ANNUAL REPORT 2010

BEYOND BOUNDARIES.....

MINISTRY OF FINANCE AND PLANNING
SRI LANKA

ANNUAL REPORT

2010

MINISTRY OF
FINANCE AND PLANNING
SRI LANKA

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MINISTRY OF
FINANCE AND PLANNING
(AS AT 31ST MARCH 2011)

His Excellency the President Mahinda Rajapaksa
Minister of Finance and Planning

Hon. Gitanjana Gunawardana
Deputy Minister of Finance and Planning

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Secretary, Ministry of Finance and Planning
Secretary to the Treasury

P.A. Abeysekara
D. Vidanagamachchi
Deputy Secretaries to the Treasury

S. Fernando
Director General, Administration

Ms. T. de S.A. Wijayanayake
Legal Advisor

Ms. D.G.P.W. Gunatilaka
Tax Advisor

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

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(AS AT 31ST MARCH 2011)

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Department of National Budget
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A.K. Seneviratne - Additional Director General

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A. Kumarasiri - Additional Director General

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Department of Trade, Tariff and Investment Policy
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Department of Public Finance
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W.I. Tissera - Additional Director General

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W. Ekanayake - Director General
K.M. Jayatilake - Additional Director General

HEADS OF
DEPARTMENTS UNDER THE PURVIEW OF THE MINISTRY OF FINANCE AND PLANNING
(AS AT 31ST MARCH 2011)

Department of Inland Revenue
K.M.S. Kandegedara - Commissioner General

Department of Customs
Ms. S. Karunaratne - Director General

Department of Excise
D.G.M.V. Hapuarachchi - Commissioner General

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W.A.R.H. Wanshathilake - Controller

Valuation Department
P.W. Senaratne - Chief Valuer

Department of Census and Statistics
Ms. D.B.P.S. Vidyaratne - Director General

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

Central Bank of Sri Lanka
A. N. Cabraal - Governor
P.D.J. Fernando - Deputy Governor
K.G.D.D. Dheerasinghe - Deputy Governor

Securities & Exchange Commission of Sri Lanka
Ms. I. Sugathadasa - Chairperson
M. Cader - Director General

Insurance Board of Sri Lanka
Ms. I. Sugathadasa - Chairperson

Bank of Ceylon
G. Wickramasinghe - Chairman
B.A.C. Fernando - General Manager

People's Bank
W. Karunajeewa - Chairman
N. Wasantha Kumar - General Manager

National Savings Bank
P. Kariyawasam - Chairman
H. M. H. Bandara - General Manager

State Mortgage & Investment Bank
J. Wellawatta - Chairman
W.M. Dayasinghe - General Manager

Lanka Puthra Development Bank
U. Liyanage - Chairman
S. Edirisuriya - General Manager

Sri Lanka Savings Bank
A. Dhahanayake - Chairman
S. Weeratunga - General Manager

Housing Development Finance Corporation Bank
Ms. S. Wickramasinghe - Chairperson
S. Amerasekera - General Manager

Pradeshiya Sanwardane Bank
Ms. J. Kuruppu - Chairperson
R. Siriwardane - General Manager

National Lotteries Board
C. Athaluwage - Chairman
M.S. Karunaratne - General Manager

Development Lotteries Board
J.R.W. Dissanayake - Chairman
J.D.C. Jayasinghe - General Manager

Lady Lochore Loan Fund
Ms. G. Wimalaweera - Chairperson
U.G. Hewage - Manager Trustee

National Insurance Trust Fund
S. Abeygunasekera - Chairman

National Development Trust Fund
A. Dahanayake - Chairman
S. Weeratunge - General Manager

Employees' Trust Fund Board
K.M.A. Godawatta - Chairman
M.C.H. Gunarathne - Additional General Manager

Sri Lanka Insurance Corporation
G. S. Senerath - Chairman
N.B. Hapuhinne - General Manager

Sri Lanka Accounting & Auditing Standards Monitoring Board
P. Samarasiri - Chairman
A.S. Ratnayake - Director General

Public Utilities Commission of Sri Lanka
J. de Costa - Chairman
D. Kumarasinghe - Director General

Sri Lanka Social Security Board
N. C. Amarasinghe - Chairman
K.N.J. Cooray - General Manager

Sri Lanka Export Credit Insurance Corporation
D.P. Mendis - Chairman
D. Ranasinghe - General Manager

Local Loans & Development Fund
N.G. Dayarathne - Chief Executive Officer

Agriculture & Agrarian Insurance Board
Ms. S. Ariyadasa - Chairperson
P. Weerasinghe - General Manager

CONTENTS

SRI LANKA AT A GLANCE - 2005 & 2010

	2005	2010
GDP		
GDP at Market Prices (Rs.Bn.)	2,453	5,602
GDP at Market Prices (USD Bn.)	24.4	49.5
Services (USD Mn.)	14,155	28,640
Industry (USD Mn.)	7,368	14,594
Agriculture (USD Mn.)	2,885	6,344
Per Capita GDP at Market Prices (Rs.)	124,709	271,259
Per Capita GDP at Market Prices (USD)	1,241	2,399
Inflation - GDP Implicit Price Deflator (%)	10.4	7.3
Inflation - CCPI (%) (Annual Average)	11.0	5.9
Unemployment No. ('000)	623	401
Unemployment (%)	7.2	4.9
Labour Force Participation Rate (%)	49.3	48.1
STRUCTURE OF THE ECONOMY		
Share of GDP (%)		
Agriculture	17.2	11.9
Industry	27.0	28.7
Services	55.8	59.3
Sectoral Growth (%)	6.2	8.0
Agriculture	1.8	7.0
Industry	8.0	8.4
Services	6.4	8.0
EXTERNAL TRADE		
Exports (USD Mn.)	6,347	8,307
Imports (USD Mn.)	8,863	13,512
Trade Balance (USD Mn.)	-2,516	-5,205
Worker Remittances (USD Mn.)	1,948	4,116
Current Account Balance (USD Mn.)	-650	-1,418
Overall Balance of Payment (USD Mn.)	501	921

	2005	2010
GOVERNMENT FINANCE		
Revenue (Rs.Bn.)	380	817
Tax Revenue (Rs.Bn.)	337	725
Total Expenditure (Rs.Bn.)	585	1,280
Current Expenditure (Rs.Bn.)	444	937
Public Investment (Rs.Bn.)	225	357
Revenue Deficit/GDP %	-2.6	-2.1
Budget Deficit/GDP %	-8.7	-8.0
Revenue (USD Mn.)	3,779	7,233
Tax Revenue (USD Mn.)	3,352	6,414
Total Expenditure (USD Mn.)	5,819	11,329
Current Expenditure (USD Mn.)	4,412	8,293
Public Investment (USD Mn.)	1,479	3,153
Budget Deficit (USD Mn.)	-1,716	-3,939
TOTAL GOVERNMENT DEBT (USD Mn)	22,115	40,600
Total Debt Service (GDP %)	14.3	14.6
Total Government Debt (GDP %)	90.6	81.9
Domestic (GDP %)	53.5	45.8
Foreign (GDP %)	40.4	36.1
PROVINCIAL BUDGET		
Revenue (Rs.Bn.)	16.1	36.5
Tax Revenue (Rs.Bn.)	13.8	30.8
Expenditure (Rs.Bn.)	73.0	140.5
Central Government Transfers (Rs.Bn.)	59.7	107.0

	2005	2010
MONETARY SECTOR DEVELOPMENTS		
Narrow Money (Rs.Bn.)	592.9	407.2
Broad Money (Rs.Bn.)	822.9	1,813
Money Growth (M2b)	19.6	18.0
ACCESS TO BANKING & FINANCE		
Domestic Commercial Banks	11	11
Branch Network	1,090	1,391
Foreign Commercial Banks	11	11
Branch Network	35	46
Specialized Banks (Excluding RDBs)	8	8
Branch Network	170	270
Registered Finance Companies	28	37
Registered Finance Leasing Establishments	68	70
Specialized Leasing Companies	20	21
Regional Development Banks (RDB)	6	1
Branch Network	199	230
Insurance Companies	15	19
Long Term Business	1	2
General Business	1	5
Both	13	12
Unit Trusts	14	21
Student Savings Units	244	2,963
ATMS	n.a	2,009
Credit Cards Issued	637,326	778,489
Local	73,243	58,711
Global	564,083	719,778
Statutory Reserve Requirement (%)	10.0	7.0
Credit Institutions Reported to CRIB (2006)	93	89
Credit Rating Institutions	2	3

	2005	2010
ANNUAL AVERAGE EXCHANGE RATE		
Rs./USD	100.50	113.06
Rs./SDR	148.45	172.50

SUSTAINS TARIFF REGIME

2005		2010	
Duty free items	778	Duty free items	2,967
Duty below 2.5%	2,169	Duty below 5%	415
Duty below 6%	479	Duty below 15%	1,516
Duty between 15%	1,646	Duty between 30%	1,327
Duty between 28%	1,445	Duty between 75%	4
Duty between 50%	1	Duty between 100%	5
Duty between 75%	2	Specific	60
Duty between 100%	5	Specific & Advolarum	193
Total Line Items	**6,525**	**Total Line Items**	**6,487**

SRI LANKA AT A GLANCE - 2005 & 2010

Personal Income Tax (%)

2005		2011	
First Rs. 300,000	Free	First Rs. 500,000	Free
Next Rs. 300,000	5	Next Rs. 500,000	4
Next Rs. 200,000	10	Next Rs. 500,000	8
Next Rs. 200,000	15	Next Rs. 500,000	12
Next Rs. 200,000	20	Next Rs. 500,000	16
Next Rs. 200,000	25	Next Rs. 1,000,000	20
Balance	30	Balance	24

	2005	2011
Corporate Tax (%)		
Standard Rate	32.5	28
Taxable Income Less Than Rs.5.0 Mn.	20	12
Export Income	15	12
Economic Service Charge (ESC) (%)		
ESC Rate	0.5-1%	0.05-1%
(Any ESC Paid is Deductible from any Income Tax/Corporate Tax Payable)		
Value Added Tax (VAT) (%)		
Standard Rate	15	12
Exports	0	0
Luxury Rate	18	-
Nation Building Tax (NBT) (%)	-	2
Ports and Airport Development Levy (PAL) (%)	1.5	5
Customs Duty (%)		
Inputs/Raw Materials	0-2.5	0-5
Intermediate Goods	6 or 15	5 or 15
Finished and Luxury Goods	28	30

	2005	2011
Excise Duty		
Cigarettes (Rs. Per 1,000)		
Length below 60mm	1,640	3,465
Length 60-67mm	3,137	6,973
Length 67-72mm	5,088	9,811
Length 72-84mm	5,904	12,108
Length Exceeds 84mm	6,150	15,000
Motor Vehicles (%)		
Passenger Transport	0	0
Three - Wheelers		
Petrol	4	8
Diesel	14	15
Other Vehicles	15-115	8-138
Liquor Duty Structure		
(Rs Per Proof Liter)		
Coconut Processed/Molasses Arrack	336	863
County Made Foreign Liquor	.490	1,003
Malt Liquor (Beer) above 5% in strength	43.50	96
Malt Liquor Less than 5% in strength	27.50	80
Wine containing more than 4% in strength	200	718
Aerated Water (Per liter)	.6	6

	2005	2010
SOCIAL DEVELOPMENTS		
Life Expectancy at Birth	67.9	77.9
Infant Mortality (Per 1,000 Live Births)	11.2	8.5
Maternal Mortality Rate (Per 1,000 Live Births)	0.45	0.39
Crude Birth Rate (Per 1,000)	18.1	17.6
Crude Death Rate (Per 1,000)	6.5	6.2
Literacy (Overall % of Population)	92.5	92.5
Literacy Rate - Computer (% of Population)	9.7	75.0
Dependency Ratio (%)	49.4	48.4
MOTOR VEHICLE IMPORTS		
Motor Bicycles	193,411	221,832
Three-Wheelers	39,154	91,658
Tractors	26,106	18,077
Motor Vehicles for Transport of Goods	18,423	21,204
Passenger Van and Buses	2,229	2,766
Motor Cars	15,944	26,745
Special Purpose Motor Vehicles	661	277
ACCESS TO BASIC INFRASTRUCTURE		
Electricity to Households (%)	74.9	90.0
Pipe-borne Water (%)	30.8	39.0
Access to Safe Drinking Water (% of People)	80.0	87.3
Telecommunications		
Fixed Access Services (No.'000)	1,244	3,571
Cellular Phones (No.of Subscribers '000)	3,362	17,246
Internet & E-mail Subscribers (No.'000)	115	430
Postal		
Public Post Offices	4,041	4,058
Private Post Offices	663	684

	2005	2010
Roads		
Road Density (sq.km)	1.4	1.7
Village Coverage (%)	94	97
Total Road Length (km)	110,693	112,997
Ports		
Vessels Arrived	4,139	4,067
Total Container Handled (TEUs '000)	2,455	4,137
Total Cargo Handled ('000MT)	37,300	61,240
Transshipment Container (TEUs '000)	1,716	3,205
MEGA IRRIGATION SCHEMES		
(Extent to be newly cultivated - Ha)		
Deduru Oya Reservoir	-	8,515
Uma Oya	-	5,000
Rambukkan Oya Reservoir	-	3,500
Mahaweli System B (LB) Development Project	-	3,500
Urawa Diversion	-	3,100
Moragahakanda & Kalu Ganga	-	3,000
Yan Oya	-	2,600
Heda Oya	-	2,000

SRI LANKA AT A GLANCE - 2005 & 2010

	2005	2010
PROFESSIONALS		
Doctors (in-position)	9,070	14,125
Registered Medical Practitioners (in-position)	1,260	1,158
Dental Surgeons (in-position)	954	1,612
Engineers (Registered)	7,000	10,600
ACCESS TO BASIC NEEDS		
Health		
Private Hospitals	n.a	220
Public Hospitals	521	568
Beds	61,937	69,501
Primary Health Care Units	397	476
No. of Doctors	9,070	14,125
Total Employment Profile	46,162	51,252
Education		
Government		
Schools	9,723	9,675
Students	3,942,077	3,932,722
Teachers	189,234	215,692
Private & Pirivenas		
Schools	738	817
Students	161,435	179,435
Teachers	10,481	12,084
Access to Semi Permanent and Permanent Houses (% people)	89.2	89.2
WOMEN PARTICIPATION		
Women Population ('000)	9,950	10,404
Employed Women ('000)	2,383	2,575
Women Participation in the Labour Force (%)	30.9	31.2
Women in the Public Service ('000)	1,104	1,229
Unemployed Women (%)	11.9	7.7

	2005	2010
POVERTY		
Poverty Gap Index-PGI or PI (2006/2007) (%)	3.1	3.1
Poverty Head Count Index - HCI (%)	15.2	7.6
Average Daily Calorie Intake (Both poor and non-poor) (2006/2007)	2,325	2,118
Gini Co-efficient of Per Capita Expenditure	0.46	0.49
MEDIA		
Registered	90	112
Sinhala Newspapers (No.)	63	66
Tamil Newspapers (No.)	07	18
English Newspapers (No.)	20	28
Published	45	51
Sinhala Newspapers (No.)	28	30
Tamil Newspapers (No.)	06	10
English Newspapers (No.)	11	11
TV Stations	12	20
Government	3	6
Sinhala	2	2
Tamil	1	2
English	-	2
Private	9	14
Sinhala	5	7
Tamil	1	2
English	3	5
Radio Stations (No.)	32	52
Radio Channels - Government	20	21
Sinhala	13	14
Tamil	5	5
English	2	2
Private	12	31

	2005	2010
CAPACITY OF ON-GOING HYDRO POWER/THERMAL PLANTS (MW)		
Upper Kotmale Hydro Power	-	150
Norochcholai Coal Fired Plant	-	300
CEB	1,758	1,758
Hydro Power	1,207	1,207
Thermal Power	548	548
Other	3	3
Private Sector	651	1,059
Hydro Power	84	175
Thermal Power	567	842
Other	-	42

	2005	2010
STOCK MARKET		
Market Capitalization (Rs.Bn.)	584.0	2,210.5
Average Daily Turnover (Rs.Mn.)	482.0	2,396.0
All Share Price Index (ASPI)	1922.2	6,635.9
Milanka Price Index (MPI)	2451.1	7,061.5
Market Price Earning Ratio - end of the year (%)	12.4	25.2
Turnover to Market Capitalization (%)	19.6	25.8

Briefings

"Much remains to be won in the cause of freedom. There should be opportunity for our people to enjoy the victories and successes obtained by those in the countries of the developed world. Our aim should be the eradication of poverty.

For that, we need to expand employment opportunities. We must become a high income country by expanding the avenues for income generation. Our freedom will be sustainable only when the gap between the rural and urban sectors is removed, by further expanding services such as electricity, roads, telecommunication, education and healthcare.

... The country cannot be developed solely on popular decisions. Inconvenient and difficult decisions are also necessary for the nation's progress. It is the nation's responsibility to take hard and difficult decisions to bring light to the future of our children, rather than taking popular decisions that will lead them to darkness ahead."

H.E MAHINDA RAJAPAKSA, THE PRESIDENT OF SRI LANKA, 04 FEBRUARY 2011

"The Sri Lankan economy bounced back strongly in 2010, reflecting post–civil war optimism and the global recovery.

The outlook, too, is positive for healthy growth provided the fiscal consolidation process meets targets and the burgeoning inflation pressures are addressed. The medium term presents a need to greatly lift private investment, if the country is to reap the full rewards of the peace dividend."

ASIAN DEVELOPMENT OUTLOOK – 2011: ADB

"In the 19 months since the nation's civil war ended, stock prices are up nearly 250% and the rupee up 6%. Government debt is also in high demand: The difference between yields on a Sri Lankan dollar-denominated bond due in 2012 and similar U.S. Treasuries is just 3.5 percentage points, data from Barclays Capital show.

A year ago, that was spread closer to 6%. The potential here goes well beyond a boost in tourism. Sri Lanka's location within East-to-West shipping lanes is promising, and large areas of farmland and coastline in the northeast can be developed now that fighting has ended. The government, meanwhile, recently implemented tax cuts and other reforms aimed at boosting foreign investment. Adjusted for inflation, economic growth could be close to 8% this year, up from an average of 5% in the prior decade."

WALL STREET JOURNAL, 30 DECEMBER 2010

"There is a lot of potential in the industries. Globally, any investor who is coming here would look at it from a global perspective.

For agriculture, fisheries or livestock, depending on the sector the domestic consumer will constitute the main market. But industrial products and plantation products have to compete in the global market. So industrial development cannot be planned with a purely district or provincial perspective though we can distribute industries to different locations."

HON. BASIL RAJAPAKSA, MINISTER, ECONOMIC DEVELOPMENT, OCTOBER 2009

“Sri Lanka stands out as one of the oldest democracies and culturally diverse nations in the region...

The war is a thing in the past, and Sri Lanka now ranks as one of the most stable and safest places to do business.”

HON. SARATH AMUNUGAMA, SENIOR MINISTER OF INTERNATIONAL MONETARY COOPERATION, APRIL 2011

“Sri Lanka’s trade policy continues to be aimed at achieving greater integration into the world economy. In particular, Sri Lanka is seeking to attract foreign direct investment into the country to expand output and employment, and to enhance foreign market access for its products.

These objectives have been pursued through multilateral, regional, and bilateral trade negotiations, through an incentives regime geared at fostering production for export and encouraging investment, and through a number of development programmes to enhance productivity and improve infrastructure. Sri Lanka is progressing towards simplifying its business and trade regime with the objective of establishing a more business-oriented institutional framework, but some shortcomings remain.”

WORLD TRADE ORGANIZATION, TRADE POLICY REVIEW OF SRI LANKA, MAY 2011

“We have been asking for a simplified tax system for a very long time. We should applaud the Government for restructuring the tax system.

......The Government has shown the right way by reducing taxes. In fact, we were pleasantly surprised by the wide ranging and significant reforms that have been proposed and are currently being implemented.”

SUSANTHA RATNAYAKE, CHAIRMAN/CEO, JOHN KEELLS HOLDINGS (JKH), APRIL 2011

“Sri Lanka’s economy will continue its post-war resurgence and is expected to grow strongly in the immediate term. Although Sri Lanka should maintain moderate economic growth, Sri Lanka needs to enact important policy reforms to reach its full economic potential.

Sri Lanka has set the goal of improving its business climate, but must follow through with reforms to decrease bureaucratic red tape; increase transparency, particularly in government procurement; and increase the predictability of government policies. Sri Lanka must also continue to improve its fiscal discipline.”

US DEPARTMENT OF STATE, BUREAU OF SOUTH AND CENTRAL ASIAN AFFAIRS, BACKGROUND NOTE: SRI LANKA, 06 APRIL 2011

“Sri Lanka has emerged from a decades-long war, and is enjoying an economic revival.

It is currently the second-fastest growing Asian economy after China, a fact not lost upon the IMF, which recently upgraded Sri Lanka to middle income emerging market status.”

TEO CHEE HEAN, DEPUTY PRIME MINISTER AND DEFENCE MINISTER OF SINGAPORE, NOVEMBER 2010

“We at the IMF are pleased to have been able to support the strong recovery of the Sri Lankan economy,

but much of the success is due to the leadership of the government. The recovery has also been helped by the end of a long period of civil conflict. To the government of Sri Lanka, I would like to offer my best wishes for continued success in its economic policies”.

NAOYUKI SHINOHARA, DEPUTY MANAGING DIRECTOR, IMF, 25 FEBRUARY 2011

“After celebrating a wonderful new year filled with joy and peace,

it is high time that we start thinking business again. With GDP growth rates higher than inflation, highest tourist arrivals, and high foreign reserves, we are in an exciting period of economic development. Yes, this is Sri Lanka”.

ASOKA HETTIGODA, PRESIDENT, NATIONAL CHAMBER OF COMMERCE OF SRI LANKA (NCCSL), 31 JANUARY 2011

“..Sri Lanka has a solid foundation for progress, having shown strong GDP growth of roughly 6 percent per annum from 2004 to 2009.

We are impressed by the strong performance of Sri Lanka’s economy during the period, despite the internal conflict, the effect of Tsunami, and external shocks such as higher oil and food prices and the global financial crisis. We are also pleased to see that Sri Lankan firms have been increasingly able to climb the value chain in producing higher value-added products, taking advantage of both a skilled labor force and investments in technology.”

U.S. REPRESENTATIVE, WTO TRADE POLICY REVIEW OF SRI LANKA, 4 NOVEMBER 2010

“There was no doubt that Sri Lanka is on the throes of economic resurgence with surety of economic boom evidenced through positive indications prevalent.

...Most importantly, the future outlook for the nation is brightened by the strategic approach to national development adopted by the government, an approach that was amply demonstrated by the government’s budgetary proposals for 2011.”

RIENZIE T. WIJETILLEKE, FORMER CHAIRMAN, HATTON NATIONAL BANK, MARCH 2011

”Sri Lanka has what it takes to be the ’Wonder of Asia’ through inclusive growth acceleration... Implementing policies that promote the inclusion of all segments of society in the growth process, as envisaged in the Mahinda Chintana, which would be crucial. Sri Lanka has won the war,

now it must win the peace. Raising investments, improving productivity of those investments through innovation policies, skills development and macroeconomic stability will be important in getting there.”

MS. NGOZIOKONJO-IWEALA, MANAGING DIRECTOR, WORLD BANK, 25 DECEMBER 2010

"Whilst there is great potential for Sri Lanka to take off on a journey of spectacular growth and become a true miracle,

we are mindful of the immensity of the challenges to be overcome. If all Sri Lankans join our hands together and apply all our skills and strengths together we can be assured of success. It is a time to carefully but quickly examine the individual challenges and address them fast in a pragmatic manner devoid of any ideological baggage."

ANURA EKANAYAKE, CHAIRMAN, THE CEYLON CHAMBER OF COMMERCE, ANNUAL REPORT 2009/10.

"Under the leadership of the government and in close partnership with UN agencies, and other partners including NGOs,

the 'Humanitarian Catastrophe' predicted by some quarters, when almost 300,000 people escaped from the Vanni between January and May 2009 was averted."

NEIL BHUNE, UN RESIDENT CO-ORDINATOR, SRI LANKA, 8 APRIL 2010

"The success over the past two years has been extraordinary and Sri Lanka clearly surprised the World. As a country, Sri Lanka has been able to achieve the goal because we prepared for the post-war period, before the war ended and worked to the plan by displaying deep commitment. However, this is only the beginning.

There are huge benefits the entire country, including the North and the East, can look forward to, with the contribution expected from the North and the East. There is no shortcut to prosperity. Developing an economy, at national, provincial or even at village level, is a complex balancing act....The journey was marked with many obstacles, which we overcame. Every obstacle overcome, was a lesson learnt."

AJITH NIVARD CABRAAL, GOVERNOR, CENTRAL BANK OF SRI LANKA, 19 MAY 2011

"Sri Lanka's economic freedom score is 57.1, making its economy the 107th freest in the 2011 Index. Its score is 2.5 points higher than last year,

reflecting major gains in trade, monetary, and investment freedom. Sri Lanka is ranked 19th out of 41 countries in the Asia–Pacific region, and its score improvement is one of the 10 largest in the 2011 Index."

2011 INDEX OF ECONOMIC FREEDOM, HERITAGE FOUNDATION AND THE WALL STREET JOURNAL

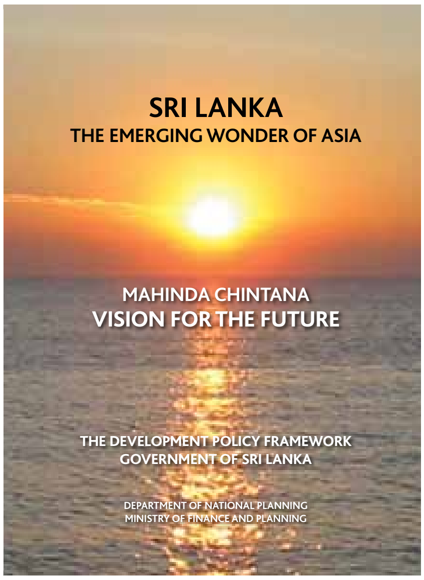
"We have a bold policy regime, the right infrastructure environment

and recognition of the necessary policy decisions to take the country forward."

P. B JAYASUNDERA, SECRETARY TO THE TREASURY, JANUARY 2011

01
DEVELOPMENT PERSPECTIVES

Economic Policy in Brief



The Development Policy Framework of the Government – "Sri Lanka Emerging Wonder of Asia: Mahinda Chintana – Vision for the Future" – presents the country's economic policy strategies, actions and the roadmap for the next six years. This policy framework which has been developed based on the key principles in the "Mahinda Chintana – Towards a New Sri Lanka, 2005" and the "Mahinda Chintana - Vision for the Future 2010," was tabled in Parliament along with the 2011 Budget in November 2010. The principle target of the strategy is to double the per capita income from USD 2,399 in 2010 in excess of USD 4,000 in 2016 in order to position Sri Lanka as a strong middle income country. The main economic targets that have been set in the policy framework are shown in Table 1.1 along with recent trends.

The economic development philosophy of Mahinda Chintana is that economic growth alone would not bring prosperity to the society but social, cultural, religious and environmental development are equally important. It blends social justice and economic viability as opposed to policies followed prior to 2005 which were either biased towards economic viability at a cost of social justice, or social justice at a cost of economic viability.

Table 1.1 > **Main Socio Economic Targets**

Target	Unit	2005	2010 (Est)	2010 Actual	2016 (Proj)
GDP	USD bn	24.4	49.1	56.0	98.0
Per Capita Income	USD	1,241	2,375	2,399	4,470
Inflation - GDP Deflator	%	5.7	7.0	7.3	4.0
Exports	USD bn	6.3	8.0	8.3	18.0
International Trade Turnover	USD bn	15.2	21.3	22.8	44.1
International Service Income	USD bn	0.3	0.6	0.7	2.6
Earnings from Tourism	USD bn	0.3	0.5	0.5	2.5
Remittances	USD bn	2.0	3.8	4.1	7.0
Access to Electricity	%	75	88	88	100
Access to Telecommunication	%	23.6	85	100.8	100
Women in Labour Force	%	32.6	34.3	31.2	40
Unemployment	%	7.2	5.3	4.9	3.2
Infant Mortality	Per 1,000	11.2	10.9	8.5	4.0
Maternal Mortality	Per 1,000	0.45	0.39	0.33	0.2
Poverty Headcount	%	15.2	7.6	7.6	4.2
Primary School Enrolment	%	95.0	98.0	99	100
Literacy Rate (15-24 years)	%	95.0	97.0	97	98.0
Literacy Rate -Computer	%	9.7	20.3	20.3	75.0

Source: Ministry of Finance & Planning

The development goals of the Government will be achieved by transforming the country to a modern, knowledge-based, environmentally friendly and well connected rural-urban network that benefits all citizens of the country through equitable access to development. The strategy is neither relied solely on the market economy nor the state intervention but on both. Building domestic economy and adding value to the national wealth are the important aspects of this development strategy.

The main strategies of this policy framework are as follows;

Creating a More Conducive Environment for Investment

Targeted annual investment level by 2016 is 33-35 percent of the GDP. Of this, 6-7 percent will be Government investment whereas the private sector, both domestic and foreign is expected to invest 27-28 percent of GDP. Government has taken several initiatives such as lowering interest rates, strengthening banking and non-banking financial institutions, reforming the tax system and other incentives to boost investment. Identifying and removing barriers to investment has also been given high priority. Benefiting from large-scale infrastructure investments, the private sector is expected to invest particularly in tourism, IT/BPO, skills development, urban development, agriculture, and manufacturing sectors.

Integrating into Global Economy through Five Hubs

Being located in a strategically advantageous position, Sri Lanka has huge potential to be a regional economic hub. The main pillars of Mahinda Chintana economic policy is based on the development of five well connected economic hubs which will integrate the domestic economy with the international markets, capitalizing the human as well as natural resources of the country. The Five Hubs – Naval, Aviation, Commercial, Energy and Knowledge will bring new investments opening into the country while generating productive employment opportunities.

Empowering Rural Economy

Villages have been identified as growth centres of rural economy rather than just a place for agricultural production. Gama Neguma along with the programmes such as Maga Neguma, rural electrification, community water supply, minor irrigation facilities etc. and Nenasala are the key rural development programmes that provide essential infrastructure, technology, information and thereby diversify rural livelihood opportunities.

Effective integration of rural economy with the emerging economic sectors in urban centres will be established. Increasing productivity and competitiveness of Small and Medium Enterprise (SME) sector is one of the strategies to achieve a regionally balanced development. The recent initiative of promoting households economic activities through the Divi Neguma programme strengthens the rural economic base.

Diversification and Growth of Regional Economies

The policy framework envisages transforming the economic landscape of each region to benefit from economic development initiatives of the Government. Based on uniqueness, resources, location and economic potentials, specific regional development initiatives have been formulated for each province.

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Detailed economic planning under these initiatives is being undertaken in collaboration with the Local Authorities, District and Divisional Secretariats, Provincial Councils and other line agencies. Major regional development programmes include; Rajarata Udanaya for North Central Province, Kandurata Navodaya for Central Province, Pubudamu Wellassa for Uva Province, Sabaragamu Arunalokaya for Sabaragamuwa Province, Uthuru Wasanthaya for Northern Province, Negenahira Navodaya for Eastern Province, Wayamba Pubuduwa for North Western Province, Ruhunu Udanaya for Southern Province and Ran Aruna for Western Province.

Urban Rural Connectivity

Constructing infrastructure facilities has been identified as an important aspect for maximizing benefits of mega development projects. Rural roads, rural electricity, small irrigation and usage of IT in rural sector are the main focus for improving urban rural connectivity.

A high priority has been given to improve road network, ports and aviation sectors to promote economic growth, reduce inefficiencies and for regionally balanced development.

Revitalizing Agriculture Sector

The high potential of the agriculture sector which has been neglected for many years in contributing to the economy has been recognized. Local agriculture production has been encouraged. Climate change implications and global food crises further encourage the country to improve the food security by adopting appropriate measures to develop the agriculture sector. Measures such as imposition of cess on selected imports, introduction of loan schemes, value chain development and strengthening extension services have been taken to protect and promote local producers. Remunerative prices for rice, maize, onion, potato and milk producers have been established. Fertilizer subsidy scheme introduced to paddy farmers that kept the price of fertilizer at Rs. 350 per 50kg bag since 2005 todate has been extended to other crops as well. Action has been taken to make the fertilizer available in local market at a concessionary price of Rs. 1,200 per 50kg bag for other crops as well.

Expanding Production, Efficiency and Quality of Domestic Industries

High performance of milk, sugar, fisheries, spices and fruit based industries is one of the strategic goals. This will enhance farmer income, generate new employment opportunities and cut down the cost of import.

Globally Competitive Industrial Sector

The availability of high quality infrastructure and skilled human resource has been identified as one of the main strategies to develop industrial sector in the country.
As the country elevates to strong middle income status, there will be a shift from labour intensive, low-paid industries to high value added, high-tech and capital intensive industries. Particular emphasis is on industries based on local raw materials to create large value addition.

Meeting Energy Needs of the Country

While ensuring 100 percent electricity coverage in the household sector, the demand of the other sectors has to be met in cost-effective manner.
The proposed economic hubs will create an incremental demand for energy and the cost has to be affordable for the industries to be competitive in the global market. The appropriate energy mix which ensures the lowest possible cost is proposed in the policy framework. This includes renewable energy such as wind, solar, hydro, coal, LNG and other low-cost sources.

Knowledge-based Economy

The vision is to drive the economy towards a knowledge-based economy benefiting from the higher educational level of the country and to harness global knowledge and apply it to the development of all sectors. For this, the country must develop its science and technology and high quality human resource to meet the requirements of knowledge economy. Particular emphasis will be given to information, biological, material and automation technologies. Establishment of world-class higher educational and research institutions in the country will be facilitated.

Strategic Reorientation of State Owned Enterprises (SOEs)

Improving performance of SOEs through management reforms is important for the sustainability of these institutions and ensuring social responsibility and their strategic role in the economy. The Government will not privatize SOEs but improve them through management reforms with the support of private sector.

Integrated Water Management

Currently, about 80 percent of surface irrigation water is used for the irrigation purposes. The demand from other users such as industries is expected to be increased rapidly in next six years. This necessitates increasing water use efficiency in irrigation and tapping non-conventional modes of water supply effectively. This includes water recycling, large scale rain water harvesting systems, desalination etc. A consistent investment on drinking water is assured to achieve the target of 95 percent safe drinking water coverage by 2015.

Environmentally Friendly Urban Development

Government aims to develop a network of cities and townships which are well connected with each other and the rest of the world. Colombo and other main cities are to be developed as green cities. Solid waste management, drainage and sewerage facilities, implementation of zoning plans, developing systematic transport facilities and minimizing traffic congestions are the main thrusts identified in the urban sector.

Sports Economy

Major sport events will boost the economy and global image of the country. This type of activities allows a country to cope up with wide range of issues which in turn help to accelerate economic development. Major sport events boost tourism, improve infrastructure, organizational capacity and media coverage etc.

International level sport related professionals such as trainers, coaches, umpires, physiotherapists, etc. can also be a valuable asset in this sector. In the backdrop of this comprehensive policy regime, the year 2010 was expected to lay the foundation for such development aspirations. Towards realizing this goal, internationally accepted stadiums and other sport related infrastructure have been developed at provincial level and national level to promote a sport-based economy.

Self Economy – Divi Neguma

The one million home economy units (backyard economies) programme has been designed to encourage a wide range of economic activities spanning from gardening, vegetable/fruit cultivation, environment friendly living arrangements, home based industries, and services etc. to insulate households from various market vulnerabilities on their living as well as to promote healthy family lifestyles, particularly of rural Sri Lanka.

Macroeconomic Overview

The Sri Lankan economy registered an impressive growth rate of 8 percent in 2010 with strong performance in all three sectors of agriculture, manufacturing and services thereby recovering robustly from the lower growth rate of 3.5 percent recorded in 2009. This was the second highest annual growth rate achieved since the independence in 1948. With this encouraging performance, the country's per capita income has increased to USD 2,399 in 2010 from USD 2,057 in 2009.

The economic growth in 2010 was underpinned by a number of major factors;

- the steady recovery of domestic economic activity and the enhanced investor confidence in the midst of extremely peaceful environment in the country following the successful completion of the humanitarian operation in May 2009
- the post-conflict economic re-integration of Northern and Eastern provinces
- Government's committed efforts in resolving infrastructure bottlenecks while continuing rehabilitation, reconstruction and livelihood restoration activity in the conflict affected areas
- pursuance of conducive policies which are blended from past mistakes, prevailing conditions and emerging developments in the domestic and international arena
- improved macroeconomic conditions and
- the gradual recovery of the global economy from one of the deepest economic recessions, which was originated consequent to the global financial crisis experienced in 2008.

Real Economy Growth

In 2010, the Agriculture sector grew by 7 percent compared to the lower growth of 3.2 percent recorded in 2009 thereby strengthening the supply side of the economy to reduce inflation while providing employment opportunities, particularly for the people in the rural sector. Reflecting the gradual recovery of domestic and external demand, the Industry sector indicated a growth rate of 8.4 percent, the highest since 2002, supported by a healthy growth in all the sub sectors in the economy.

The Services sector, the largest component of GDP, accounting for 60 percent, grew by 8 percent from about 3.3 percent in 2009 achieving the highest ever annual growth since 2002. This growth particularly reflected the signs of gradual exploitation of the potential of the sector, particularly such areas as tourism and finance, in the post conflict era supported by the gradual recovery of the global economy. Accordingly, all the sub sectors such as, hotels and restaurants, transport and communication, banking, insurance, real estate as well as wholesale and retail trade recorded promising high growth rates during the year. In addition, port related activities also recovered gradually.

Low Inflation

Inflation, as measured by the annual average change in the Colombo Consumers' Price Index (base=2002) (CCPI), remained low during the year at single digit levels and ended up recording 5.9 percent in 2010 in comparison to 3.4 percent in 2009. The favourable supply side developments, lowering of certain administered prices, and downward revision of import duties on selected items as well as prudent monetary policy stance were mainly attributable to the lower level of inflation in 2010.

Declined Interest Rates

The market interest rates continued to decline in 2010 with the lower inflation and the continuous easing of the monetary policy stance of the Central Bank by further reducing its policy interest rates i.e. Repurchase and Reverse Repurchase rate, in the wake of lower inflation outlook to spur the credit growth to support economic activity. The yield rates of Government securities also declined following the easing of the monetary policy stance of the Central Bank. Accordingly, the yield rates at the primary Treasury bill market declined by 49, 138 and 178 basis points for 91 days, 180 days and 364 days maturity respectively. Meanwhile, the yield rates for Government securities with longer maturities were also declined considerably.

In 2010, the Government was able to issue a 10-year Treasury Bond, facilitated by the favourable macroeconomic environment thereby extending the yield curve for Government securities. The Government also issued Sri Lanka Development Bonds (SLDBs) at relatively lower yield margins for longer maturities, i.e with interest rates of six month LIBOR plus a spread ranging from 350 basis points to 395 basis points with maturity periods of two to three years. Meanwhile, Sri Lanka successfully concluded its third international sovereign bond issue of USD 1,000 million in 2010 with a maturity period on ten years benefiting from the improved domestic economic conditions and the improvement in foreign investor confidence as a result of the peaceful environment prevailed in the country, upgrading of the country's sovereign rating[1] and the continuation of the Stand-By Arrangement (SBA) facility with the International Monetary Fund (IMF). The interest rate applicable on this ten year international sovereign bond was 6.25 percent compared to the similar bonds issued in 2007 and 2009 with interest rates of 8.25 percent and 7.25 percent, respectively with a maturity period of five years. The continuous issuance of sovereign bonds has enabled Sri Lanka to gradually but steadily position itself in the international financial markets, which will be beneficial to the country in the future in searching avenues to meet financing requirements as a middle income country. Meanwhile, the non-resident investments in rupee denominated Government securities were also increased considerably in 2010.

