	2,058	-	-	82,936	1,909	84,845
Ministry of Petroleum & Petroleum Resources Development	-	-	-	-	-	1,606	-	-	1,952	-	-	3,558	1,111	4,669
Ministry of Trade Commerce Consumer Affairs & Marketing Development	-	-	1,160	-	-	2,219	-	-	830	-	-	4,209	1,629	5,838
Ministry of Highways	543	-	1,054	-	-	2,083	-	-	41,600	-	-	45,280	298,29	75,109
Ministry of Agriculture Development & Agrarian services	38	-	1,179	-	-	1,072	-	-	73,783	-	-	76,072	94,556	1,021,632
Ministry of Child Development & Women's Empowerment	57	-	2,372	-	-	70	-	-	903	-	-	3,402	87	3,489
Ministry of Public Administration & Home Affairs	270	-	1,415	-	-	2,668	-	-	6,853	-	-	11,206	7,432	18,638
Ministry of Mass Media & Information	-	-	3,186	-	-	2,200	-	-	5,614	-	-	11,000	2,302	13,302
Ministry of Urban Development & sacred area Development	214	-	440	-	-	999	-	-	1,103	-	-	2,756	1,364	4,120
Ministry of Social Service & Social Welfare	-	-	-	-	-	5,517	-	-	4,387	-	-	9,904	3,371	13,275
Ministry Of Housing and Common amenities	1,553	-	428	-	-	395	-	-	1,012	-	-	3,388	786	4,174
Ministry of Education	9,837	-	35,503	-	-	44,711	-	-	56,489	-	-	146,540	7,272	153,812
Ministry of Labour Relations & Foreign Employment	-	-	5,718	11	-	8,700	-	-	15,981	-	-	30,388	2,508	32,896
Ministry of Vocational & Technical Training	2,663	-	23,745	-	-	200	-	-	208	-	-	26,816	2,842	29,658
Ministry of Local Government & Provincial Councils	495	-	-	-	-	1,842	-	-	1,137	-	-	3,474	1,869	5,343

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Non-current Assets Acquired since 01.01.2004 *Contd.*

Name of Institution	2004			2005			2006			2007			2008	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Enterprise development & Investment Promotion	-	-	1,411	-	-	-	-	-	-	-	-	1,411	-	1,411
Ministry of Science & Technology	-	-	-	-	-	-	-	-	4,583	-	-	4,583	9,886	14,469
Ministry of Constitutional Affairs & National Intergation	-	-	203	-	-	887	-	-	346	-	-	1,436	269	1,705
Ministry of Sports and public Recreation	-	-	-	-	-	-	-	-	-	-	-	-	2,550	2,550
Ministry of Indigenous Medicine	-	-	221	-	-	147	-	-	195	-	-	563	1,487	2,050
Ministry of Fisheries & Aquatic Resources	3,454	-	588	-	-	934	-	-	7,760	2,580	-	15,316	90,443	105,759
Ministry of Livestock & Infrastructure Development	-	-	-	-	-	1,914	-	-	1,203	-	-	3,117	1,009	4,126
Ministry of Cultural Affairs & National Heritage	-	-	1,291	-	-	1,584	-	-	793	-	-	3,668	1,120	4,788
Ministry of Parliamentary Affairs	150	-	-	-	-	36	-	-	136	-	-	322	290	612
Ministry of Re-Settlement & Disaster Relief Services	-	-	-	-	-	529	-	-	16,681	-	-	17,210	2,125	19,335
Ministry of Industrial Development	434	-	-	-	-	1,900	-	-	2,355	-	-	4,689	2,624	7,313
Ministry of Foreign Employment Promotion	-	-	-	-	-	3,027	-	-	1,345	-	-	4,372	1,698	6,070
Ministry of Irrigation	-	-	-	-	-	-	-	-	591	-	-	591	4,229	4,820
Ministry of Land and Land Development	-	-	-	-	-	-	-	-	-	-	-	-	1,420	1,420
Ministry of Youth Affairs	-	-	6,803	-	-	4,126	-	-	3,816	-	-	14,745	883	15,628
Ministry of Environmental & Natural Resources	438	-	7,277	-	-	1,596	-	-	1,607	37	-	10,955	2,332	13,287
Ministry of Internal Administration	-	-	-	-	-	-	-	-	4,703	-	-	4,703	4,921	9,624
Ministry of Youth Empowerment & Socio Economic Development	-	-	-	-	-	-	-	-	3,909	660	-	4,569	929	5,498
Ministry of Community Development & Social Inequality Eradication	1,437	-	-	-	-	-	-	-	3,325	-	-	4,762	1,007	5,769
Ministry of National Heritage	-	-	-	-	-	-	-	-	1,596	-	-	1,596	698	2,294
Ministry of Water Supply & Drainage	-	-	-	-	-	-	-	-	3,256	-	-	3,256	988	4,244
Ministry of Export Development & International Trade	-	-	-	-	-	-	-	-	2,252	-	-	2,252	541	2,793
Ministry of Public Estate Management & Development	-	-	-	-	-	-	-	-	462	-	-	462	1,309	1,771
Ministry of Counstruction & Engineering Services	-	-	-	-	-	-	-	-	3,579	-	-	3,579	701	4,280
Ministry of Special Projects	-	-	-	-	-	-	-	-	226	-	-	226	4	230
Ministry of Higher Education	-	-	-	-	-	-	-	-	3,667	-	-	3,667	1,545	5,212
Ministry of Supplementary Plantation Crops Development	-	-	-	-	-	-	-	-	3,349	-	-	3,349	243	3,592
Department of Muslim Religious & Cultural Affairs	867	-	781	-	-	-	-	-	253	-	-	1,901	7	1,908
Department of Christian Religious Affairs	-	-	-	-	-	-	-	-	-	-	-	-	-	360
Department of Hindu Religious & Cultural Affairs	-	-	-	-	-	-	-	-	-	-	-	-	-	470
Department of Public Trustee	-	-	-	-	-	-	-	-	797	-	-	797	551	1,348
Department of Cultural Affairs	-	-	2,090	1,586	-	931	-	-	1,914	-	-	3,349	3,525	6,874
Department of Archaeology	2,976	-	1,219	-	-	339	-	-	756	-	-	5,290	551	5,841
Department of National Museums	5,982	-	1,056	-	-	399	-	-	561	-	-	7,998	353	8,351
Department of National Archives	4,846	-	1,859	-	-	253	-	-	6,456	-	-	13,414	4,225	17,639
Department of Information	-	-	10,860	-	-	9,197	-	-	18,058	-	-	38,115	7,818	45,933
Department of Government Printer	-	-	17,016	-	-	43,061	-	-	96,456	-	-	156,533	106,485	263,018
Department of Examinations	-	-	5,096	-	-	5,001	-	-	1,763	-	-	11,860	1,853	13,713
Department of Educational Publications	8	-	-	-	-	-	-	-	-	-	-	8	383	391
Department of Technical Education & Training	41,559	-	23,016	-	-	31,027	-	-	7,690	-	-	103,292	155,052	258,344
Department of Social Services	-	-	-	-	-	44	-	-	779	-	-	823	1,041	1,864
Department of Probation & Child Care	600	-	286	-	-	4	-	-	227	-	-	1,117	129	1,246
Department of Sports Development	12,864	10,676	2,123	1,476	19,038	19,038	-	-	18,017	-	-	39,890	14,533	54,423
Department of Ayurveda	413	-	2,641	-	-	4,808	-	-	3,613	-	-	11,475	3,771	15,246
Department of Labour	15,663	-	14,222	-	-	13,676	-	-	141,928	-	-	185,489	137,724	323,213