In responding to the reduction of policy interest rates by the Central Bank, the deposit and lending rates were also declined. Accordingly, the Average Weighted Deposit Rate (AWDR) of the commercial banks declined by 178 basis points to 6.23 percent while the Average Weighted Lending Rate (AWLR) also declined significantly by 261 basis points to 14.8 percent by end 2010. Benefiting from the lower interest rates and reflecting the gradual recovery of economic activity, private sector credit, on a year-on-year basis, increased significantly by 25 percent in 2010 reflecting a strong rebound from the decline recorded in 2009.

Favourable External Environment

The gradual recovery of the global economy, improved conditions in the international financial markets as well as favorable domestic macroeconomic conditions reinforced the continuous recovery of the external sector in 2010. The imports rebounded strongly with higher intermediate and investment imports. Exports were also recovered strongly. It is particularly noteworthy that Sri Lanka was able to enhance its exports to major destinations although the concessions under the Generalized System of Preferences Plus (GSP+) were withdrawn in August 2010. Despite the fact that higher import expenditure than the earnings from

1 Fitch Ratings Service has assigned the country's long-term foreign and local currency Issuer Default Ratings at "B+" with a "positive" outlook. S&P has raised its long-term foreign currency sovereign credit rating on Sri Lanka to "B+" from "B" while affirming the "stable" outlook. Meanwhile, Moody's Investors Service has assigned a "B1" foreign currency issuer rating to Sri Lanka with "stable" outlook.

exports widened the trade deficit, it was offset to a certain extent by the earnings from the tourism and increased inflow of worker remittances. These two sources have generated USD 4,691 million in 2010 in comparison to USD 3,679 million in 2009. Hence, the deficit in the current account was limited to 2.9 percent of GDP. Furthermore, the enhanced inflows to the capital and financial account helped the balance of payments (BOP) to record a high surplus of USD 921 million in 2010. With this, the country's gross official reserves (excluding ACU receipts) were strengthened further to USD 6,610 million in 2010, an amount equivalent to 5.9 months of the country's imports. With the enhanced foreign exchange inflows, the rupee appreciated gradually by 3.09 percent to Rs. 110.95 per US dollar during 2010.

Financial System Stability

The financial sector of the country also showed an improved performance in 2010, leading to further strengthening of the financial system stability thereby enhancing public confidence. During the year, various concerns and stresses that had arisen in 2008 and 2009 as a result of certain domestic and external shocks were resolved. The increase in financial transactions to facilitate the growing economy was displayed by the bank as well as the non-bank financial institutions. Moreover, all the leading indicators of financial institutions, markets, payment systems as well as safety nets reflected the improved performance in the financial sector.

New Employment Opportunities

The unemployment rate declined to 4.9 percent in 2010 from 5.8 percent in 2009. The enhanced employment opportunities due to the growth in all sectors in the economy following the post-conflict investor confidence and growing opportunities in the economy as well as the increase in overseas employment opportunities for Sri Lankans were the major factors attributable to this improvement.

Improved Fiscal Sector

The fiscal sector indicated a strong recovery in 2010. The overall budget deficit was reduced to 8.0 percent of GDP from the high deficit of 9.9 percent in 2009 reflecting the efforts made by the Government to strengthen the fiscal consolidation. This was also supported by the recovery of domestic economic activities in the extremely peaceful environment in the country, which reduced defence expenditure/GDP ratio to 3.4 percent from 3.9 percent in 2009, the improved macroeconomic conditions which reduced interest payments/ GDP ratio to 6.3 percent, the strong recovery in imports that increased to USD 13,512 million in 2010 from USD 10,207 million in the previous year and the continuation in global economic recovery. During the year, a number of measures were introduced aiming at rationalizing the tax system, supporting the domestic economic activity and helping to keep domestic prices stable. These included the lowering of the tariff structure to a four band system, exemption of customs duty on import of plant and machinery and raw materials, reduction of tax on certain raw materials, removal of surcharge of 15 percent on customs duty payable on imported goods, reduction of excise duty on motor vehicles by about 50 percent, granting of excise duty concessions on certain items, revision of Cess rates applicable on certain items, revision of Special Commodity Levy (SCL) considering the improvement in domestic supply of certain items to support the domestic agriculture, and removal of excise duty on LP gas and import duty on diesel to mitigate the impact of rising internal prices.

Sri Lanka successfully concluded its third international sovereign bond issue of USD 1,000 million in 2010 with a maturity period on ten years...

Meanwhile, efforts to implement public investment programme in excess of 6 percent of GDP were also continued.

Revenue on Track

Total revenue of the Government in 2010 grew by 16.8 percent to Rs. 817 billion, therby meeting the budgetary target. In particular, the revenue from Value Added Tax (VAT) and excise duties increased to 3.9 percent and 2.3 percent of GDP, respectively reflecting mainly the recovery of domestic economic activities. However, the revenue from import duties declined to 1.1 percent of GDP reflecting the concessions granted on various imported items. As a percentage of GDP, total revenue increased marginally to 14.6 percent in 2010 from 14.5 percent in the previous year.

Managed Operational Expenditure

In 2010, the recurrent expenditure increased by 6.5 percent to Rs. 937 billion over that of 2009. However, as a percent of GDP, recurrent expenditure indicated a significant decline to 16.7 percent from 18.2 percent in the previous year. Interest payments, as a percentage of GDP declined marginally to 6.3 per cent. However, domestic interest payments declined considerably to 5.3 percent of GDP, particularly reflecting the favorable impact of low interest rate regime. Meanwhile, the non interest recurrent expenditure declined significantly to 10.4 percent of GDP from 11.8 percent in 2009.

Committed Public Investments

The Government continued its public investment programme in 2010 despite many challenges faced in fiscal management. This reflected the high level of commitment of the Government in resolving infrastructure bottlenecks to facilitate private sector investment to achieve a sustainable high growth and reduce regional economic disparity. Accordingly, public investment was maintained at 6.4 percent of GDP (Rs. 356,519 million) in 2010 while continuing both the mega infrastructure development projects and projects in the emerging regions.

Deficit Financing and Government Debt

The budget deficit in 2010 was financed through both domestic and foreign funds. There was a net repayment of Rs. 1.9 billion to the banking system compared to the net borrowing of Rs. 49 billion in 2009. This will reduce the demand pressures in the economy while freeing more resources to the private sector. Meanwhile, the Government debt to GDP ratio resumed its declining trend in 2010 from the high level of 105.6 percent recorded in 2002 and reached 81.9 percent.

Medium Term Direction

The Government has clearly expressed its commitment to strengthen the fiscal consolidation process further in the medium term. In this context, far reaching measures, particularly the broad-based tax reforms, which were in Budget 2011, have already been introduced.

Major Challenges

International Petroleum Price Movements and Continuation of High Prices: Sri Lanka, being a country which is largely dependent on oil imports, presently spends about USD 3 billion on importation of oil, which is about 40 percent of its export earnings. This makes the country vulnerable in terms of the performance of balance of payments and other macroeconomic variables. Therefore, making both supply side and demand side adjustments with appropriate measures, including the followings, to face this situation is a major challenge.

a. Making an early shift towards alternative energy use to reduce reliance on fuel based power consumption
b. Enhancing energy conservation through proper demand management policies to eliminate hidden subsidies on private transport
c. Improving systematic traffic management to cut waste
d. Creating an efficient urban public transport system

Chart 1.1 > **Monthly Average Crude Oil (Brent) Prices 2007 - 2011 April**

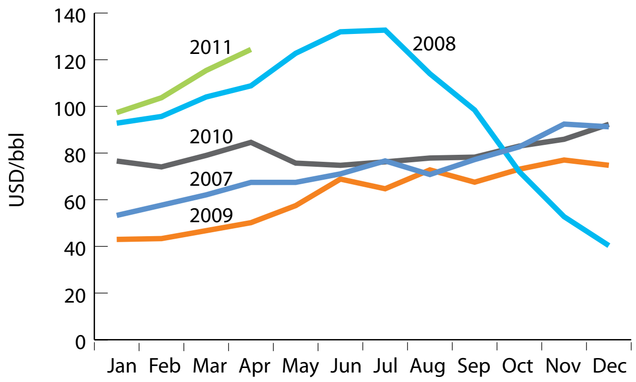


Chart 1.2 > **Composition of Ageing Population**

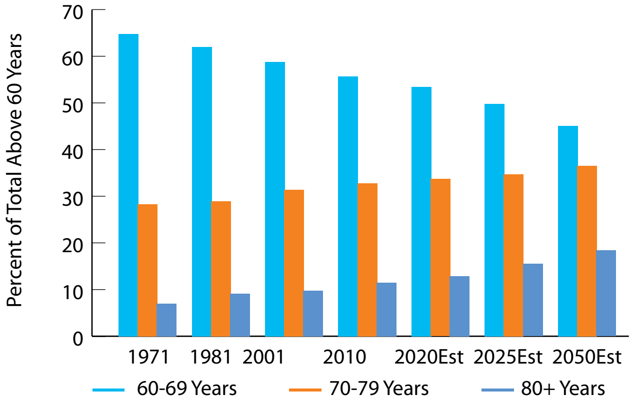
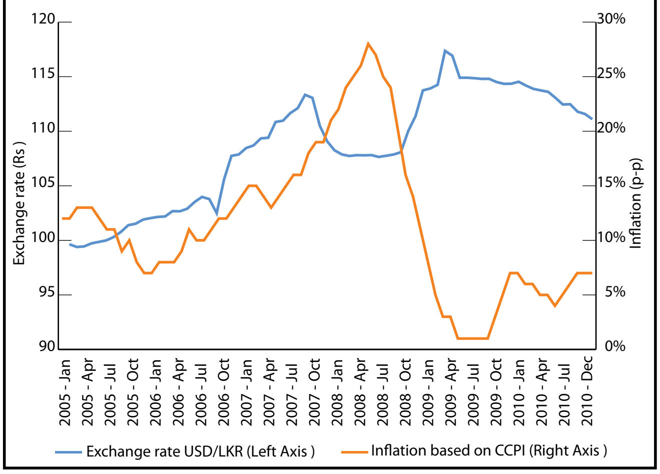


Chart 1.3 > **Exchange Rate and Inflation: 2005-2010**



Food Security and Inflation: The trends in global commodity prices and continued rising demand from emerging economies for food commodities is a challenge for small economies like Sri Lanka in managing inflation. While monetary–fiscal coordination is essential in managing credit demand, vulnerability in food prices makes monetary policy actions less effective. Hence, removal of supply side constraints for food production must receive high priority. In this context, the Government initiatives such as "Divi Neguma" are laudable in making households less vulnerable for market fluctuations. It is essential that food agriculture, livestock and fisheries are placed on an aggressive production drive to see success in inflation management and food security.

State Owned Enterprises and Fiscal Sector: The performance of state owned enterprises (SOEs) requires considerable surveillance to improve their finances. Critical assessment of financial performance and annual accounts underscore the vulnerability of country's fiscal performance for underperforming state enterprises. The appointment of competent senior management teams, particularly in respect of finance, procurement and human resources together with commitment, control based budget management practices and required adjustments to emerging market conditions need to be respected in the performance of state enterprises. In particular, a strong discipline in financial management in SOEs is essential for rapid growth.

Emerging Shift Towards Service Based Consumption: In the context of rising middle income status, the consumption pattern of the consumers is shifting towards increased reliance on electricity, water, telephones, fuel and transport, gas, consumer durables, fast food items and less weight on primary consumer items, thus requiring the society a steady flow of income. Ageing population particularly requires social security systems to cope up with such challenges. Growing incidence of Non Communicable Deceases will require urgent preventive health care systems as well.

Exchange Rate and Inflation: Inflation is a combine occurrence of supply shortfalls, particularly in food (both production and distribution issues), and demand pressures emanating from both public and private sectors. Monetary policy actions without the support of highly productive real economy cannot counter inflation. Also, increased exports and reduction in imports through sufficient investments in import replacement industries is essential to sustain a stable exchange rate.

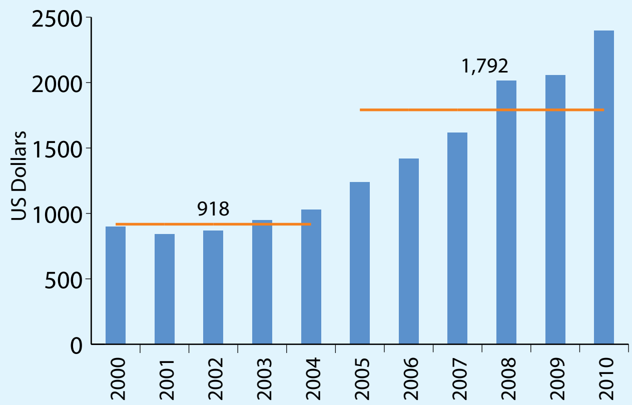
Box 1.1
Mahinda Chintana - Towards New Sri Lanka: 2005 - 2010 A Success Story

Sri Lanka has emerged strongly as a middle income country with promising outlook. The 2005 - 2010 period witnessed the ending of a 26 year long terrorist insurgency placing the country on a path of peace, reconciliation and rapid development. This period also characterized with a higher public investment in the development of lagging infrastructure such as power generation, ports, irrigation, roads and water supply while also concentrating on rural infrastructure development. The economy too demonstrated its resilience in the midst of unprecedented internal and external challenges stemming from climatic changes, oil price hike, global financial crisis and food price inflation.

The economy sustained an average growth of 6.4 percent during the period of 2005-2010 enabling the country to move its per capita income from USD 1,241 in 2005 to USD 2,399 in 2010. The unemployment has declined to a lowest level of 4.9 percent from 7.2 percent in 2005 and people who live below the poverty line declined from 15.6 percent in 2005/6 to 7.2 percent in 2009/10.

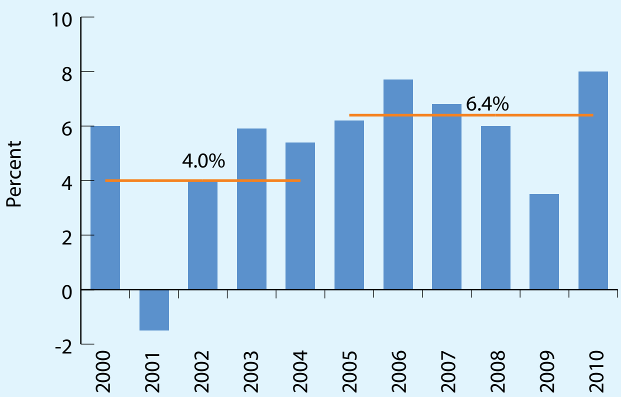
Per capita income has almost doubled within just 6 years, a remarkable achievement compared to the time that it took to reach the US dollars 1,000 mark.

Chart 1.5 > **Per Capita GDP**



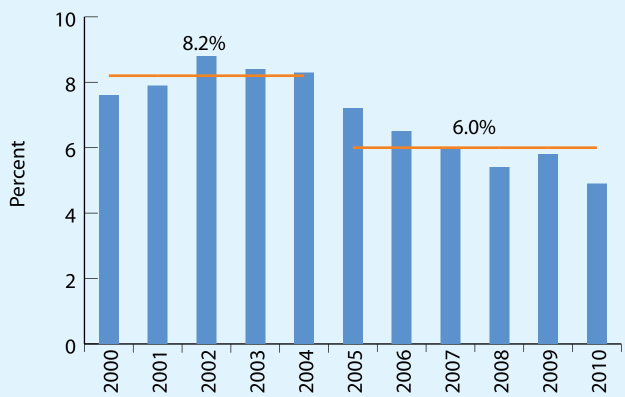
Economic growth has been sustained above 6% despite many challenges, complemented by sound policies followed under the Mahinda Chintana.

Chart 1.4 > **GDP Growth**



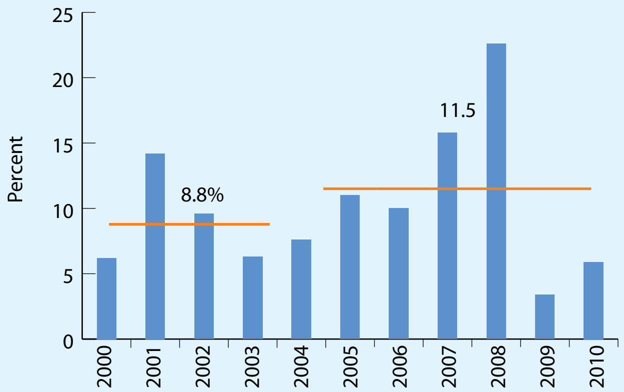
Growth in the economy and enhanced opporunities have increased the level of employment thereby reducing the unemployment steadily.

Chart 1.6 > **Unemployment**



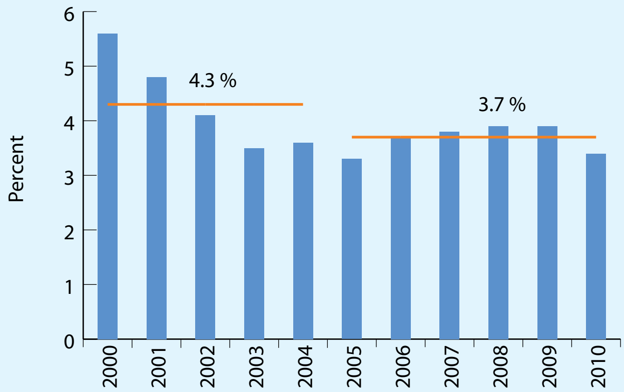
Inflation has brought down with appropriate policies and measures despite one time aberation experienced in 2008 due to high international commodity prices.

Chart 1.7 > **Annual Average Inflation**



The average level of defence expenditure is relatively low during 2005-2010 showing the efficient utilization of resources in fighting the decisive war against terrorism.

Chart 1.9 > **Defence Expenditure (% of GDP)**

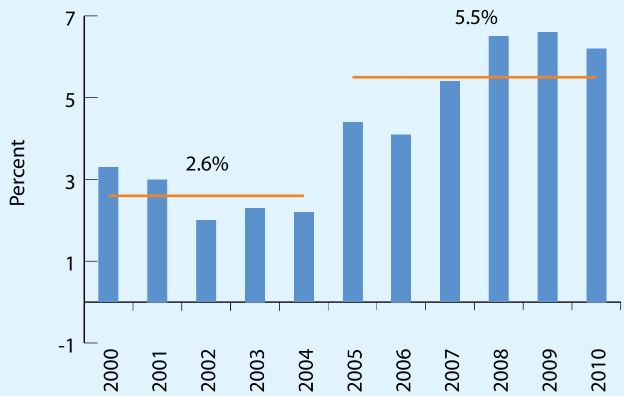


Macroeconomic conditions have turned in to a favourable direction as reflected by low inflation, low interest rates, stable exchange rate and robust financial system. Government also restored fiscal plans addressing several underlying macro fiscal issues to contain budget deficit at an average level of 7.6 percent of GDP during 2005-2010 period in comparison to 8.6 percent before. This direction will be conducive to move towards achieving a lower deficit of 5 percent of GDP over the medium term and reduce debt to GDP ratio to 70 percent. The investor confidence has increased significantly as reflected in the strong performance of the Colombo Stock Exchange with the market capitalization expanding from Rs. 584 billion in 2005 to Rs. 2,211 Billion in 2010. Private investment in the country is gradually picking up and the international operations are being continued at a renewed pace.

Meanwhile, keeping to the long standing democratic governance, the country went through elections for 8 Provincial Councils, Parliamentary elections as well as Presidential election which re-affirmed continuity in Government and political stability in the country,

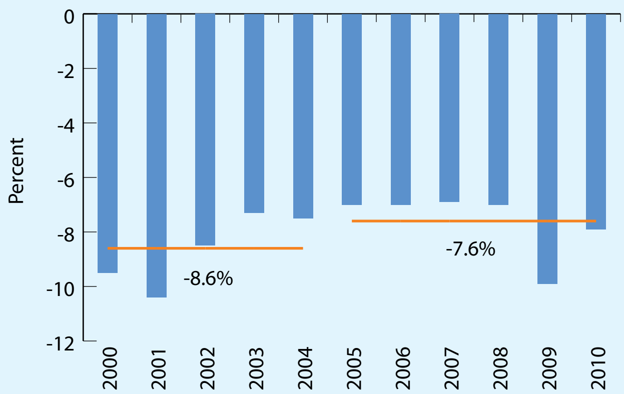
Government investment has maintained at about 6% of GDP, with a strong commitment to resolve infrastructure bottlenecks to facilitate private sector led economic growth.

Chart 1.8 > **Government Investment (% of GDP)**



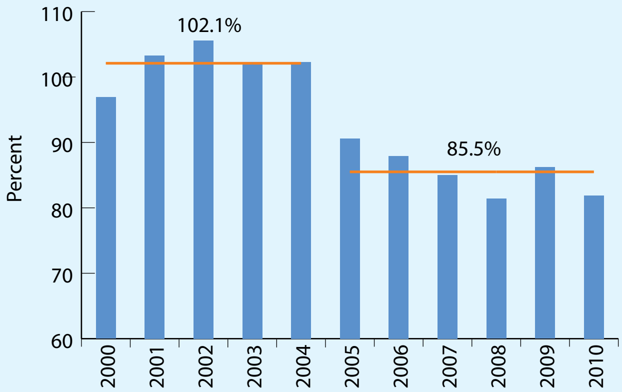
Fiscal consolidation process has strengthened resulting in a lower average deficit during 2005-2010 despite the drawback in 2009 due to global economic recession.

Chart 1.10 > **Overall Budget Deficit (% of GDP)**



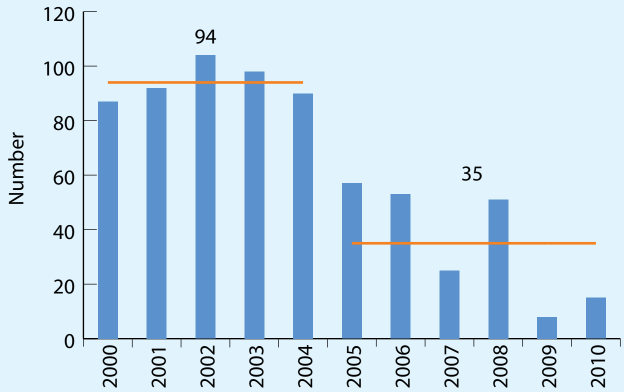
Decline in Government debt to GDP ratio is significant, which reflects the gradual improvement of the country's ability to repay debt.

Chart 1.11 > **Government Debt (% of GDP)**



The marked decline in the number of strikes in the private sector industries reflects the improved industrial relations during the 2005-2010 priod.

Chart 1.13 > **No. of Strikes in Private Sector Industries**

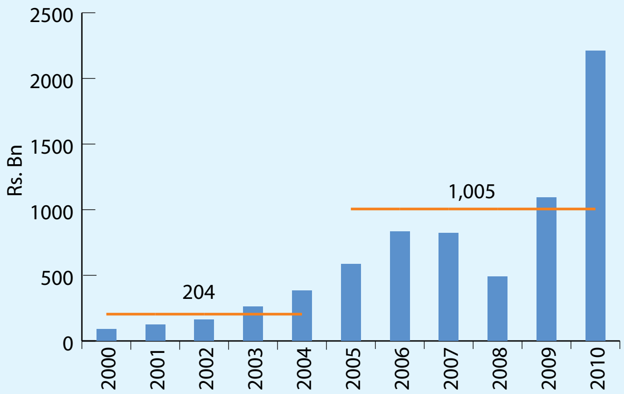


providing an overwhelming majority of the people's votes for the President and People's Freedom Alliance, led by His Excellency the President. The stability in both the Executive and the Parliament has created conducive environment to take the economic development forward. All these positive developments paved the way for Sri Lanka to consolidate as a 'Middle Income Emerging Market' with annual growth reaching to a 30 year record high level.

The long years of human sufferings and the destruction of the country's resources ended with the completion of the humanitarian operation in May 2009. Since then, the Government commenced relief, rehabilitation and reconstruction programmes in the conflict affected areas to build peace, reconciliation and rapid development in the country. Welfare assistance was provided to all displaced people who were looked after at several camps followed by a resettlement initiative in line with demining programme in the area. Demining programme, led by Sri Lanka Army and several non-Governmental agencies, cleared 793 km^2 by end March 2011 concentrating farm lands, public places and access roads etc. By end April 2011, about 277,351 out of 295,136 displaced people during the final phase of humanitarian operation have been resettled with continuous livelihood support.

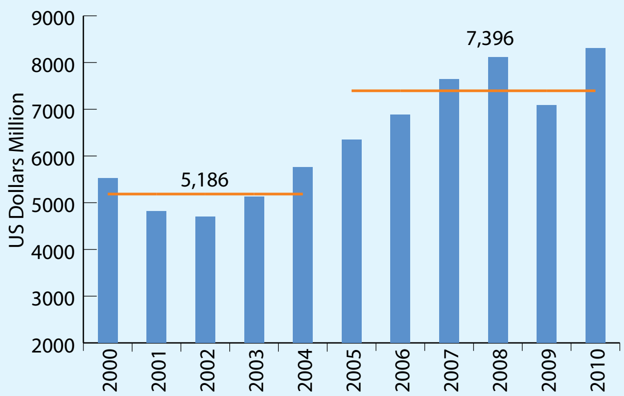
Post conflict boost in both the domestic and international investor confidence has increased the market capitalization and daily turnover.

Chart 1.12 > **Market Capitalization (Rs. Bn)**



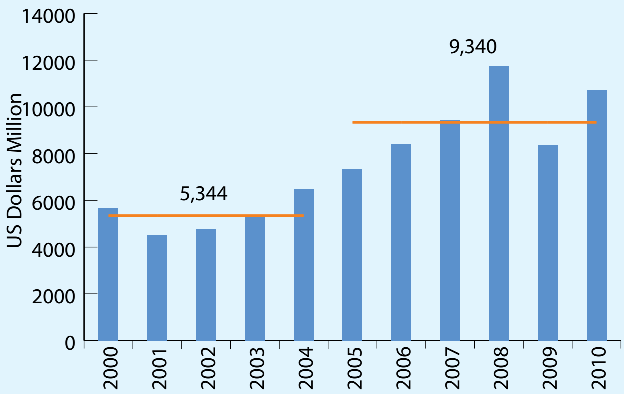
Exports are growing despite various challenges like non renewal of GSP+ facility, reflecting the dynamism of local exporters, supported by conducive policies.

Chart 1.14 > **Exports**



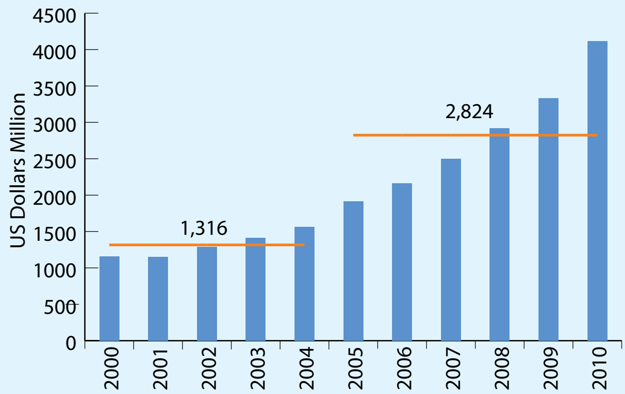
Intermediate and investment good imports are increasing showing the enhanced investments as well as the gradual transformation of the country's industrial base.

Chart 1.15 > **Intermediate and Investment Good Imports**



Inward remittances have become the second largest forex earning source, helping to finance the trade deficit to a considerable extent.

Chart 1.17 > **Remittances**



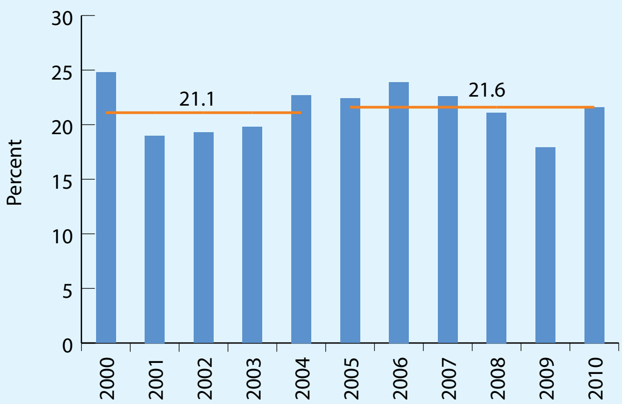
The Government also mobilized long term loans to the value of about USD 2 billion for the reconstruction of lost infrastructure, including Northern sector railway lines (Medawachchiya – Thalaimannar section as well as Vavuniya – Kankasanthurai section), Northern highways (A-9 & A-15) and provincial roads. Development expenditure has also been channelled to restore all co-operative society buildings, storages, schools, hospitals access roads, irrigation systems, local authority facilities, Government offices, court houses, police stations, to create an enabling environment for normal life and economic development. The expenditure incurred on various development programmes totalled to Rs. 32 billion in 2010. The Government, with the assistance of development partners has taken many measures to develop and restore life in the areas affected by the decades-long conflict.

With newly established peace, virtually all the corners of the country are now accessible to the general public and hence, economic activities have gathered an unprecedented momentum. The positive spill over impact of this achievement is already visible in the growth performance in 2010 where all the sectors of the economy have recorded impressive growth rates.

The above positive developments have been achieved not by accident but through well planned and focused

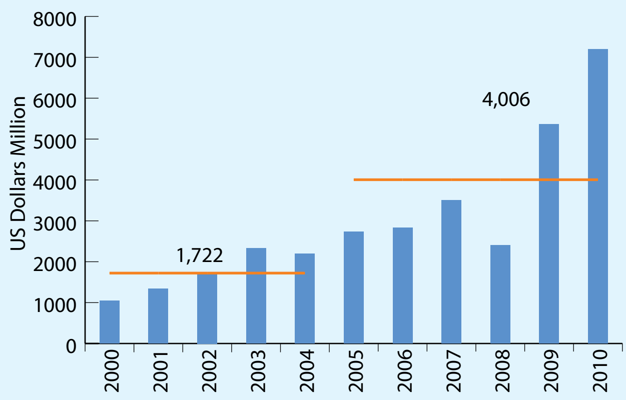
Private investment has been sustained at a higher rate even in the midst of difficult conditions, and poised to rise in the post conflict era.

Chart 1.16 > **Private Investment (% of GDP)**



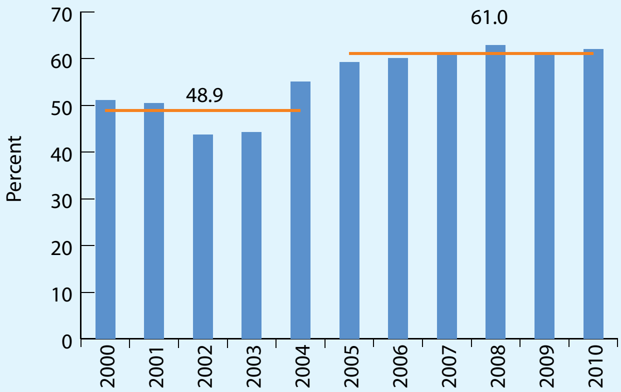
Increased gross official reserves have strengthened the country's external position while helping maintain exchange rate stability.

Chart 1.18 > **Gross Official Reserves**



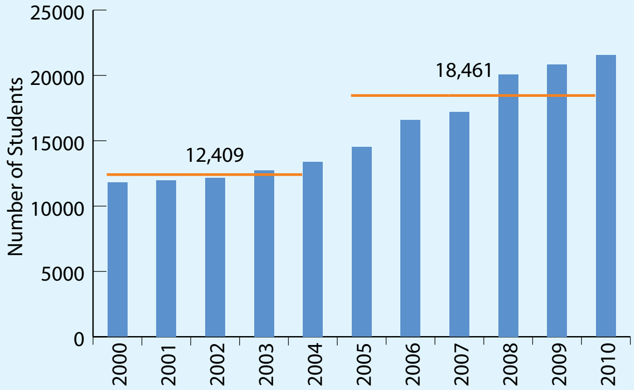
The increase in the students who qualified for the university education reflects the effort made by the Government to improve the education in the country.

Chart 1.19 > **No. of Students Qualified for University Entrance (% of Total Sat for Examination)**



Opportunities for university education have increased significantly with enhanced facilities, changes in curricula and other quality improvements.

Chart 1.21 > **New Admissions for Basic Degrees**

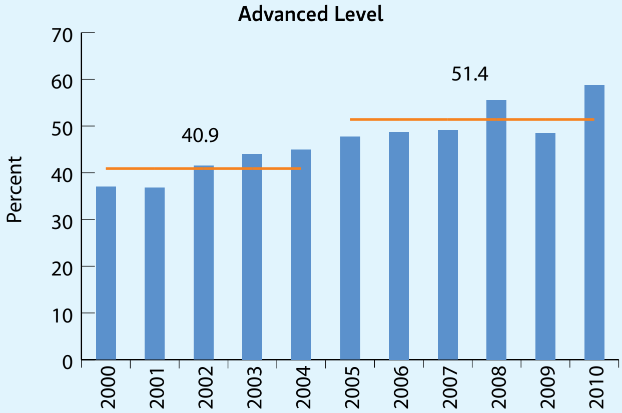


attempts with an unwavering commitment of the Government under the "Mahinda Chintana – The Vision for the Future" policy framework. It is a long term vision for the future aimed at re-positioning the country strongly in Asia and the world economy. The country that is to be created under this vision will be one with reduced poverty with lower economic disparities among the regions, enhanced opportunities and access to basic human needs, domestic values and traditions and will be protected and blended properly with new societal developments and world class economic and social infrastructure.

Sri Lanka has come to a critical juncture in its transformation to a middle income country. The level of

The effectiveness of the changes introduced to improve the quality of education is reflected in the increased success ratio of students.

Chart 1.20 > **No. of Students Qualified for Advanced Level**



per capita income expected makes it necessary to sustain a high economic growth of over 8 percent over the next 6 years. In this context, the Government has directed its focus towards creating five hubs, i.e. Naval/Maritime, Aviation, Commercial, Energy and Knowledge activities, to attract investment and promote globally competent economic activities. Towards this end, investment has been targetted to be raised from about 27-28 percent of GDP to about 35 percent with public investment of about 7 percent of GDP. This places a large scope for private investment as well as foreign direct investment (FDI). Bio-diversity and the rich cultural heritage have placed the country in a top position in the world and hence has been recognized as a world class tourist destination. The country's infrastructure is being developed in many areas including the mega projects as well as rural development initiatives. The tax system has been reformed to suit the emerging environment to facilitate both private and public sector investments. The domestic value addition is also being promoted through policy strategies to emerge as a strong value adding economy in the region.

This will be supported by further fiscal and monetary co-operation to sustain the macroeconomic stability. At the same time, necessary reforms in the markets, institutions and other relevant areas have been announced in the 2011 budget to complement this process.

Reconciliation and Development

The Government has placed highest priority on accelerating the development of the conflict affected areas and improving living conditions of the people therein, which has significant bearing on the national reconciliation process. In line with this policy, a broad set of policies and measures have been implemented by the Government, complemented by the support of development partners, including Japan, China, India, Germany, Switzerland, Australia, World Bank, Asian Development Bank (ADB), United Nations (UN) agencies, such as United Nations Development Programme (UNDP), United Nations Children's Fund (UNICEF), World Food Programme (WFP), the European Union (EU) and the International Fund for Agriculture Development (IFAD) as well as other stakeholders, to bring the affected areas back to normalcy. Resettlement of IDPs and fast track development of the Northern province while creating a safe environment for the people to return to their places of origin was the approach taken by the Government in this process. With these initiatives, the Government has ensured that the areas affected by the terrorist insurgency are provided with the development support needed for them to leapfrog into the future.

Two multi-pronged regional development strategies, i.e. "Uthuru Wasanthaya" and "Negenahira Navodaya", have been implemented as the major programmes in addressing immediate requirements as well as long standing development needs of the Northern and Eastern provinces. The identification of priorities and preparation of plans accordingly, accelerated implementation of "180-Day programme", effective implementation, continuous monitoring, setting up of necessary institutions and ensuring their capacity building were among the salient features of the initiatives of the Government, particularly in the Northern province.

In a broader sense, the programmes implemented in the Northern province, after the successful ending of the insurgency in May 2009, are aimed at ensuring the welfare of internally displaced persons (IDPs), demining activities, resettlement and rehabilitation, and reconstruction and development of the affected areas. Total cost of the development activities carried out by the Government in 2010 in the North & East amounted to Rs. 45 billion which is about 1 percent of GDP.

Table 1.2 > **Resources Channelled to Northern Province Development Activities in 2010**

Item	Amount (Rs. Mn)
Welfare of IDPs	5,459
Demining	3,696
Resettlement	1,900
Infrastrucure Development	26,570
Total	37,625

Source: Department of National Budget, National Mine Action Centre

Also, the total commitment made by development partners by end 2010 to implement various projects was about USD 2.1 billion. With the gradual progress of the initiatives, the Government has been able to bring the area back into normalcy, which however needs further actions to consolidate these achievements and ensure long term sustainable development in the Northern province as early as possible.

Internally Displaced People and their Welfare

At the time of ending the terrorist insurgency in May 2009, there were 295,136 IDPs who could not go back to their own places. The majority of them were from Mullaitivu and Killinochchi districts, which have been highly contaminated by land mines and other unexploded ordinances (UXOs). They were initially accommodated in welfare centers and subsequently brought in to welfare villages.

The highest priority was given by the Government for the welfare of these IDPs and the welfare villages were managed by following best practices across the world in running such activities. Accordingly, the IDPs were provided with all basic facilities, including food, water, health, and shelters. More importantly, the IDPs were given 1,900 Kilo Calorie daily, which is equivalent to standards of the WFP. In addition, such facilities as primary healthcare centers, mobile health clinics, night clinics, mobile labs, operation theaters, counseling services, were also provided to welfare villages. Furthermore, other main facilities, such as schools, religious support, banks, shops, communication facilities etc. are also provided. The security for the IDPs was provided by the security forces and police while the day to day work is handled by civilian administration.

Since 1 December 2009, the Government has converted these welfare villages into "open camps" ensuring "freedom of movement" of IDPs.

The Government incurred Rs. 3,421 million to provide the above facilities. At the initial stage, the welfare activities were conducted by using domestic funds, which were subsequently complemented by assistance by development partners and other stakeholders.

Demining Activities

The land mines and other UXOs became the main challenge in the next step of the process, i.e. resettling the IDPs. Hence, demining became an immediate priority of the Government. Accordingly, the demining process targeting public places, farm lands, schools and hospitals etc. was accelerated with the help of development partners as well as domestic and international Non-Governmental Organizations (NGOs). About 60 percent of the land had been cleared from land mines by the end of 2010 due to these efforts (Box 1.2). The expenditure on demining in 2010 was about Rs. 3,696 million.