Non-current Assets Acquired since 01.01.2004 *Contd.*

Name of Institution	2004			2005			2006			2007			2008	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Sri Lanka Army	-	-	28,065	-	-	45,948	-	-	312,745	-	-	386,758	4,175,006	4,561,764
Sri Lanka Navy	323,588	-	-	-	-	530,000	187,000	2,824	230,313	2,824	899,725	5,208,726	6,108,451	
Sri Lanka Air Force	8,999	-	26,149	-	-	11,018	-	-	4,198,862	1,693,213	5,938,241	2,217,537	8,155,778	
Department of Police	-	-	-	-	-	-	-	-	442,799	-	442,799	851,520	1,294,319	
Department of Immigration & Emigration	23,720	-	1,195	-	-	87,635	-	-	46,033	-	158,583	39,396	197,979	
Department of registration of Persons	667	-	2,570	-	-	1,758	-	-	7,456	-	12,451	685	13,136	
Department of Attorney General	-	-	-	-	-	-	-	-	5,799	-	5,799	-	5,799	
Department of Legle Draftsman	562	-	-	-	-	-	-	-	-	-	562	-	562	
Department of Prisons	5,666	-	4,426	-	-	6,445	-	-	6,271	-	22,808	4,973	27,781	
Department of Official Languages	676	-	1,200	-	-	599	-	-	-	-	2,475	124	2,599	
Department of National Planning	-	-	-	-	-	3,334	-	-	-	-	3,334	-	3,334	
Department of Fiscal Policy	-	-	-	-	-	1,555	-	-	796	-	2,351	113	2,464	
Department of National Budget	3,293	-	3,046	-	-	5,425	-	-	2,170	-	13,934	455	14,389	
Department of Public Enterprises	-	-	-	-	-	-	-	-	-	-	-	922	922	
Department of Development Finance	-	-	-	-	-	-	-	-	33	-	33	-	33	
Department of Trade Taiff & Investment Policy	-	-	-	-	-	-	-	-	1,964	-	1,964	994	2,958	
Department of Public Finance	-	-	178	-	-	-	-	-	-	-	178	-	178	
Department of Inland Revenue	3,381	-	4,532	-	-	24,009	-	-	32,390	-	64,312	13,587	77,899	
Department of Customs	-	-	14,983	-	-	-	-	-	2,031,245	-	2,046,228	637,934	2,684,162	
Department of Excise	293	-	387	-	-	1,935	-	-	3,870	-	6,485	3,962	10,447	
Department of Treasury Operations	-	-	-	-	-	-	-	-	1,318	-	1,318	1,139	2,457	
Department of State Accounts	500	-	1,001	-	-	147	-	-	-	-	1,648	-	1,648	
Department of Valuation	653	-	737	-	-	792	-	-	2,488	-	4,670	12,041	16,711	
Department of Census & Statistics	1,002	-	3,413	-	-	1,797	-	-	10,066	48	16,326	6,728	23,054	
Department of Pensions	237	-	62	-	-	-	-	-	1,679	-	1,978	2,385	4,363	
Department of Registrar General	-	-	-	-	-	357	-	-	734	-	1,091	2,397	3,488	
District Secretariat - Colombo	-	-	-	-	-	172	-	-	29,997	-	30,169	2,453	32,622	
District Secretariat - Gampaha	-	-	1,298	-	-	3,543	-	-	2,437	-	7,278	1,849	9,127	
District Secretariat - Kalutara	-	-	-	-	-	2,354	-	-	10,939	-	13,293	1,658	14,951	
District Secretariat - Kandy	47	-	-	-	-	1,425	-	-	873	-	2,345	1,836	4,181	
District Secretariat - Matale	380	-	-	-	-	1,499	-	-	877	-	2,756	755	3,511	
District Secretariat - Nuwara Eliya	1,526	-	984	-	-	1,596	-	-	-	-	4,106	971	5,077	
District Secretariat - Galle	274	-	814	-	-	2,851	-	-	4,846	-	8,785	1,824	10,609	
District Secretariat - Hambantota	14	-	358	-	-	1,474	-	-	798	-	2,644	1,835	4,479	
District Secretariat - Jaffna	400	-	96	-	-	2,034	-	-	445	-	2,879	651	3,530	
District Secretariat - Mannar	-	-	-	-	-	1,995	-	-	1,771	-	3,862	1,343	5,205	
District Secretariat - Vavuniya	-	-	172	-	-	915	-	-	998	-	2,085	923	3,008	
District Secretariat - Mullativu	-	-	-	-	-	1,258	-	-	2,111	-	3,369	1,348	4,717	
District Secretariat - Kilinochchi	-	-	-	-	-	825	-	-	1,998	-	2,823	1,499	4,322	
District Secretariat - Batticaloa	-	-	-	-	-	1,277	-	-	-	-	1,277	889	2,166	
District Secretariat - Ampara	499	-	1,885	-	-	1,879	-	-	4,973	-	9,236	1,179	10,415	
District Secretariat - Kurunegala	48	-	49	-	-	6,055	-	-	400	-	6,562	15	6,567	
District Secretariat - Puttalam	-	-	-	-	-	-	-	-	798	-	798	922	1,720	

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Non-current Assets Acquired since 01.01.2004 *Contd.*

Name of Institution	2004			2005			2006			2007			2008	
	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
District Seretaniat-Anuradhapura	184	-	130	-	-	2,768	-	1,748	-	4,830	1,648	6,478	-	6,478
District Seretaniat-Polonaruwa	-	-	101	-	-	1,536	-	496	-	2,133	-	2,133	-	2,133
District Seretaniat-Badulla	-	-	-	-	-	1,934	-	1,907	-	3,841	2,751	6,592	-	6,592
District Seretaniat-Monaragala	-	-	400	-	-	1,264	-	500	-	2,164	1,997	4,161	-	4,161
District Seretaniat-Ratnapura	101	-	75	-	-	1,268	-	115	-	1,559	-	1,559	-	1,559
District Seretaniat-Kegalle	-	-	-	-	-	1,315	-	-	-	1,315	1,006	2,321	-	2,321
Department of Foreign Aid & Budget Monitoring	-	-	-	-	-	3,545	-	-	-	3,545	-	3,545	-	3,545
Department of Agrarian Development	14,833	-	23,792	-	-	7,067	-	14,705	-	14,705	6,641	21,346	-	21,346
Department of Irrigation	500	-	498	-	-	-	-	649	-	1,647	989	2,636	-	2,636
Department of Forests	860	-	987	-	-	483	-	1,122	-	3,452	128,005	131,457	-	131,457
Department of Wildlife Conservation	4,536	-	1,076	108	-	11,530	-	35,740	-	52,774	7,195	59,969	-	59,969
Department of Agriculture	327	-	-	-	-	-	-	380	-	707	-	707	-	707
Department of Land Settlement	22,333	-	-	-	-	39,210	27	13,991	-	75,507	11,830	87,337	-	87,337
Department of Survey	1,130	-	-	-	-	-	-	-	-	1,130	2,880	4,010	-	4,010
Department of Export Agriculture	603	-	7,937	-	-	8,259	-	3,380	-	20,179	5,712	25,891	-	25,891
Department of Fisheries and Aquatic Resources	-	-	1,055	-	-	1,447	-	8,925	-	11,427	293	11,720	-	11,720
Department of Coast Conservation	2,254	-	-	-	-	39,569	-	40,878	-	82,701	11,745	94,446	-	94,446
Department of Animal Production and Health	-	-	-	-	-	-	-	-	-	-	-	1,822	-	1,822
Department of Rubber Development	5,262	-	4,083	-	-	4,924	-	5,598	-	19,867	4,552	24,419	-	24,419
Department of National Zoological Garden	-	-	1,330	-	-	792	-	799	-	2,921	471	3,392	-	3,392
Department of Commerce	10,496	-	31,378	-	-	37,025	-	40,162	-	119,061	33,238	152,299	-	152,299
Department of Measurement Units, Standards & Services	-	-	-	-	-	45	-	871	-	916	1,191	2,107	-	2,107
Department of Food Commissioner	-	-	259	1	-	40	-	-	-	298	-	298	-	298
Co-operative Employees Commission	-	-	-	-	-	165	-	-	-	165	-	165	-	165
Department of Textile Industries	4,492	-	1,556	-	-	3,793	-	176,706	-	186,547	180,678	367,225	-	367,225
Department of Meteorology	-	-	-	-	-	-	-	923	-	923	54,486	55,409	-	55,409
Department of Sri Lanka Railways	-	-	4,799	-	-	22,229	100	28,172	-	55,100	29,974	85,074	-	85,074
Department of Motor Traffic	48	-	388	-	-	70,214	-	5,783	-	76,413	16,944	93,357	-	93,357
Department of Buildings	-	-	-	-	-	2,650	-	-	-	2,650	-	2,650	-	2,650
Government Factory	600	-	2,216	-	-	11,433	-	3,941	-	18,090	10,104	28,194	-	28,194
Department of National Physical Planning	225	-	1,485	-	-	1,921	-	1,945	-	5,576	61	5,637	-	5,637
Department of Civil Security	-	-	-	-	-	-	-	42,887	-	42,887	122,225	165,112	-	165,112
Department of National Botanical Gardens	-	-	-	-	-	-	-	-	-	-	270	270	-	270
Office of the Former Prime Minister (Hon. R. Wickramanayake)	43	-	-	-	-	-	-	-	-	43	-	43	-	43
Ministry of Policy Development & Implementation	3,339	-	-	-	-	-	-	-	-	3,339	-	3,339	-	3,339
Ministry of Reconstruction & Development	-	-	-	-	-	2,468	-	-	-	2,468	-	2,468	-	2,468
Ministry of Infrastructure Development in the Eastern Province	-	-	1,374	-	-	-	-	-	-	1,374	-	1,374	-	1,374
Ministry of Mahaweli & River Basin Development & Rajarata Development	-	-	606	-	-	-	-	-	-	606	-	606	-	606
Ministry of Eastern Development & Muslim Religious Affairs	947	-	-	-	-	-	-	-	-	947	-	947	-	947
Ministry of Home Affairs Provincial Councils & Local Government	889	-	1,193	-	-	-	-	-	-	2,082	-	2,082	-	2,082
Ministry of Interior	1,356	-	-	-	-	-	-	-	-	1,356	-	1,356	-	1,356
Ministry of Public Security Law & Order	-	-	4,665	-	-	-	-	-	-	4,665	-	4,665	-	4,665
Ministry of Regional Development	-	-	-	-	-	522	-	588	-	1,110	-	1,110	-	1,110
Ministry of Infrastructure Development & Fisheries Housing	-	-	-	-	-	276	-	-	-	276	-	276	-	276