Resettlement and Rehabilitation

The resettlement was continued in parallel with the demining programme. From an original 295,136 IDPs at the time of ending the internal conflict in May 2009, only 17,785 persons (6 percent) remained in IDP villages by April 2011, reflecting the strong effort taken by the Government to resettle them with the help of development partners and other stakeholders.

The first phase of the resettlement and rehabilitation concentrated on the provision of humanitarian assistance required for the successful resettlement of IDPs. This was achieved through the provision of a package of humanitarian assistance consisting of cash disbursements, and various other support, such as food rations, non-food relief items, shelter material, agricultural assistance and a cash grant for land preparation. Provision of livelihood assistance to create income generating activities while concentrating on shelter, food security, water and sanitation was also a part of the process. In the second phase, continuation of the above measures was stepped up and concentrated more on the livelihood development. Accordingly, enhanced attention was paid on other areas such as health, education, creation of a supportive environment for agriculture activities by providing required inputs and services as well as providing necessary equipment and support for sea, lagoon and inland fishing.

Reconstruction and Development

The resettlement and rehabilitation activities in the Northern province is complemented by a massive fully pledged infrastructure development initiative to reconstruct social and economic infrastructures that have been devastated due to the conflict. It includes short, medium and long term projects aiming at creating an environment conducive for a decent, peaceful and active life for people in the area with intra and inter-province connectivity. These include the rehabilitation and rebuilding of roads & rail network, highways, housing facilities, water supply, irrigation schemes, sewerage, hospitals, school buildings, other administrative buildings, bridges and culverts, electricity facilities, livelihood improvement support, vocational training, and industrial zones to restart industries.

Under the infrastructure development initiatives, the Government has launched 21 large scale projects with a total investment of Rs. 95 billion of which the investment in 2010 alone was about Rs. 27 billion (from 2006-2010 the total investment in North and East provinces is Rs. 183 billion). Most of these projects will be completed by 2011-2013. Table 1.3 gives the major projects that are implemented in the Northen province.

The ongoing and proposed investment will contribute to the acceleration of the growth of the Northern province economy as was experienced in the Eastern province after its liberation in 2007.

Major Infrastructure Projects in the Northern Area

1. Railway Links
   - Vavunia- Kankasanthurai Line
   - Madawachchiyya- Madu Line
   - Madu- Thalai Mannar
   - Omanthei Pallai Line
2. National Highways
   - A9 Vavunia - Jaffna
   - A32 Karathiu- Mannar
   - Mankulam- Mullathiu
   - Jaffna - Kankasanthurai
3. Bridges – Navakkuli, Sangupity and Mannar
4. Provincial Roads - 141km of Provincial roads in Vavuniya & Mannar
5. Electricity Projects
   - Vavunia-Killinochchi Transmission Line
   - Killinochchi -Chunnakam Transmission Line
   - Lighting Sri Lanka -Northern Province
6. Drinking Water Supply
   - Jaffna-Killinochchi Water Supply Project
   - Mannar-Vavuniya Water Supply
7. Irrigation
   - Iranamadu Scheme
   - Giant Tank Reconstruction
8. Livelihood Support Services
   - Co-operative Socities
   - Agricultural Service Centres
   - Schools
   - Hospitals
   - District Secretariats
   - Court
   - Bus Stands
   - Sport Ground
   - Cultural Centres

Table 1.3 > **Major Projects in Northern Province**

Project	Source of Funding	External Borrowing (Rs.Bn)	Domestic (Rs. Bn)	Total (Rs. Bn)
Conflict Affected Region Emergency Project	ADB/GoSL	17.2	2.1	2 mm
North East Local Services Improvement Project	World Bank/GoSL	5.7	3.9	9.6
North East Housing Reconstruction Project	World Bank/GoSL	15.3	1.9	17.2
North East Community Restoration & Development Project	ADB/GoSL	5.0	0.8	5.8
Re-awakening Project	World Bank/GoSL	7.3	-	7.3
Emergency Northern Recovery Project	World Bank/GoSL	7.5	-	7.5
Total		**58.0**	**8.7**	**66.7**

Source: Department of National Budget and Department of External Resources

Major Activities Covered under Projects in Table 1.3

1. Rehabilitation of schools, hospitals
2. Rehabilitation / reconstruction of Cooperative Societies
3. Rehabilitation of court houses
4. Rehabilitation of post offices
5. Rehabilitation of irrigation schemes
6. Rehabilitation of agriculture service centers
7. Rehabilitation of administrative offices
8. Construction of housing

The total GDP in the Northern province is expected to grow at a rate of about 13 percent per annum during 2009-2011. The dynamism in all the sectors in the province is expected to contribute effectively to this improvement. Accordingly, agriculture activities are expected to grow by 10 percent, manufacturing by 18 percent and the service sector by 12 percent during this period thereby helping the people in the area to have employment and various other income generating opportunities, which will ultimately improve their living standards.

Box 1.2
Towards a Mine Free Sri Lanka

The end of the 26 years long terrorist insurgency in the North in May 2009 provided a long awaited opportunity for Sri Lanka to enjoy peace. However, the immediate challenge at the end of the conflict was the creation of a mine free environment in the former conflict affected areas particularly in Kilinochchi and Mannar, which were contaminated with 1.3 million (estimated) land mines, unexploded ordinances (UXOs) and improvised explosives devices (IEDs). It has been identified that over 640 villages are affected by these mines. It is estimated that there are over one million (estimated 1.3 million to be unearthed) landmines in the North and East of Sri Lanka.[1]

Soon after the ending of the conflict, the existence of landmines became an impediment in the resettlement of people in their communities of origin and implementation of development activities in the conflict affected areas. Hence, de-mining turned out to be a major priority of the Government to overcome this obstacle. Consequently, a humanitarian de-mining programme has been initiated by the Government to clear the respective areas and create an environment free of mine and explosive remnants of war (ERW)[2].

Sri Lanka has made a steady progress in de-mining activity and resettlement of internally displaced people (IDPs). During the period from 01 January 2009 to 31 December 2010, a total of 444 km^2 has been cleared. The areas so cleared have been released for livelihood development activities. With these initiatives, out of 295,136 IDPs in the North, almost the entirety has been resettled and only 17,785 persons (6 percent) remained to be resettled by April 2011 thus indicating a remarkable progress in resettling IDPs compared to such programmes in other countries.

According to the information available as at 31st March 2011, about 494km^2 remain to be cleared[3]. In order to clear the entire land of the North and East, the current level of de-mining will have to be maintained for about next ten

years[4]. Hence, the target is to achieve a mine free Sri Lanka by the end of 2020, which will need enhanced human, financial and physical resources. In this process, priority has been given to residential areas of villages that are identified for resettlement and livelihood areas which are in close proximity to settlements in the minefield clearance operations.

At present, the mine action activities are implemented by the Government through the Sri Lanka National Mine Action Centre (SLNMAC) that has been setup at the Ministry of Economic Development (MED) to coordinate and fast track the de-mining process. The National Steering Committee for Mine Action (NSCMA) acts as the decision making body on mine action through SLNMAC in collaboration with respective institutions and agents.

The de-mining operations, which is a high cost, high risk, time consuming as well as painstaking process, at the ground level are led by the Humanitarian De-mining Unit (HDU) of the Sri Lanka Army and participated by eight other local and foreign mine action operators[5].

The Government has spent about Rs. 1.4 billion in 2010 in de-mining activities implemented after liberation of the whole country from terrorist activities, especially in the procurement of much needed equipment for mine clearance activities and maintenance of demining cadre as well. Australia, United States, Japan, China, India and international institutions such as, United Nations

1 *Strategy paper 'The National Strategy for Mine Action in Sri Lanka', Ministry of Economic Development.*

2 *A large-scale mine action programme has been undertaken by the Government and the international community in the North and East since 2002. The survey and clearance work, mine risk education, victim assistance, stockpile destruction and advocacy are the five pillars of the mine action programme in Sri Lanka.*

3 *The Information Management System for Mine Action (IMSMA)*

4 *National Strategy for Mine Action in Sri Lanka, 2010*

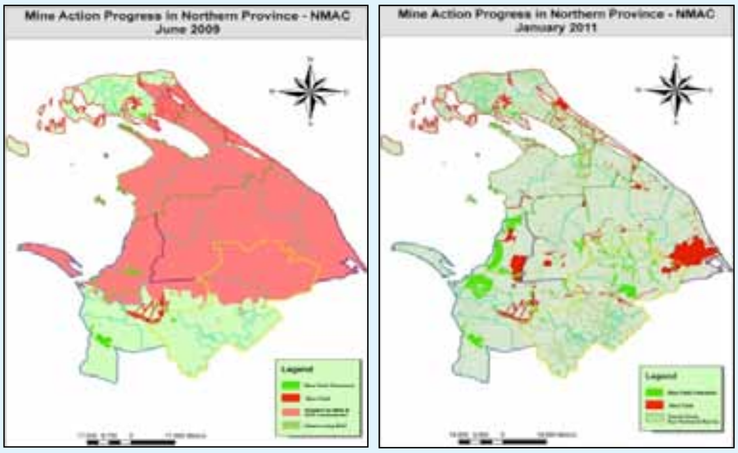
5 *They are the HALO Trust, Danish Demining Group, Foundation Suisse de Déminage, MAG (Mines Advisory Group), Sarvatra, Horizon, Milinda Moragoda Institute for Peoples' Empowerment and Delvon Assistance for Social Harmony.*

High Commissioner for Refugees (UNHCR) and International Organization for Migration (IOM) are among the major partners helped in implementing the Government's de-mining programme. The United Nations Development Programme (UNDP), United Nations Children's Fund (UNICEF) and United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA) help the activities by coordination and quality management, and providing necessary expertise and technical assistance. In addition, both local and international agencies are engaged in mine surveys and mine risk education (MRE) in the identified areas.

De-mining organizations excluding the Humanitarian De-mining Unit of the Sri Lanka Army generate funding for de-mining operations through their own fund raising programmes. Various donors such as Japan, Australia, EU, Canada, Switzerland, the United Kingdom, and Norway etc. are funding for them to undertake de-mining operations in Sri Lanka.

The vision of the SLNMA programme is a "Sri Lanka free from the threat of landmines and ERW where individuals and communities live in a safe environment and the needs of land mine and ERW victim are met". There is a need to develop and implement a sustainable national mine action programme covering all the aspects of mine action and mobilize the resources to achieve this objective. Furthermore, in addition to the current MRE campaigns, Sri Lanka needs sustainable MRE campaigns that will lead to total landmine and ERW eradication[6]. It is noteworthy that Sri Lanka is making progress towards banning landmines in the country and its commitment to acceding to the Mine Ban Treaty, which will guarantee that landmines will not be possessed or used in the future[7].

Map 1.1 > **Progress of Demining Activities**



Source: National Mine Action Centre (NMAC)

The Government is also engaged in providing various facilities, including medical treatments, to mine survivors while such assistance as counseling and mobility aids, are provided by domestic and international organizations. Livelihood development programmes are also being implemented for them. In addition, MRE campaigns are also being implemented in collaboration with NGOs, community based partners and volunteers. The SLNMAC plans to prepare a national victim-assistance strategy as well. The objective of this strategy is to help coordinate work among stakeholders and provide technical support for strategizing victim-assistance efforts.

Table 1.4 > **Progress and Expenditure on Demining Programme**

Item/Event	Unit	No. / Amount
Area Cleared - Clearance Progress (BAC& MF) – From 2002 to March 2011	km^2	793
Remaining area to be cleared	km^2	494
Expenditure by the Government (In 2010)	Rs. Mn.	1,350
Assistance by NGOs, INGOs and Others (In 2010)	Rs. Mn.	2,346

Source: National Mine Action Centre (NMAC)

6 "Sri Lanka Works Towards a Mine – Free Nation", Vidya Abhayagunawardena, 2010.

7 The National Strategy for Mine Action in Sri Lanka, 2010.

Box 1.3
Peace Dividends

Sri Lanka has passed two years since the achievement of long awaited peace. The people throughout the country, irrespective of age, race, religion, culture, economic or social status, feel the significance of new found peace and development. As the dark days of uncertainty, insecurity, fear, sorrow and suffering due to the conflict have come to an end, the people not only feel that they are safe, but also have gained a new strength and expectation in their lives about the future progress.

Human Suffering: The threat to human lives due to the conflict has come to an end providing a great relief to the public. In particular, the devastating terrorist attacks such as that on Katunayaka International Airport, oil refinery, tourist hotels, the Central Bank building, other important economic centers, as well as the unexpected explosions of car and bus bombs etc. have stopped with the peaceful environment of the country. The prevention of the loss of lives, which had a heavy toll on the economic activities and social life alone, is an invaluable benefit to the people.

Destruction of Property: The regular destruction to property has been prevented and both the public and private resources are increasingly being diverted to accelerate the much needed capital formation process.

Security: Checkpoints have been removed from many of the roads and areas, and many roads that were closed off for security reasons have been reopened. Security arrangements to face conflict related incidents in many public and private entities and areas have been removed. Consequently, the disruption to social life due to security reasons has been minimized.

Free Mobility: Removal of road barriers has enabled the people to travel freely and the reopening of roads has helped ease traffic congestions, particularly in cities.

Risks and Transaction Costs: The improved conditions have provided various benefits to businesses as well, including the lowering of various risks. Hence, the overheads related to risks and uncertainties in the business transactions such as additional insurance premiums etc. have been removed and the savings so generated can be utilized for other productive purposes. Also, the London based insurance underwriter Lloyds has removed Sri Lanka from its cargo war risk list, which consists of countries with risk of marine war, marine strikes and ground war and strike, in 2010. With this, the need for the payment of any war risk insurance premiums by shipping lines and airlines was removed thereby lowering the cost of international trade related transactions while enhancing port related activities and helping to boost the tourism industry.

Development Efforts: With peace, resources are being used for much more productive purposes. The development assistance, which did not channel to conflict areas previously due to security reasons, has been increased dramatically. In particular, a number of development activities, including Uthuru Wasnathaya and Nagenahira Navodaya, are being implemented by the Government in the North and East to provide livelihoods for affected people. In line with this, there is a surge in assistance from development partners and international agencies to develop the affected areas which also helps stimulate the national economy. The Government has spent about Rs. 32 billion in 2010 alone for the development of the Northern province. Development activities in rest of the country are also being continued at a renewed pace.

Investor Confidence and Investment: The conflict led potential investors to maintain a wait and see approach in making important decisions on their investments. However, the peaceful situation complemented by political stability has created a totally new environment in the country boosting the investor confidence, which is evident in many areas. In particular, the gross foreign portfolio investment (mainly to stock market) in Sri Lanka was USD 819 million in 2010 compared to USD 375 million in 2009. The yield rate on Sri Lanka's international sovereign bonds has compressed from above 20 percent before May 2009 to around 5 percent after the end to the terrorist insurgency, reflecting the significant improvement in investor confidence. Large investment projects, such as Shangri La Hotels, as well as many other investment projects are being implemented by the private sector.

Travel Advisories and Tourism: With peace, tourism, which remained stagnant for almost three decades, has begun to take off. Many countries that had imposed adverse travel advisories on Sri Lanka have removed them. With the peaceful situation in the country, there is an unprecedented surge in tourist arrivals boosting the post conflict economic activities all over the country. Tourist arrivals in 2010 increased by 46.1 percent to a record level of 654,476 tourists reflecting the positive impact of the peaceful situation in the country. Many of the tourist attractions which were not accessible due to the conflict are now open to both local and foreign tourists, which have experienced an overwhelming response. Many tourist attractions, including the zoological gardens, receive a record number of visitors, helping them to achieve new highs in their revenue.

Defence Expenditure and Government Budget Deficit: One of the major beneficiary factors to the country in the macroeconomic front is the decline in defence expenditure as a result of the lower expenditure on military hardware due to the absence of military offensives. The defence expenditure as a percent of GDP in 2010 declined to 3.4 percent from 3.9 percent in the previous year. Investment in security installations (defensive, avoidance, and preventive investment) are diverting to productivity-enhancing installations. Resources are increasingly being channeled for rehabilitation & reconstruction activities and security personnel are also engaged in the reconstruction and development work. Health expenditure previously used for the provision of treatments for injured security personnel and others is increasingly diverted towards the use of the general public. The gradual decline in defence expenditure helps reduce the budget deficit which in turn reduces Government borrowing and thereby lowering the pressure on market interest rates and releasing more funds for the use of private sector investments.

Inflation: The enhanced supply of agriculture produce in the conflict affected areas has helped lower the prices in the domestic market. This has lowered inflation coming from the supply side reasons to a considerable extent thereby helping to maintain price stability.

Interest Rates: Reflecting the benefits of peace, the interest rates for Government securities have declined significantly due to the low inflation, favourable inflation outlook and lower borrowings to finance the Government budget deficit. The yield rate of Treasury bills with a maturity period of 364 days has declined to 7.34 percent by end April 2011 from 13.4 percent in end May 2009. Following this, the market interest rates have also declined noticeably. Accordingly, the average weighted prime lending rate has declined to 9.17 percent by end April 2011 from 17.75 percent in May 2009. The lower cost of interest makes a significant amount of savings for businesses and others which can be re-invested, saved or consumed. Benefiting largely from the post conflict low interest rate regime, the private sector credit has also increased by 25.1 percent in 2010 compared to the 5.7 percent contraction experienced in 2009.

Economic growth: Sri Lanka had the potential to keep growing even in the worst conditions and despite the protracted internal conflict. With peace, economic growth has returned to a high growth trajectory in comparison to the historical average of around 4-5 percent. This has already been demonstrated by the 8 percent growth achieved in 2010. Many positive factors such as peaceful environment, improved macroeconomic conditions, revitalized production activity, mobility of factors of production, improved productivity, non-existence of security related delays, ability to use available land for cultivation, particularly help increase the production while creating new opportunities for the private sector. In particular, the improvement in agriculture was supported by the enhanced extent of cultivated land as the new and abandoned lands are being increasingly cultivated. The gross extent of 1,065,000 hectares of paddy sown in 2010 is the highest in the recent past, which has enabled a record harvest of 4.301 million metric tons of paddy in 2010.

The output of fishing, livestock and other field crops also have improved significantly. In particular, the fish production in the Northern and Eastern provinces has increased by 40 percent to 125,840 metric tons in 2010. In addition, many industries that were not operative for years are also being revamped. The new prosperity that has been extended to all over the country has boosted the wholesale and retail trade, particularly with the Northern and Eastern provinces, providing more opportunities for people in those areas.

The 9.3 percent expansion in the construction sector in 2010, supported by the 12 percent increase in domestic production of building materials and the 18.1 percent growth in cement availability, was also a reflection of the impact of the peaceful situation on the construction activities throughout the country.

In the services sector, tourism and other services, such as telecommunication and transportation, are being increased thereby supporting the achievement of a higher economic growth. In addition, business activities related to banking and finance are also being expanded. Since the end of the terrorist insurgency, 37 branches and 22 extension offices have been opened by commercial banks in the Northern province by May 2011. Many institutions, including the Central Bank and development banks have implemented various programmes in the province to deliver financial services at affordable costs to the affected people which will enhance their financial inclusion.

External Sector: The decline in the import of military hardware, increased earnings from tourism, increased foreign investments and assistance from the development partners for the reconstruction and development drive in the conflict affected areas as well as the infrastructure development activities in the rest of the country have strengthened the external position of the country. In particular, earnings from tourism increased by 64.6 percent to USD 576 million in 2010. Sri Lanka received USD 1,460 million as long term loan inflows from foreign sources in 2010 compared to USD 1,280 million in 2009.

Repatriation and Remittances: Instead of people fleeing out of the country, people are returning with the peaceful situation thereby changing the “brain drain” to a “brain gain”. Also, Sri Lankans who live in foreign countries have sent increased amounts of funds for their relatives in the country to facilitate their newfound life. This is partly reflected in the significant 24 percent increase of private remittances to USD 4.1 billion in 2010 in comparison to 14 percent increase in the previous year.

Employment Opportunities: New developments in almost all sectors in the economy have enhanced employment opportunities. Hence, unemployment, which was 6.2 percent in 2nd quarter of 2009, has declined to 4.5 percent in the 4th quarter of 2010.

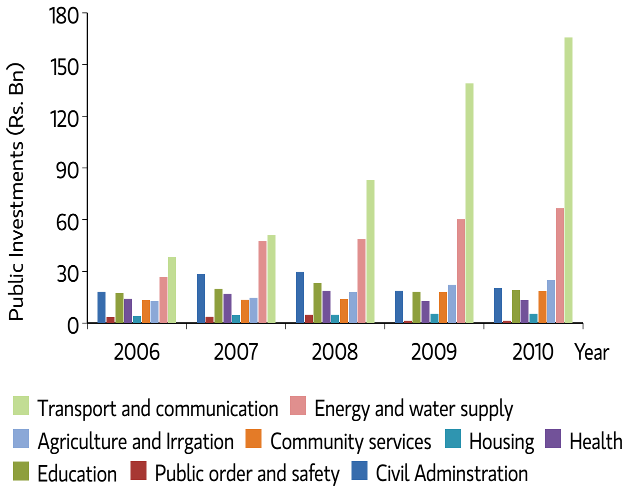
Planning for the Future: In addition to the benefits indicated above, the peaceful environment in the country enables the Government, entrepreneurs, investors, other private sector agents and the general public to better plan their future course of actions. All these will help Sri Lanka to consolidate strongly as the “Emerging Wonder of Asia”.

Thrust On Public Expenditure

Having liberated the country from terrorist insurgence for nearly 30 years, the government has the opportunity to extend its investment programme to the entire country, including the terrorist affected areas. In order to achieve 8 – 10 percent GDP growth, the government plans to attract investment of about 30-35 percent of GDP. This level of investment is necessary to maintain fairly sustainable and vibrant economy. At present, the total investment is about 27 percent of GDP. The government has been able to increase the level of public investment from 3.5 - 4 percent of GDP prior to 2005 to 6 percent during post 2005 period. During the next five years it will be maintained at a level of 6.5-7 percent annually while developing supportive instruments to attract both domestic and foreign private investments as much as possible.

Increased amount of resources are being channeled to expand education and health services through the recruitment of teachers, doctors, nurses, and providing increased salaries, while removing salary anomalies and other problems.

Chart 1.22 > **Sectorwise Public Investments (2006 - 2010)**



Source: Department of National Budget

Table 1.5 > **Power of Human Resources in Health and Education Sectors (2010)**

Health Sector	**Number of Employees***
Category	
Medical Officers	14,083
Dental Surgeons	1,209
Registered Medical Officers/ Assistants Medical Officers	1,144
Nursing Officers	27,762
Midwives	8,726
Para Medical Staff	7,457
Attendants	8,189
Education Sector	
Teachers in National Schools	31,343
Teachers in Provincial Schools	182,741
Teachers in Pirivena Schools	5,744

**As at June 2010*
Sources: Management Information Unit, Ministry of Health
Department of National Budget

Table 1.6 > **Expenditure on Social Services in 2010**

Rs.Mn

Sector	Salaries and Wages	Capital Expenditure
Education		
Ministry	11,123	15,940
Provincial Councils	55,630	3,160
Total	**66,753**	**19,100**
Health		
Ministry	24,787	8,631
Provincial Councils	17,180	4,125
Total	**41,967**	**12,756**

Source: Department of National Budget

Table 1.7 > **Public Investment by Sectors (Rs. Bn)**

Item	2006	2007	2008	2009	2010
Public Investment	177.4	229.3	263.9	330.4	356.5
Economic Services					
Highways	35.0	46.9	82.7	100.6	108.0
Ports	5.8	0.6	7.8	28.1	29.0
Power and Energy	4.5	23.9	16.8	32.8	23.1
Water Supply	17.9	19.7	25.6	24.2	25.8
Agriculture*	16.1	16.4	29.5	29.5	25.5
Irrigation	7.3	7.5	10.7	14.3	10.6
Social Services					
Education	17.2	19.9	22.9	18.1	19.1
Health	11.0	12.0	11.0	10.0	13.0
Housing	4.0	4.5	4.8	5.3	5.5

**Including development subsidies*
Source: Department of National Budget

Trends in Public Investment

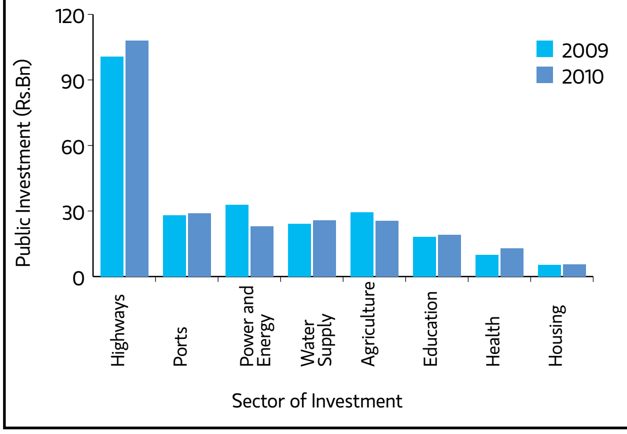
The government during the past few years directed its public investment programme to accelerate the completion of mega infrastructure development projects while giving an increased emphasis to the implementation of regional development programmes such as “Gama Neguma”', “Maga Neguma”, “ Uthuru Wasanthaya”, etc.
Public investment has been on a continuously increasing trend since 2006 to 2010. Roads, transport, power and energy, water supply, agriculture, irrigation and regional development initiatives have attracted the lager share of public investment than the other sectors.

The government has been able to maintain the public investment at a level of more than 6 percent of GDP since 2006 to 2010. In 2010, a significant level of public investment was made to upgrade the damaged infrastructure in conflict affected areas. Rs. 4.3 billion has been spent in 2010 for rebuilding the road network alone while Rs. 32.3 billion has been spent altogether in the Northern area.

Public investment in economic services has increased from Rs. 256.4 billion in 2009 to Rs. 278.8 billion in 2010. Public investment in social services has also increased from Rs. 53.9 billion in 2009 to Rs. 56.2 billion in 2010. The investment in the education sector has mainly focused on upgrading the educational infrastructure in conflict affected areas and to develop the schools in various parts of Sri Lanka. The investment on the health sector has been mainly directed at improving access to health services by vulnerable groups, enhancement of health related infrastructure and to implement preventive and curative measures.

In achieving the required investment level to realize the higher economic growth expected to be achieved, the challenge is to attract more and more Foreign Direct Investments (FDI) into the country to supplement the current public investments of 6-7 percent of GDP and to achieve the targeted level of private investment of 27-28 percent of GDP.

Chart 1.23 > **Public Investment-by Key Economic Sectors in 2009 & 2010**



Source: Department of National Budget

Box 1.4
Consultation on Provincial Development

His Excellency the President engaged in a provincial level consultation/review process during the period of July – October 2010 with a view to identify development challenges and issues, establish proper coordination among line ministries, provincial administration and implement a consistent integrated strategy in the whole country while addressing local needs.

Ministers, Parliamentarians, members of local government institutions, Secretaries of line ministries and other senior government officials at both the central and provincial levels, participated in this consultation process. The issues discussed are mainly on improvements to provincial infrastructure such as roads, bridges, water supply, irrigation, electricity as well as issues pertaining to education, health, sanitation and environment. Issues relating to threat to agriculture and human activities from wild animals and elephant-human conflict came up in agricultural districts while post insurgency rehabilitation and resettlement issues were also discussed in those provincial meetings.

Followings are the key areas to be addressed in response to the issues identified and queries raised by representatives from the provincial authorities.

- Ensuring the welfare of the public by efficient use of funds that are allocated from the government budget.
- Giving highest priority for the completion of projects which have already been commenced before starting new projects.
- Avoiding under performance of development projects due to commencement of such projects without proper project planning, project appraisal and assessment of funding.
- Giving priority to the development/improvement of the provincial and local roads, considering their poor condi-tion.
- Continuation of the focus on region specific development activities in spite of the amalgamation of the Regional Development Banks.
- Establishment of an Engineering Unit with required machines and equipment in each district under the pur-view of the respective District Secretaries/ Government Agents to facilitate maintenance and urgent rehabilita-tion needs arising from natural disasters/ calamities.
- Strengthening administration at regional and provincial level by providing staff with appropriate training opp-ortunities as well as the required infrastructure such as residential quarters, replacement of old fleets of vehicles etc.

The first consultative meeting held in Kandy on 30 July 2010

The final consultative meeting held in Vavuniya on 19 October 2010

- Streamlining the recruitment process to various government and semi governmental institutions and taking the responsibility of such recruitments by the respective Secretaries.
- Expediting the distribution process of the housing units which have been constructed under the Tsunami Housing Rehabilitation Schemes.
- Re-surveying all the state land by the Department of Surveyor General (DOSG) to prevent encroachment of state land by squatters and to ensure the productive utilization of such land.
- Providing necessary technical advice by the relevant line ministries in instances such as disease and pest control for eradication of such incidences to minimize the damages to plantation and other crops.
- Taking necessary measures to improve the living conditions of the plantation sector employees by the plantation management in collaboration with District Coordinating Committees.
- Ensuring the access to electricity to reach 100 percent coverage in all districts by 2012 by resolving the issues pertaining to the provision of electricity.

Table 1.8 > **Consultative Meetings on Provincial Development**

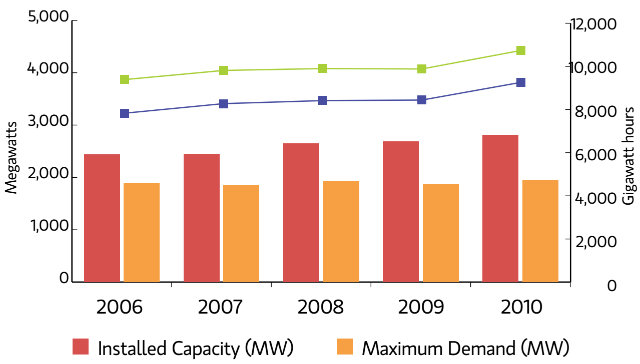
Province	Date of the Meeting	Place of the Meeting
1. Central	30 July 2010	Kandy
2. Sabaragamuwa	31 August 2010	Ratnapura
3. Uva	03 September 2010	Badulla
4. North Central	02 October 2010	Polonnaruwa
5. Eastern	04 October 2010	Trincomalee
6. Western	09 October 2010	Panadura
7. North Western	11 October 2010	Madampe
8. Southern	15 October 2010	Weligama
9. Northern	19 October 2010	Vavuniya

Economic Infrastructure - Randora

Power and Energy - Towards an Energy Hub

The power sector has received one of the highest priorities in the Government development agenda since 2006. As such, the government has gradually increased investment in this sector which was Rs. 4,484 million in 2006, on average annual expenditure of Rs. 24, 176.5 million during 2007-2010 to Rs. 23, 102 million in 2010. With this substantial investment, it is expected to achieve 100 percent electricity coverage in the country by 2012. The government beleives that the availability of safe,

Chart 1.24 > **Electricity Sector Performance 2006 -2010**



Source: Ministry of Power and Energy

quality, reliable and an uninterrupted power supply will lead to economic development of the country. Figure 1.3 show the increased level of generation capacity since 2006 as a result of increased level of investment made in this sector.

The demand for electricity increases at an average rate of 8 percent annually in the background of an annual economic growth of 6.4 percent during 2006 - 2010. As at the end of the 3rd quarter of 2010, the electricity generation has increased substantially by 8.9 percent compared to 2009 in the background of high economic growth of 8 percent in 2010. In the context of the targeted growth in excess of 8 percent, the demand for electricity is expected to increase considerably. The total installed generation capacity has increased from 2,684 MW in 2009 to 2,806 MW in 2010. The Upper Kotmale Hydropower Plant and Norochcholai Coal Power Plant will add 450 MW to the national grid in 2011. In addition, preparative arrangements of several new power generation projects with a targeted capacity addition of around 1,300 MW and rehabilitation of some existing hydro power plants have been undertaken during 2010.

The total energy generated at present is 10,740 GWh per year and this requires to be increased up to 27,559 GWh by 2025. The present installed capacity of 2,806 MW from hydro, thermal and NCRE (Non-Conventional Renewable Energy) power plants requires to increase up to 6,502 MW in order to generate the expected energy requirement in 2025 in terms of the long term generation plan. The ongoing and committed power generation projects will increase the installed capacity to 4,588 MW by 2020. Therefore, in addition to the planned projects, new power plants should be planned for a capacity of 1,914 MW by 2025 to meet the power shortages. Hence, commissioning of new power plants will be required

Table 1:9 > **The Electrification Coverage by District as at 2010**

Province	District	Electrification Level %
Western	Colombo	100
	Gampaha	100
	Kalutara	90
Southern	Galle	98
	Matara	96
	Hambantota	100
Sabaragamuwa	Ratnapura	88
	Kegalle	79
Central	Kandy	91
	Matale	84
	Nuwara Eliya	86
North Western	Kurunegala	86
	Puttalam	90
North Central	Anuradhapura	73
	Polonnaruwa	84
Uva	Badulla	82
	Monaragala	89
Eastern	Trincomalee	57
	Batticaloa	55
	Ampara	68
Northern	Jaffna	72
	Kilinochchi	10
	Mulaithivu	16
	Mannar	44
	Vavuniya	68
Overall		88

Source: Ministry of Power and Energy, Department of National Planning

Table 1.10 > **Power Sector Development Projects Implemented during 2010**

Project Name	Total Estimated Cost (Rs. Mn)
Upper Kothmale Hydropower Project	37,269
Rehabilitation of New Laxapana and Wimalasurendra Hydro Power Plant	6,474
Rehabilitation of Ukuwela Power Plant	1,877
Coal Power Plant – Puttalam (Phase II)	109,000
Old Laxapana Power Station Rehabilitation Project	3,945
Vauniya-Kilinochchi Transmission Project	4,339
Kilinochchi – Chunnakam Transmission Project	3,748
Greater Colombo Grid Substation Project – Phase II (KFW)	780
Total	167,432

Source: Ministry of Power and Energy, Department of National Planning before the end of this decade to meet the above additional capacity need through the introduction of Coal, Liquified Natural Gas (LNG), Renewable Energy or Nuclear Power.

In addition to the above mentioned ongoing projects, steps have been taken to implement the following projects to expand the generation capacity.

Table 1.11 > **Initiative Projects in 2010**

Project Name	Total Estimated Cost (Rs. Mn)
Broadlands Hydro Power Plant	9,020
Expansion of Victoria Hydropower Project	1,150
Trincomalee Coal Power Project (Phase II)	55,000
Energy Diversification Enhancement Project (LNG Feasibility study)	1,001
North – East Transmission Development Project	3,409
Rural Electrification (No.08) – Iran Project	7,350
Rural Electrification (No.04) – Project – SIDA (RE)	4,170
Ginganga Hydro Power Project	14,864
Total	**95,964**

Source: Ministry of Power and Energy, Department of National Planning

Norochcholai Coal Power Plant in Puttalam

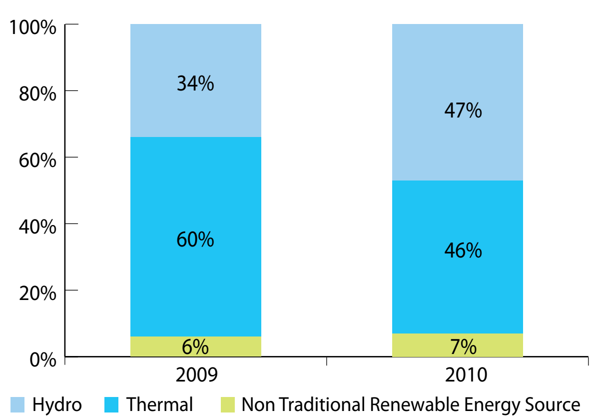
Due to heavy dependency on thermal power, the cost of electricity generation has been rising over the years, which is the major challenge in the power sector. In order to address the issue of the high cost of power generation, the government has taken several steps including the commissioning of a coal-fired power plant at Norochcholai (Phase I) in 2010 and the Upper Kotmale Hydro Power Plant in 2011 with a view to generate cheaper power. The high cost thermal power plants will be replaced by these low cost power plants which will reduce the unit cost in the power sector. The government is also considering the possibility of introducing Liquified Natural Gas (LNG) power in order to reduce the unit cost further while minimizing environment pollution.

A feasibility study was undertaken in 2010 under the Energy Diversification Enhancement Project to explore the possibility of introducing LNG as a cheaper and an environmental friendly power generation option.

Since oil based power generation, which is high cost power, is around 49 percent of the total power generation at present, studies are being taken to convert these high cost oil based power plants to an alternative least cost (if generated in large scale).

As a result of the favourable weather conditions that prevailed, the Ceylon Electricity Board (CEB) generated hydropower at maximum capacity which in turn reduced the cost of power generation in 2010. Accordingly, the CEB was able to increase Hydropower generation significantly from 34 percent of total generation in 2009 to 47 percent in 2010.

Chart 1.25 > **Composition of Energy Mix**



Source: Ministry of Power and Energy

Arrangements have been made to establish a Solar Power Garden in the Hambantota District with financial assistance from the Japanese and Korean Governments.

The CEB which has been making losses for the past 10 years was able to record a net profit of Rs. 5 billion in 2010. This is a major relief to the government which had to absorb the huge losses made by CEB over the years through budget support. Some strategic decisions taken by the CEB and the capability of operating all hydropower plants at their maximum capacity had led to this achievement. Maximization of efficiency of using hydro power plants and considerable reduction of wastage and illegal use has contributed to these improvements.

Clean Green Energy

The "Clean Green Energy" concept was another major policy initiative of the power sector aiming at producing electricity using environmental friendly energy sources. At present, 7 percent of the total electricity is generated by Non-Conventional Renewable Energy (NCRE) sources such as wind, solar, biomass energy and mini-hydro power. The Government's policy is to increase this share to 20 percent by 2020. At present, there are 89 NCRE power projects with a total installed capacity of 211 MW connected to the national grid. As at the end of 2010, there were 8 biomass projects (34MW), 82 mini-hydro projects (172 MW) and 9 wind projects (85 MW) either under construction or planning stage while the Sustainable Energy Authority had issued provisional approvals for another 331 NCRE projects amounting to a total capacity of 938 MW.

The government is also getting ready to engage in nuclear power generation if needed in case the country has no other options. The Cabinet has appointed a steering committee to undertake a pre-feasibility study to consider nuclear power for Sri Lanka.

Energy Efficiency

Energy efficiency improvement and energy conservation have received significant attention in the recent years. The energy wastages are expected to reduce by 20 percent in 2020. With the implementation of energy management programmes such as regulatory interventions, establishment of energy consumption benchmarks, conduction of energy audits, 312 GWh of energy has been saved in 2010.

However, the power sector in Sri Lanka needs to urgenty turn its attention to gaining energy security, deciding on long-term fuel options, reducing system losses, preventing the theft of electricity, energy conservation, environmental implications and ensuring the sustainability of energy resources.

Box 1.5
Electricity for All by 2012

The electricity has become an essential source of energy for domestic and industrial activities in the country. Although the power cuts were a common phenomenon before 2005, the well planned projects implemented by the government have enabled the country to bring power cuts to an end as well as to ensure the continuous and reliable power supply for the next two decades. A large public investment has been undertaken in increasing power generation, transmission and distribution facilities.

In line with this, a number of power projects are being implemented, including the recently commissioned Norochcholai Coal Power Plant and the Upper Kotmale Hydro Power Plant which is also to be commissioned in 2011. The power plants in Sampur in Trincomalee and Kerawalapitiya are also among the projects in the pipeline. In addition, a large number of small-scale hydro power projects have also been established in the country to increase the generation capacity. Parallel to this, the transmission and distribution network is also being expanded.