Non-current Assets Acquired since 01.01.2004 *Contd.*

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2103-Machinery	Name of Institution	2004		2005		2006		2007		2008		
		Additions	Disposal	Additions	Disposal	Additions	Disposal	Additions	Disposal	Balance	Additions	Balance
	Ministry of Small & Rural Industries	-	-	559	-	31	-	-	-	590	-	590
	Ministry of Southern Region Development	360	32	-	-	-	-	-	-	328	-	328
	Ministry of Western Region Development	328	-	-	-	-	-	-	-	328	-	328
	Ministry of Rural Economic Development	-	-	-	-	4,570	-	375	-	4,945	-	4,945
	Ministry of Samurdhi & Poverty Alleviation	-	-	-	-	-	-	398	-	398	-	398
	Ministry of Skills Development & Public Enterprise Reforms	-	-	-	-	1,103	-	2,061	-	3,164	-	3,164
	Ministry of New Railroad Development	-	-	-	-	3,991	-	1,029	-	5,020	-	5,020
	Ministry of Christian & Parliamentary Affairs	-	-	147	-	-	-	-	-	147	-	147
	Ministry of North West Region Development	1,032	-	-	-	-	-	-	-	1,032	-	1,032
	Ministry of Relief, Rehabilitation & Reconciliation	692	-	11,685	-	-	-	-	-	12,377	-	12,377
	Ministry of Assisting Vanni Rehabilitation	155	-	-	-	-	-	-	-	155	-	155
	Ministry of Promotion of Botanical & Zoological Gardens	-	-	-	-	181	-	331	-	512	-	512
	Ministry of Textile Industry Development	-	-	-	-	1,279	-	-	-	1,279	-	1,279
	Ministry of Rural Livelihood Development	-	-	-	-	3,918	-	603	-	4,521	-	4,521
	Ministry of State Bank Development	-	-	-	-	-	-	-	-	-	-	-
Total		669,147	10,708	457,986	3,577	1,719,282	187,146	8,977,024	1,709,093	13,331,101	18,760,472	32,091,573

Institution-wise Summary of Expenditure Accounts with Budgetary Provisions as at 31/12/2008

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Head No.	Ministry/Department	Total Expenditure (Rs)	Total Provisions (Rs)	Recurrent Expenditure (Rs)	Recurrent Provisions (Rs)	Capital Expenditure (Rs)	Capital Provisions (Rs)
1	His Excellency the President	5,709,310,112.89	6,709,970,700.00	2,277,120,972.34	2,555,697,000.00	3,432,189,040.55	4,154,273,700
2	Office of the Prime Minister	183,844,856.96	206,883,200.00	128,321,587.86	143,250,000.00	55,523,269.10	63,633,200
3	Judges of the Supreme Courts	65,446,208.10	76,707,000.00	65,446,208.10	76,707,000.00	0.00	0
4	Office of the Cabinet of Ministers	43,727,629.74	46,147,373.00	32,001,256.73	32,577,373.00	11,726,373.01	13,570,000
5	Parliament	1,465,215,141.43	1,717,589,000.00	1,201,078,968.93	1,211,471,250.00	254,136,172.50	506,117,750
6	Office of the Leader of House of Parliament	18,449,938.83	19,468,000.00	17,898,184.70	18,683,000.00	551,754.13	775,000
7	Office of the Chief Govt. Whip of Parliament	20,590,701.09	21,010,000.00	20,198,756.34	20,520,000.00	391,944.75	490,000
8	Office of the Leader of the Opposition of Parliament	53,490,766.44	54,648,500.00	52,829,378.69	53,873,500.00	661,387.75	775,000
11	The Constitutional Council	11,024,760.78	11,246,000.00	11,008,100.78	11,226,000.00	16,660.00	20,000
12	Public Service Commission	106,849,194.25	122,598,630.00	95,945,394.04	101,967,680.00	10,903,800.21	20,630,950
13	Judicial Service Commission	25,873,673.31	27,485,000.00	25,083,670.56	26,410,000.00	790,002.75	1,075,000
14	National Police Commission	46,033,273.35	48,141,000.00	43,971,390.17	44,841,000.00	2,061,883.18	3,300,000
15	Administrative Appeals Tribunal	10,599,556.80	11,108,000.00	10,552,717.80	11,048,000.00	46,833.00	60,000
16	Commission to Investigate Allegations of Bribery or Corruption	102,068,163.83	139,697,500.00	101,599,181.29	103,947,500.00	466,982.54	36,750,000
17	Department of Elections	752,666,474.07	761,725,000.00	728,117,575.19	735,491,500.00	24,548,898.88	26,233,500
18	Auditor General	468,187,675.75	856,675,000.00	460,065,974.03	514,075,000.00	8,121,701.72	342,600,000
19	Office of the Parliamentary Commissioner for Administration	5,777,569.06	6,434,300.00	5,655,719.06	6,250,450.00	121,850.00	183,850
20	Office of the Finance Commission.	56,990,509	92,350,000	23,042,079	26,500,000	33,948,429	66,850,000
21	National Education Commission	20,721,724	23,150,000	19,341,816	21,550,000	1,379,908	1,600,000
101	Ministry of Religious Affairs	224,558,518	290,941,595	79,369,192	80,538,595	145,189,327	210,403,000
102	Ministry of Finance and Planning	1,549,660,865	3,489,140,889	825,012,655	842,644,694	724,648,210	2,646,496,205
103	Ministry of Defense, Public Security, Law and Order	26,152,138,309	30,834,338,000	22,973,039,415	25,783,279,000	3,179,098,893	5,051,059,000
104	Ministry of Plan Implementation	109,811,408	128,035,311	102,437,787	116,230,311	7,373,622	11,805,000
105	Ministry of Nation Building and Estate Infrastructure Development	39,295,417,167	43,147,969,000	7,436,069,121	7,597,909,000	31,859,348,046	35,550,060,000
106	Ministry of Disaster Management and Human Rights	1,763,363,140	2,065,677,971	1,709,927,854	192,264,216	1,592,435,286	1,873,423,755
107	Ministry of Tourism	341,756,058	1,834,875,000	80,478,905	82,500,000	261,277,153	1,752,375,000
108	Ministry of Post Telecommunication	169,048,786	198,420,000	113,413,855	134,120,000	55,634,931	64,300,000
110	Ministry of Justice & Law Reforms	514,882,734	2,009,887,000	263,025,614	315,006,000	251,857,120	1,694,881,000
111	Ministry of Health Care Nutrition	46,898,022,837	58,744,960,244	38,121,161,950	40,907,100,244	8,776,860,887	17,837,860,000
112	Ministry of Foreign Affairs	8,016,548,808	9,527,930,332	5,571,596,492	5,687,590,772	2,444,952,315	3,840,339,560
113	Ministry of Ports & Aviation	8,003,911,604	19,861,592,000	128,669,563	217,522,000	7,875,242,041	19,644,070,000
114	Minister of Transport	8,612,865,411	10,761,524,784	5,988,118,913	6,200,424,784	2,624,746,498	4,561,100,000
115	Ministry of Petroleum and Petroleum Resources Development	231,188,191	462,530,000	101,067,017	151,280,000	130,121,174	311,250,000
116	Ministry of Trade, Marketing Development, Co-operatives and Consumer Services	932,561,590	1,457,460,000	288,695,759	331,710,000	643,865,832	1,125,760,000
117	Minister of Highways and Road Development	63,529,679,893	67,270,613,397	103,312,569	114,200,000	63,426,367,324	67,156,413,397
118	Minister of Agricultural Development and Agrarian Services	34,383,381,872	38,494,726,173	28,830,327,422	29,353,127,000	5,553,054,450	9,141,599,173
119	Ministry of Power and Energy	18,094,007,322	31,726,110,000	1,142,121,654	1,666,570,000	16,951,885,668	30,059,540,000
120	Ministry of Child Development and Women's Empowerment	583,018,409	1,241,322,000	257,713,571	708,894,000	325,304,838	532,438,000
121	Ministry of Public Administration and Home Affairs	989,705,993	1,512,247,087	426,510,357	504,150,000	563,195,637	1,008,097,087
122	Ministry of Mass Media and Information	409,660,513	538,015,332	301,909,255	340,415,332	107,751,258	197,600,000
123	Minister of Urban Development and Sacred Area Development	5,146,394,941	7,901,704,810	133,570,231	141,494,810	5,012,824,711	7,760,210,000
124	Ministry of Social Service and Social Welfare	470,458,896	521,059,501	335,420,259	352,478,623	135,038,637	168,580,878
125	Minister of Housing and Common Amenities	394,425,030	510,576,988	122,815,244	134,898,642	271,609,786	375,678,356