With these initiatives, government has given the priority to provide electricity everyone in the country. In fact, only about 60 percent of the Sri Lankans had the electricity 10 years ago but it has increased to 87 percent at present. Under the National Electricity Policy, which contains short, medium and long term objectives, the government has launched a programme called 'Vidulamu Sri Lanka' to provide electricity to the entire country by 2012.

The programme to provide electricity for all by 2012 mainly targets the provision of electricity to rural areas through a number of rural electrification projects implemented with funds received from local and foreign sources. A total of Rs. 35 billion has so far been incurred in relation to this since 2005, which includes the projects that are being implemented in the Southern Province, Kegalle, Kandy, North Western province, Uthuru Wasanthaya electrification programme, Vidulamu Sri Lanka Central Project, Vidulamu Sri Lanka Eastern Province project and Uva Udanaya project. In addition the Colombo City project and Street Lighting project are also being implemented while many other projects are also in progress to provide electricity covering the entire country.

Steps have been taken to provide electricity to the underprivileged people through "Grama Shakthi" programme as well. Two factors that have been identified for not obtaining electricity for houses i.e. economic unsoundness and the long distance to get the connections, are being addressed under this programme. A relief scheme is in place by providing loans to assist those who cannot afford the initial cost of an electricity connection. The households in the distant rural areas that cannot be connected economically to the national grid are being provided electricity through alternative power generation sources such as solar energy, small hydro power, wind mills and bio fuel etc.

Ongoing Rural Electrification Projects

1	Rural Electrification Project Phase -04
2	Power Sector Development Project-Part A-Rural Electrification Project Phase 06
3	Lighting Sri Lanka Project in Southern Province (Galle, Mathara and Hambantota Districts)
4	Rural Electrification Project Phase -10
5	Lighting Sri Lanka Project in Kegalle District
6	Lighting Sri Lanka Project in Eastern Province (Trincomalee and Batticaloa Districts) under Neganehira Navodaya programme
7	Ippalogama Electricity Supply Scheme Project
8	Lighting Sri Lanka Project in Central Province
9	Lighting Sri Lanka project in North Central Province (Polonnnaruwa & Anuradhapura Districts (Rural Electrification Phase 04-Extension)
10	Uva Udanaya Programme in Badulla and Moneragala Districts
11	Lighting Sri Lanka Project in Rathnapura District
12	Rural Electrification Project Phase -08
13	Lighting Sri Lanka Project in Western Province (Kaluthara, Gampaha and Colombo Districts)
14	Lighting Sri Lanka Project in Northern Province under Uthuru Wasanthaya Programme
15	Lighting Sri Lanka Projects conduct in Other Districts
16	Accelerated Rural Electrification Project
17	Lighting Sri Lanka Project in North Western Province (Wayamba)

Roads

Quality Roads: Connectivity for All

Due to the changing structure of the economy and increasingly diversified demand for road transport has risen faster than that of the other transport modes. In order to meet the growing transport demand for improved access to markets and services, the Government has made significant efforts to increase investment substantially on road development. The investment on road sector has increased from Rs. 18.8 billion in 2005 to Rs. 108 billion in 2010. As a result of this large investment, the road sector alone contributes to 2 percent of the GDP in 2010.

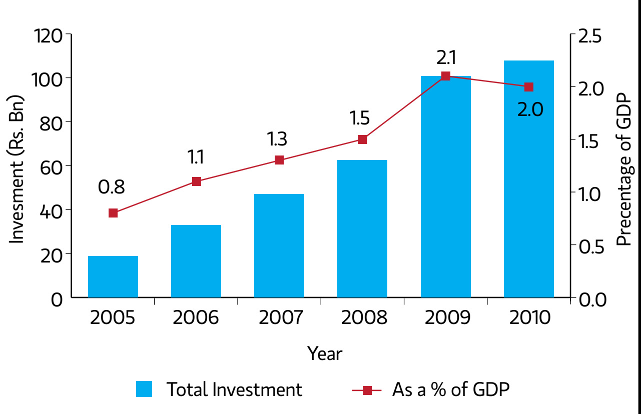
Table 1.12 > **Investment on Road Development 2005 – 2010**

Rs. bn

Category	2005	2006	2007	2008	2009	2010
Expressways	2.4	6.8	7.7	14.9	24.7	24.7
Maintenance	1.8	2.9	3.4	3.1	3.1	6.4
Rehabilitation	8.6	16.9	23.7	35.4	48.2	46.3
Improvement	2.5	3.0	4.6	6.0	5.5	8.9
Upgrading	0.4	1.8	2.4	13	15.3	16.0
Land Acquisition	2.3	2.3	3.0	2.7	3.0	3.6
Other	0.8	1.2	2.1	7.5	3.6	4.1
Total	**18.8**	**35**	**46.9**	**82.7**	**100.6**	**107.8**

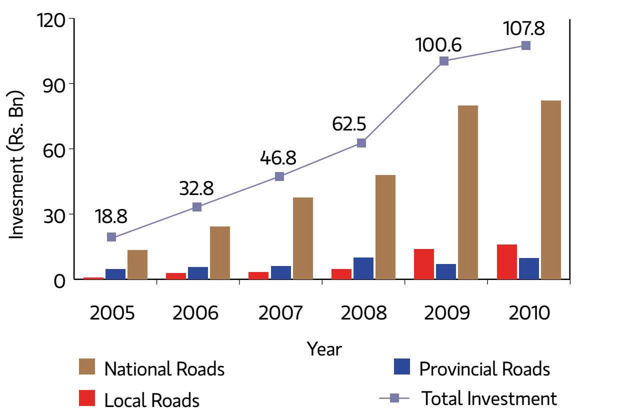
Source: Department of National Budget

Chart 1.26 > **Investment on Road Development 2005 - 2010**



Source: Department of National Budget

Chart 1.27 > **Investment Distribution 2005 - 2010**



Source: Department of National Budget

The increased investment on road sector has been distributed at all levels of government i.e. National, Provincial and Local levels to establish necessary connectivity in urban and rural transportation.
The share of investment on local roads has increased from 4 percent of total road investments in 2005 to 15 percent in 2010 due to the upgrading of rural roads under Maga Neguma and Gama Neguma Programmes. During the last six year period, approximately Rs. 43 billion has been spent on provincial road development which was 9 percent of the total road sector investment. During 2005 – 2010, investment in national roads has raised from Rs. 13 billion to Rs. 82 billion. In 2010, 76 percent of the total investment on road sector has been utilized for national road development.

Table 1.13 > **Structure of Roads/Traffic Distribution**

Roads Maintained by	Length (km)	As a % of Total	Traffic Carried(%)
Road Development Authority	11,922	10.6	75.0
Provincial Councils	15,743	14.0	15.0
Local Authorities	80,600	71.4	10.0
Other State Agencies	4,500	4.0	
Total	112,765	100.0	100.0

Source:Department of National Budget, Ministry of Ports and Highways

Improvement of the Existing National Roads

National roads are less than 12 percent of the entire road network of the country but they carry about 80 percent of the country's traffic. The length of the total road network has not been growing adequately to meet the demand for speedy and efficient transportation of passengers and goods.

Therefore, since 2005, a massive investment plan, which includes long term foreign financing for the improvement of existing inter regional trunk roads and construction of expressways has been implemented.

Within the next five year period, a grid-shaped trunk road network will be developed between the Provincial/Regional capitals while maintaining the 60 percent of the national road network at a good condition. During 2005 – 2010, around 2,900km of national roads have been improved at a cost of Rs. 48,950 million. The list of improved segments of the core national roads is given in Table 1.14. Efforts are being made to bring around 59 percent of the existing national road network from single or intermediate lane to multiple lane standards. Approximately 2,315km of roads were widened to multiple lane standards with heavy compensation payment involved for land acquisition. The lane width will be increased in another 2,556km of roads to cater to the growing traffic demand of a middle income country. In order to minimize the land acquisition cost due to widening of road sections in major towns to reduce traffic congestion, by-passes and under passes are constructed in many urban areas. The improvement programme, which was predominately implemented using domestic resources, has been increased from Rs. 2.5 billion in 2005 to Rs. 8.9 billion in 2010.

Greater attention has been drawn to ease the traffic congestion at major junctions by construction of fly-overs, and reconstruction of narrow and weak bridges with new ones. During the 2005 - 2010 period, five major flyovers at Kelaniya, Nugegoda, Dehiwela, Orugodawatta, and Pannipitiya have been constructed in Colombo City and suburban areas. Six ferries have been replaced with new bridges in the Eastern and Western Provinces making the passenger and goods transportation more efficient, to boost the local economic activities. During this period, a total of around 375 bridges have been constructed while 116 bridges are being constructed. Investment on construction of bridges and flyovers has increased from Rs. 323 million in 2005 to Rs. 3,722 million in 2010. The details of the development of bridges and flyovers undertaken are given in the page 56.

Outer circular roads are being constructed in growth centres such as Trincomalee, Kandy, Anuradhapura and Kurunegala to support business activities. Further, in order to stimulate economic and social prosperity to emerge with peace in the North and East, many national highways and major bridges are currently being reconstructed and core national roads and bridges will be improved within the next five year period. Financing for the construction of 512km roads in the North has been raised from bilateral and multilateral agencies in 2010.

Table 1.14 > **Improved Core National Roads in 2005 - 2010**

Name of the Road	Length of Road (km)	Improved Section (km)
Colombo - Kandy	116	86
Colombo - Galle - Hambantota - Wellawaya	318	127
Peliyagoda - Puttalam	128	128
Colombo - Ratnapura - Wellawaya - Batticaloa	431	228
Peradeniya - Badulla - Chenkaladi	346	69
Avissawella - Hatton - Nuwara Eliya	119	72
Panadura - Nambapana - Ratnapura	69	69
Kandy - Jaffna	321	54
Katugastota - Kurunegala - Puttalam	125	125
Maradankadawela - Habarana - Tirikkondiadimadu	130	130
Medawachchiya - Mannar - Talaimannar	114	15
Beragala - Hali-Ela	40	39
Galle - Deniyaya - Madampe	144	78
Pelmadulla - Embilipitiya - Nonagama	88	66
Anuradhapura - Rambewa	14	14
Matara - Akuressa	20	16
Siyambalanduwa - Damana - Ampara	58	58
Vavuniya - Horowopotana	46	10
Vavuniya - Parayanalankulam	36	10
Karativu - Ampara	24	22
Colombo - Hanwella Low Level Road	25	18
Gampola - Nawalapitiya	18	17
Pasyala - Giriulla	19	10

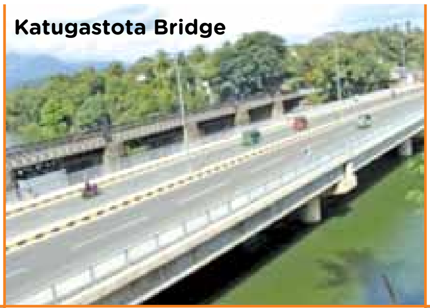
Source: Road Development Authority

Development of Bridges and Flyovers 2005 - 2010

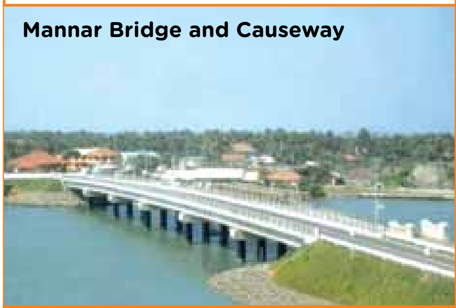
Completed Major Bridges and Fly- Overs

On-going and Planned Bridges

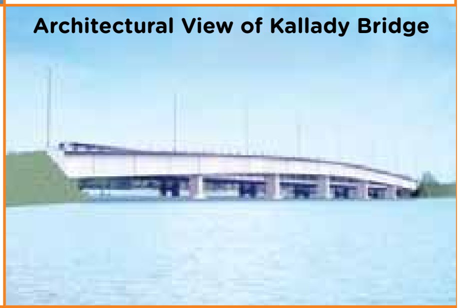
Akurala Bridge
Mahanama Bridge
Bentota Bridge
Katugastota Bridge
Weligama Bridge
Molgawa Bridge


Katugastota Bridge

Kallady Bridge
Kayankerny Bridge
Panichchankerny Bridge
Verugal Bridge


Mannar Bridge and Causeway

Kinniya Bridge
Mannar Bridge
Magalle Bridge
Irakkandy Bridge
Koddaikallaru Bridge
Periyakallaru Bridge


Architectural View of Kallady Bridge

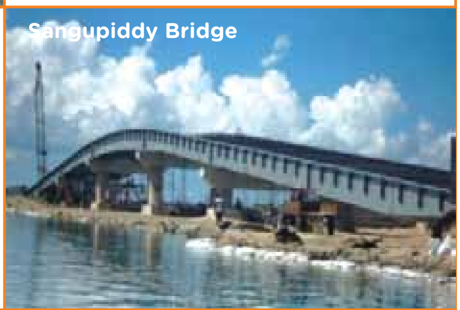
Komari Causeway
Mannampitiya Bridge
Seenigama Bridge
Arugam Bay Bridge
Lakpandura Bridge
Pudawaikkattu Bridge


Kelaniya Fly Over

Rlakuli Bridge
Upparu Bridge
Gangai Bridge
Sangupiddy Bridge


Bentota Bridge

Kelaniya Flyover
Nugegoda Flyover
Dehiwela Flyover
Orugodawatta Flyover
Pannipitiya Flyover
Goviyapana Bridge


Sangupiddy Bridge

Weralugastotupola Bridge
Oddamavadi Bridge
Tangalle Bridge
Yan Oya Bridge
Hirana Bridge


Pannipitiya Flyover

Development of High Speed Road Corridors

The top priority is given in the medium term (2011- 2013) for the completion of the 181km of access controlled toll expressway between Matara and Katunayake. The 128km four lane Southern Expressway will be completed in 2011. The 100km/hr design speed Colombo – Katunayake Expressway is expected to be completed in 2012. Construction work of the 28km Outer Circular Highway, which connects the Southern Expressway and the Colombo – Katunayake Expressway, was commenced in 2009 and will be completed by 2013. Along the highway, three townships i.e. Kadawatta, Kaduwela and Kottawa, will emerge as outer Colombo cities. During the last six years, around Rs. 79,497 million has been spent on construction of these expressways of which Rs. 58,150 million was foreign financing.

Enhancement of Rural - Urban Linkage through Provincial Roads

One of the fast track development initiatives in the regions is the improvement of inter and intra provincial connectivity. All provincial roads are to be developed to standard level with the parallel development of national roads. Identified provincial roads will be upgraded to national roads to connect the missing link of the grid shaped trunk road network. Rural roads around 2000km that have been carefully selected will be improved and added to the provincial road network to ease the accessibility between the urban and rural areas. Further, provincial roads which connect nationally important places such as heritage archaeological sites, economic development zones, tourism destinations and inter district bus routes are being rehabilitated on priority basis. During the 2005 – 2010 period, around 1,706km of provincial roads, which are feeder roads to national highways, have been rehabilitated.

Increased Rural Accessibility

The Maga Naguma, the national rural road upgrading programme that was initiated to enhance connectivity has completed 8,300 km of rural roads during 2005 - 2010. In addition, approximately 4,400km of rural roads have been upgraded under the Gama Neguma Programme. The target is to upgrade 50 percent of rural road connectivity by 2015. Half of the target has been already achieved by 2010.

Dedicated Funds for Sustainable Road Maintenance

The demand for funds for the road sector, for both development and maintenance is huge. The benefits that could be obtained from the amount of money invested on road network improvement have been eroded over the years due to the lack of road maintenance. Therefore, the Road Maintenance Trust Fund (RMTF), the focal mechanism for road maintenance, was established in 2006. Accordingly, national road maintenance funds have been channeled through the RMTF since 2006.

Table 1.15 > **Provincial Road Development**

Province	Rehabilitated Roads (km)	Rehabilitation Ongoing (km)
Central	142	169
Eastern	-	245
Northern	-	217
North Central	176	220
North Western	217	-
Sabaragamuwa	162	181
Southern	610	-
Uva	194	129
Western	205	-

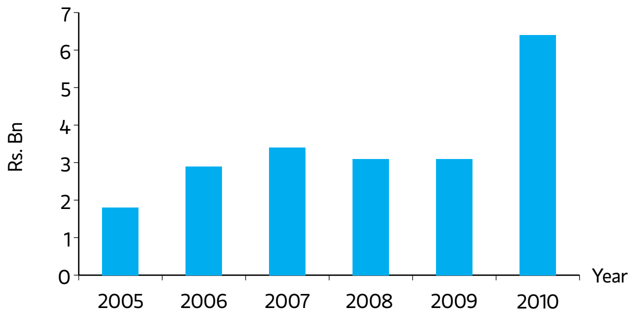
Source: Ministry of Local Government and Provincial Councils

Table 1.16 > **Rural Road Development**

Programme	2005	2006	2007	2008	2009	2010
Maga Neguma	731	2,284	1,202	1,640	1,592	854
Gama Neguma	-	1,473	1,812	4,605	1,540	1,956
Total	**731**	**3,757**	**3,014**	**6,245**	**3,132**	**2,810**

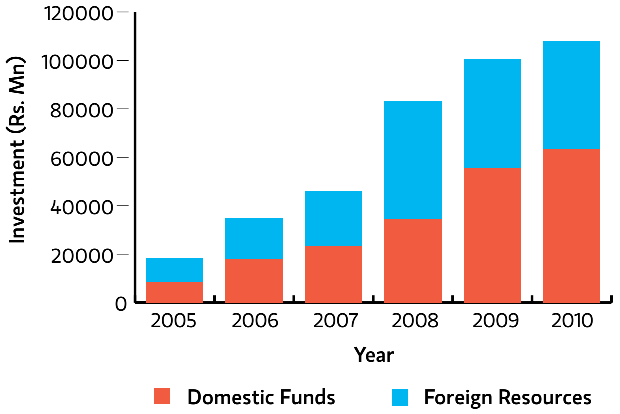
Source: Ministry of Ports and Highways and Ministry of Economic Development

Chart 1.28 > **Funds for National Roads Maintenance 2005-2010**



Source: Department of National Budget

Chart 1.29 > **Financing Pattern 2005 - 2010**



Source: Department of National Budget

A considerable amount of domestic funds has been provided to acquire land for national road development and resettlement. Land acquisition for roads is being done with a minimum cost to the affected people. Value of lands is assessed and compensation paid accordingly. For delayed payments, 7 percent interest per annum is added to the value of the acquired land. A significant amount of Rs. 16,510 million has been spent as compensation payments for land acquisition during 2005 -2010 period, although the backlog of compensation still remains high. Therefore, the use of Treasury Bonds as a new method of payment was introduced in 2009 to clear the payment for land acquisition.

Foreign financing component of the total road investment in 2005 was Rs. 8,600 million and it has increased to Rs. 44,600 million in 2010. The lion share of foreign financing has been spent on rehabilitation (56 percent) and on the construction of expressways (43 percent) projects in 2010. Rural road development is being done mostly through domestic funds.

Around Rs. 14 billion worth of loans have been obtained from development partners such as ADB, WB, EXIM Bank and the Development Bank of China, Government of Korea and Government of Japan to improve approximately 2,500km of national roads and 1,170km of provincial roads during the medium term 2011-2013.

Table 1.17 > **Land Compensation 2005 - 2010 (Rs. Mn)**

	2005	2006	2007	2008	2009	2010
Land Acquisition	2,288	2,320	3,021	2,718	2,999	2,890
Of which Treasury Bonds	-	-	-	-	489	1,085

Source: Ministry of Ports and Highways

Table 1.18 > **National Roads Identified for Improvement with Foreign Financing 2011 -2013**

Name of the Road	Length (km)
Road Sections from Ambepussa - Dambulla and Kanatale - Trincomalee of Ambepussa - Kurunegala - Trincomalee Road	134
Hatton - Nuwara Eliya	47
Dambulla - Galkulama Section of Kandy - Jaffna Road	48
Anuradhapura - Rembewa	15
Manipai - Kaithady	14
Navatkuli - Keraitivu	17
Vallai - Telippalai - Araly	27
Galkulam - Jaffna Section of Kandy - Jaffna Road	153
Navathkuli – Keraitivu – Mannar	67
Puttalam – Maricchchikadde - Mannar Road	113
Oddusudan – Nedunkeny	11
Mullaitivu – Puliyankulam	42
Mullaitivu – Kokkilai - Pulmuddai	42
Jaffna – Point Pedro	34
Jaffna - Kankasanturai	14
Jaffna - Palali	18
Puttur - Meesalai	19
Jaffna – Manipay – Karainagar	28
Jaffna – Pannai - Kayts	20
Valukkairaru – Pungudutivu - Kurikaduwan	25
Chavakachcheri - Puloly	20
Puloly - Kodikamam - Kachchai	17
Jaffna - Ponnalai - Point Pedro	53
Hakmana - Beliatte - Tangalle	7
Bopale Junction - Kiri Ibbanara - Udamauara	9
Pelawatta - Kankotoyawatta - Thiniyawala - Morawaka	47
Tiruwanaketiya - Agalawatte	33
Kandy - Mahiyangana - Padiyatalawa	102
Kalkudah Road	6
Kalkudah - Valachchenai	4
Paranthan - Kachchai - Mullaitivu	52
Horawela - Pelawatte - Pitigala	26
Kandy - Mahiyangana - Padiyatalawa	9
Badulla - Karametiya - Andaulpotha	48
Kandy Jaffna Road	11
Kurunegala - Narammala - Madampe	22
Anuradhapura New Town Roads	13

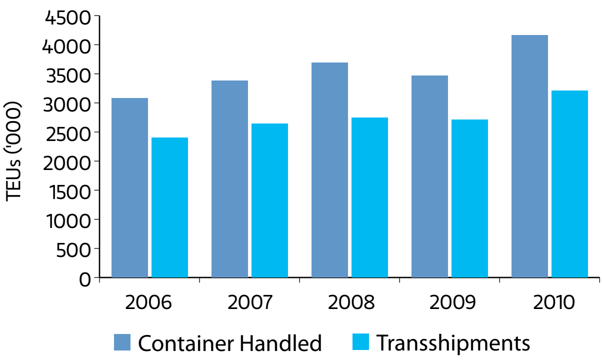
Contd...

Contd...

Name of the Road	Length (km)
Galkulama - Anuradhapura	17
Galagedara - Rambukkana	19
Polonnaruwa - Hingurakgoda	12
Kadahapola - Rambawewa	19
Tennekumbura - Rikillagaskada - Ragala	32
Tennekumbura - Rikillagaskada - Ragala	21
Colombo- Kandy	22
Galigomuwa - Ruwanwella	23
Thihagoda - Kamburupitiya - Mawarala - Kotapola	46
Kegalle - Bulathkohupitiya - Karawanella	7
Colombo- Ratnapura- Wellawaya- Batticaloa	74
Tiruwanaketiya - Agalawatte	35
Mahiyangana - Dimbulagala - Dalukkane	20
Naula - Elahera - Pallegama - Hettipola road excluding section from 44km to 56km	24
Talduwa - Meewitigammana	4
Bibile - Uraniya - Mahiyangana	18
Palaviya - Kalpitiya	26
Blackpool Ambewela Pattipola Horton Plains	28
Palapathwela - Galewela	31
Ganewelpola - Dachchahalmillewa	19
Ja-Ela - Ekala - Gampaha - Yakkala	4
Hatton - Maskeliya - Dalhousie	33
Uswetakeiyawa Epamulla Pamunugama	8
Hungama - Middeniya	30
Mahiyangana - Dimbulagala - Dalukkane	53
Manampitiya - Aralaganwila - Maduru oya	3
Road Section from Dambulla - Habarana ofAmbepussa - Kurunegala - Trincomalee Road	22
Ampara - Uhana - Mahaoya	58
Passara - Moneragala	27
Bibile - Pitakumbura - Namaloya - Inginiyagala	60
Puttalam - Trincomalee	110
Chilaw - Wariyapola	29
Narammala - Dankotuwa	16
Peradeniya- Badulla - Chenkalady Road from Badulla to Chenkalady	150
Horana - Aguruwathota - Aluthgama Road (Horana - Mathugama section)	32
Galagedera - Horana Road	19
Total	**2,510**

Source: Road Development Authority

Chart 1.30 > **Port Performance in Container Handling and Transshipments**



Source: Central Bank of Sri Lanka
Ministry of Ports and Aviation

Although the total number of vessel arrivals has decreased by 11 percent in 2010 compared to 4,592 arrived in 2009, the total Twenty-foot Equivalent Units (TEUs) handled has increased...

Ports – Towards a Naval Hub

Ports and shipping plays a significant role in the economic development in Sri Lanka. The strategic geographical location of Sri Lanka for trade, transport and transshipment activities create a great potential to consolidate its position as a naval and aviation hub of Asia.

The government policy for the ports sector is to ensure adequate ports infrastructure facilities and services available to facilitate increasing export and import trade.

Towards accelerating activities in the port infrastructure development, several mega port development projects have already been launched during the 2006-2010 period including the Colombo South Harbour Project (Rs. 85,910 million), Hambantota Port Development Project (Rs. 42,212 million), Oluvil Port Development Project (Rs. 6,188 million) and Galle Tourist Port Development Project (Rs. 16,912 million). An investment of around Rs. 27 billion was made in 2010 for these projects.

The first phase of the Hambantota Port Development Project was completed in November 2010, five months ahead of the scheduled date in April 2011. Investing USD 600 million, the second phase of the Hambantota Port Development Project has commenced, and it will be completed in 2014. The government's strategy is to mobilize private sector investment in port sector development. The government has recognized the investment through Public Private Partnerships (PPPs) in areas of port operation and port infrastructure building. Using this strategy, the Colombo South Port breakwater was built using public funds of USD 300 million and the terminal facilities to be built by the private sector by investing about USD 500 million.

In 2010, total number of 4,075 ships has arrived to the Ports of Colombo, Galle and Tricomalee. Although the total number of vessel arrivals has decreased by 11 percent in 2010 compared to 4,592 arrived in 2009, the total Twenty-foot Equivalent Units (TEUs) handled has increased to 4,160,439 in 2010, from 3,414,596 TEUs in 2009 registering a growth of 22 percent. With the continuous investment in the sector, it is expected to handle 10 million TEUs annually by 2020.

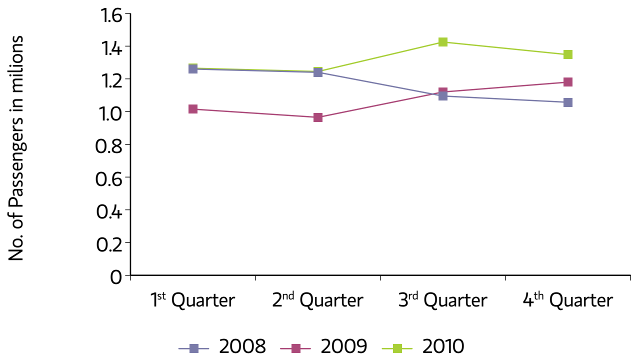
Transshipment handling has increased by 19 percent to 4,137,000 TEUs in 2010 compared to 3,464,000 in 2009. Total cargo handling has also increased to 61,250,779 MT in 2010 from 49,023,932 MT in 2009 registering a growth of 25 percent.

Aviation – Towards an Aviation Hub

Sri Lanka observes a sharp increase in tourist arrivals and trade volumes in 2010 as a peace dividend. With these large tourist arrivals and cargo operation the aviation industry has an increased demand for movements of passenger/cargo transportation. Therefore, to facilitate domestic aviation, a wide spectrum of initiatives has been taken through a strategically planned time frame. In 2010, investment for aviation sector development was around Rs. 1.9 billion.

In 2010, the Bandaranayake International Airport (BIA) handled 34,092 aircraft movements which is a 19 percent increase compared to 28,624 aircraft movements handled in 2009. Currently, Sri Lankan Airlines flies to as many as 29 destinations in 20 countries across Asia, the Middle East and Europe. The Airline operates a modern fleet of 12 aircrafts. Meanwhile, Mihin Lanka operates as a low-cost airline to popular destinations such as Buddha Gaya, Dubai and Male.

Chart 1.31 > **Aviation Performance in Passenger Movements**



Source: Ministry of Ports and Aviation

Passenger movements handled by BIA has increased by 26 percent recording a total number of 3,860,507 passengers during the period of January to December 2010 in comparison to 3,074,687 passenger movements during the corresponding period of 2009. This is mainly due to the boom of tourist arrivals from the second half of 2009 in post conflict Sri Lanka. The total number of 5,259,648 passenger movements in 2010 indicates an increase by 24 percent compared to 4,242,362 passenger movements in 2009.

Table 1.19 > **Selected Mega Port & Aviation Development Projects**

	Project Name	Total Estimated Cost (Rs. million)	Source of Funding	Expected Year of Completion	Remarks
a)	Hambantota Port Development Project	42,212	EXIM Bank of China	2011	Achieve high level of productivity in port operations by providing adequate facilities for new generation vessels.
b)	Colombo Port Expansion	85,910	ADB/GoSL/Private	2012	Development of harbour infrastructure work, construction of breakwater, improvement of terminal facilities.
c)	Southern International Airport-Mattala	23,276	EXIM Bank of China, GOSL and Airort and Aviation Services (Sri Lanka) Ltd.	2013	Development of civil aviation infrastructure. A runway of 3500m length and 75m width to accommodate code 4ft Aircraft and a Taxiway of 370m in length and 60m in width and an Apron with 10 parking positions. Passenger Terminal Building, Cargo building, 35m height Air traffic control tower.

Sources: Department of Foreign Aid and Budget Monitoring, Department of National Planning.

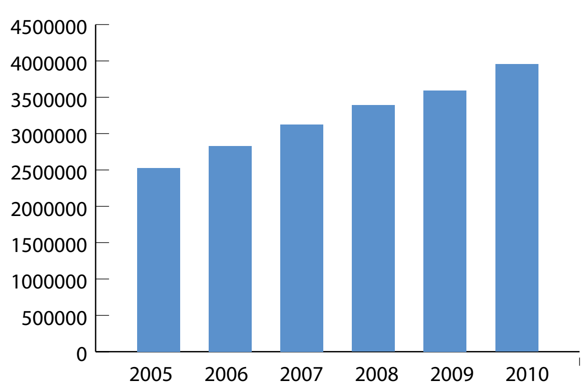


Chart: 1.32 > **No of Registered Vehicles (2005 - 2009)**

Source: Department of Motor Traffic

In line with economic growth, the number of vehicles entered in to the country's vehicle fleet has been increasing continuously...

Transport

In order to meet the transport demand of a middle income country, the government has recognized the need for the development of transport infrastructure facilities as a matter of priority and has recognized that the country's transport policy must ensure reliability and safety of various transport modes available for people. In particular, people must have choices when selecting their modes of transport.

In line with economic growth, the number of vehicles entered in to the country's vehicle fleet has been increasing continuously (Chart 1.4.1.5.1). Total number of vehicles registered during 2010 has increased significantly by around 10 percent compared to that of 2009. Among the newly registered vehicles in 2010, around 2,500 were passenger buses, which is 0.7 percent of the total newly registered vehicles.

Provision of transport infrastructure such as roads, bridges and parking spaces for this increasing number of vehicles is a major challenge. Investing in new highway systems, installation of new traffic signaling systems, establishment of parking and riding facilities are some of the measures taken to address traffic management issues.

Passenger Transportation

Passenger transport of the country is undertaken by both public and private buses. Improving the quality of passenger transport is a major objective of the government in the transport sector.

In 2010, bus transport accounted for 61 percent of the country's total passenger transport and indicated a decline by 1 percent compared to 2009. In the mean time, the usage of private vehicles, three wheelers and hired vehicles for passenger transportation has grown by around 1 percent during the same period partly indicating the improved income of the people.

Of the total number of 31,000 buses in the country, 85 percent are privately owned. The average number of private buses operated daily for the passenger transport was 26,500 in 2010. Of this, around 4,000 private buses were used for inter provincial passenger transport and another 18,000 private buses were used for intra provincial transport. The average number of SLTB buses operated daily was around 4,500 in 2010. In addition to passenger transport, roads are used for transportation of goods as well. Contribution of the road transport methods for freights was 98 percent in 2010. This shows a slight decrease of freight transport using roads in 2010 compared to 2009.

Table 1.20 > **Vehicle Population of the Country by District 2006 - 2010**

District	Year	Motor Cars	Motor Cycles	Three Wheelers	Buses	Lorries	Dual Purpose Vehicles	land Vehicles	Total
Anuradapura	2006	2278	46790	7144	728	3938	3261	6269	**70408**
	2010	3868	79175	15346	807	7242	4637	4932	**116007**
Ampara	2006	762	33214	_	452	2513	1177	4764	**42882**
	2010	1814	67451	11142	605	3594	2752	8317	**95675**
Badulla	2006	2597	17030	7122	825	5576	3559	1753	**38462**
	2010	3911	24961	15267	1124	6150	4256	2175	**57844**
Batticaloa	2006	589	25813	_	116	950	620	2331	**30419**
	2010	1274	54941	6276	185	1904	1430	5510	**71520**
Colombo	2006	124475	159721	68703	11407	48007	63430	8886	**484629**
	2010	151003	211581	90651	11063	55458	67486	8760	**596002**
Galle	2006	6315	635971	15888	1774	7174	6378	3568	**677068**
	2010	9087	87929	25038	1821	8252	7362	3247	**142736**
Gampaha	2006	30360	147406	41723	5772	21064	28496	4481	**279302**
	2010	37669	173536	58879	5308	23975	28320	4299	**331986**
Hambantota	2006	1287	25565	8387	646	3278	1937	6576	**47676**
	2010	2222	42936	15051	755	4820	3048	8014	**76846**
Jaffna	2010	1846	47965	3995	932	1712	1299	4054	**61803**
Kandy	2006	15207	28234	19817	3044	11590	12456	1127	**91475**
	2010	40422	64143	41892	5134	19250	25529	2574	**198944**
Kalutara	2006	9130	56446	18422	2518	7647	9169	1877	**105209**
	2010	12317	79318	29594	2635	9137	10025	1843	**144869**
Kegalle	2007	3938	28371	20045	1646	5941	4404	1329	**65674**
	2009	4243	26068	19673	1537	6120	4868	994	**63503**
Kurunegala	2007	10335	135207	20138	2618	14915	11421	12187	**206821**
	2010	13819	151574	32855	3077	18646	14018	9205	**243194**
Matara	2006	4620	34548	14732	1050	4897	4208	4603	**68658**
	2010	6615	52131	23114	1761	6183	5092	4575	**99471**
Matale	2006	3734	22025	10147	1093	4893	3971	3355	**49218**
	2010	2483	24182	10316	1987	3747	3127	4088	**49930**
Monaragala	2006	651	8202	2646	411	1714	1106	4098	**18828**
	2010	996	21223	6060	337	2264	1330	3949	**36159**
Nuwara Eliya	2006	20870	59078	35197	5409	21157	20449	5014	**167174**
	2010	2391	10219	7655	859	4801	3896	577	**30398**
Polonnaruwa	2006	799	18491	2708	384	1834	1465	1852	**27533**
	2010	1326	33090	8655	414	3478	2163	2893	**52019**
Puttalam	2006	4093	54561	9175	691	7565	6636	3145	**85866**
	2009	5904	69780	13242	947	10772	8586	3096	**112327**
Ratnapura	2007	7116	40527	21813	13295	10028	6797	3336	**102912**
	2009	6919	39534	22831	2004	9380	6567	3125	**90360**
Trincomalee	2006	334	11449	_	239	1066	767	1580	**15435**
	2010	801	36930	8156	395	2330	1651	3632	**53895**
Vavuniya	2010	190	13193	2061	244	983	473	1603	**18747**

Source: Provincial Commissioner of Motor Traffic

The long distance passenger transportation using buses is becoming popular. With the improvement of the road network, new routes for passenger transport are also emerging.

In order to meet the growing demand for transport, increase of the current bus fleet is essential. In line with this, investment on road transport by private bus owners has been increasing gradually. Initial steps are also taken to increase the SLTB bus fleet. It is intended to introduce these new busses to rural areas to establish a proper connectivity with important economic and administrative centres.

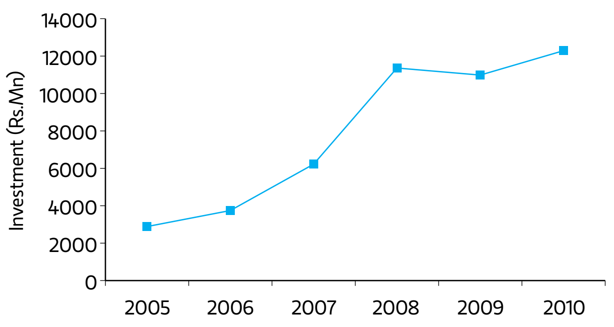
In 2010, railway contributed around 6 percent of the passenger transport and 2 percent of goods transport. The railway network is not spread throughout the country. Therefore, a large number of passengers do not have access to railways. Even under these conditions, railways carried about 102 million passengers and 1.8 million metric tons of freight in 2010. In providing safe and fast transportation, railways have been identified as an economical mode of transportation for passengers as well as for goods.

In order to increase the efficiency of the railway transportation, improvement of existing railway lines is being carried out. Reconstruction of the Galle – Matara section of the Southern Railway Line started in August 2010 aiming at providing the capability to run trains at 100kmph as a measure to increase efficiency. In addition, expansion of the railway network throughout the country is underway and several feasibility studies have already been completed. The new railroads identified for construction are Kurunegala – Habarana via Dambulla, Kottawa – Horana and the extension of Kelani Valley rail line to Hambantota via Ratnapura. In addition, the construction of the Matara - Beliatta section, which is the first stage of the Matara - Kataragama extension of Colombo – Matara railway line has commenced.

About USD 425 million has been mobilized from India to reconstruct Medawachchiya - Talaimannar Railway Line and Omantai – Pallai Railway Line. These railway constructions are expected to be completed in 2013.

Agreements have been signed with India to purchase rolling stocks to strengthen the rail fleet. These rolling stocks include, DMUU's for long distance passenger transport and power sets for short distance fast services. Another 13 power sets, at a cost of around USD 108 million, will be imported from China to strengthen the train service. Recognizing the importance of the sector, government investment in railway has been increasing continuously.

Chart 1.33 > **Investment**



Source: Department of National Budget

Water Supply and Sewerage - Towards Quality Living

During the period of 2005-2010, the investment in water and sanitation has increased significantly. As a result, access to pipe borne water supply and wastewater facilities have been increased during this period. The government has given a renewed focus on water and sanitation as such services are essential to meet the needs of a middle income country particularly to meet growing needs of urban areas. Flourishing economic activities in townships have increased the demand for quality urban services significantly.

Table 1.21 > **Public Investment - Water and Sanitation 2005 - 2010**

Rs.mn.