Institution-wise Summary of Expenditure Accounts with Budgetary Provisions as at 31/12/2008 *Contd.*

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Head No.	Ministry/Department	Total Expenditure (Rs)	Total Provisions (Rs)	Recurrent Expenditure (Rs)	Recurrent Provisions (Rs)	Capital Expenditure (Rs)	Capital Provisions (Rs)
126	Ministry of Education	23,316,759,090	26,684,358,000	19,878,487,537	21,297,158,000	3,438,271,553	5,387,200,000
127	Minister of Labour Relations and Manpower	377,372,129	441,485,000	299,567,167	311,110,000	77,804,962	130,375,000
128	Ministry of Rural Industries and Self Employment Promotion	663,506,274	761,195,571	402,797,568	414,625,571	260,708,706	346,570,000
129	Ministry of Vocational and Technical Training	2,750,340,042	3,647,511,000	1,281,475,136	1,467,811,000	1,468,864,906	2,179,700,000
130	Ministry of Local Government and Provincial Councils	7,688,130,463	10,576,060,000	119,679,820	191,035,000	7,568,450,643	10,385,025,000
132	Ministry of Enterprise Development and Investment Promotion	441,070,527	640,165,000	140,323,036	162,640,000	300,747,491	477,525,000
133	Ministry of Science and Technology	1,508,882,162	2,987,600,000	835,126,778	1,068,338,000	673,755,378	1,919,262,000
134	Ministry of Constitutional Affairs and National Integration	217,939,818	301,562,000	141,199,547	180,759,370	76,740,270	120,802,630
135	Ministry of Plantation Industries	3,409,087,150	4,666,093,000	1,275,903,934	1,412,444,000	2,133,183,216	3,253,649,000
136	Ministry of Sports and Public Recreation	225,181,861	168,610,643	342,099,000	214,189,000	56,571,218	127,900,000
138	Ministry of Indigenous Medicine	219,289,414	310,295,000	103,931,090	134,275,000	115,358,323	176,020,000
139	Ministry of Fisheries and Aquatic Resources	4,199,702,285	4,946,262,000	588,321,707	588,194,000	3,641,980,579	4,360,088,000
140	Minister of Livestock Development	235,407,439	366,513,624	95,708,707	102,063,624	139,698,732	264,460,000
142	Minister of Cultural Affairs & National Heritage	1,124,468,498	1,946,459,000	548,054,889	563,829,000	576,413,609	1,282,630,000
143	Ministry of Parliamentary Affairs	427,381,685	431,565,546	271,000,088	272,620,500	156,381,596	158,946,046
145	Minister of Re-settlement and Disaster Relief Services	3,108,389,336	4,490,678,335	2,201,271,978	2,211,628,335	907,117,358	2,279,050,000
149	Ministry of Industrial Development	851,573,311	1,257,131,333	170,098,750	197,181,333	681,474,561	1,059,950,000
151	Minister of Foreign Employment Promotion and Welfare	294,474,462	664,055,500	71,976,618	83,405,500	222,497,844	580,650,000
152	Ministry of Irrigation	772,373,560	2,047,178,000	163,603,059	171,608,000	608,770,501	1,875,570,000
153	Minister of Land and Land Development	1,725,207,188	2,350,932,734	197,771,244	206,723,000	1,527,435,943	2,144,209,734
156	Minister of Youth Affairs	1,522,335,222	1,755,750,000	636,399,239	683,250,000	885,935,983	1,072,500,000
160	Minister of Environment and Natural Resources	1,220,440,423	2,267,710,232	338,941,723	402,350,000	831,498,700	1,865,360,232
161	Ministry of Internal Administration	33,241,203	35,756,800	27,105,102	27,706,800	6,136,101	8,050,000
163	Ministry of Youth Empowerment and Socio Economic Development	516,819,102	566,900,000	55,270,159	56,150,000	461,548,943	510,750,000
164	Ministry of Community Development and Social Inequality Eradication	295,021,940	371,686,000	53,505,320	54,036,000	241,716,620	317,650,000
165	Minister of National Heritage	48,276,433	68,295,000	32,597,144	48,845,000	15,679,288	19,450,000
166	Minister of Water Supply and Drainage	24,253,545,994	29,471,077,000	152,057,678	155,657,000	24,108,316	29,315,350,000
167	Minister of Export Development and International Trade	472,246,912	754,846,000	76,600,624	86,221,000	395,646,288	668,625,000
168	Minister of Public Estate Management and Development	123,744,535	140,304,000	59,830,706	64,704,000	63,913,829	75,600,000
169	Minister of Construction and Engineering Services	148,658,697	178,938,000	88,880,810	94,188,000	59,777,887	81,750,000
170	Minister of Special Projects	32,827,749	460,075,000	25,837,887	55,075,000	6,989,862	405,000,000
171	Minister of Higher Education	3,693,568,720	4,652,451,000	372,109,023	450,542,000	3,321,479,697	4,201,909,000
172	Minister of Supplementary Plantation Crops Development	239,386,870	283,151,000	140,987,180	165,926,000	98,399,690	117,225,000
201	Department of Buddhist Affairs	535,168,618	602,974,827	480,413,312	491,574,827	54,755,506	111,400,000
202	Department of Muslim Religious and Cultural Affairs	120,382,751	133,710,000	36,325,080	42,135,000	84,057,671	91,575,000
203	Department of Christian Religious Affairs	667,333,151	71,450,000	60,119,236	63,849,350	6,613,915	7,600,650
204	Department of Hindu Religious and Cultural Affairs	113,885,960	138,070,000	53,188,397	55,970,000	60,697,562	82,100,000
205	Department of Public Trustee	30,597,564	32,680,000	28,418,440	29,845,000	2,179,125	2,835,000
206	Department of Cultural Affairs	239,802,756	343,735,919	201,685,084	205,931,350	38,117,673	137,804,569
207	Department of Archeology	341,231,365	354,912,560	320,071,058	321,912,560	21,600,000	33,000,000
208	Department of National Museums	96,339,278	108,161,000	73,927,416	76,736,000	22,411,863	31,425,000
209	Department of National Archives	113,391,385	123,784,000	42,319,604	45,704,000	71,071,782	78,050,000
210	Department of Information	169,539,824	231,164,250	104,625,201	108,903,250	64,914,623	122,261,000
211	Department of Government Printer	1,047,474,112	1,084,030,000	924,668,671	932,390,000	122,805,441	151,650,000
212	Department of Examination	1,521,150,090	1,590,050,000	1,472,910,907	1,530,050,000	48,239,182	60,000,000
213	Department of Educational Publications	62,165,667	65,450,000	19,091,590	19,350,000	43,074,077	46,100,000
214	Universities and University Grants Commission	12,896,708,758	16,280,000,000	9,900,737,758	10,980,000,000	2,995,971,000	5,300,000,000
215	Department of Technical Education & Training	1,365,093,964	1,629,541,000	799,793,701	920,378,000	565,300,263	709,163,000
216	Department of Social services	279,614,059	322,590,000	250,856,456	266,773,000	28,757,603	55,817,000
217	Department of Probation and Child Care Services	131,455,841	145,643,000	128,463,434	135,253,000	2,992,407	10,390,000
218	Department of The Commissioner General of Siammurthi	10,513,112,338	11,692,965,000	10,508,333,876	11,687,665,000	4,778,461	5,300,000
219	Department of Sports Development	504,789,750	864,350,000	235,832,659	267,350,000	268,957,091	597,000,000