	2005	2006	2007	2008	2009	2010	Total 2005-2010
Major Water Supply Schemes	10,523	14,054	12,620	20,395	19,447	20,599	97,638
Water Supply Schemes in Small Towns	1,500	1,538	1,293	1,540	900	1,390	8,161
Rural Water Supply Schemes	595	1,418	1,679	1,667	1,409	616	7,384
Sewerage Schemes	340	933	4,154	2,080	2,438	3,191	13,136
Total Investment	**12,958**	**17,943**	**19,746**	**25,682**	**24,194**	**25,796**	**126,319**

Source: Department of National Budget

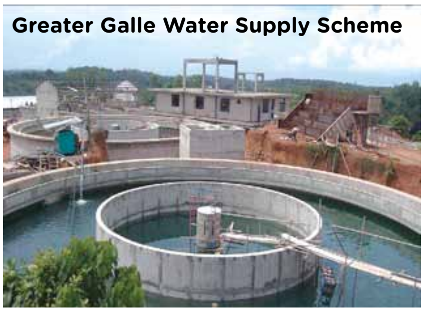
The Completed Schemes - Water and Sanitation 2005 - 2010


Ampara Water Supply Phase II

Ampara Water Supply Phase II - 105km Transmission system, 276km distribution system, 6 water towers 4 pump houses 72,000m^3 capacity treatment plant were constructed. 70,000 households in Irakkamam, Aakkraipattu, Adalachchanai, Oluvil Palamunai, Nintavur, Marathamunai, Uhana and Damana are benefited. The total cost was Rs. 10,512 mn.


Anuradhapura / Kekirawa Water Supply Scheme

Provision of pipe borne water for 80,000 households, water from wells and tube wells to 100,000 households and sanitation facilities to 120,000 households were provided through Third Water Supply and Sanitation Project implemented in Anuradhapura, Hambantota, Kalutara, Kegalle, Monaragala and Puttalam Districts. The total cost was Rs. 8,072 mn.


Greater Galle Water Supply Scheme

160,000 people benefited through the extension of the distribution system to an additional 391km to enable 32,000 new connections in Akmeemana, Bope Poddala, Habaraduwa and Hikkaduwa Pradeshiya Sabha areas. The total cost was Rs. 3,477 million.

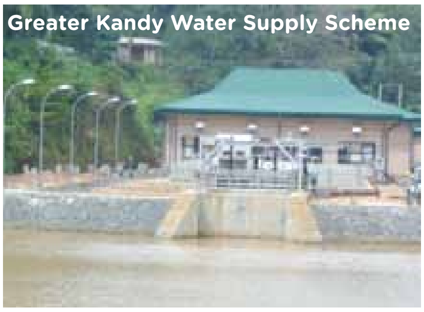
32,000m³/day Treatment Plant at Meewatura was constructed under the Towns South of Kandy Water Scheme.

Towns South of Kandy Project

Four treatment plants, 18 reservoirs, 7 pump houses and a 360km long distribution system were constructed benefiting 77,000 households in Peradeniya, Pilimatalawa, Kadugannawa, Gelioya, Udunuwara, Yatinuwara, Gampola, Ulapane, Elpitiya, Davulugala, Meewatura etc. The government has spent Rs. 8,438 mn.

Nuwara Eliya Group Town Water Scheme

Six Treatment Plants were constructed and 124km long distribution system was laid to benefit 105,000 people Hatton, Maskeliya, Ginigathhena, Kandapola, Rikillagaskada & Ragala. The total cost was Rs. 3,958mn



Greater Kandy Water Supply Scheme

Greater Kandy Water Supply Scheme I

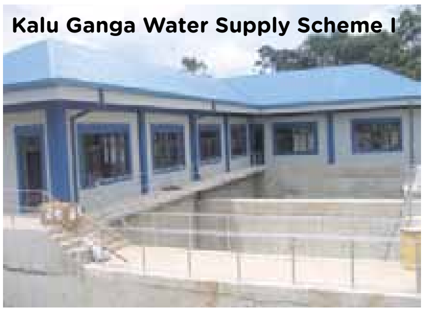
Improved water supply for 183,000 people and to improve the service levels for 432,800 people in the Kandy Municipality area with 24 hours water supply. The total cost was Rs.5,149 mn.

Towns North of Colombo Project

Extension of pipe borne water to the towns North of Colombo at a cost of Rs. 6,913 mn.

Kaluganga Water Supply Project

Kaluganga was developed as a new water source to meet the increasing demand of the Southern part of Colombo, Horana, Panadura, Moratuwa, Bandaragama and Kalutara in the Kalutara District benefitting 500,000 people. 60,000m³/day Treatment Plant was constructed. The total cost was Rs.8,665 mn.



Kalu Ganga Water Supply Scheme I

Tangalle Water Supply Scheme

42 km pipeline was built to supply of water and the capacity of water treatment plants were increased from 2,500 m3 / day to 9,000 m³ to provide water for approximately 5,000 additional families.

In order to reduce the burden on people to obtain improved water supply connections, the governmnet continued to subsidize the National Water Supply & Drainage Board (NWS&DB) by way of providing capital grants. The following table indicates the actual cost per water connection borne by the governmnet per water connection.

The consumer is charged only about 12 percent of the cost by NWS&DB in water supply schemes invloving a large subsidy component by the government in the provision of water connections. As a result, there is a significant increase in the numebr of connections over the past few years.

Table : 1.22 > **Costs of Recently Completed Water Projects in 2010**

Project	Total Cost Rs. Mn	No. of Beneficiaries	Number of Connections Household Served	Cost Per Connection (Rs)	Average Cost Paid by the User Per Connection (Rs)*
Augmentation of Kirindioya Water Supply Scheme	2,105	60,000	14,000	150,357	17,000
Nuwara Eliya Group Water Supply Scheme	4,259	101,528	15,000	283,933	17,000
Augmentation of Ampara, Nawalapitiya and Koggala Water Supply Scheme	2,700	86,000	23,000	117,391	17,000
Greater Galle Water Supply Scheme	4,750	100,000	25,000	190,000	17,000

Source: National Water Supply &Drainage Board

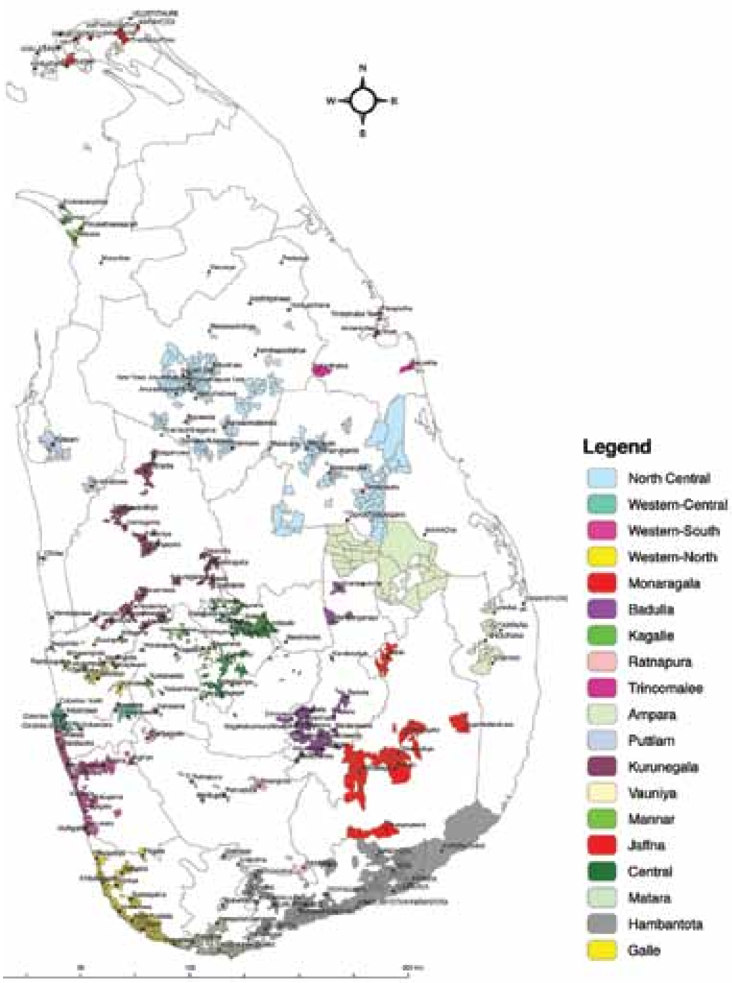
** Average cost for a household within the reach of 12 feet from the pipe network to obtain water connection and a water meter*

Table: 1.23 > **Performance – Pipe-borne Water and Sanitation 2005 - 2010**

	2005	2006	2007	2008	2009	2010
Piped Water Production (Mn. M^3)	**383**	**398**	**424**	**440**	**449**	**469**
Household Average Monthly Usage (M^3/household)						
- Greater Colombo	19.14	18.28	18.07	17.84	17.25	17.14
- Regions	15.00	14.24	14.13	13.61	13.53	13.18
Household Average Cost per Month (Rs.)	549	499	629	632	634	682
Household Average Billing per month (Rs.)						
- Greater Colombo	370.10	402.10	386.00	388.30	530.90	566.20
- Regions	200.70	199.65	188.00	193.40	294.60	310.25
Pipe-borne Water Connections (No.)	**907,622**	**989,395**	**1,078,892**	**1,186,931**	**1,266,328**	**1,353,573**
By Consumer Type;						
Domestic	815,003	892,012	976,555	1,078,178	1,166,636	1,248,176
Non-domestic	92,619	97,383	102,337	108,753	99,692	105,397
By Province ;						
Central	98,691	113,711	128,029	139,414	148,470	164,259
North Central	30,016	33,363	39,851	50,026	55,669	62,579
North Western	23,178	26,218	28,470	32,684	36,347	40,947
Northern	3,366	4,439	5,083	5,435	5,631	6,456
Eastern	44,033	49,313	54,997	74,942	85,061	95,169
Southern	84,810	91,836	153,549	172,663	188,550	203,820
Western	502,410	533,081	567,372	600,270	627,855	654,308
Uva	36,226	39,662	44,178	49,157	52,624	56,771
Sabaragamuwa	47,444	52,139	57,363	62,340	66,121	69,264

Source: National Water Supply and Drainage Board

Map 1.2 > **Existing Water Supply Schemes**



Source: National Water Supply and Drainage Board

2010 Highlights

- Construction work of several large scale water supply and sewerage projects were completed in 2010. Water supply projects, Towns South of Kandy, Nuwara Eliya, Ampara, Nawalapitiya, Koggala, Greater Galle, Kirindi Oya, Hambantota, Batticaloa water supply projects, treatment facilities of Ambatale, Negombo and Southern Catchments of Greater Colombo Sewerage project are some of the major schemes completed in 2010.

- 87,245 new pipe-borne water connections have been provided during 2010. Only 79,397 connections have been given in 2009.

- The following major construction work of water schemes were ongoing during the year 2010:

- Construction of three water towers at Kesbewa, Jamburaliya and Kumbuka under the Kaluganga water supply project at a cost of Rs. 982 million.

- Pipe laying of Kotikawatta - Mulleriyawa 40km distribution system and construction of Maligakanda and Elli House Reservoirs at a cost of Rs. 1,112mn

- Survey and soil investigation work in the Ampara District and tender awarding for major supply and construction contracts of Eastern province water supply project at a cost of Rs. 15 million. Under Phase III of the Ampara Eastern Costal Project, tender awarding and design work was carried out at a total cost of Rs. 1,494 million.

- Preliminary work of the project on Rehabilitation of the Greater Colombo Sewerage System has been done. 300km long sewer pipes, 18 pump stations, 67 pumps and one of the two sea outfalls will be rehabilitated under this project.

- Construction work of two wastewater treatment plants at Kotugoda and Soysapura, seven pumping stations in Ratmalana and Jaela, gravity pipeline of 11km in Ja Ela and 50km in Ratmalana, two outfalls at Dandugamoya and Angulana have been done under the Moratuwa/Ratmalana and Jaela/ Ekala wastewater Project.

- Loan agreement for the Kandy Sewerage Project was signed and tender process has been commenced.

- The Secondary Towns water supply project which covers the districts of Hambantota, Polonnaruwa, Batticaloa and several other cities had the highest expenditure of Rs. 4,064 million in 2010. Under this project, the following activities have been carried out:
  Construction work of 127km distribution system and three water towers at Muttur.

  Construction work of 15,000m³ treatment plant at Ambalantota, 47km transmission line and 158km distribution system was completed. Work of five water towers at Keliyapura, Sirbopura, Ballagaswewa, Mirijjavila and Ekassa was completed.
  Under the Batticaloa project, construction of a 40,000m³ treatment plant at Batticaloa and seven water towers at Chenkaladi, Eravur, Irudayapura, Air Force premises, Kalladi, Katankudy and Manmunaipattu have been completed. The 275km distribution system was substantially completed and laying of 35km transmission system is continued.

Construction work of 13,500 m³ treatment plant and three water towers at Gallella, Bendiwewa & Sevagama while laying of 140km distribution system has been completed in Polonnaruwa.

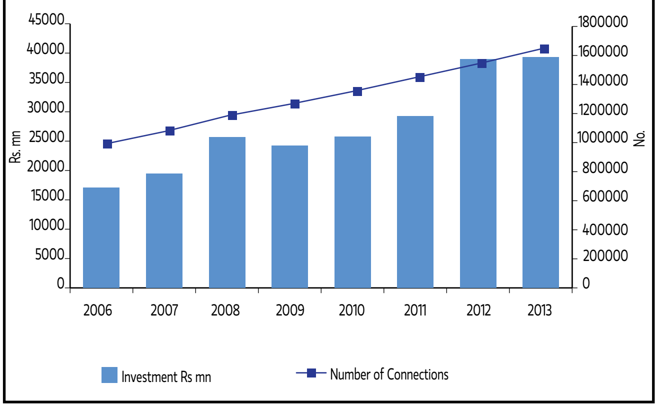
- Construction work of Bambukuliya water treatment plant, transmission and distribution system has been carried out under the Negombo water project to improve supply in Negombo, Kochchikade and Duwa at a cost of Rs. 1,113 million.

Medium Term 2011-2014 Strategic Needs and Priorities

Achieving the 100 percent water coverage as envisaged in the Mahinda Chintana is far from being completed. Currently, through a total of 1.3 million service connections, only 37 percent of the total population (i.e. only about 5.6 million people) have been provided with pipe borne water. This indicates the need for undertaking large investment programmes on water supply development.

The Government's target is to increase pipe borne water supply from current 37 percent to 60 percent in 2020. In order to achieve the targeted level of service coverage of 60 percent in 2020, NWS&DB has to increase the consumer base at least by 150,000 connections annually. This requires the government to create new physical structures and networks that require a significant amount of funding.

Chart 1.34 > **Investment Vs. No. of Connections**



Irrigation: Water is Our Heritage and Life

Being the largest water user of the country, the irrigation sector makes a substantial contribution to the economy, through sustaining agricultural production by way of rice and other food crops. Irrigated Agriculture claims the major share of the island's water use, accounting for 80 percent of total withdrawals. It provides water for an estimated irrigated land area of about 600,000 ha. which produces about 80 percent of the rice requirement of the country and about 20 percent of other food crops. In addition, irrigation provides water for domestic and industries, livestock development, inland fisheries, eco-tourism and enrichment of the environment. Although hydropower is a non-consumptive water user, it requires public water allocation through decisions to build dams and operating rules through changing the flow pattern of rivers.

Up to 2006, government investment in irrigation has mainly focused on rehabilitation of existing irrigation schemes. Since, a considerable impact has not been received as expected through this, from 2006 onwards, attention had been paid to invest through "Randora", the national infrastructure development programme of the governmment, mainly on new reservoir constructions (multi-purpose irrigation schemes) in a Multi Sector Development Frame.

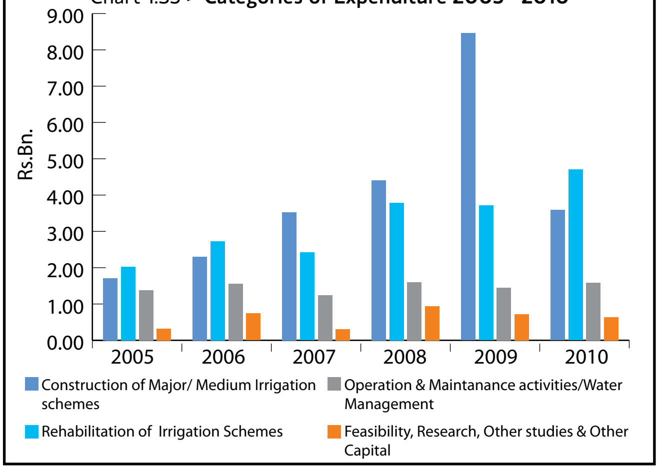
As a result, during the 2006-2010 period, government investment on irrigation has been directed on construction of multipurpose irrigation schemes while paying attention to increase water use efficiency as well as productivity improvement of water.

Therefore, the achievements of the irrigation sector during the 2006-2010 period has provided the foundation for the success of future initiatives of this sector.

Investment highlights 2006-2010

Over the last five years (2006-2010), public investment in the irrigation sector has been mainly focused on retaining as much as surface water, which flows to the sea by way of run off without being productively used. Therefore, irrigation investment has been directed towards the construction of new multi-purpose reservoirs such as Moragahakanda and Kaluganga, Menik Ganga, Deduru Oya Rambukkan Oya and Uma Oya Diversion, rehabilitation and improvement of existing reservoirs,schemes, dams and structures and development of flood protection, drainage and salt water intrusion prevention schemes and carrying out of research and feasibility studies etc.

Chart 1.35 > **Categories of Expenditure 2005 - 2010**



Source: Department of National Budget

The government provides a considerable amount of funds annually for the operation and maintenance (O&M) of irrigation schemes in order to minimize the cost of extensive rehabilitation work in the long run.

The total expenditure of the irrigation sector in 2010 was Rs. 13.6 billion. Of this Rs. 10.5 billion is capital expenditure. The capital expenditure of the government for the irrigation sector has increased by 43 percent from 2005 to 2010.

Financing Pattern

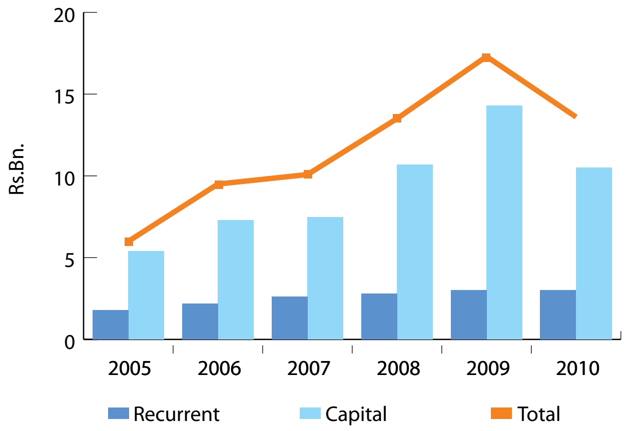
The irrigation sector has attracted proportionately more domestic funds as a percentage of total investment in this sector during the period from 2005 to 2010. During this period, domestic capital funding involved in the sector is Rs. 35 billion while the foreign funding is only Rs. 15 billion.

Achievements during 2006 - 2010 Period

During the 2006-2010 period, priority was given to the completion of continuation work of constructions which were commenced before 2006 and 9 major and 18 medium irrigation schemes recently commenced. This facilitated the cultivation of about 65,000 ha. benefiting more than 70,000 farmer families.

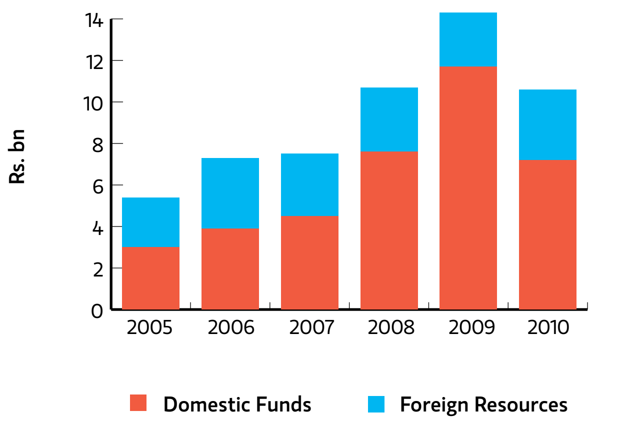
Table 1.24 provides some of the selected major and medium irrigation schemes that have been completed during the last five years.

Chart 1.36 > **Expenditure Pattern 2005 - 2010**



Source: Department of National Budget

Chart 1.37 > **Financing Pattern 2005 - 2010**



Source: Department of National Budget

Table 1.24 > **Some of the Selected Major and Medium Irrigation Schemes Completed during 2006 - 2010 Period**

Scheme	Districts	Cost (Rs.Mn.)	Extent (ha.)	Beneficiary Families
Menik ganga (Weheragala reservoir (Completed in 2009)	Hambantota, Moneragala	2,200	10,000	8000
Kekiri Obada reservoir (Completed in 2010)	Hambantota	445	2241	3437
Wewalanda wewa (Completed in 2010)	Ratnapura	55	350	350
Weli Oya Diversion	Moneragala	852	1500	3000
Wemedilla reservoir	Matale	250	720	600
Gal Oya river division	Ampara	275	10,000	8,000
Wahalkada tank	Anuradhapura	57	190	200
Holuwagoda drainage scheme	Galle	45	650	500
Medagama Gonagama	Kurunegala	15	57	200
Walawe Left Bank	Hambantota	9,425		5,469
Restoration of Jana Ranjana Wewa	Trincomalee	53	325	300
Total		**13,672**	**26,033**	**30,056**

Source: Department of Irrigation

In addition to these projects, several major rehabilitation and construction projects, which have commenced before 2006 such as the System C Upgrading Project, System B Left Bank, Udawalawa Left Bank - Extension Project, Hambantota Irrigation Project and Tsunami Relief and Reconstruction Project and North-East Irrigation Rehabilitation Projects were also completed during this period.

Selected Projects in Progress

- **Dam Safety & Water** Resources Planning Project which commenced in 2008 is being implemented at a total cost of Rs. 7,739 million. Head works of 32 major dams together with rehabilitation of water conveying systems, de-silting, modernization and installation of modern gauging and meteorological information equipment for 80 dams will be undertaken through the Dam Safety and Water Resource Planning Project (DSWRP). Environmental Assessment has been completed for 32 dams. Detailed designs of 18 dams have been completed. Contracts for rehabilitation have been awarded for eight dams i.e. Parakrama Samudraya, Kanthale, Inginimitiya, Thabbowa, Dambulu Oya, Kandalama, Bowathenna. Social Assessment of Thabbowa and Dambulu Oya was completed. All 80 dams were provided with maintenance equipment. 26 inspection boats were provided for 26 dams for perimeter inspection. Cumulative expenditure up to the end of 2010 was Rs. 1893 million.
- **Phase II of the Sustainable** Water Assistance Management Project that commenced in 2008 has imported 5000 Solar power drip irrigation systems and distributed them among dry zone farmers. Cumulative cost at the end of 2010 was Rs. 845 million.
- **Out of 10,000 minor** tanks targeted under rehabilitation programme commenced in 2004, about 3,441 tanks /anicuts have been completed at a cost of Rs. 2830 million. Government / NGOs/private sector will finance the rehabilitation of 10,000 tanks through participatory approaches. This will enable to irrigate of more than 200,000 ha. by 2020, contributing to poverty reduction as well as fulfilling the socio economic needs of the poorer farmers.

- **Northern & Eastern Revival**
  Rehabilitation work of existing irrigation schemes in Northern and Eastern region were accelerated with the end of war. Approximately, Rs. 2.25 billion has been spent during 2008-2010, including Rs. 1 billion. in 2010, for irrigation purposes through various implementing agencies. Of this, Rs. 497 million was spent in 2010 for rehabilitating 10 Major and Medium schemes under the PEACE project. Under the Re-awakening project, five major schemes i.e. Giant tank in Mannar, Allai Extension scheme in Trincomalee, Rugam Scheme in Batticaloa and Karawahu drainage scheme in Ampara, and Pavakkulam in Vavuniya are being rehabilitated at a cost of about Rs. 2,000 million in the Medium Term. About 2,347 Major, Medium & Minor Irrigation schemes will be rehabilitated during the Medium Term through various projects such as PEACE (N/E), Re-awakening project, and North East Emergency Rehabilitation Project. This will provide irrigation facilities for about 172,780 farmer families to cultivate approximately 177,522 ha. of cultivable land in Northern and Eastern provinces.

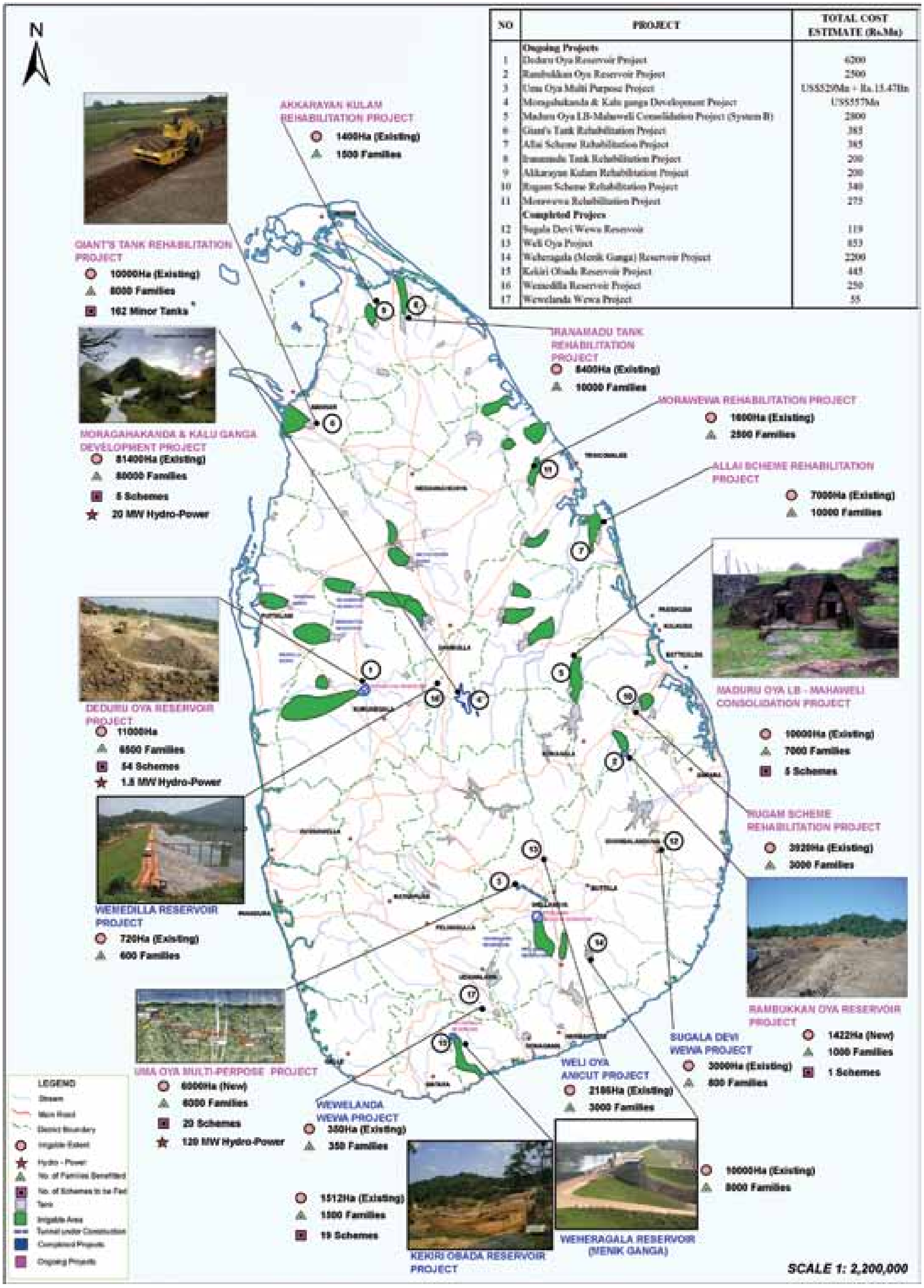
Flood Damage at the end of 2010

The Country received considerably high rainfall which was not experienced in recent past, with the activation of North –East monsoon, during the month of December 2010. As a result, majority of small, medium and large reservoirs of the country began to spill causing considerable damage to canal network and submerged 67,900 ha. of agricultural land, destroying about 6,285 ha. of cultivated paddy fields mainly in three districts, Ampara, Batticaloa and Trincomalee. Most of the gates of spillway structures had to be opened largely to release excess water to maintain water level of the reservoirs. Nature has given a strong message to the public that is to draw more attention on safety of dams and structures in the future. This emphasized the importance of projects such as Dam Safety and Water Resource Planning to the country.

New Reservoir Construction / Water Resources Development

Retaining available surface water as much as possible through the construction of new reservoirs is vital. In order to achieve this objective major multipurpose reservoir constructions have already been commenced with possible trans-basin diversions. Eg. Moragahakanda and Kaluganga reservoir project, Uma Oya Diversion project, Deduru Oya, Kekiri Obada and Rambukkan Oya reservoirs project.

Map 1.3 > **Selected Completed & On-Going Irrigation & Water Resources Development Projects**

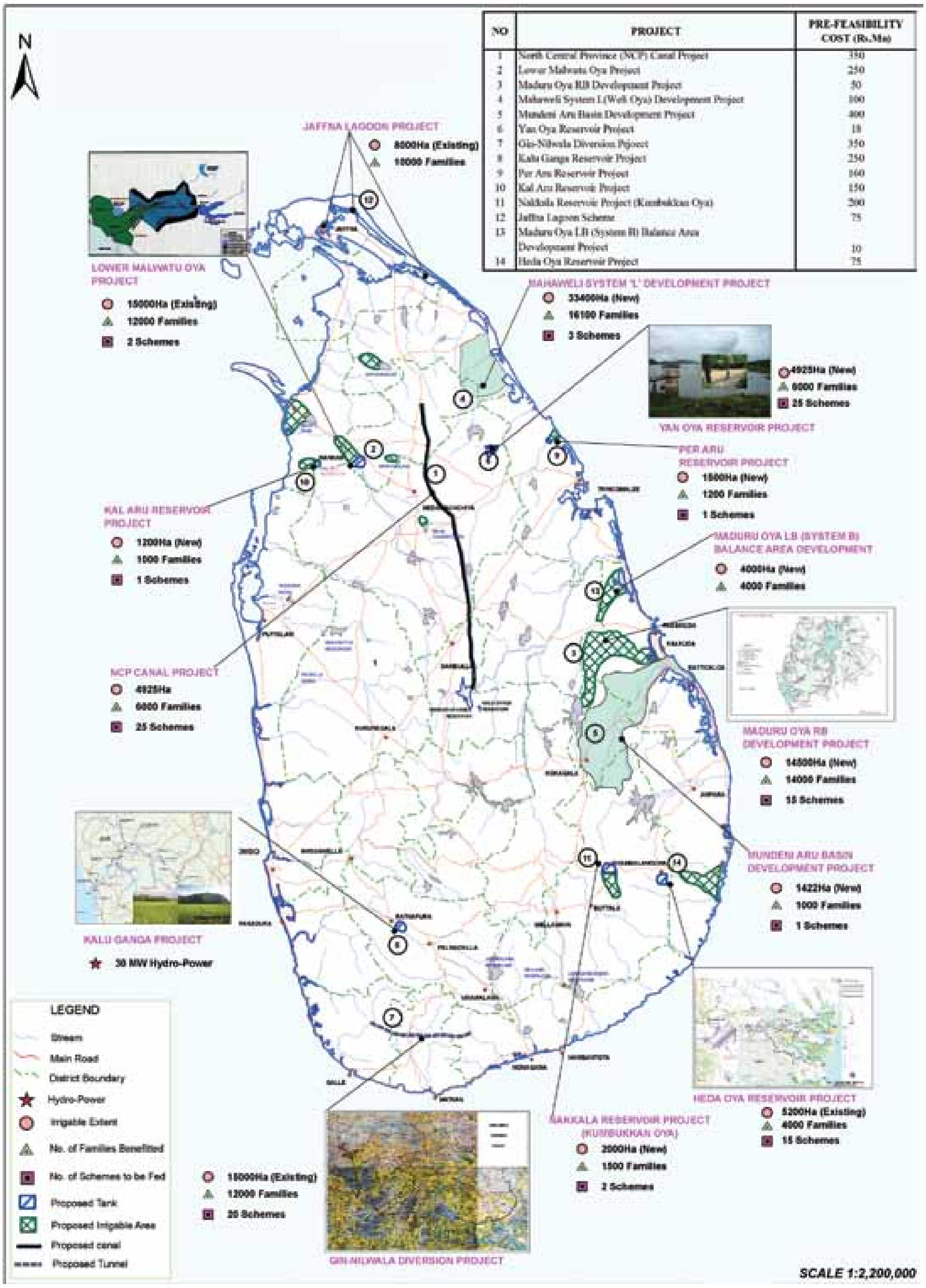


NO	PROJECT	TOTAL COST ESTIMATE (Rs.Mn)
	Ongoing Projects	
1	Deduru Oya Reservoir Project	6200
2	Rambukkan Oya Reservoir Project	2500
3	Uma Oya Multi Purpose Project	US$529Mn + Rs.15.47Bn
4	Moragahakanda & Kalu ganga Development Project	US$557Mn
5	Maduru Oya LB-Mahaweli Consolidation Project (System B)	2800
6	Giant's Tank Rehabilitation Project	385
7	Allai Scheme Rehabilitation Project	385
8	Iranamadu Tank Rehabilitation Project	200
9	Akkarayan Kulam Rehabiltation Project	200
10	Rugam Scheme Rehabilitation Project	340
11	Morawewa Rehabilitation Project	275
	Completed Projecs	
12	Sugala Devi Wewa Reservoir	119
13	Weli Oya Project	853
14	Weheragala (Menik Ganga) Reservoir Project	2200
15	Kekiri Obada Reservoir Project	445
16	Wemedilla Reservoir Project	250
17	Wewelanda Wewa Project	55

Proposed Schemes, which are in Feasibility Stage, for Constructions in the Medium Term

Several new multipurpose projects including hydropower, flood protection and salt-water exclusion, will be initiated during the medium term for feasibility studies followed by constructions. Eg; North Central Province (NCP) Canal, Maduru Oya RB Development project (System B), System L (Weli Oya) Development, Malwatu Oya Diversion, Nakkala reservoir, Kal Aru & Per Aru reservoir projects.

Map 1.4 > **Selected Proposed Medium-Term Irrigation & Water Resources Development Projects**



NO	PROJECT	PRE-FEASIBILITY COST (Rs.Mn)
1	North Central Province (NCP) Canal Project	350
2	Lower Malwatu Oya Project	250
3	Maduru Oya RB Development Project	50
4	Mahaweli System L(Weli Oya) Development Project	100
5	Mundeni Aru Basin Development Project	400
6	Yan Oya Reservoir Project	18
7	Gin-Nilwala Diversion Pjject	350
8	Kalu Ganga Reservoir Project	250
9	Per Aru Reservoir Project	160
10	Kal Aru Reservoir Project	150
11	Nakkala Reservoir Project (Kumbukkan Oya)	200
12	Jaffna Lagoon Scheme	75
13	Maduru Oya LB (System B) Balance Area Development Project	10
14	Heda Oya Reservoir Project	75

Successes in Mahinda Chintana – 2005

Water: the lifeblood of Farming

"Water of this valuable resources should be the people of this country.......I intend to present a national irrigation plan where the main rivers regional tanks, anicuts and water streams in villages will be connected. Dry lands in the North, South, East and West will be transformed into fertile agricultural lands...... It is my intention to complete 10,000 tank programmes and implement multipurpose irrigation schemes such as Moragahakanda, Uma Oya, North Central Main Canal, Deduru Oya, Menik Ganga, Kumbukkan Oya, Yan Oya, Hada Oya, Kirama Oya and Urawa.
- **Mahinda Chintana - 2005 page 43**

Water is Our Heritage and life

"....we have already fully realized strategic importance of water as a natural resource"
Mahinda Chintana - 2010 page 42

Priority Projects in Mahinda Chintana - 2005	Achievements: 2006 - 2010
Menik ganga (Wheragala) reservoir TEC: Rs.2,200 million.	**Completed in 2009**, benefiting 8000 farmer families (Extent 10,000 Ha.) in Moneragala, Hambantota Districts. **Balance work will be completed with the involvement of the Department of Wild Life**.
Kekiri Obada Reservoir (Kirama Oya) TEC: Rs.445 mn.	Completed in 2010, benefiting 3,437 farmer families (Extent 2241 Ha.) in Hambantota District.
Moragahakanda & Kaluganga reservoir (Kuwait, OPEC, Saudi, Japan, China) TEC: USD 557 million.	**Construction is in Progress**. Project was commenced in 2007 and will be completed in 2016(Kaluganga in 2015 and Moragahakanda in 2016), benefiting nearly 81,422 Ha. of existing lands within nine Mahaweli systems in Anuradhapura, Polonnaruwa and Trincomalee and Matale districts while generating 20 MW hydro Power. Construction of Moragahakanda saddle dam No.II is nearly completed utilizing local funds. The work on a deviated road network, infra structure development for resettlement and land acquisition are in progress under Kaluganga reservoir in the system F area and Kaudulla development area spending Rs. 1, 215 million for 2010. EIA has been completed on Kaluganga.
Uma Oya Multipurpose irrigation scheme (Iran) TEC: USD 529 mn.	**Construction is in Progress**. Project was commenced in 2009 and will be completed in 2013, benefiting 12,000 farmilies in Badulla, Moneragala and Hambantota Districts while generating 120 MW Hydro Power. It is expected to cultivate 15,000 Acres (new extent 5000 Acres., existing extent 10,000 Acres.). The financing agreement was signed in 2010 with the government of Iran.
Deduru Oya reservoir TEC: Rs. 6,200 mn.	**Construction is in Progress**. Project will be completed in 2012.Trans basin diversion (Deduru Oya basin to Mi Oya basin) benefiting 6500 farmilies, Extent 11,000 Ha., generating 1.5 MW Hydro Power
Rambukkan Oya Reservoir TEC: Rs. 2500 mn.	**Construction is in Progress**. Project will be completed in 2012. Mundeni aru sub river basin: Extent 1400 Ha., 2000 farmilies.

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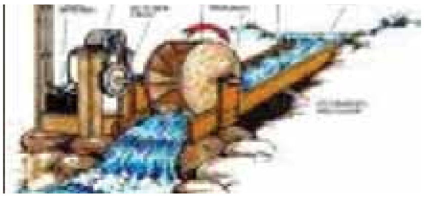
Kumbukkan oya (Nakkala) Reservoir - Moneragala	**Feasibility stage**. Benefit for 15000 farmer families in Moneragala district. Extent 4000 Ha.
Yan Oya Reservoir Project- Anuradhapura, Vauniya, Trincomalee	Preliminary survey is in progress & EIA have been commenced. Trans Basin. New Paddy lands and OFC Cultivation. Drinking Water. Extent 2950 ha.,
Heda Oya Reservoir - Ampara, Moneragala	Feasibility stage. in basin (Heda Oya river basin) +Augmantation. Extent 5200 ha., 4000 farmilies
North Central Province (NCP) Main Canal- Kandy, Matale, Polonnaruwa, Anuradhapura, Trincomalee, Vauniya, Mannar	Pre-feasibility stage. Other Field Crops including Sugar Cane. Augmenting existing minor and Medium Tanks. Drinking Water to upto Vauniya etc.
Gin-Nilwala Trans Basin Diversion (Urawa Diversion) - Galle, Matara, Hambantota	MOU has been signed with China. Southern diversion- TB(Gin ganga, Nilwala, Kirama Oya. Uru bokka Oya and Walawa river basins) , Flood Protection, supplementary irrigation to Hambantota District, Domestic and Industrial water to Hambantota
10,000 minor tanks rehabilitation programme	Work is in progress. Commenced in 2004. About 3441 tanks /anicuts have already been completed.

The new policies in the water sector aim at increasing the harvest of runoff water through the construction of new reservoirs while rehabilitating the existing reservoirs. Further, steps will be taken to reduce the level water of usage by the irrigation sector. This will create pressure on the irrigation sector to develop its water use efficiency allowing to meet the water requirement of other sectors to meet the needs of the economy. As a result, the government has decided to increase the investment in the sector which is estimated at Rs. 117 billion for the period of 2011-2013.

Opportunities for Private Sector Participation

Private sector participation is encouraged, including Private - Public joint ventures, with the completion of the construction / rehabilitation of reservoirs



Mini Hydro Power Generation

Existing reservoirs- Rajanganaya, Parakrama Samudraya, Lunugamwehera
New constructions – Deduru Oya, Urubokka Oya (Nilwala ganga tributary), Lower Uma Oya, NCP canal

Eco/Agro Tourism

Dams package with Circuit Bungalows – Victoria, Randenigala, Rantambe, Kotmale, Rajangana reservoir, Kalawewa, Nachchaduwa
New reservoirs - Moragahakanda and Kaluganga Reservoir – Wasgamuwa National Park, Walawe Left Bank (Agro Tourism)– Mahagama farm
Weli Oya (System L) Development – Kokilai Lagoon, Horticultural Crops
Mahaweli Consolidation Project - Ornamental fish

Inland Fisheries

Inland fisheries - Fillet factory – Deduru Oya reservoir, Kiralakele, Kokilai Lagoon – Prawns
Ornamental fish project -Mahaweli consolidation Project

Agri Business

Bamboo industry – pulp, sheets etc. – Mahaweli and Deduru Oya river
Banana Fiber production industry – Walawe, Lunugamwehera
Shampoo industry - Rice bran oil industry -Ampara, Polonnaruwa
Other field crop cultivation – available lands under Mahaweli Areas
Sugar cane cultivation – Maduru Oya Right Bank, Left Bank Balance area
Cashew plantation – Maduru Oya Left Bank, Weli Oya, Mannar

Health - Towards a Quality Life

Overview

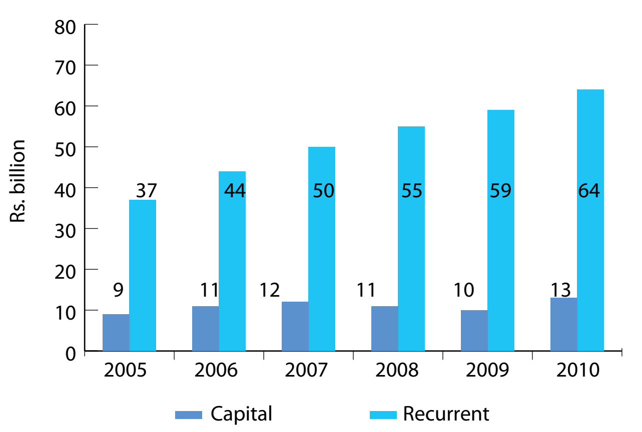
The Government is to foster a healthy population through provision of comprehensive health services that are of high quality at a time when the country is moving towards a middle income country. As stipulated in Mahinda Chintana – Vision for the Future, the Government enhanced the physical and technical infrastructure of the health service and brought positive attitudinal changes to provide an accessible network of supportive, preventive and curative health services to the entire population. The actual expenditure on these services grew from Rs. 46 billion in 2005 to Rs. 77 billion in 2010 recording a 67 percent increase at both national and provincial levels.

The expenditure on health is still predominantly provided by the public sector although the private sector activities have expanded. Government funds on health exclusively come from government revenue and donor financing arrangements. A major share of public expenditure on health was on recurrent expenditure while spending 17 percent on development expenditure in 2010.

Investment in Health

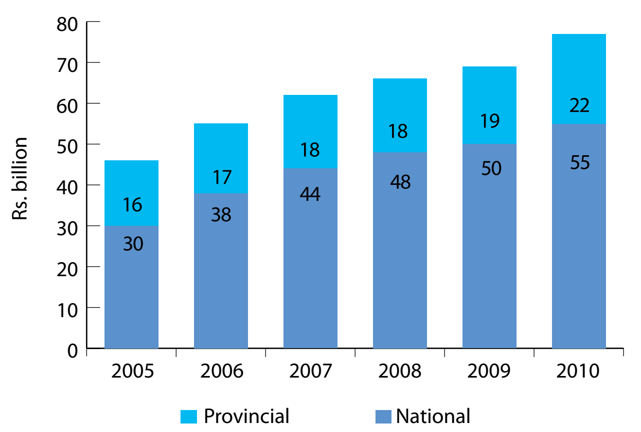
Capital expenditure on health has increased by 43 percent from 2005 to 2010 channeling more funds on hospital development. On average, the foreign funding component on health development projects was about 33 percent of total health sector investment, reflecting that a dominant share was from domestic funds in 2010. Neuro Trauma Unit at National Hospital Colombo, Improvement of Curative Health Care Services at General Hospital Anuradhapura, Supply of Essential Medical Equipment for Teaching Hospital Kurunegala, Stage I of Korea-Sri Lanka Friendship Hospital at Matara-Godagama are some of the key projects completed with foreign assistance during 2010. However, committed foreign funds on some projects have not been utilized due to procedural delays by implementing agencies.

Chart 1.38 > **Expenditure on Heath 2005-2010**



Source: Department of National Budget

Chart 1.39 > **Expenditure by Government and Provincial Councils**



Source: Department of National Budget

Table 1.25 > **Recurrent Expenditure on Health**

Rs. Mn

Category	2005	2007	2010
Personal Emoluments	21,737	29,128	39,577
Medical Supplies	7,100	10,826	13,582
Diets	409	547	736
Maintenance	150	234	272
Electricity and Water	1,075	1,403	2,002
Welfare Programmes	504	922	865
Other*	5,976	6,460	6,799
Total	**36,951**	**49,520**	**63,833**

Source: Department of National Budget

* *Includes all the Provincial Councils' recurrent expenditure other than Personal Emoluments*

A lion share of recurrent expenditure was allocated on personal emoluments consisting of payment of salaries and wages, overtime and other allowances. The expenditure on personal emoluments on health has increased by 82 percent during the period 2005 to 2010. This was mainly due to increased cadre of medical officers, nurses and paramedical services, and policies adopted to increase allowances and overtime of medical officers and nurses etc.

The budgetary provision on Medical Supplies has increased almost by 90 percent during the period 2005 to 2010. In addition, recurrent expenditure on electricity & water mainly for hospitals has increased health expenditure on curative services during the same period. Further, Rs.1,723 million has also been utilized for hospital rehabilitation and development under capital expenditure in 2010. Moreover, high expenditures on welfare programmes; Thriposha, benefited 780,000 pregnant and lactating mothers and children above 6 months to 5 years annually during the period 2008-2010.

The Government also continued to increase financial support on health promotion and disease prevention utilizing Rs. 1,475 million in 2010. More funds have been invested on new initiatives to control communicable and non communicable diseases such as Dengue, Leptospirosis, Cancer, Mental Health, Kidney failure etc. Moreover, international organizations such as World Bank (WB), Global Fund, Global Alliance for Vaccine Immunization (GAVI), World Health Organization (WHO) etc. have extended their support in health promotion and disease prevention activities during the period 2005 to 2010.

Table 1.26 > **New Recruitments for Key Categories in the Health Sector 2005 - 2010**

Category	2005	2006	2007	2008	2009	2010
Appointments						
Medical Officers (Post Intern)	932	1,078	1,721	871	896	1,195
Medical Officers (Intern)	1,126	1,007	909	1,158	1,260	1,189
Nurses	246	1,267	2,800	2,179	3,777	2,640
Public Health Inspectors (PHII)		197	86			15
Public Health Midwives (PHMM)		830	1,496	79	19	44
Medical Laboratory Technicians(MLT)		17	122	95	202	162
Pharmacists	9		152	96	212	101
Radiographers			67	23	64	86
Physiotherapists	9	9	40	10	34	76
Occupational Therapists			12	2	16	24
Entomological Assistants			5			49
ECG Recordist		37	29		31	9
Recruitment for Training						
Pupil Nurses	2,257	3,806	1,953			4,070
Public Health Inspectors	59					281
Public Health Midwives	1,640					228
School Dental Therapists				118		66
Medical Lab Technicians	150		475			140
Pharmacists		213	257			
Radiographers		40	167		100	42
Physiotherapists			176		76	60
Occupational Therapists			56		25	18
ECG Recordists		50	50			
Dental Technicians			6		1	1
Dispensers			261			46
Opthalmic Technologists			50			
Public Health Field Officers						59
Prosthetics & Orthotics						30
Electro Encephalagrapher (EEG)		10	10			
Entomological Assistants			50			
Workshop Formans			54			

Source: Management Development and Planning Unit, Ministry of Health

Box 1.6
Free Medicine for All

The Government provides drugs free of charge to all public hospitals and health care institutions both at national and provincial levels.

Medical Supplies Division (MSD) of Ministry of Health is the main central organization responsible for providing all pharmaceuticals, surgical items, laboratory items, radioactive items etc. required by government hospitals and health care institutions throughout the country.

The MSD procures the total requirement of medical supplies for public hospitals from State Pharmaceutical Corporation (SPC) as the main procurement agent for MSD while procuring locally manufactured drugs directly from State Pharmaceutical Manufacturing Corporation (SPMC). In addition, MSD supplies emergency local purchases and selected items on a regular basis from overseas and local sources. Also MSD places orders from SPC at the beginning of a year where it takes 11-12 months to process the order under normal circumstances.

Table 1.27 > **Expenditure on Medical Supplies, 2008 - 2010**

Rs. Mn

Purchasing Criteria	2008	2009	2010
a. State Pharmaceutical Corporation (SPC) Pharmaceuticals X-ray Films Dental Consumables Dental Non-Consumables Laboratory Consumables Laboratory Non-Consumables	5,223	6,662	6,157
b. Surgical Consumables Surgical Non-Consumables Special Surgical Non-Consumables	4,375	3,887	4,279
c. State Pharmaceutical Manufacturing Corp. Corporation(SPMC)	128	599	908
d.Crown Agents – Radio Actives	66	88	43
e.Dressings *	322	255	293
f. Oxygen**	60	74	128
g. Local purchase done by MSD	1,099	416	611
h. Local Purchase done by hospitals	808	168	1,132
Total	**12,081**	**12,149**	**13,551**

Source: Medical Supplies Division, Ministry of Health

** Gauze Only*

*** Does not include hospital expenditure*

During the period 2008 to 2010, out of the total budgetary provision on medical supplies, more than 45 percent is allocated on pharmaceuticals, x-ray films, dental and laboratory consumables etc. and around 32 percent on surgical and surgical non-consumables. In addition to the orders placed under SPC, annually, around 10 percent is purchased locally either by MSD or hospitals. Out of the total pharmaceuticals purchased in 2010, a sum of Rs. 371 million was utilized on cancer and other expensive drugs.

Hospital Network and Strength of Manpower

The Government provides a wide array of health services throughout the country through a well established network of health institutions under the Ministry of Health and Provincial Ministries. A steady increase in the number of hospitals and hospital beds delivering a range of medical services from primary to tertiary care was reflected over the past five years.

In view of providing improved services for both curative and preventive care, the essential categories of health manpower have strengthened during 2005 to 2010. The driving forces of two important categories of staff, namely, doctors and nurses, have increased reflecting the gradually enhanced doctor/nurse: population ratios. The increase in health professionals including doctors, nurses and other technical staff have also contributed to strengthen the knowledge economy where the country is moving ahead.

Table 1.28 > **Hospital Network 2010**

Hospital Type	No. of Hospitals	Total Bed Strength
National Hospitals	1	3,291
Teaching Hospitals	21	17,736
Provincial General Hospitals	3	3,889
District General Hospitals	18	9,509
Base Hospitals –		
Type A	21	6,586
Base Hospitals –		
Type B	45	7,086
Divisional Hospitals – Type A	39	4,514
Divisional Hospitals- Type B	143	9,524
Divisional Hospitals- Type C	277	6,621
Primary Medical Care Units (Central Dispensaries and Maternity Homes)	474	745
Total	**1,042**	**69,501**

Source: Management Development and Planning Unit, Ministry of Health

Table 1.29 > **Strength of Health Manpower**

Category	2005	2010*
a. Medical Officers	10,256	14,083
Administrative Grade- Senior	124	138
Specialist Medical Officers	848	1,216
PGIM Trainees**	601	1,077
Grade Medical Officers	8,098	10,705
Intern Medicle Officers	585	947
b. Dental Surgeons	805	1,209
C. Registered Medical Officers/ Assistant Medical Officers (RMO/AMO)	1,260	1,144
d.Nursing Officers	20,322	27,762
Special Grade Nursing Officers	186	278
Grade I Nursing Officers	2,057	2,503
Grade II Nursing Officers	18,076	24,978
Director Nursing	03	03
e. Midwives	7,316	8,726
f. Para Medical Staff		
Pharmacists	980	1,196
Medical Laboratory Technologists	984	1,422
Physiotherapists	220	322
Radiographers	345	477
Occupational Therapists	47	92
Dental Therapists	11	379
Microscopist	374	371
Public Health Inspectors	1,231	1,689
ECG Recordists	191	315
Dispensers	885	1,194
g. Attendents	6,705	8,189

** As at June 2010*

***Post Graduate Institute of Medicine*

Source: Management Development and Planning Unit, Ministry of Health

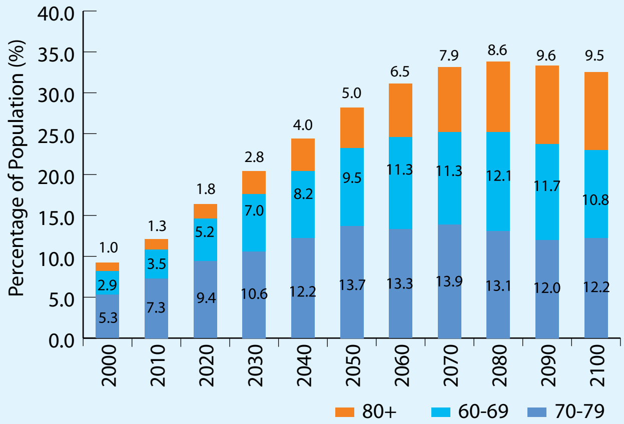
Box 1.7
Rising Disease Pattern: Infectious Diseases to Non Communicable Diseases

Sri Lanka is now in a demographic and epidemiologic transition where aging population is increasing and disease burden is changing. In 2007, the life expectancy at birth in Sri Lanka was 74.8 years[1] and it has been estimated that the proportion of population over 60 years will be more than doubled by 2040[2]. This situation will increase the old age dependency ratio and effect on overall economic and social development activities while increasing the burden on government budget.

The epidemiological transition has also shifted the disease pattern from maternal and child health and infectious diseases to Non Communicable Diseases (NCDs), making negative implications for the country's health and social systems.

NCDs are often associated with changing life styles related to urbanization, improvements in economic status, exposure to under nutrition early in life and population aging. Mainly, cardiovascular diseases, diabetes, asthma/ chronic obstructive pulmonary disease and cancer which are affected due to the risk factors of tobacco use, unhealthy diet, lack of exercise and alcohol, can be identified as chronic NCDs.

Chart 1.40 > **Proportion of people in older (≥60 years) age groups, Sri Lanka, 2000-2100**



Source: Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Actions, 2010

Table 1.30 > **Live Discharges and Deaths due to Non Communicable Diseases 2005 - 2008**

Disease	2005		2006		2007		2008	
	Live Discharges	Deaths	Live Discharges	Deaths	Live Discharges	Deaths	Live Discharges	Deaths
Coronary Heart Disease	65,836	3,762	75,399	4,125	80,919	4,536	81,045	4,466
Rheumatic Heart Disease	3,680	69	3,309	35	3,513	37	3,573	61
Essential Hypertension	78,367	586	83,128	428	82,550	437	79,699	385
Stroke	19,215	2,549	22,487	2,893	24,921	3,193	26,793	3,102
Diabetes Mellitus	51,476	675	58,429	597	60,944	545	59,409	579
All Cancers	44,672	2,683	48,484	3,163	52,444	3,388	59,365	3,384

Note: Based on hospital data excluding private hospitals

Source: Non Communicable Diseases Unit, Ministry of Health

The proportion of deaths due to circulatory diseases such as heart disease and stroke, cancer, diabetes etc. has increased during the past decades while decreasing infectious diseases. In comparison with developed countries, NCD risk factors in Sri Lanka are lower for diseases such as hypertension, obesity, tobacco, physical inactivity, and alcohol use but higher for high cholesterol (dyslipidemias). It is expected that some risk factor levels especially associated with urbanization and development gains such as obesity and physical inactivity will increase in the coming years in Sri Lanka (Prevention and Control of Selected Chronic NCDs in Sri Lanka: Policy Options and Action, 2010) Considering the rising disease pattern, the government has directed funds for prevention and control of NCDs enabling healthier aging and to reduce loss of productivity among working population in the country during the past five years.

At a time where the NCDs are emerging, it is evident that the deaths due to communicable diseases such as Malaria have come to an end as a result of strengthened preventive and control activities, moving the country towards a malaria free nation. However, the country experienced the largest outbreak of Dengue Fever during the recent past recording the highest mortality while that of tuberculosis still persists.

Many activities were initiated under National Dengue programme and TB control programme to reduce the disease burden in 2010.

Table 1.31 > **Mortality due to Dengue Hemorrhagic Fever and Tuberculosis 2005 - 2010**

Year	No.	
	Dengue Hemorrhagic Fever (DHF)	Tuberculosis (TB)
2005	28	446
2006	48	347
2007	28	205
2008	28	362
2009	346	275
2010	241	n.a

Source: Epidemiology Unit & TB Control Programme, Ministry of Health

1 World Fact Book

2 A Population Projection of Sri Lanka for the New Millennium, 2001-2101: Trends & Implications

Economic Benefits of Health

Sri Lanka is a unique country in respect of achieving a considerable success in health indicators. With the Government commitment to improve service delivery system and other necessary facilities in the health sector, the country has almost achieved several of the MDG's related to health.

Addressing Inequities in Healthcare

A major share of capital investment on health in the Medium Term Expenditure Framework, 2005-2010, had accounted for hospital development ensuring access to equitable health care service. Improving Efficiency of Operating Theatres and Provision of Oxygen Concentrators at a cost of Rs. 1,520 million with French assistance, Improvement of Central Functions at the Teaching Hospital in Jaffna at a cost of Rs. 2,987 million with JICA assistance, development of Dental Institute in Colombo at a cost of Rs. 694 million etc. are some of the initiatives expected to enhance the capacity of providing quality health care for the people in the medium term.

Table 1.32 > **Targets Achieved in Health Related MDG's in Sri Lanka**

Key Indicator	1990	2008	2015 Target
Prevalence of underweight among children under 5 years of age	38%	21.1%	19%
Under 5 child mortality per 1000 live births	22.2	13.2	12
Infant Mortality Rate per 1000 live births	19.3	10.1	12
Maternal Mortality Ratio per 1000 live births	0.92	0.37	0.36
Proportion of births attended by skilled health personnel	94.1%	98.5%	99%

Source: Family Health Bureau, Ministry of Health, and Millennium Development Goal Country Report- 2008/09

Improvement of Curative healthcare services at Anuradhapura General Hospital with JICA assistance

Moreover, bio medical equipment such as Digital Fluoroscopy machine, Cath Lab and a CT scanner for Jaffna Teaching Hospital, Modular Theatres for Karapitiya and Anuradhapura Teaching Hospitals etc. have also been provided during 2010 giving equity in health a priority. However, a need assessment is mandatory for further fulfillment of gaps in provision of equipment in the periphery.

Table: 1.33 > **Key Developments 2010**

Development Project	Total Expenditure (Rs Mn)
Improvement of Curative Healthcare Services in Anuradhapura General Hospital (JICA Assistance)	1,523
Stage I of Korea Sri Lanka Friendship Hospital Matara-Godagama (Korean Assistance)	1,000
Neuro Trauma Unit at National Hospital, Colombo (Saudhi Assistance)	2,874
Supply of Medical Equipment for the Teaching Hospital Kurunegala and other essential Hospitals in Sri Lanka (Austrian Assistance)	2,056
Maternity Ward Complex at Teaching Hospital Kurunegala	164
Chest Clinic at Badulla General Hospital	108
Ward Complex at Hambantota District General Hospital	465
Nurses Hostel at Gampola Base Hospital	44

Source: Department of National Budget

Table 1.34 > **Categories of Private Medical Institutions**

Category	Total Number of Registration*
Private Hospitals & Nursing Homes	176
Medical Laboratories	486
Medical Centres/Screening Centres/ /Day Care Medical Centres/Channel Consultations	276
Full Time General Practices/Dispensaries/Medical Clinics	445
Part Time General Practices/Dispensaries/Medical Clinics	1,195
Full Time Dental Surgeries	122
Part Time Dental Surgeries	110
Full Time Medical Specialist Practices	23
Part Time Medical Specialist Practices	23
Private Ambulance Services	14
Other Private Medical Institutions	159

Source: Ministry of Health
**Registered under Private Health Services Regulatory Commission of Sri Lanka as at March 2011*

Theatre Equipment

Partnerships in Markets and Government

The private health sector in Sri Lanka has been growing exceptionally particularly during the period 2005-2010. At present, around 35 percent of the out patient services and 10-15 percent of the in-patient care are provided by the private medical institutions.

The government has also encouraged the private health sector to participate in the national health system through the provision of fiscal incentives; tax exemptions on imports of medical equipment and material. This has encouraged the private sector to develop partnerships with the government in developing health care markets to meet the increasing demand in Bio Medical Industry, Health Tourism, e-channeling etc. moving the country towards a health sector economy.

Challenges

- Increasing Non communicable diseases while communicable diseases still remain a challenge
- Increasing elderly care rehabilitation due to rapid increase in elderly population
- Continuing challenges in maternal and child health and vaccine preventable diseases
- Malnutrition remains high amongst children under five
- Increasing costs in healthcare
- Regularizing the private sector

Box 1.8
Towards a Sports Economy

Sports lead to a healthy nation. Achievements in sports have a considerable bearing on the national prestige and morale. International sports events have become a show case of adding a social capital and placing countries with national pride and power. Nurturing of talent from a very tender age, stress on hard and physical training along scientific lines and introduction of modern infrastructure and highly sophisticated equipment have changed the very complexion of modern sports.

The new policy vision envisages broad-basing of sports as -

- Sports create employment for several people
- Sports create larger professional sports clubs which can become major corporate organizations with some of them listed on stock exchanges and able not only to provide employment but also to carry out investments
- Sports provide tremendous business opportunities in merchandizing – manufacturing industries can emerge to produce sports attires, sports equipment, sports souvernirs, health products and services for sports persons and fans
- Sports draw mass media coverage creating vast opportunities for advertizing and other allied business nationally and internationally
- Hosting international sporting events generate business and promote tourism

Based on these strategic thrusts the sectoral activities will be taken place under the framework below;

- **Sports Infrastructure;** A new 400 meter track and a swimming pool are being constructed in Dickwella to cater to rural youth and 10 public playgrounds are being built in several areas, including a complete stadium in Piliyandala. Torrington Sports Complex is being developed while all sports venues in the Colombo District are being developed to meet high quality standards.

As a result, the people in rural areas have the greatest opportunity of witnessing World Cup matches to be held at two venues in 2011. The two venues are: Suriyawewa Grounds in Hambantota and Pallekele Stadium in Kandy. With these two new Grounds, Sri Lanka will have seven venues ready for international cricket matches.

Establishment of higher altitude sports training academy in Nuwara Eliya is in progress.

Improvements in Major Sports Complexes

- Artificial Hockey turf and the Hostel of the Reid Avenue Sports Complex
- Synthetic track of the Torrington Ground
- D.A. Rajapaksha Sports Complex, Beliatta
- Penrithwatte Sports Complex , Awissawella
- Ruwanwella Sports Complex ,Kegalle
- Nawalapitiya Jayathilake Sports Complex

- **Development of sports activities in schools:** It is expected that one school in each district should have a fully fledged sports complex with standard facilities. Playgrounds at Piliyandala Central College in Colombo, Dickwella Vijitha Central College in Matara District and Chilaw- Madampe Senanayake Central College in Puttalam District have been completed in 2010. Construction of playgrounds in Ruhunu Vijayaba Central College in Hambantota District, Vantarumoolai College in Batticaloa District and Walala Ratnayaka Central College in Kandy District will be completed in 2011.

- **Rural sports:** Establishment of sports medical centers in the teaching hospital including clinics, orthopedic and health care units to provide rural students with national level sports facilities outside Colombo in order to improve rural sports facilities with high standard,

Sprorts Sector Developments under Wadakkil Wasantham and Nagenahira Udanaya Programmes

- Improvement works completed of Durayappa Playgrond in Jaffna
- Established 33 Netball and Vollyball Courts
- Distributed indoor and outdoor sports goods and equipment among school sports societies and relief villages
- Conducted coaching camps for sportsmen & women, consultants, coaches, instructors and sports officers.
- Development work of 10 rural sports grounds completed
- Development of selected 24 rural sports grounds are in progress
- Improvement work of Kiran College Basketball Ground and the pavilion

Education and Technology – Towards a Knowledge Society

Sri Lanka is to become a Knowledge Hub in the region by 2016. Development of modern education and knowledge systems that produce a creative Sri Lankan is fundamental to transform Sri Lanka into a Knowledge Hub. As the country is geared to take off and emerge as a fast growing middle-income country, it is critically important that Sri Lanka has the human capital needed to compete with global knowledge economies. In view of this, number of projects and programmes were implemented during 2010, investing considerable amount of funds as an initial step to become a knowledge hub in the region by 2016.

The public investment in education at primary, secondary and tertiary levels has increased significantly during the last five years. The total expenditure on education has increased from Rs. 87 billion in 2007 to Rs. 110 billion in 2010 representing an increase by 26 percent.

The expenditure on free text books, nutrition programmes and uniforms has been gradually increasing since 2005. About 4 million students benefited from these programmes in 2010.

Promoting equity, enhancing the quality and relevance of education, have been the main focus of education policy. The national literacy rate has increased steadily to 94.2 percent. Net primary and secondary enrolment rate is about 99 and 91 percent, respectively. These statistics are high when compared with other countries in Asia and reflect the expansion of educational service in the country.

Equitable Access to Primary and Secondary Education

The education sector continued to make a strong progress in reducing the number of out-of-school children in the compulsory schooling age category of 5-14 years. Between 2007 and 2010, over 41,800 out-of-school children had enrolled either in schools or in Literacy Centres. Simultaneously, a programme for schools to take necessary measures preventing the drop-out has been implemented in all provinces.

Increased O/L and A/L Results

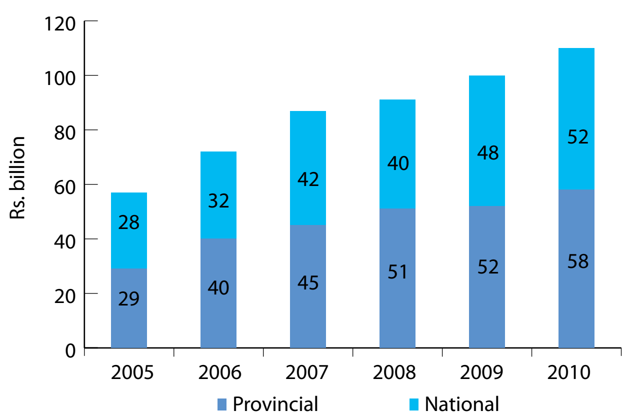
The trend of GCE O/L pass rates, defined as students qualifying for the GCE A/L, is positive and increasing. In 2005, only 47 percent of candidates passed the GCE O/L. By 2010, the pass rate has increased to 58.8 percent. The GCE A/L pass rates have also increased from 43.7 percent in 2002 to 61 percent in 2010. The percentage of students who have passed in six or more subjects with first language and mathematics in the G.C.E. (O/L) was 56 percent in 2010.

Quality of Text Books

Special emphasis was given to the publication and delivery of text books on time. About 25.4 million new text books were distributed in 2010 and 7 million text books were re-used. A review process was instituted to improve the quality of school text books.

Chart 1.41 > **Public Expenditure 2005-2010**

Expenditure by National and Provincial Government



Source: Department of National Budget

Table: 1.35 > **Welfare Expenditure in Primary and Secondary Education (Rs. Mn)**

Investment	2008	2009	2010
Text Book	2,000	2,196	2,200
Nutrition programme	1,650	2,251	2,275
Uniforms	1,260	1,260	1,260
Bursaries and Scholarships	184	184	185
Total	**5,094**	**5,891**	**5,920**

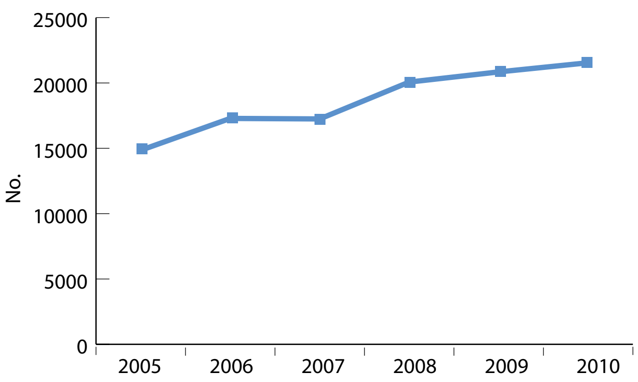
Source: Department of National Budget

Table: 1.36 > **Performance of Students at GCE O/L and A/L – 2005 and 2009**

Year	2005	2010
GCE A/L (qualified for University Entrance)	102,854	142,415
GCE O/L (qualified for GCE A/L)	146,862	182,630

Source: Department of Examination

Chart 1.42 > **Student intake to National Universities 2005-2010**



Source: University Grants Commission

Distribution of School Uniforms

Around 3.9 million students were provided with school uniforms in 2010 covering all 9,662 schools. Robe materials were also distributed among 35,451 student monks in 448 approved Pirivenas located throughout the island. The possibility of developing education based industries such as uniform preparation is considered.

Infrastructure Development in Secondary Schools

Government has launched a special programme to upgrade at least one secondary school in each of the 325 administrative divisions to a fully fledged school. All necessary infrastructures including laboratory, ICT, multimedia, home science, sports, water supply, sanitation facilities and human resources will be provided to the selected schools. This will minimize the high demand for national schools located in urban areas. Construction work on 63 schools is on-going at a cost of Rs 1,322 million.

Human Resource Development

A significant increase in the number of teachers in schools was witnessed from 2005 to 2010. This has resulted in improving the student teacher ratio from 21:1 in 2005 to 18:1 in 2010. About 3,238 new appointments were made to Sri Lanka Teachers Service in 2010 while 410 English medium teachers were appointed to National Schools. Another 174 graduate teachers were appointed through competitive examination. Also 235 officers have been recruited to the Sri Lanka Teacher Educators' Service to improve the governance of school network. Moreover, 200 Sri Lanka Education

Administrative Service officers were promoted to Class I after a long period of time.

The National Teacher Transfer Policy was introduced to maintain systematic teacher transfers and enhance service delivery.

University Education for Knowledge

Almost 21,547 students were offered admission to Higher Educational Institutions in 2010. However, at present only around 17 percent of students who qualified for university admission are able to enter into public universities.

The Government incurred a large amount of money during the last five years with a view to providing the necessary infrastructure facilities. This enables an intake of more students to provide hostel accommodation to a large number of students. The total financial assistance provided to higher education institutions, including universities has increased significantly from Rs. 15.1 billion in 2007 to Rs 18.1 billion in 2010 representing an increase by 20 percent. Total capital investment amounted to Rs. 6,587 million of which 60 percent was financed through the Consolidated Fund.

A total sum of Rs. 3,500 million was allocated for the new construction and continuation of projects in 2010. This was an increase of 5.4 percent when compared to the amount allocated in 2009. There were 60 construction projects in progress at different levels in the University system and another 22 projects were completed at a cost of Rs. 2,781 million in 2010.

Demand Driven Degree Programmes

New market oriented degree courses have been introduced by a number of universities in order to ensure productive employability of graduates. These programmes include following -

Win the Economic Challenges through Science and Technological Innovations

Development of Science, Technology and Research Sector is given new recognition in the economic development strategy of the country. The annual investment in science and technology sector has increased from Rs. 802 million to Rs. 2,481 million by 2010.

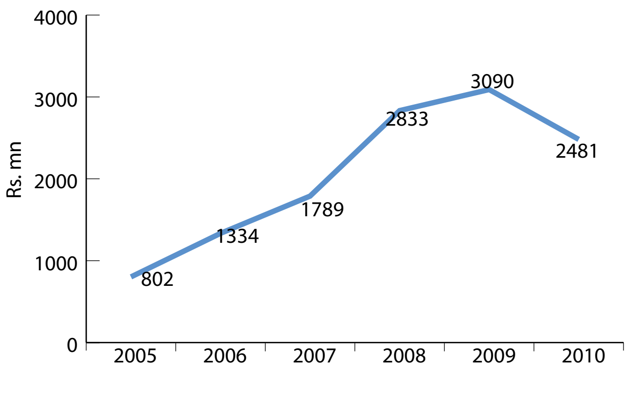
The main policy objective of science and technology is to foster a national science culture that effectively reaches every citizen of the country and to progressively increase the resource base for scientists and technologists necessary to respond to the development needs of the country. During the past few years, investments were made in science and technology sector to provide solutions to many of the important global and national issues and to address the major social concerns such as alleviation of poverty, achieving food security, energy security,

Table: 1.37 > **Demand Driven Degree Programmes**

Name of Course	University
Animal Science & Fisheries	Peradeniya
Food Production & Technology Management	Waymaba
Aquatic Resources Technology	Uva-Wellassa
Palm and Latex Technology & Value Addition	Uva-Wellassa
Hospitality, Tourism & Events Management	Uva-Wellassa

Source: University Grants Commission

Chart: 1.43 > **Investment in Science and Technology**



Source: Department of National Budget

Newly established Vidatha center at Mahara

water security, health and wellbeing and mitigation and adaptation to disasters and climate change through a multidisciplinary approach. The "Mahinda Chintana Policy Framework" has recognized the need for improving the Research and Development sector for the rapid economic development of the country.
The total investment in science and technology sector has been increasing during the last six years period from 2005-2010.

In 2010, government invested Rs. 2,481 million in the development of science and technology sector including Rs. 350 million for Nanotechnology initiative and Multipurpose Gamma Irradiator Project which helps increasing the high technology exports. It has been planned to increase high technology exports from 1.5 percent to 10 percent of manufactured exports by investing in the fields of electronics, IT, Telecom, Biotech and Nano tech products.

The Technology Transfer Programme (Vidatha Programme) is expected to transfer technology to the village level. The number of Vidatha Centers by 2010 was 260. However, there are some concerns whether the programme is capable and efficient to meet the local and international technological challenges. Having considered the challenges, the government has initiated to re-orient the programme in order to improve its effectiveness at village level.

Issues

The major challenge in development of science and technology sector in Sri Lanka is the low number of research and development scientists which is around 4,600 at present. World average number of researchers per million inhabitants is 894.1 and in Sri Lanka it is 237.3 researchers per million inhabitants.

A world class research facility either in the universities or in research institutions has to be established in Sri Lanka where cutting edge research can be carried out in any sector.

Further, there was a decreasing trend of attraction of students to the science stream.

A lack of entrepreneur supportive research institution network to ensure the protection of patent rights of the entrepreneurs and provide financial and technical support for new entrepreneurs is one of the challenges in the sector.

Having identified the issues and importance of the sector, Ministry of Technology and Research has developed Science, Technology and Innovation Strategy for Sri Lanka (2011-2015) in 2010 to address the above issues. The key proposals of this strategy have been translated into action in the 2011 budget year. This includes increasing the professional allowances to university academic staff, medical professionals and other specific professionals based on their professional and research specialties to 25 percent of their salary. In addition to this the research expenditure of companies and enterprises or businesses will be double deducted for the purpose of taxes to encourage companies to invest more funds in research and development in terms of Section 25.1 of Inland Revenue Act.

Communication

In the economic development strategy, the post and telecommunication sector has an important catalytic role to play. The government aims to strengthen the private sector participation in investment particularly in the telecommunication sector.

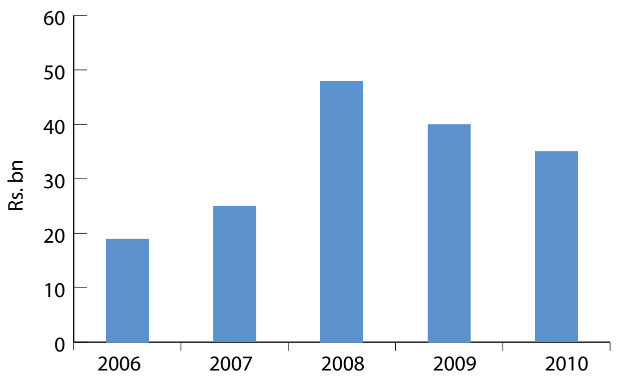
As a result, the private investment in the telecommunication sector has increased gradually. The fixed phones for 100 inhabitants (teledensity) has increased from 16.8 in 2009 to 17 in 2010 and mobile subscribers per 100 people has also increased from 69 in 2009 to 82 percent in 2010.

The availability of mobile phone facilities has been expanded even to rural areas of the country at affordable prices and therefore, the mobile subscriber density has increased significantly. During 2010, about 64 companies operated in the country for providing variety of telecommunication services such as telephone facilities, data communication, trunk mobile radio, satellite broadcasting and cable TV. Sri Lanka Telecom is the only state owned public utility enterprise involved in providing telecommunication facilities and this has recorded Rs. 3.90 billion profit (after tax) in 2010 and this is about 400 percent increase of profit compared to 2009.

The government has paid special attention for the development of infrastructure facilities in the Northern Province during 2010. In this regard, Telecom has expanded its telephone and internet facility up to the Jaffna Peninsula. In addition, the Postal Department has taken several actions to develop the capacities of its offices in the Northern Province in order to provide a satisfactory service to people in the province.

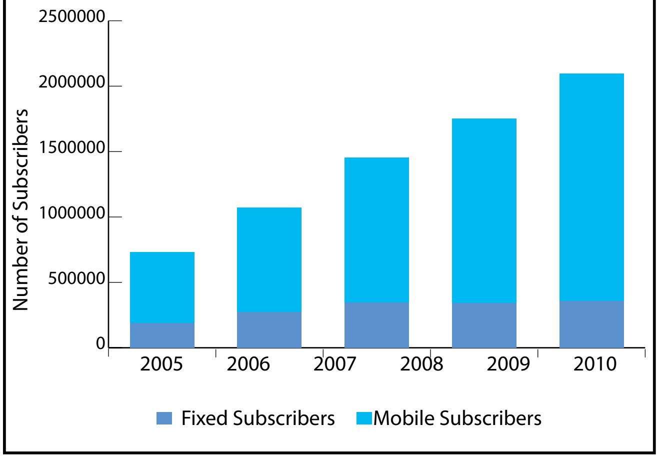
The postal sector still uses traditional methods in delivering its services. Therefore, it needs to modernize its services in line with the present and future trends and needs.