Institution-wise Summary of Expenditure Accounts with Budgetary Provisions as at 31/12/2008 *Contd.*

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Head No.	Ministry/Department	Total Expenditure (Rs)	Total Provisions (Rs)	Recurrent Expenditure (Rs)	Recurrent Provisions (Rs)	Capital Expenditure (Rs)	Capital Provisions (Rs)
220	Department of Ayurveda	520 491,492	1,018,852,000	430,068,630	530,787,000	90,432,962	488,066,000
221	Department of Labour	984 297 074	1,066 078 734	728 048 311	768 415 000	256 248 763	297 663 734
222	Sri Lanka Army	88 252 431 821	90 081 185 014	70 008 074 922	71 346 249 000	18 244 356 900	18 732 936 014
223	Sri Lanka Navy	27 420 852 948	28 228 410 000	19 780 210 771	19 814 000 000	7 640 642 177	8 414 410 000
224	Sri Lanka Air force	21 413 510 627	22 525 085 906	13 469 330 269	13 610 231 602	7 944 180 358	8 914 854 304
225	Department of Police	34 105 465 944	37 422 200 000	29 867 571 611	32 244 700 000	4 237 694 333	5 177 500 000
226	Department of Immigration and Emigration	1 259 858 842	1 405 634 000	376 797 353	417 734 000	883 061 489	987 900 000
227	Department of Registration of Persons	287 154 199	393 023 000	155 881 020	171 073 000	131 263 179	221 950 000
228	Courts Administration	2 979 153 838	3 217 200 000	2 222 938 605	2 400 750 000	756 215 233	816 450 000
229	Department of Attorney General	497 682 768	625 353 375	361 200 987	403 622 500	136 481 781	221 730 875
230	Department of Legal Draftsman	48 706 818	51 625 500	41 733 084	43 190 000	6 973 733	8 435 500
231	Department of Debt Conciliation Board	4 677 599	5 439 000	4 566 646	5 289 000	110 953	150 000
232	Department of Prisons	2 770 680 727	3 089 950 000	2 462 572 171	2 629 750 000	308 108 556	460 200 000
233	Department of Government Analyst	301 404 221	325 945 000	60 563 215	64 525 000	240 841 006	261 420 000
234	Registrar of Supreme Court	67 705 322	78 981 000	64 223 157	71 631 000	3 482 165	7 300 000
235	Department of Law Commission	15 617 466	16 275 000	8 138 748	8 475 000	7 478 718	7 800 000
236	Department of Official Languages	66 920 642	79 861 000	51 589 015	59 111 000	15 331 627	20 750 000
237	Department of National Planning	100 680 783	187 849 000	49 169 174	56 245 000	51 511 609	131 604 000
238	Department of Fiscal Policy	1 553 148 852	2 056 180 000	1 552 203 654	2 054 525 000	945 198	1 655 000
239	Department of External Resources	329 080 587	360 585 000	320 157 046	340 976 650	8 923 541	19 588 350
240	Department of National Budget	55 409 406	3 874 426 632	51 326 639	436 446 885	4 082 767	3 437 980 747
241	Department of Public Enterprises	42 506 651	47 965 562	32 797 549	35 181 400	9 709 102	12 784 162
242	Department of Management Services	23 512 156	24 680 000	23 079 942	23 710 000	432 214	950 000
243	Department of Development Finance	2 311 251 489	5 895 086 700	166 412 947	175 685 000	2 144 838 542	5 819 401 700
244	Department of Trade, Tariff and Investment Policy	22 813 280	216 685 000	20 731 435	213 345 000	2 081 846	3 340 000
245	Department of Public Finance	30 412 681	32 824 000	23 076 231	23 709 000	7 336 451	9 115 000
246	Department of Inland Revenue	1 396 944 167	1 674 074 132	1 290 566 704	1 386 650 000	106 377 463	287 424 132
247	Sri Lanka Customs	3 528 698 681	4 476 371 300	1 247 658 369	1 655 100 000	2 281 040 311	2 821 271 300
248	Department of Excise	372 023 412	433 450 000	325 022 093	357 450 000	47 001 319	76 000 000
249	Department of Treasury Operations	592 689 348 263	612 653 040 000	213 253 576 055	217 174 745 000	231 462 855	395 478 295 000
250	Department of State Accounts	30 937 600	32 730 000	23 562 106	24 305 000	7 375 493	8 425 000
251	Department of Valuation	196 266 089	272 860 000	156 012 001	223 060 000	40 254 088	49 800 000
252	Department of Census and Statistics	558 183 615	1 075 425 000	441 889 187	469 075 000	116 294 428	606 350 000
253	Department of Pensions	84 825 490 359	84 999 200 000	84 795 926 627	84 965 850 000	29 563 732	33 350 000
254	Department of Registrar General	479 080 733	552 000 000	413 803 082	428 350 000	65 277 651	123 650 000
255	District Secretariat, Colombo.	462 627 292	500 050 000	343 316 375	349 783 000	119 310 917	150 287 000
256	District Secretariat - Gampaha	480 360 237	484 623 000	453 412 389	454 423 000	26 947 848	30 200 000
257	District Secretariat - Kalutara	445 467 557	475 612 500	376 289 608	385 662 500	69 187 949	89 950 000
258	District Secretariat - Kandy	582 023 319	619 050 000	512 020 051	542 250 000	70 003 268	76 800 000
259	District Secretariat - Matale	289 142 329	315 225 000	261 580 745	278 925 000	27 551 584	36 300 000
260	District Secretariat - Nuwara-Eliya	244 685 259	271 450 000	195 496 029	216 200 000	49 169 229	55 250 000
261	District Secretariat - Galle	501 315 411	507 810 000	459 852 197	462 610 000	41 463 214	46 200 000
262	District Secretariat - Mataara	421 309 301	441 450 000	373 760 205	385 311 700	47 549 096	56 138 300
263	District Secretariat - Hambantota	321 707 964	341 800 000	286 833 283	297 850 000	34 874 681	43 950 000
264	District Secretariat - Kachcheri - Jaffna	290 663 997	290 325 000	244 920 189	251 831 400	35 683 808	38 493 600
265	District Secretariat - Kachcheri - Mannar	97 462 535	115 940 000	67 796 907	81 840 000	29 665 628	34 100 000
266	District Secretariat - Kachcheri - Vavuniya	100 600 717	109 850 000	76 080 003	85 050 000	24 520 714	26 800 000
267	District Secretariat - Kachcheri - Mullativu	73 404 404	81 225 000	56 611 383	61 900 000	16 793 021	19 325 000
268	District Secretariat - Kachcheri - Kilinochchi	83 600 984	99 025 000	63 137 938	72 625 000	20 463 046	26 400 000
269	District Secretariat - Kachcheri - Batticaloa	279 327 251	290 450 000	222 228 781	227 800 000	57 098 470	62 650 000
270	District Secretariat - Ampara	410 434 887	446 775 000	363 322 500	379 125 000	47 112 387	67 650 000
271	District Secretariat - Kachcheri - Thimmaalee	186 078 069	201 649 155	162 430 429	173 299 155	23 647 940	28 350 000

Institution-wise Summary of Expenditure Accounts with Budgetary Provisions as at 31/12/2008 *Contd.*