Chart 1.44 > **Investment in the Telecommunication Sector (Rs: bn)**



Source: Telecommunication Regulatory Commission

Chart 1.45 > **Progress of Fixed and Mobile Subscribers 2005-2010**



Source: Telecommunication Regulatory Commission

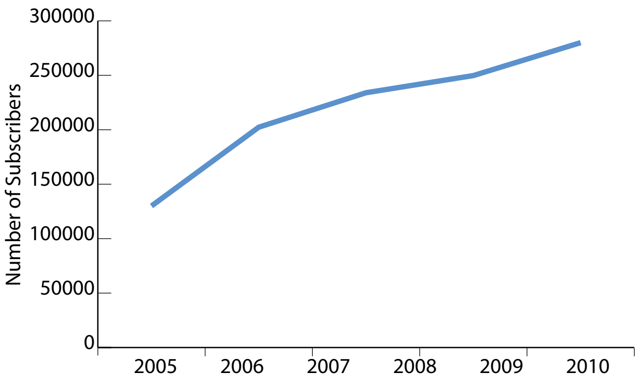
Note: Telecom investment on ducts cables, outside plants, telephone exchanges and transmission equipments

Suntel Investment on network equipment and subscriber phones

Lankabell investment on shelters, computer software, network equipment and customer premises equipment

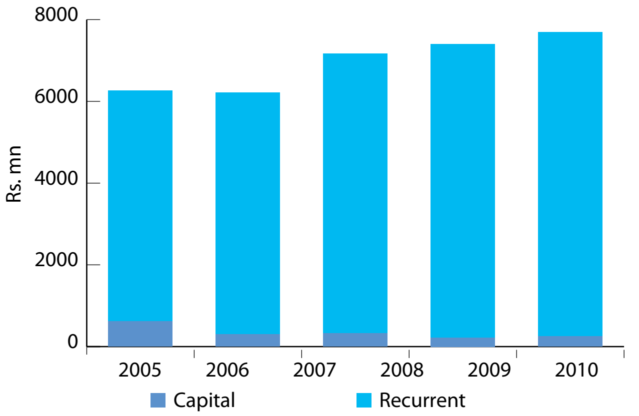
In cellular mobile industry telecommunication include telephone equipments , voice mail equipment and lease improvement

Chart 1.46 > **Progress of Usage of Internet and Email Fixed Lines**



Source: Telecommunication Regulatory Commission

Chart 1.47 > **Government Expenditure on Postal and Telecommunication Sector**



Source: Department of National Budget

During 2010, many programmes were implemented in order to enhance the quality and efficiency of the postal sector and streamline the sector with the international standards.

- Replacing the traditional money order system with electronic money order system
- Networking of post offices – During 2010, 610 post offices have been connected
- Introduction of bar code technology for foreign insured mail
- Introduction of track and trace system

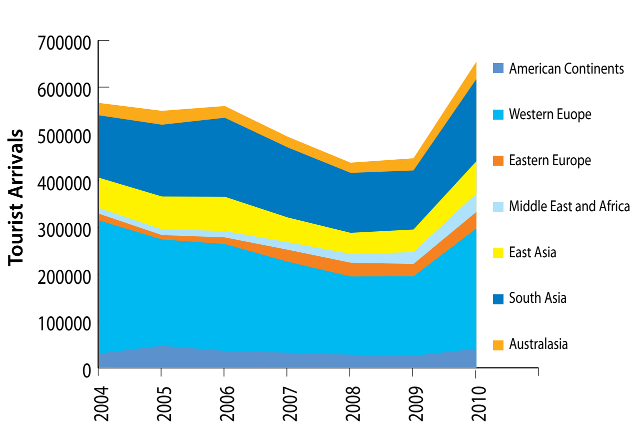
In addition, the Postal Department has expanded its service in new business agency during 2010. The Postal Department acts as agents for various institutions such as HSBC, Sri Lanka Insurance, LOLC and Western Union.

Tourism

Tourism is the emerging industry in Sri Lanka. The vision for the tourism sector is to "establish Sri Lanka as most treasured Island in Asia, highlighting its beautiful beaches, warm and friendly people, with a strong nature, culture and adventure offering, raising its profile to that of an Asian tourism icon".

The policy focused in to attract more tourists from India, China, East Asia, Middle East and Russia in addition to already established arrivals from Western countries. As a result, tourist arrivals from South Asian and Middle East countries have increased during the year 2010.The number of Tourist arrivals in 2010 has recorded as 654,476 in comparison to 447,890 in 2009. During the year 2010 a total number of 249,558 tourists visited to Zoological Garden. The total number of tourists visited to Cultural Triangle was 197,947 and total revenue collected from them was Rs. 743.5 million. There were 210,949 foreign tourists visited to three botanical gardens located in Peradeniya, Hakgala

Chart 1.48 > **Tourist Arrivals by Country of Residence**



Source: Sri Lanka Tourism Development Board.

and Gampaha and total revenue collected from them was Rs. 123million.

Further there were 630,463 tourists visited to the Wild Life Parks in 2010 and the total revenue collected from them was Rs. 253 million.

Total Foreign exchange earnings from the tourism sector in 2010 was amount to USD 575 million as compared to USD 350 million in 2009. The total number of direct employment opportunities created by the tourism industry in 2010 was 55,023. It is a 5.6 percent increase compared to the 52,071 persons employed in tourism sector in year 2010.

The government targets 2.5 million arrivals per year by 2016 and 4 million per year by 2020. This sector also expects to create one million employment opportunities and annual income of 8 billion USD by 2020. In order to achieve these targets, upscale tourism which targets high spending tourists is being promoted as an essential component of tourism strategy. Accordingly spending per tourist per day is expected to increase up to USD 200 within next ten years.

Table 1.38 > **Number of Foreign Visitors Visiting the Cultural Triangle and Revenue from Sale of Tickets 2000 to 2010**

Year	Number of Tourists	Collection in million (Rs)
2000	155,167	276.0
2001	129,201	222.0
2002	131,804	242.8
2003	212,521	403.3
2004	246,380	543.1
2005	110,443	284.7
2006	138,232	400.9
2007	104,583	279.8
2008	112,190	307.5
2009	109,404	402.8
2010	197,947	743.5

Source: Central Cultural Fund

Table: 1.39 > **Tourist Arrivals in 2010**

Month	No. of Arrivals
January	50,757
February	57,300
March	52,352
April	38,300
May	35,213
June	44,730
July	63,339
August	55,898
September	47,339
October	52,370
November	72,251
December	84,627
Total	**654,476**

Source: Sri Lanka Tourism Development Board

Table 1.40 > **Revenue from Foreign Visitors Visiting the Botanical Gardens 2000 – 2010 (Rs. Mn)**

Year	Peradeniya	Hakgala	Gampaha	Total
2000	28.1	1.3	0.04	29.5
2001	20.2	1.0	0.04	21.2
2002	25.3	1.0	0.03	26.3
2003	55.7	2.1	0.05	57.9
2004	68.0	2.6	0.08	70.7
2005	104.3	6.1	0.02	110.4
2006	42.5	1.6	0.07	44.2
2007	64.2	2.2	0.10	66.5
2008	66.5	2.5	0.10	69.1
2009	68.4	3.3	0.07	72.3
2010	117.2	5.8	0.10	123.2

Source: Sri Lanka Tourism Development Board

Environment: A Land in Harmony with Nature

The Mahinda Chintana Policy has directed to respect for fauna and flora and conserving the environment at national and international levels. In order to achieve this objective, the government implemented number of projects such as ”Pilisaru Project”, ”Green Villages”, ”Gririthuru Sevana” and ”Gaja Mithuro”. During the period of 2006-2010 government made significant total capital investment on environment sector.

From 2007 onwards, attention has been paid to invest mainly to address the issue on solid waste, because improper management of solid waste is one of the biggest and key environmental problems in Sri Lanka. Investment on environment sector gradually increased from 2007 to 2009 to the implementation of Forest Resource Management Project in coupled with waste management programmes.

Total investment on Pilisaru Waste Management Project was Rs 695 million in 2010, which is around 40 percent of the total budgetary allocation. Under the Pilisaru programme construction of compost plants at Kalutara, Panadura, Kuliyapitiya ,Medirigiriya, Anuradhapura, Bulathkohupitiya, Kaduwela, Agalawatta, Bandragama local authority areas have been completed and 18,023 compost bins have been distributed among the 60 Local Authorities at a cost of half price of a bin. Another 3,213 bins have been distributed to the Northern Province, schools, religious places and other organizations. Several major projects in the environment sector have been completed and ended in 2010. Upper watershed Management Project, Wildlife and Protected Area Management Project and Forest Sector Development Project are important among them.

Chart 1.49 > **Investment on Environment**

Source: Department of National Budget

Human-elephant conflict is another socio-economic problem which affects on the economic development. Under the Gajamithuro programme government has increased the allocation from Rs. 144 million in 2009 to Rs. 300 million in 2010 to mitigate the human-elephant conflict.
The government has identified the importance of addressing the other major environmental issues such as loss of biodiversity, land degradation, water and air pollution and climate changes to conserve the environment for the future generation.

Real Economy – Towards High Productivity

Agriculture

The government has identified the need for increasing agricultural production as one of the key contributory factors of increasing GDP, the productivity, value addition and exports while enhancing living standards of the farmers and ensuring food in the country. The food security of the people can be ensured through sustainable increase in food production, maintenance of prices and increase in the income levels of low income families.

Accordingly, the agriculture policy of the government aims at achieving food security of people, ensuring sustainable income and remunerative prices for agricultural produce, using high yielding seeds and planting materials and increasing cropping intensity, productivity and land use. The seed policy, which includes promotion of supply of quality seed and planting materials, increase of seed security by maintaining buffer stocks, implementation of certification and quarantine regulation for imported seed and planting materials and adequate provision of quality seed and planting material to the market is the key foundation to fulfill the development objectives of the present agriculture sector.

The Agriculture sector, which is mainly driven by the higher growth in the production of paddy, tea, and minor export crops grew by 7.0 percent in 2010 compared to 3.2 percent growth recorded in 2009. The gradual recovery in the global economy, the complete cessation of terrorism, continuation of the fertilizer subsidy and favourable weather conditions are key factors that drive this growth.

Investment in Agriculture Sector in 2010

The government's total investment on Agriculture was Rs. 30,547 million in 2010. Of the total investment, Rs. 23,077 million was fertilizer subsidies. The continuation of the fertilizer subsidy programme for paddy farmers has helped to increase the productivity of the agriculture sector. Expenditure on fertilizer subsidies in 2010 is lower than that of 2009. This is mainly due to the decrease in the annual average import prices of Urea and Murate of Potash by 49 percent and Triple Super Phosphate by 61 percent. However, the quantity of fertilizer issued under the fertilizer subsidy programme has increased by 13 percent to 473,553 metric tons in 2010 compared to fertilizer issued in 2009 due to the expansion of cultivation area in the Northern and Eastern provinces.

In 2010, a greater emphasis has been placed on increasing the domestic crop production. Accordingly, "Api Wawamu Rata Nagamu" programme has continued providing Rs. 456 million mainly to promote domestic production through development of 375,000 home gardens and enhancing other sub programmes including recultivation of abandoned paddy lands, production and use of organic fertilizer and increasing community based seed production. Meanwhile, the production and use of the organic fertilizer programme has been assisted by providing Rs. 137 million to increase sustainable crop production, improve long term soil fertility and reduction of foreign exchange spending on chemical fertilizer. The government has invested Rs. 1,021 million for research and development in 2010 considering the emerging needs of introducing modern technology and enhancing value addition in agriculture sector.

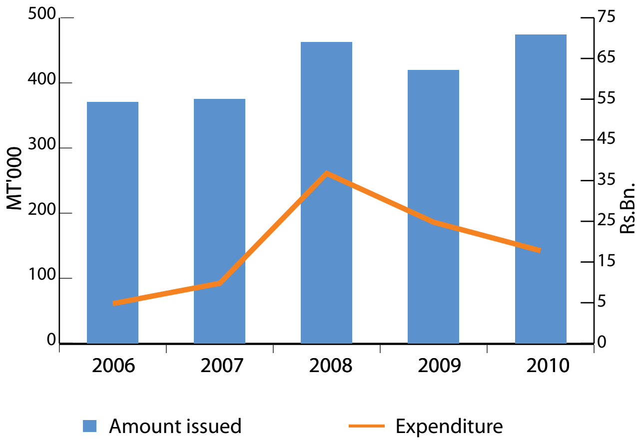
Paddy Sector

The paddy production has recorded an impressive growth of 17.7 percent in 2010 compared to 2009 by producing 4.299 million metric tons of paddy. It is the highest paddy production recorded in post independent Sri Lanka. Paddy production in the 2009/2010 Maha season has increased by 10.3 percent compared to the corresponding season of the last year by producing 2.63 million metric tons.

The increase in paddy production was largely a result of the availability of the fertilizer subsidy, opening of new cultivation areas in the Eastern and the Northern provinces and the adequate rainfall received throughout the year.

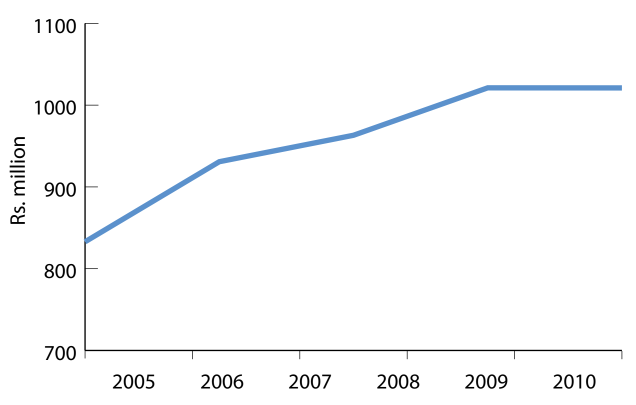
The total newly cultivated paddy lands in the Northern Province were 4,424 Ha in the Maha season. In the Eastern province, an extent of 150,696 Ha of paddy has been cultivated, which is a 10 percent growth compared to 2009. During the 2009/2010 Maha season, the total extent of paddy cultivated has increased to 646,001 Ha which is

Chart 1.50 > **Investments on Fertilizer Subsidy**



Source: Ceylon Fertilizer Co. Ltd.

Chart 1.51 > **Investments on Research and Development**



Source: Department of National Budget

an increase of 6.4 percent compared to 2008/ 2009. The average yield has improved to 4,583kg per hectare in 2009/2010 Maha season from 4,421kg per Ha recorded during the 2008/2009 Maha season. The Paddy production in the 2010 Yala season has increased by 32 percent to 1.669 million metric tons. This is mainly due to favourable weather conditions and adequate and timely release of water for cultivation during the season. Due to the bumper paddy harvest in 2010, the total rice availability for human consumption from domestic sources has increased by 11 percent to 2,681,518 metric tons. The rate of self sufficiency of rice in 2010 is 114 percent there by reporting a surplus of 323 metric tons.

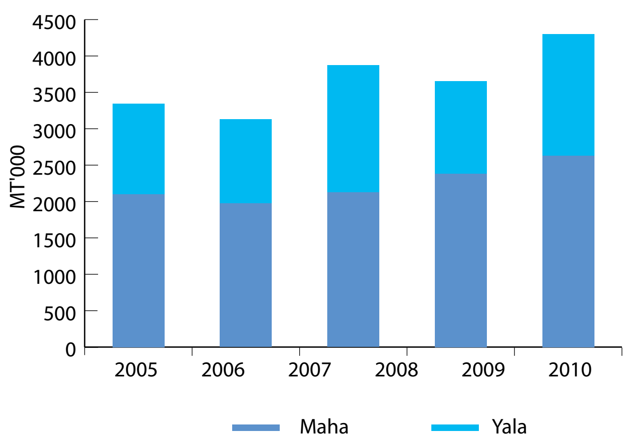
Other Field Crops

Production of Other Field Crops in 2010 has mixed results. Production of maize has increased to 161,694 metric tons in 2010, which is 25 percent increase from the total production in 2009. This is mainly due to the important priority given by the government to maize production by fixing prices and increasing cess on imports of maize. Production of red onion also has increased in 2009/2010 Maha season by 34 percent to 61,811 metric tons compared to the 2008/2009 Maha season on account of the increase in extent of cultivation area by 350 Ha during the 2009/2010 Maha season, due to the commencement of cultivation in the Northern and Eastern provinces. However, in 2010 the production of big onions and potatoes has decreased by 27.9 percent and 15.8 percent to 58,930 metric tons and 51,933 metric tons, respectively. The decline in potatoes production during the year 2010 was mainly due to the shortage of seed potatoes in the market. The decline in big onion production was mainly due to inadequate quantity of quality seeds and decline in the cultivated area due to high cost of production.

The production of sugar in 2010 has also declined by 2.6 percent to 31,335 metric tons compared to 2009. The extent of sugarcane cultivation area has decreased to 7,025 Ha mainly due to the conversion of sugarcane lands to other crops including paddy and banana in the Sevanagala area, rubber and coconut in Pelwatta area and to tea in the Passara area. Comparatively low income from sugarcane and dissatisfaction with the services of the private sector manufacturers are the main issues that lead to sugarcane growers moving away from the cultivation of sugarcane. Relatively low yield of 45 metric tons/Ha and low sugar recovery rate of 7.6 percent have resulted in low production. As a result, only 6 percent of the domestic sugar requirement is produced locally.

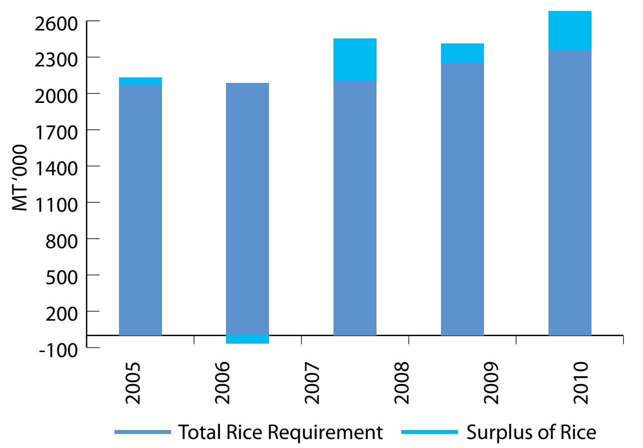
The production of cashew in 2010 has declined by 33 percent to 1,600 metric tons compared to the previous year due to unexpected heavy rains during flowering and fruiting seasons and there was a decline in the cultivated area by 10.8 percent to 44,628 Ha. However, the foreign exchange earnings from cashew has increased by 54 percent to Rs. 246.4 million in 2010, due to the exports in value added forms and increase in cashew price in the international markets.

Chart 1.52 > **Paddy Production**



Source: Department of Census & Statistics

Chart 1.53 > **Rice Requirement and Surplus**



Source: Department of Census & Statistics

Table 1.41 > **Gross Domestic Product - Sectoral Composition (2002) Constant Prices**

Rs.Mn

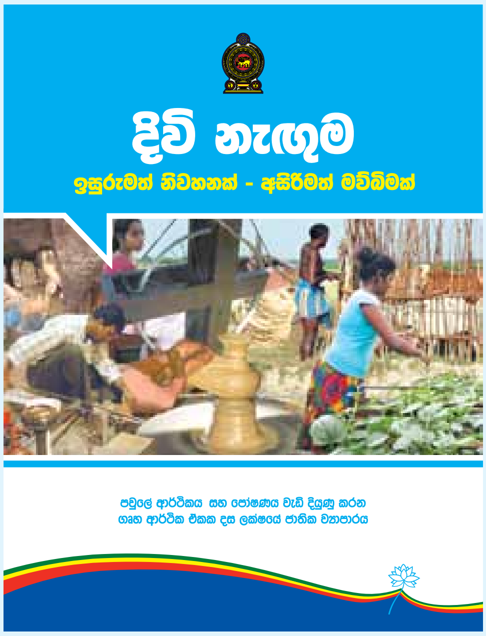
Sector	2006	2007	2008	2009	2010
Agriculture, Forestry and Fishing	**257,147**	**265,870**	**285,897**	**295,096**	**315,644**
Agriculture, Livestock and Forestry	**235,887**	**241,285**	**258,881**	**266,208**	**283,236**
Tea	26,988	26,494	27,601	25,272	28,592
Rubber	4,993	5,205	5,743	6,198	6,983
Coconut	28,933	30,403	31,975	33,685	28,883
Minor Export Crops	10,187	10,706	10,478	11,028	15,177
Paddy	37,608	35,261	43,406	41,179	48,377
Highland Crops	27,054	28,428	29,439	31,368	33,117
Fruits	1,745	1,826	1,900	1,995	2,057
Vegetables	53,138	55,249	58,197	62,436	64,821
Livestock	17,992	19,415	20,495	21,761	22,397
Plantation Development	5,679	6,006	6,216	6,540	6,895
Other Agriculture	8,689	8,749	8,931	9,390	10,107
Firewood & Forestry	12,882	13,544	14,499	15,357	15,832
Fishing	**21,260**	**24,585**	**27,016**	**28,888**	**32,407**
Industry	**590,298**	**635,199**	**672,791**	**701,129**	**760,219**
Mining and Quarrying	**35,769**	**42,631**	**48,090**	**52,030**	**60,079**
Manufacturing	**370,356**	**394,233**	**413,682**	**427,334**	**458,661**
Processing Industries	13,818	14,150	14,897	14,995	15,868
Factory Industry	333,372	355,611	373,215	385,927	414,925
Small Industries	23,166	24,472	25,570	26,412	27,868
Electricity, Gas and Water	**52,926**	**55,339**	**56,847**	**58,974**	**63,567**
Electricity	46,183	48,303	50,184	52,017	56,291
Gas	4,399	4,525	4,062	4,280	4,478
Water	2,344	2,512	2,601	2,677	2,798
Construction	**131,248**	**142,996**	**154,173**	**162,790**	**177,912**
Services	**1,243,119**	**1,331,587**	**1,406,813**	**1,452,988**	**1,569,569**
Trade, Hotels and Restaurants	**523,921**	**555,345**	**580,653**	**580,598**	**627,165**
Import Trade	196,647	203,105	212,651	195,247	213,754
Export Trade	95,535	103,926	104,861	102,578	106,056
Domestic Trade	222,328	239,115	254,400	272,872	293,510
Hotels and Restaurants	9,411	9,199	8,741	9,901	13,845
Transport and Communication	**259,546**	**286,764**	**310,029**	**329,914**	**368,652**
Transport	220,990	241,648	256,954	272,422	302,993
Cargo Handling-ports and Civil Aviation	13,583	14,773	15,951	16,017	18,706
Post and Telecommunication	24,973	30,343	37,124	41,475	46,953
Financial Services, Real Estate and Business Services	**249,350**	**265,720**	**279,185**	**291,870**	**308,947**
Banking and Insurance & Real Estates	177,817	193,375	206,048	217,819	234,255
Renting and Business Service	71,533	72,345	73,137	74,051	74,692
Government and Other Service	**210,300**	**223,759**	**236,947**	**250,942**	**264,804**
Public Administration and Defense	161,611	171,259	181,051	191,778	202,187
Community and Other Services	48,689	52,500	55,896	59,164	62,617
Gross Domestic Product	**2,090,564**	**2,232,656**	**2,365,501**	**2,449,214**	**2,645,432**

Source: Department of Census and Statistics

Box 1.9

Divi Neguma – An Initiative To Empower One Million Home Garden Economies

The government, recognizing the vulnerability of Sri Lankan households to an impending global food insecurity and environmental challenges, launched the establishment of one million domestic economic units under the "Divi Neguma" (Livelihood Upliftment) programme on 12 March 2011 in line with the 2011 Budget proposal. The "Mahinda Chintana – The Vision for the Future", also has emphasized the need to promote agriculture aimed at improving livelihood, rural development and food security. The objectives of the Divi Neguma programme is to strengthen the people economically, minimize their dependence on the market for food requirements, improve the nutritional level of the families, and help the households be self-sufficient. The programme operates under the theme "A Self Reliant Household - A Wonderful Motherland" and represents Sri Lanka's own tradition of maintaining home gardens and producing daily needs for being self-sufficient thereby serving as the basis for a righteous society with the objective of ensuring a prosperous nation.



The Divi Neguma programme will encourage each household to use their leisure hours and other resources to grow fruits, vegetables, flowers as well as maintain backyard livestock at household level for their own consumption and to share the surplus with neighbours. It will also help people to add more fresh vegetables and fruits into their diet as well as to increase the consumption of milk, eggs and other animal products thereby improving nutritional level. The programme will also help make new income sources to families by selling excess produce and create new entrepreneurs at village level. The increased domestic agricultural production would lower the pressure on prices that arise due to supply shortages.Overall, the government expects to assist the people to expand their livelihoods and make an enhanced contribution to the national economy through this programme.

Under the Divi Neguma programme, 100 households are being picked up from each of the 14,000 Grama Sevaka divisions in the country to enroll in this programme, a task that has been entrusted with government officials working at grass-root level; the Grama Niladhari, the Samurdhi Officer, the Agrarian Services Officer and

Table 1.42 > **Divi Neguma Programme**

Type of Plant	Planned No. of Plants	Estimated Average Acreage	Estimated Output (MT)
Fruits			
Mango	1,000,000	25,000	125,000
Papaya	1,000,000	3,000	15,000
Banana	1,000,000	3,000	18,000
Vegetable			
Tomatoes	5,000,000	500	3,000
Brinjals	5,000,000	650	5,850
Chili	3,000,000	275	275
Coconut	2,000,000	31,000	77,500,000

Source: Ministry of Economic Development the Health Services Officer. The programme will be implemented in three phases i.e. (i) agriculture, (ii) industries and (iii) fisheries and livestock. The households will be given the option of deciding a particular phase that they wish to be engaged in the programme.

The programme initially commenced with the Phase I, i.e. Agriculture, considering the strong need for cultivating fruits and vegetables. Accordingly, a "Divi Neguma" recipient can select various types of seeds for cultivation depending on his area of residency; 12 types for low country, 6 types for wet zone and 3 types for up country. The government will also provide technical and other assistance to initiate scientific cultivation at a small scale with organic agriculture being emphasized. The second and third phases will be commenced with a time lag. A programme to supervise the implementation of the Divi Neguma programme, provide advice and find solutions to the implementation problems faced by the people has also been launched by the Ministry of Economic Development, the implementing body of the programme. About 20 other ministries will also be involved as supporting partners in implementing this programme.

In the context of meeting the objectives of this innovation, the Divi Neguma programme is based on the concept "People Initiate; Government Facilitate" thus limiting the role of government in home economy development programme.

Therefore, the success of this programme will depend on the partnership between the people and the government. The successful completion of this programme will lead to create an international example of dealing with food crises effectively in the midst of climate change and other adversaries that affect the global food security.

Livestock

The livestock sector is an integral part of the agricultural economy of Sri Lanka and it plays a dominant role in food security, poverty reduction, livelihood development and reduction of under-nutrition. The livestock sector which mainly consists of the dairy and poultry sub sectors considered as one of the high priority areas for future growth and investment. The contribution of the livestock sector to the national GDP in 2010 was 0.8 percent. The government is planing to increase this significantly.

The main policy objective of the livestock sector is to achieve a higher level of self - reliance in milk and livestock production which will be made available to consumers at an affordable price for improving their nutrition status and tapping sector potential in generating employment. The livestock policy encourages the private sector to engage in commercial operations while public sector investment will gradually be directed to regulatory activities, research and extension services which are the areas where returns on investment are not attractive to the private sector but are essential to the development of the industry.

Total milk production in the country has been increased by 6 percent to 247.5 million litres in 2010 from the level of 233.3 million litres in 2009 This includes 191.9 million litres of cow milk and 55.6 million litres of buffalo milk. In 2010, 35 percent of national requirement was met by the local production. The average farm gate price of milk had been around Rs.33.20 per litre during the year 2010 showing a 10 percent increase compared with the price in 2009. Various state supported dairy development programmes implemented in the country have contributed to this growth in the dairy industry (Table 1.38). Import of milk and milk products at 72,426 MT (CIF value: Rs 27.93 billion) in 2010 indicated an increase of 16 percent when compared with the volume of 62,375 MT (CIF value: Rs 18.05 billion) in 2009 reflecting a substantial increase of consumer demand.

Poultry meat production has increased by 5 percent from the level of 99,280 MT in 2009 to 104,160 MT in 2010 mainly due to the importation of broiler parent stock and prevailing good health conditions in poultry farms. The egg production in 2010 showed a slight decrease of 0.2 percent, from the level of 1,142 million in 2009. Farm gate price of live broiler and table eggs recorded high prices towards the latter part of the year and were in short supply during the festive season of December 2010.

The cost of production of chicken meat and eggs has increased due to the high feed prices, as maize prices rose due to the shortage of supply in 2009 Yala season. As prices of chicken meat and eggs increased substantially and around ten million eggs and 500 MT of chicken meat were imported by "Lak Sathosa" in December 2010 and January 2011 to stabilize the prices.

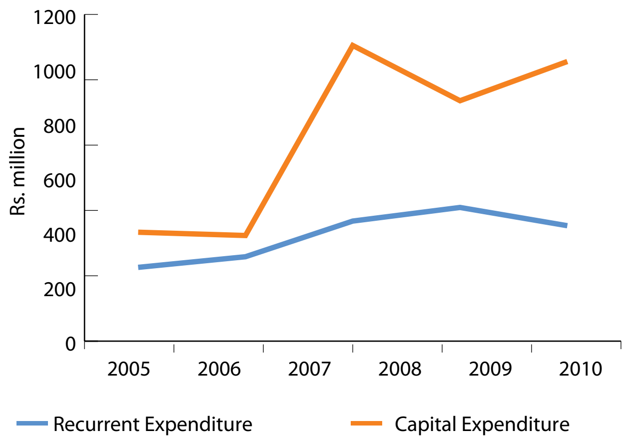
Out of the total government investment of about Rs. 5.7 billion made in the Livestock sector during 2006-2010 period, Rs. 3.8 billion has been spent as capital expenditure. In comparison with 2006, capital expenditure of this sector has increased by 56 percent in 2010. The financing pattern of the Livestock sector are shown in the Figure 1.44. and table 1.39 respectively.

Table 1.43 > **Progress of Major Investment Programmes of the Livestock Sector Undertaken in 2010**

No	Name of the Sectors and Projects	Allocation for 2010 (Rs. Mn)	Expenditure in 2010 (Rs. Mn)	Financial Progress %
1	**Dairy industry** • 300 Breeder farms • 100 Milk Sales outlets • 180 Dairy Villages,100Biogas units • Registration of 11, 000 heifer calves and cows • Insurance of 5,000 heifer calves and cows • Sieman production (Target - No of doses 180,000)	269.46	168.21	62.42
2	**Poultry industry** • Importation of 27,000 Broiler parents and 5,000 of Layer parents	25.2	19.3	76.56
3	**Infrastructure development** • Procurement of chick transport vehicles • Construction of Musali VS office • Construction of six new Vetinary surgeon offices	56.5	32.05	56.72

Source: Ministry of Livestock and Rural Community Development

Chart 1.54 > **Financing Pattern 2005 - 2010**



Source: Department of National Budget

Table 1.44 > **Key Targets of the Livestock Sector**

Indicator	2010	2015
Self sufficiency in milk (%)	35	55
Milk Production (mn. ltrs)	247	500
Imports of milk and milk products (MT)	72,426	33,375
Import value of milk and milk products (CIF value Rs.bn)	27.98	-
No. of cattle with high production capacity	1.5 mn	2.0 mn.
Chilling Centres (Nos)	80	150
Collecting Centres (Nos)	2,895	5,000
Processing Centres (Nos)	2,563	5,000

Source: Department of National Planning

Plantation

The government policy envisages that the plantation sector should move away from the commodity market to the consumer market. Strategies were formulated to achieve this objective, which includes promoting value addition to maintain sectoral leadership in global tea exports, branding and marketing, private sector participation, incentive structure for replanting and new planting for small holders.

Since the strategy remains on producing excellent tea at competitive prices, in 2010 highest prices compared to all other international tea auctions was recorded by the Colombo Tea Auction due to increased demand for Sri Lankan origin orthodox tea.

The government supported the sector through continuing fertilizer support schemes for tea and rubber during the year 2010. With a view to encourage tea and rubber cultivation, the subsidies for re-planting and new-planting tea and rubber were increased and it was extended for coconut re-planting and new-planting as well. Export cess on raw rubber was increased in order to promote the value added exports of rubber.

During the year 2010, due to favorable weather conditions and the continuation of fertilizer subsidy support for the tea sub sector recorded the highest ever annual production of 329 million kg. This is a growth of 13 percent compared to 2009. Rubber production also continued to increase, although the coconut production recorded a considerable decline during the year 2010. The contribution of plantation sector to the national economy is shown in Table 1.41.

Export agriculture crops such as cloves, pepper and cinnamon too have contributed positively to the increased performances of the plantation sector in 2010.

The highest minimum wage rate increase was recorded in the plantation sector in 2010 January and it was a 33.7 percent increase. Government policy has recognized that the need for placing high priority in achieving a broad based shift from low-value added products to high value added agriculture products accompanied by sustained improvement in productivity and competitiveness in international market. The government investment has increased in the plantation sector in 2010 compared to 2009 which is summarized in Table 1.42 based on key institutions.

Table 1.45 > **Contribution to Plantation Sector**

Rs. Mn

Crop		2009	2010
Tea	Development	201.77	191.43
	Fertilizer subsidy	3,817.17	4,146.65
Rubber	Development	347.2	370.4
	Fertilizer subsidy	7,634	10,253
Coconut	Development	121.43	59.01
	Fertilizer subsidy	24.68	39.84

Source: Ministry of Plantation Industry, Ministry of Coconut Development and State Plantation Development

Table 1.46 > **Contribution of Plantation Sector to the National Economy**

Crop	Contribution to Change in GDP		Share of GDP %	
	2009	2010	2009	2010
Tea	-2.8	1.7	1.0	1.1
Rubber	0.5	0.4	0.3	0.3
Coconut	2.0	-2.4	1.4	1.1

Source: Central Bank of Sri Lanka

Table 1.47 > **Investment in Plantation Sector**

Institutions	2009		2010	
	Recurrent Expenditure (Rs. Mn.)	Capital Expenditure (Rs. Mn.)	Recurrent Expenditure (Rs. Mn.)	Capital Expenditure (Rs. Mn.)
Rubber Research Institute	176.3	25.8	181.0	27.5
Coconut Research Institute	133.3	62.1	135.5	70.0
Coconut Cultivation Board	244.2	267.3	243.2	432.5
Coconut Cultivation Authority	62.4	75.2	77.2	96.4
Sri Lanka Tea Board	220.4	34.0	144.0	48.0
Tea Research Institute	220.0	47.2	231.5	51.4
Tea Small Holdings Development Authority	199.5	168.3	208.0	186.9
National Institute of Plantation Management	13.1	6.4	10.5	6.7
Total	**1,269.2**	**686.2**	**1,230.9**	**919.4**

Source: Department of National Budget

Other Export Crops

The production of almost all other export agricultural crops has shown a positive growth in 2010 compared to 2009. It is due to the favourable weather conditions and improved world demand for spices together with consistent increase of prices. Accordingly, a phenomenal increase in export volume by 49 percent to 43,313 metric tons was reported in 2010 against 29,044 metric tons exported in 2009. The production of pepper has increased by 9.8 percent to 17,323 metric tons in 2010 against 15,767 metric tons produced in 2009. Meanwhile, production of cloves has tripled in 2010 showing a huge increase to 9,559 metric tons from 3,032 metric tons in 2009. The remarkable growth of cloves production cannot be explained in terms of the boom harvest that comes every four years as a boom harvest was reported in 2008. Therefore, this increase is explained by favourable weather conditions and higher prices. The productions of cinnamon, cocoa and Nutmeg (including mace) have increased by 4.1 percent, 11.35 percent and 36.55 percent, respectively to 16,407 Mts, 520 Mt and 2,376 metric tons in 2010. In view of the above analysis, production of all export agricultural crops has increased due to the additional support given by the government to the export agricultural sector and favourable weather conditions throughout the year 2010.

Table 1.48 > **Production of Export Agricultural Crops**

Crop	2006	2007	2008	2009	2010
Tea (kg mn.)	310.80	305.20	318.70	291.00	329.00
Rubber (kg mn.)	109.20	117.60	129.20	136.90	153.00
Coconut (Nuts mn.)	2,785	2,869	2,909	2,853	2,317
Minor Export Crops Metric Tons					
Cinnamon	15,900	16,505	15,924	15,765	16,407
Pepper	14,400	16,597	13,175	15,767	17,323
Cocoa	810	393	735	467	520
Cardamom	80	90	71	61	48
Clove	3,575	2990	8053	3,032	9,559
Nutmeg & Mace	1,925	5553	4702	1,740	2,376

Source: Department of National Planning, Department of Census and Statistics

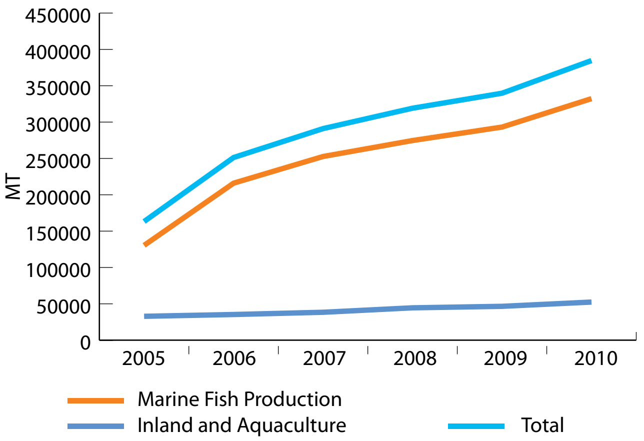
Fisheries

The development of fisheries sector has been given strategic importance in the national development plan of the country. As a result, high priority has been given towards the development of the fisheries sector during the last five years. In order to assure sustained growth in the fisheries sector, a considerable investment has been made for fisheries infrastructure development providing marketing facilities and increasing fishing fleet with modern technologies.

With the aim of exploiting the country's fisheries and aquatic resources in a sustainable manner, while conserving the coastal environment, the fisheries sector development plan was introduced. The construction of the central fish market at Peliyagoda was completed in 2011 at a cost of Rs. 1.5 billion. Construction of number of fishing harbours, anchorages and landing sites at strategic places are in progress. A fully equipped fishery harbour with modern facilities is being constructed at Dikowita at a cost of Rs. 7.9 billion and will be completed in 2011. Under the development of inland fisheries sector, stocking of fish fingerlings in fresh water bodies is being carried out and 12 million fingerlings were stocked in selected tanks in 2010.

The total contribution of the fisheries sector to the GDP was 1.5 percent in 2010 and the output of the sector has increased by 13 percent in 2010 compared with 2009. The marine and inland fish production has increased by 13 percent and 12.5 percent, respectively in 2010 compared to that of 2009. The fisheries sector has shown a steady growth after the Tsunami. This is as a result of the policy initiatives and considerable investment of the sector for the development of off shore, inland and aquaculture sector.

Chart 1.55 > **Total Fish Production 2005-2010**



Source: Ministry of Fisheries and Aquatic Resources.