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Head No.	Ministry/Department	Total Expenditure (Rs)	Total Provisions (Rs)	Recurrent Expenditure (Rs)	Recurrent Provisions (Rs)	Capital Expenditure (Rs)	Capital Provisions (Rs)
272	District Secretariat, Kurunegala	740,989,744	763,950,000	702,704,663	717,900,000	38,285,081	46,050,000
273	District Secretariat, Puttalam	336,804,085	346,200,000	296,514,030	299,900,000	40,290,055	46,300,000
274	District Secretariat, Anuradhapura	490,233,911	502,420,606	461,105,942	468,170,606	29,128,069	34,250,000
275	District Secretariat, Polonnaruwa	350,498,892	364,325,801	299,162,017	307,225,801	51,336,874	57,100,000
276	District Secretariat, Badulla	441,990,868	441,425,000	294,966,158	306,875,000	120,024,711	134,550,000
277	District Secretariat, Monaragala	278,607,135	345,511,504	215,413,228	221,161,504	63,193,907	124,350,000
278	District Secretariat, Rathnapura	334,353,441	351,150,000	313,424,497	320,950,000	20,928,944	30,200,000
279	District Secretariat, Kegalle	299,492,109	319,810,000	259,304,535	270,410,000	40,187,574	49,400,000
280	Department of Foreign Aid and Budget Monitoring	70,534,551	77,889,000	46,373,001	48,689,000	24,161,550	29,220,000
281	Department of Agrarian Development	3,101,095,056	3,532,530,000	2,449,922,807	2,458,670,000	651,172,249	1,073,860,000
282	Department of Irrigation	5,640,802,664	6,701,211,000	1,099,421,007	1,106,961,000	4,541,381,658	6,594,250,000
283	Department of Forest	988,520,483	1,130,460,000	627,616,365	687,460,000	340,904,119	443,000,000
284	Department of Wild Life Conservation	1,274,697,157	1,528,375,000	351,947,155	375,375,000	922,750,002	1,154,000,000
285	Department of Agriculture	1,784,871,106	2,046,960,000	1,526,159,804	1,631,500,000	258,711,302	415,460,000
286	Department of Land Commissioner	308,151,320	389,925,000	152,739,164	159,375,000	155,412,156	230,560,000
287	Department of Land Settlement	58,622,542	69,260,000	55,608,417	65,610,000	3,014,126	3,650,000
288	Department of Survey	1,399,705,818	1,523,636,000	1,330,517,045	1,441,229,000	69,188,773	82,407,000
289	Department of Export Agriculture	353,334,572	506,072,000	215,881,603	239,287,000	137,452,969	266,785,000
290	Department of Fisheries and Aquatic Resources	210,226,130	249,920,000	175,827,989	179,600,000	34,398,141	70,320,000
291	Department of Coast Conservation	268,137,147	322,150,000	96,857,036	100,400,000	171,280,111	221,750,000
292	Department of Animal Production and Health	480,693,046	755,295,000	237,303,263	270,070,000	243,389,783	485,225,000
293	Department of Rubber Development	606,972,411	652,691,000	139,003,379	145,380,095	467,969,032	507,310,905
294	Department of National Zoological Gardens	227,869,223	280,400,000	115,529,882	121,100,000	112,339,341	159,300,000
295	Department of Commerce	73,340,506	90,575,000	68,403,625	76,950,000	4,936,881	13,625,000
296	Department of Import & Export Control	36,664,951	37,924,000	31,907,850	32,224,000	4,757,101	5,700,000
297	Department of the Registrar of Companies	19,297,031	20,670,000	19,297,031	20,670,000	0	0
298	Department of Measurement Units, Standards Services	78,097,607	94,900,000	43,187,726	49,400,000	34,909,821	45,500,000
299	National Intellectual Property Office of Sri Lanka	12,564,729	15,150,000	12,564,729	15,150,000	0	0
300	Department of Food Commissioner	88,118,008	97,115,000	73,475,984	80,797,500	14,642,024	16,317,500
301	Department of Co-operative Development (Register of Co-operative Societies)	43,377,315	44,315,000	38,791,950	39,215,000	4,585,365	5,100,000
302	Co-operative Employees Commission	7,512,055	7,784,000	7,487,576	7,739,000	24,479	45,000
303	Department of Textile Industries	74,464,338	86,675,220	57,392,594	61,550,220	17,071,744	25,125,000
304	Department of Meteorology	326,283,490	503,992,000	127,273,000	129,992,000	199,010,489	374,000,000
305	Department of Up - Country Peasantry Rehabilitation	21,510,346	23,845,000	11,442,981	12,745,000	10,067,365	11,100,000
306	Department of Sri Lanka Railways	18,501,497,201	27,329,889,000	8,224,567,544	8,643,030,000	10,276,929,657	18,686,859,000
307	Department of Motor Traffic	934,507,316	1,935,720,000	613,346,536	651,420,000	321,160,780	1,284,300,000
308	Department of Posts	7,004,310,897	7,165,134,097	6,733,848,819	6,754,174,097	270,462,078	410,960,000
309	Department of Buildings	206,679,391	233,563,277	178,999,994	199,263,277	27,679,396	34,300,000
310	Government Factory	105,017,951	128,786,459	60,825,788	62,466,459	44,192,162	66,300,000
311	Department of National Physical Planning	487,903,041	584,000,000	122,141,643	132,000,000	365,761,398	452,000,000
312	Western Provincial Council	7,197,583,055	9,935,000,000	6,020,500,000	6,500,000,000	1,177,083,055	3,435,000,000
313	Central Provincial Council	13,644,354,837	15,608,000,000	11,940,750,000	12,950,000,000	1,703,604,837	2,658,000,000
314	Southern Provincial Council	11,326,089,393	12,893,000,000	9,604,000,000	10,200,000,000	1,722,089,393	2,693,000,000
315	Northern Provincial Council	8,743,158,793	9,849,000,000	7,517,500,000	8,100,000,000	1,225,658,793	1,749,000,000
316	North Western Provincial Council	13,134,537,115	15,043,000,000	11,500,750,000	12,500,000,000	1,633,787,115	2,543,000,000
317	North Central Provincial Council	7,492,337,634	8,709,000,000	6,067,500,000	6,500,000,000	1,424,837,634	2,209,000,000
318	Uva Provincial Council	9,143,311,379	10,459,000,000	7,684,000,000	8,250,000,000	1,469,311,379	2,209,000,000
319	Sabaregamuwa Provincial Council	9,830,864,280	11,493,000,000	8,336,500,000	9,000,000,000	1,494,364,280	2,493,000,000
320	Department of Civil Security	7,482,411,962	7,742,000,000	6,991,824,396	7,072,000,000	490,587,567	670,000,000
321	Eastern Provincial Council	9,512,310,512	10,561,000,000	8,101,500,000	8,500,000,000	1,410,810,512	2,061,000,000
322	Department of National Botanical Gardens	240,728,840	299,200,000	127,284,915	146,350,000	113,443,925	145,850,000
Total		1,412,850,193,890	1,580,440,518,332	736,472,605,258	767,421,315,987	287,173,279,278	813,019,202,345

Report of the Auditor General



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கணக்காய்வாளர் தனியார் திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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உமது இலக்கம் }
Your No. }

දිනය } 29 May 2009
திகதி }
Date }

Report of the Auditor General

The Audit of Financial Statements of the Government of the Democratic Socialist Republic of Sri Lanka for the year ended 31 December 2008 was carried out under my direction in pursuance of provisions in Article 154(I) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and the best accounting methods and practices relating to Public Sector Accounting. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation.

Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the financial statements have been prepared in accordance with Generally Accepted Accounting Principles give a true and fair view of the financial assets and liabilities of the Government of the Democratic Socialist Republic of Sri Lanka as at 31 December 2008 and the results of its operation and cash flows for the year then ended.


S. Swarnajothi
Auditor General

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