Table 1.49 > **Annual Fish Production by Fishing Sub-sectors (Mt)**

Year	Marine Fish Catch		Total Marine	Inland and Aquaculture	Total Fish Production	Fish for Dry or Smoking
	Coastal	Off Shore/ Deep Sea				
2006	121,360	94,620	215,980	35,290	251,270	71,740
2007	150,110	102,560	252,670	38,380	291,050	77,830
2008	165,320	109,310	274,630	44,490	319,120	93,240
2009	180,410	112,760	293,170	46,560	339,730	97,690
2010	202,420	129,840	332,260	52,410	384,670	100,120

Source: Statistics Unit, Ministry of Fisheries and Aquatic Resources Development Department of Fisheries and Aquatic Resources

Industry

The high performance of tea, paddy, rubber, fishing, mining, processing, hotels and restaurants, transport and communication has led the economic growth and coconut is the only subsector which showed a negative growth. The highest contribution to the GDP was made by the services sector (59.3 percent) as in the previous years while the industry sector and the agriculture sector accounted for 28.7 percent and 11.9 percent respectively in 2010.

Services

The services sector grew by 8 percent in 2010 as against 3.2 percent in 2009. The contribution of wholesale and retail trade, hotels and restaurants and transport and communication have made a greater impact on the growth of the services sector. Wholesale and retail trade showed a negative growth of 0.21 percent in 2009 whereas it grew at a rate of 7.47 percent in 2010. The hotels and restaurants subsector has achieved a 39.8 percent growth while the transport and communication subsector grew at 11.8 percent in 2010 compared to 13.2 percent and 6.3 percent respectively in 2009. The growth of the hotels and restaurants subsector has been positively affected by the high number of tourist arrivals.

Industries

The industry sector shares 28.7 percent of GDP while growing at 8.4 percent from Rs. 701.1 billion in 2009 to Rs. 760.2 billion in 2010 and the growth rate has doubled in 2010, compared to 2009. Mining and quarrying showed a growth of 15.4 percent which has significantly contributed to the growth of the industry sector. The processing industry which grew at 0.66 percent in 2009 witnessed a drastic growth of 5.82 percent in 2010. In addition, factory industry, electricity and construction also have contributed to the growth of the industry sector.

Industrial Exports

Industrial exports account for nearly three fourths (74.3 percent) of total exports. The highest contribution of industrial exports was from textile and garments which is 42.2 percent of total exports. Earnings from industrial exports were increased by 16.3 percent from USD 5305.4 million in 2009 to USD 6172.8 million in 2010. The recovery from the global economic crisis and the better investment climate facilitated the growth of industrial exports.

Industrial Development Initiatives Industrial Estates

Under the Industrial Estate Program, which was started in 2006, with a view to encourage industrialists to invest at regional level and provide employment opportunities to rural people, 24 industrial estates were in operation by December 2010. Of the total number of industries, 274 industries were in commercial operation and 36 factories are under construction. The development work of Buttala and Galigamuwa Industrial Estates were completed in 2010. A 24 acre state land at Manmunai (Batticaloa) has been identified for development of an industrial estate. 12,812 employment opportunities have been created from the Industrial Estate Programme.

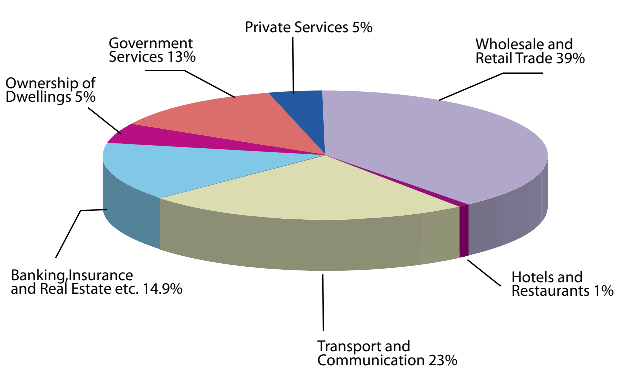
300 Industry Programme (Gamata Karmantha)

This programme was introduced in 2005 in order to create employment opportunities in rural areas and for overcoming the concentration of industries in Colombo and Gampaha districts. Under this programme, 111 projects have been approved. Of this 58 industries were in commercial operation, seven were in machinery installation and construction of buildings and four were in preliminary stage. The programme ended in May 2010.

Manufacturing Sector under BOI

Foreign Direct Investment (FDI) under BOI has been growing at an annual average growth rate of 12.4 percent from 2005 to 2010. An investment of USD 516.2 million was attracted in 2010. The FDI in 2010 consists of manufacturing (USD 159.6 million), infrastructure (USD 305.6 million), services (USD 44.5 million) and agriculture (USD 6.4 million). The total employment created by

Chart 1.56 > **Compostion of Services Sector - 2010**



Source: Central Bank of Sri Lanka

BOI companies is 378,592. These companies have exported USD 4,292 million worth of products in 2010. As in the previous years, textile, wearing apparel and leather sector secured the highest share of export earnings of USD 2,616 million, which is 60.9 percent of total exports under BOI companies by 2010.

Processed Food

'Profood/Propack Annual International Exhibition' was successfully held in August 2010 with the participation of 180 companies including companies from India and Pakistan. Further, under the processed food sector the Ministry of Industry and Commerce facilitated 20 food processing industries to obtain food safety and hygiene certification such as ISO 22000, HACCP and GMP.

Die and Mould

Construction work and infrastructure facilities of the Die and Mould Facilitation Centre at the University of Moratuwa were completed in 2009. The CNC machines and computer software required for the centre was installed.

Machinery and Equipment

'Machinery and Equipment Trade Exhibition 2010 was held in August 2010 with the objective of introducing new technology to the SME sector particularly the SMEs in rural areas. This exhibition has been held for the fifth consecutive year.

Textile

The initial work of setting up of three dyeing Centres at Kurunduwatte (Galle), Haragama (Kandy) and Lakeside village (Kurunegala) was commenced. Further, as an initiative, the Ministry of Industry and Commerce purchased handloom machines for handloom villages in the Northern and Eastern Provinces by spending Rs. 7.5 million.

Regional Development – Gama Neguma

Rural Development

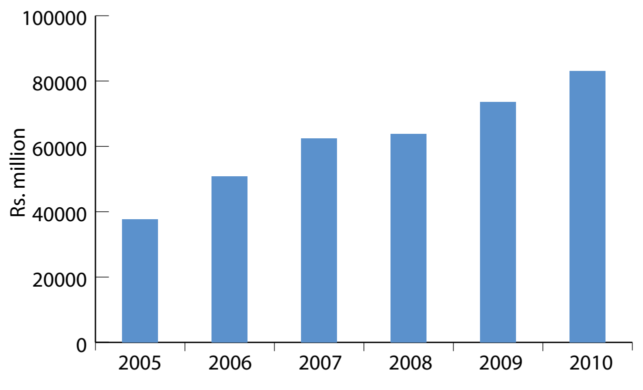
Ensuring every household in Sri Lanka will equally benefit from economic development, specific rural and regional development initiatives have been recognized the government development strategy. This could be achieved only by implementing Island-wide rural sector development projects after liberation of the country from the terrorist Industry. In order to achieve these objectives all over the country, rural development activities are reawakened through various rural development programmes.

In terms of the Mahinda Chintana Development Strategy, development is generally ensured when the household and community are empowered. Therefore, the thrust of the development policy focuses on the empowerment of households and villages. Rural development strategy has been designed taking the village as the nucleus.

Gama Neguma is the main rural development strategy that triggers the empowerment of the rural community. Major programmes under Gama Neguma including improving rural access roads, rural electrification, drinking water and sanitation facilities, rural housing, and livelihood of the rural people. The government invests a significant amount of funds annually in this giant development programme. In 2010, Rs. 11,327 million was allocated for that programme. It directly facilitates the improvment the quality of the life of all citizens, especially in rural and less developed areas in the country. At the inception in 2006, this programme was implemented only in 119 poorest divisions in the country.

In 2010, Gama Neguma programme has been expanded to 14,000 Grama Niladari divisions in all Divisional Secretariat Divisions. The selected Grama Niladari Divisions received Rs. 2 million annually under this programme to undertake development activities.

Chart 1.57 > **Invetment on Rural Development, 2005 - 2010**



Source: National Budget Department

In addition to the Gama Neguma Programme, other rural and regional development programmes include Uthuruwasanthaya, Negenhira Navodaya, Rajarata Navodaya, Pubudamu Wellassa, Wayamba Pubuduwa, Kadurata Udanaya, Sabaragamu Arunalokaya, Ruhunu Udawa, and Ran Aruna. The total investment on those projects was Rs.13,100 million in 2010. Through all these programmes the government has invested 4 percent of GDP for rural development.

The annual rural development investment by the government which clearly illustrates an increasing trend in rural development investment is shown below.

The achievements of the key development areas during the period from 2006-2010 are highlighted below.

Achievements

Output	Results	Beneficiaries
Rural Access Roads - Over 40,000 kms of rural roads upgraded to solid conditions with the participation of the community.	Accessibility with less time to travel to schools, hospitals, markets resulting in the reduction in the total transaction costs significantly.	Benefits over 10 Mn. Rural Commuters
Minor Irrigation - Island wide 28,364 minor irrigation schemes have been rehabilitated	Increasing the cultivable lands more than 257, 451 Ha in the country and improving the productivity of paddy, vegetables and other agricultural lands island wide.	Benefiting to 690,948 farmer families
Rural Electrification - 6,773 rural electricity schemes were completed targeting the lighting of rural people.	Through the provision of electricity to the households, the communities were empowered with increased livelihood development activities, support to education, and health.	Benefiting to 220,000 households
Drinking Water - 2,767 rural water supply schemes were completed in nine provinces.	Quality of the life of people has been drastically increased with the access to safe drinking water resulting in less time for collection of water, better hygienic conditions and less cost of health.	Benefiting to 281,845 households
Livelihood Development - 13,179 projects have been implemented covering all the districts in the country	These have been directly contributed to improved quality of life of rural people as well as for the increased provincial GDP and per capita income.	Benefiting to 158,057 persons

Rural Development Highlights in 2010

The remarkable achievement of rural and regional development in the year 2010, is the success of the resettlement of people in the North and East provinces who were displaced due to the 30 year old civil war. The resettlement programme has been successfully implemented resettling over 360,000 families in their original places through two accelerated programmes – Negenahira Navodaya and Uthuru Wasanthaya. In this exercise, the government has spent over Rs. 183 billion from domestic and foreign financing on activities such as welfare, demining, reconstruction of houses, and providing other infrastructure facilities to restore their lives. The livelihood of these people has been ensured through reinstating and rehabilitating all small and medium scale infrastructure. All the marginal villages in remote areas are being incorporated in to the rapid development process. In implementing this programme, the Government has received the fullest co-operation from provincial councils, local authorities, district secretaries and other line agencies. The most important feature of this programme is that, the community has became one of the major stakeholders participating in the development process. The community contribution and participation made to the Gama Neguma programme has been estimated at around Rs. 11,000 million during the period from 2006 – 2010 as their share of development.

While continuing the Gama Neguma development programme the "Divi Neguma" Programme has been designed and launched under the theme "A Self Reliant Household-A wonderful Motherland" aiming at enhancing agriculture and development of the economy by uplifting the individual household to be self-sufficient. This will establish one million domestic economic units creating conducive environment for the families to fulfill their food requirements and to earn a stable monthly income.

The program will initially assist 100 households from each 14,000 Grama Niladhari divisions in the country to commence the cultivation of food crops with the technical and financial assistance of the government.

With the resources of 17 relevant ministries and almost 50,000 public officials at ground level (four government officials working at grass-root level - Grama Niladhari, Samurdhi Development Officer, Agrarian Services Officer and Health Services Officer) this programme will be implemented giving priority to three main areas; agriculture, industries, fisheries and dairy productions. This has been structured similar to the 'Gama Neguma' programme and is expected to provide the government with funds worth Rs. 14 billion in 2011 which will be used for granting Rs. 1 million to each Grama Niladari division which was in the Gama Neguma programme.

Table 1.50 > **Investment in Resettlement Programmes in North & East Provinces**

Programme	Expenditure Rs. Mn.
Nagenahira Navodaya 2006-2010	116,080
Uthuru Wasanthaya, 2009-2010	66,682
Total	182,762

Source: Department of National Budget

Table 1.51 > **Performance of Regionally Balanced Development 2009**

Indicator	Region/Province								
	Ran Aruna	**Wayamba Pubuduwa**	**Nagenahira Navodaya**	**Rajarata Udanaya**	**Uthuru Wasanathaya**	**Pubudamu Wellassa**	**Ruhunu Udawa**	**Sabaragamu Arunalokaya**	**Kadurata Udanaya**
Covering Districts	Colombo, Kalutara, Gampha	Kurunegala Puttlam	Ampara Baticallo Trincomalee	Anuradapura Pollonnaruwa	Jaffna, Mullaitivu, Killinochchi, Mannar, Vavuniya	Badulla, Moneragala	Matara, Galle, Hambantota	Rathnapura, Kegalle	Kandy, Nuwara Eliya, Matale
GDP (Rs. Bn)	2,178	495	281	232	159	220	492	303	465
Per capita income (Rs. ' 000)	375	213	183	189	134	168	199	157	175
Poverty headcount index	4.00	7.00	5.00	7.00	N/A	9.3	9.00	9.3	9.5
Infant mortality rate per 1,000 births	9.3	8.7	10.7	8.5	3.00	5.5	8.6	5.5	11.1
Maternal Mortality Ratio per 1,000 live births	0.34	0.42	0.53	0.22	0.56	0.57	0.36	0.44	0.46
Access to Safe Water	94.4	86.2	89.1	82.7	N/A	78.3	85.0	72.9	72.1
Access to Electricity	98.1	92.0	70.6	82.3	48.2	75.5	95.6	83.5	89.6
Unemployment	6.5	5.4	7.7	4.7	N/A	4.6	9.4	5.7	6.5

Source: Department of National Planning

Reducing Regional Disparities

The government development strategies have been carefully designed to make sure the development benefits are equally distributed in various regions in the country. Therefore, regional development is an integral part of the overall national development of the country. Despite its small size, Sri Lanka has great diversity; geographically, economically as well as culturally. Even though Sri Lanka has implemented large number of regional development projects during the several decades, the country still has considerable disparities and variations in regional growth and development. Most of the reforms of the 1970s and 1980s benefited the Western Province, which was able to cut its poverty rate by half. Since 2006, Mahinda Chintana Development Strategies focused on reducing regional economic growth disparities. As a result, regional economic disparities in Sri Lanka has declined during the last five years although the Western Province continued to dominate by contributing a 45.1 percent share (2009) of gross domestic product (GDP).

Each sub-national region has its own regional identity. The development problems faced by different regions as well as their development potentials are also different. This diversity can be used as a positive factor that can be harnessed for development in competitive and innovative ways. Having recognized the need for a regionally focused development model, regional development programmes such as Rajarata Navodaya, Kandurata Nawodaya, Pubudamu Wellassa, Sabaragamuwa Arunalokaya, Uturu Wasanthaya, Negenahira Nawodaya, Wayamba Pubuduwa, Ruhuna Udawa and Ran Aruna, have been designed particularly to address the regional economic and social disparities. The Budget Speech - 2010, states that the above regional development initiatives cover 10,000 lagging villages scattered island-wide with primary focus being given to providing drinking water, access roads,

Table 1.52 > **Provincial Share of GDP and Mean Household Income**

	2007		2009		2016
Province	**Share of GDP %**	**Mean Household Income (Average Monthly) (2006/07) Rs.**	**Share of GDP %**	**Mean Household Income (Average Monthly) (2009/10) Rs.**	**Share of GDP %**
Western	48.4	34493	45.1	44955	32.0
Central	8.9	20507	9.6	35100	10.0
Southern	10.5	24730	10.2	31940	14.0
Northern	2.9	N/A	3.3	N/A	7.0
Eastern	5.0	18876	5.8	19710	7.0
North Western	9.6	20631	10.3	32120	11.0
North Central	3.9	24548	4.8	35235	6.0
Uva	4.5	19757	4.6	27739	6.0
Sabaragamuwa	6.3	19698	6.3	33865	7.0

Source: Department of Census and Statistics

electricity and quality housing. Under this provincial development programme 1,406 rural roads have been improved and 8 bridges have been completed. In addition to that, 924 irrigation projects and 77 agriculture supportive projects have been completed. Further, 82 rural water supply schemes, 50 community development programmes and 136 educational development programmes have been implemented in 2010. The government has spent Rs. 22,240 million for these development activities. With enhanced regional infrastructure facilities, rural people can actively participate in economic development in the country, which reduce the income disparities among the region.

Those regional development initiatives have not only increased the share of GDP of provinces but have also resulted in reducing income disparities. The provincial share of GDP of the Western Province has declined by 3.3 percent in 2009 compared to 2007, while the Central, Northern, Eastern, North Western, North Central and Uva Provinces have increased their share of GDP in 2009 compared to 2007. The average household income of provinces increased during the period and income disparities have also declined between the provinces. Except Southern and Sabaragamuwa Provinces, the other Provinces have increased their share of the GDP. The decrease of the share of GDP of the Western Province is not due to the reduction of production in the Western Province, but due to disproportionate development of other provinces. New development policies have helped to develop some provinces faster than Western Province. Especially, in Uva, Sabaragamuwa, North Central and North Western Provinces, annual household income has increased by around Rs. 10,000 in 2009 compared to 2007. This is as a result of the village development programmes

Table: 1.53 > **Gini Coefficient of Household Income and Per Capita Income - 2006/07, 2009/10**

Sector / Province	2006/07 Gini Coefficient of Household Income	2009/10 Gini Coefficient of Household Income	2006/07 Gini Coefficient of Per capita Income	2009/10 Gini Coefficient of Per capita Income
Sri Lanka	0.49	0.47	0.49	0.46
Urban	0.54	0.45	0.55	0.47
Rural	0.46	0.46	0.46	0.46
Estate	0.41	0.44	0.46	0.43
Western	0.49	0.45	0.49	0.46
Central	0.48	0.51	0.48	0.51
Southern	0.44	0.43	0.43	0.42
Northern	N/A	N/A	N/A	N/A
Eastern	0.44	0.33	0.42	0.30
North Western	0.48	0.49	0.47	0.48
North Central	0.44	0.39	0.44	0.39
Uva	0.48	0.41	0.47	0.39
Sabaragamuwa	0.48	0.50	0.47	0.48

Source: Department of Senses and Statistics such as small township development, rural road development, small credit schemes, village saving organizations, rural market development, and fertilizer subsidy, which have ultimately helped to increase the total production of the country.

The government has realized the importance of improving connectivity and mobility within and between the regions which induce economic development of the country. Under the "Maga Neguma" Programme, which mainly focuses on enhancing rural road networks, 703km has been improved or reconstructed with spending Rs. 3.0 billion in 2010.

Income distribution among the households did not show a significant variation among the provinces. According the Table: 1.53, it is clear that Gini Coefficients of household income of most of the Provinces including the Western Province have significantly declined in 2009/10 compared to 2006/07.

Disparity in infrastructure facilities available between regions and the center was one of the main obstacles for industrial development in the country. Under the Industrial Estates programme, investors are encouraged to invest in the regional level. Meanwhile, the industrial villages development programme has promoted domestic traditional industries, such as clay based products, kitul based products, cane based products, coir based products, and cashew based products to enhance the household income of rural people. Table:1.55 show the Provincial wise distribution of existing industrial plots in Industrial Estates and the peoplised Industrial Villages in 2009 and 2010. Even though the highest accumulation of the industrial plots still can be seen in the Western Province, more than 50 percent of plots have been located in other provinces in 2010.

Table: 1.54 > **Unemployment Rates by Province**

Province	2006	2008	2009	2010
Sri Lanka	6.5	5.4	5.8	4.9
Western	6.7	5.9	4.4	3.7
Central	9.0	8.5	6.5	6.7
Southern	9.0	8.1	9.4	7.8
North Western	6.0	4.3	5.4	4.8
North Central	5.6	3.9	4.7	3.6
Uva	6.5	5.0	4.6	4.1
Sabaragamuwa	6.7	5.2	5.7	4.6
Eastern	N/A	5.2	7.7	5.3
Northern	N/A	N/A	N/A	N/A

Source: Department of Census and Statistics

Table: 1.55 > **Industrial Estates and Industrial Villages**

Province	2009		2010	
	Number of Industrial Plots in Industrial Estates	Peoplised Industrial Villages	Number of Industrial Plots in Industrial Estates	Peopalised Industrial Villages
Western	106	09	113	21
Central	17	-	18	-
North Western	58	33	80	23
Southern	18	21	17	16
Northern	-	-	-	17
North Central	-	21	-	13
Eastern	-	-	05	01
Sabaragamuwa	-	82	33	29
Uva	-	87	-	-
Total	**199**	**253**	**266**	**120**

Sources: Ministry of Industries Promotion, Ministry of Traditional Industries and Small Enterprise Development.

Welfare and Social Security

Grassroot Development

Significant reduction in poverty in all sectors was an immense achievement in Sri Lanka in 2010. The Department of Census and Statistics reveals that the Poverty Head Count Index has reduced to 7.6 percent in 2010 from 15.2 percent in 2007.

This reduction was widespread for all three sectors but, significant in the Estate Sector where the poverty index fell to 9.2 percent from 32 percent in 2007. Poverty Head Count Index for rural area has dropped to 7.7 percent from 15.7 percent in 2007. The official poverty line which stood at Rs. 2238 in 2006/07 has increased to Rs. 3,249 in December 2010. The per capita income of the country has also increased to USD 2,399 in 2010 from USD 1,634 in 2007.

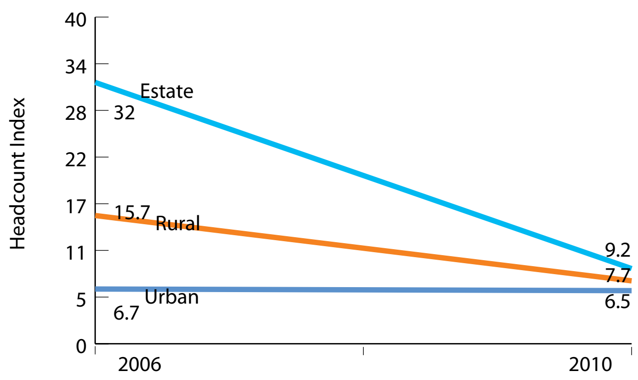
The government enhanced investment on rural and estate infrastructure development, livelihood development, social security and welfare subsidies seems to have basically contributed to this sharp declining trend in poverty.

Improved Estate and Rural Infrastructure

The enhanced development expenditure focusing on the plantation sector is the major contributory factor to upgrade the living standard of the people in plantation areas. Since 2005 Rs. 5.7 billion has been invested for the development of a large number of small scale infrastructures in plantation areas such as estate roads, estate housing, water supply, education and vocational training, health and nutrition facilities through the relevant line ministries.

As a consequence of these development initiatives, the access to basic infrastructure such as drinking water, school attendance electricity, has increased in the estate sectors while declining their vulnerability.

Chart 1.58 > **Poverty Headcount Index**



Source: Department of Census & Statistics

Table 1.56 > **Investment on Estate & Rural Infrustructure 2009 & 2010**

Rs. Mn

Sector	Expenditure	
	2009	**2010**
Estate Roads and Bridges	81	77
Water Supply Schemes	5.8	22
Housing	163	82
Education	143	155
Health & Nutrition	83	79
Skills Development	67	92
Cultural & Social Development	37	67
Total	**585**	**574**

Source: Ministries of Livestock, Economic Development, Health Education, and Water Supply and Drainage

Table 1.57 > **Access to Basic Infrastructure in the Estate Sector**

Items	2007	2010
Access to Electricity %	62.3	84.3
Access to safe drinking water %	46.2	65.1
Access to education %	91.8	97.4

Source: Household Income and Expenditure Survey 2006/7, 2009/10

'Gamanaguma' the major initiative to empower the rural economy has also contributed to the declining poverty through increasing connectivity and providing opportunities to villages for social and economic empowerment. Construction of small scale rural infrastructure has made direct and indirect contribution towards economic activities in the village. Under this Programme, 28,731 small scale infrastructure projects were completed during the year 2010 at a cost of Rs. 11.7 billion benefitting over 5 million people.

The government's new intervention on addressing inter and intra concerns of provinces in the country have also contributed to decline the incidence of poverty in rural areas. Effectively exploring the potential of each region a large number of development initiatives were carried out under this programme in 2010 at a cost of Rs. 13.7 billion. Enhanced rural economic infrastructure including rural roads, transport, rural electrification and telecommunication networks have physically connected the lagging regions with the developed regions and thereby reducing cost of transport and travel time.

In line with this the vast improvement made in information and communication technology has also contributed to expand the small business in the informal sector generating more employment opportunities. Investment made to develop inter-regional highways and railways promoted mobility of people and goods and created a market for their products. The investment made for inter-regional development under the Ministry of Economic Development in 2010 has shown significant increase from Rs. 4 billion in 2009 to 13.7 billion.

Rehabilitation and reconstruction of access roads, irrigation network, water supply, electricity and housing programmes implemented in the war torn areas in the North and East provinces and adjoining vulnerable districts also largely contributed to reduction of vulnerability of the poor in those areas. Rs. 21 billion has invested for the development of North and East provinces under the foreign financing in 2010.

As a consequence of these development initiatives the access to basic infrastructure such, as drinking water, school attendance, electricity, has increased in the rural sectors while declining their vulnerability.

Table 1.58 > **Gamanaguma Rural Infrastructure Programme 2010**

Description	Expenditure Rs.mn	No. of Projects	No. of Beneficiaries
Rural Roads	9,320	2632	4,536,935
Rural Electrification	665	441	72,369
Water Supply & Sanitation	449	763	126,429
Minor Irrigation	735	1667	126,887
Common Buildings	151	265	78,886
Livelihood Development	103	625	165,937
Social Development	341	832	271,538

Source: Ministry of Economic Development

Table 1.59 > **Investment in Inter – Regional Development**

Programme	2010
Kandurata Udanaya	510
Nagenahira Navodaya	656
Pubudamu Wellassa	216
Rajarata Navodaya	226
Ran Aruna	1618
Ruhunu Udanaya	346
Sabaragamu Arunalokaya	827
Wayamba Pubuduwa	15
Uthuru Wasanthaya	1850
Balanced Regional Deve-lopment	7,500
Total	**13,764**

Source: Ministry of Economic Development

Table 1.60 > **Access to Basic Infrastructure in the Rural Sector**

Year	2007	2010
Access to Electricity %	78.5	83.2
Access to safe drinking water %	85.0	87.1
Access to education %	98.2	99.5

Source: Household Income and Expenditure Survey, 2006/7, 2009/10

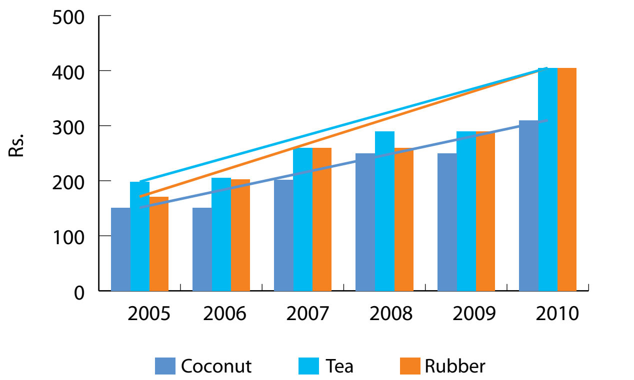
Enhanced Income

During the 2005-2010, the improvement in the average monthly household income of the Estate Sector is also a major factor to be observed. According to the Household Income and Expenditure Survey 2009/10, by the Department of Census and Statistics, Estate Sector shows 66 percent increase of median household income from the previous year. Daily wages in tea, rubber and coconut plantation sector has moved upward during the last five years. Improved labour productivity which contributed by the reduced number of strikes, strengthened tripartite relations, and increased export prices in the international market for tea and rubber have contributed to the upward movement of the wages in the formal sector plantations.

Improvement in daily wages in the rural sector has also contributed in the reduction in poverty. The Census Department reveals that the median household income of the rural sector has also increased by 46 percent from the year 2009. This rise was led by the wage increase in the informal sector where the agriculture and construction employments are basically comprised. Employees in the construction sector such as masons, carpenters etc., have enjoyed continuous wage increment since 2005.

In addition to the favorable producer prices for agriculture products, fertilizer subsidy, improved extension services, reconstructed minor irrigation facilities, community based water supply and availability of quality seeds have increased the profitability of the sector thereby enhanced the income of rural farmers.

Chart 1.59 > **Daily Wages in the Plantation Sector**



Source: Department of Labour

Table 1.61 > **Informal Sector Daily Wages**

Sector	2005	2006	2007	2008	2009	2010
Tea						
Male	300	333	375	440	496	543
Female	217	234	263	305	356	391
Rubber						
Male	305	335	389	500	532	588
Female	230	249	277	377	416	463
Coconut						
Male	387	421	479	590	652	699
Paddy						
Male	361	391	456	562	615	658
Female	261	293	336	395	423	453
Carpentry						
Capenter	556	633	732	844	932	1002
Helper	368	415	479	558	617	657
Masonry						
Mason	553	628	727	837	935	995
Helper	369	413	474	561	627	669

Source: Central Bank Annual Report 2010

Enhanced Employment

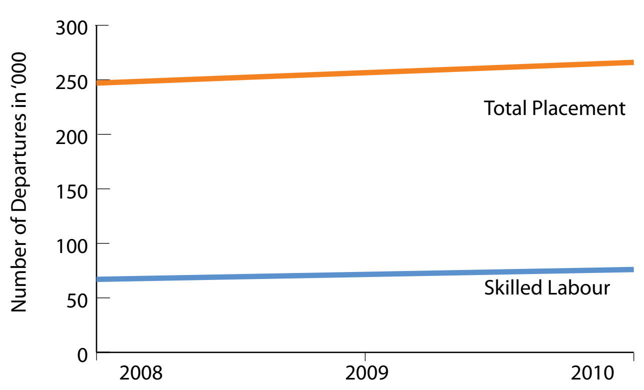
Enhanced investment in education and vocational training which resulted in the increase of new job opportunities for the young category have also contributed to the decline in poverty. Government resource allocation to produce productive labour force matching with labour market requirement has increased by Rs. 650 million from an investment of Rs.5.2 billion in 2009. In addition dissemination of labour market information, career guidance, and productivity programmes has progressively increased employment at all levels. The Census Department reveals that in 2010 around 8,10,000 new employments has been generated with a dominant share of own account workers. This increase in employment was primarily supported by the expansion of rural economic activity.

Increased number of departures for foreign employment is also a reason for reduction of poverty. The total number of Sri Lankan workers abroad has been increased in 2010 with an increase of skilled labour departures. This was attributed to development of information sharing network, enhanced number of skill and productivity training programmes by the Foreign Employment Bureau. Worker remittance inflow recorded Rs. 4.1 million, a 24 percent growth in 2010.

Enhanced livelihood Initiatives

Various income generation programmes, as well as capacity building programmes implemented by the Samurdhi Authority in 2010 enabled the Samurdhi beneficiaries to escape from poverty. Further, various livelihood development programmes implemented under a few line ministries such as Agriculture, Fisheries Rural Industries etc can also be attributed the government efforts on reducing poverty. Provision of tools and equipment, micro and SME credit facilities, infusion of new technology and enhanced opportunities to access the market have progressively contributed to the increase in women's livelihoods narrowing down the gap between male and female unemployment. Over 150,000 persons were benefitted under the 13,739 livelihood development projects which were commenced with the assistance of Gamanaguma rural development programme in 2010. The investment made for livelihood development through a few line ministries in 2010 was Rs. 3.7 billion are as follows:

Chart 1.60 > **Foreign Employment Departures**



Source: Foreign Employment Bureau

Table 1.62 > **Producer Prices**

Year	2005	2006	2007	2008	2009	2010
Paddy per /kg	13.3	12.7	18.8	32.5	33.8	33.6
Tea per /kg	185.8	199.5	279.4	310.8	360.4	370.6
Rubber per /kg	156.7	202.5	233.7	267.9	211.7	402.7
Coconut per /nut	12.8	10.5	15.6	22.1	16.3	23.1

Source: Department of National Planing

Table 1.63 > **Assistance to Agriculture - Rs. Bn**

Investment	2008	2009	2010
Fertilizer Subsidy	26.5	27.0	23.0
Extension Services	75.8	63.8	87.0
Distribution of Seeds	57.0	77.6	174.4

Source: Department of National Budget

Ending of conflict which reopened the opportunities to make use of the full potential of tourism and ease of doing business in the country was also a reason in declining poverty in the country. It opened new avenues in the construction industry, expanded the transport and communication and generated a significant number of direct and indirect employments. The value added growth agriculture sector and the significant increase in fish production in 2010 has enhanced the number of job opportunities in the informal sector, finally resulting in the improvement of living standards. The enhanced number of job opportunities in the informal sector due to the value added growth in the agriculture sector and significant increase in fish production in 2010 also contributed to the decline in poverty.

As a consequence of all these measures the unemployment of the country fell to 4.9 percent in 2011 from 7.5 percent in 2005.

Enhanced Support and Welfare Programmes

The government income supplementary programme and in-kind support has also provided an additional support to the vulnerable groups to overcome their level of poverty. Welfare payments to support the vulnerable groups in society continued in 2010 with an enhanced cost. Under the Samurdhi Social security programme which is targeted to protect the poor families affected from unexpected incidents, risks or prevention from drug abuse, around 1.6 million families were benefited. In addition, the enhanced public expenditure to promote a caring society for elderly, handicapped and victims of terrorisms has also contributed to reduce their grief enabling them to escape from poverty. In 2010, around Rs. 67 billion was spent in providing public assistance, food, shelter, and physical aid components for this segment.

Successfully carried out demining operations and resettlement task also largely contributed to this sharp decline in poverty. The resettlement effort was mainly carried out by two line ministries i.e., Ministry of Resettlement and Ministry of Economic Development with the generous support of many international agencies. In 2010, 53,159 families who were resided in 04 relief villagers were resettled in their original places. The immediate relief and rehabilitation including the provision of family allowance and dry rations for each resettled families empowered them to develop their own housing arrangement as well as livelihood development programmes. The cost incurred for this attempt in 2010 with the assistance of UNHCR was 1.9 billion.

Improved Health and Nutrition

Improved health and nutrition status of the population in 2010 also led to the increased living standard of population in the country.

The provision of fresh milk worth Rs.200 per month for children aged between 2 to 5 years and nutritional food package worth Rs 500 per month for expectant mothers in order to address the nutritional deficiencies introduced in 2006 continued in 2010 benefitting around 112,000 pregnant mothers and children. Over 275,000 mothers benefitted through the "Thriposha" programme at a cost of around Rs 870 million in 2010. "Mathata Thitha" awareness campaign has helped to reduce consumption of alcohol thus promoting a healthier and productive workforce in addition to increase

Table 1.64 > **Combined Livelihood Initiatives 2010**

Programme	Expenditure Rs. Mn
Agriculture	
Dry zone Livelihood Support Project	576
Api Wawamu Rata Nagamu Programme	455
Economic Development	
Samurdhi and Gamanaguma Livelihood Development Programme	913
Fisheries	
Fisheries Community Strengthening	50
Post Tsunami Livelihood Support Programme	655
Livestock	
Kirigammana Programme	83
Livelihood and basic facility	
Improvement in rural areas	191
Small scale dairy farming improvement	804
Traditional Industries	
Cottage Industry Development	34
Small Industrialist Development Programme	17
Industries	
Kantha Diriya Programme	12

Source: Department of National Budget

in savings. According to the Excise Department the consumption of spirits (Arrack) in Colombo, Kandy, Nuwara Eliya, Ampara, Anuradhapura and Kegalle districts have dropped over the year 2010.

The government has placed emphasis on improving the nutrition levels of the school children by providing mid day meals in schools in the less privileged areas. The expenditure that was kept for this in 2010 is Rs. 2.4 billion and benefitted around 94,650 students.

Around 61,500 families were benefitted under the food security card project which was implemented under the Samurdhi Nutrition Programme. Other welfare payments for school students such as school season tickets, school uniforms, and text books etc., have eased the burden on poor parents while enhancing the government aspiration of building an educated younger generation. Provision of disability payment which eased the burden on the family members of disabled persons has also contributed to declining poverty.

Table 1.65 > **Expenditure on Subsidies 2005 – 2010**

Rs.mn

Description	2005-2009	2010
Samurdhi Relief	48,354	9,241
Assistance to Disabled Soldiers	36,586	7,388
Assistance to IDPs	10,161	1,016
Assistance to Handicapped	214	147
Assistance to Elders	197	53
Assistance to Children	76	20
Public Assistance	3,933	990
Disaster Relief	1,855	265
Food Assistance to IDP	17,972	6,638
Infant milk subsidy	507	178
School Nutritional Assistance	6,096	2,474
“Thriposha” Programme	3,337	870
Assistance to Pregnant Mothers	1,391	388
Interest subsidy for agriculture loans	1,169	683
Fertilizer subsidy	83,097	23,028
Free medicine	54,513	13,544
Free text books	10,036	1,941
Free uniforms	4,932	949
Free season tickets	2,977	1,370
Scholarships	953	234
Total	275,700	66,746

Source: Department of National Budget

Table 1.66 > **Key Indicators**

Year	2004	2008
Infant Mortality Rate per 1000 live births	12	10.1
Maternal Mortality Rate per 100,000	55	37
Infants with low birth weight	26.9	18.2
Anemia among women	19.6	16.2

Source: Demographic and Health Survey 2006/2007, Nutrition and Food Security Survey, 2010, Ministry of Health,

Box 1.10
Achievement of Millenium Development Goals (MDG)

Sri Lanka has already achieved many of these goals despite having been confronted with three decades of violent terrorist movement and the Tsunami disaster in December 2004. In recognition of these accomplishments, Sri Lanka needs to reset some of the MDG targets at higher levels. In areas such as universal primary school enrolment, gender equality in primary and secondary school enrolment, reducing maternal and child mortality, and several other health and social indicators, Sri Lanka is well poised to meet the MDG targets well before 2015.

Table 1.67 > **Achievements and Targets**

Indicator	MDG Target for 2015	2010	2020
Goal 01: Eradicate Extreme Poverty and Hunger			
Proportion of population below National Poverty line (%)	13.0	7.6 (2009/10)	1.0
Prevalence of underweight children under-five years of age (%)	19.0	21.6 (2006/07)	3.0
Goal 02: Achieve Universal Primary Education			
Net enrolment ratio in primary education	100	99	100
Proportion of pupils starting Grade 1 who reach Grade 5	100	99.6	100
Literacy rate of 15-24 year olds	100	95.8 (2006/07)	100
Goal 03: Promote Gender Equality and Empower Women			
Ratios of girls to boys in Primary (grade 1 to 5)	100	99.0	100
Ratios of literate women to men 15-24 years old	100	101.8 (2006)	100
Goal 04: Reduce Child Mortality			
Under five mortality rate (per 1000 live births)	10	12.1 (2006)	3.0
Infant mortality rate (per 1000 live births)	6.6	8.5 (2007)	2.0
Proportion of one year-old children immunized against measles (%)	100	97.2 (2006/2007)	100
Goal 05: Improve Maternal Health			
Maternal mortality ratio (per 100,000 live births)	10.6	19.7 (2003)	3.0
Proportion of births attended by skilled health personnel	100	98 (2006)	100
Goal 06: Combat HIV/AIDS, Malaria and Other Diseases			
Prevalence (per 1000 population) and death rate (100,000 population) associated with malaria	0.0	0.14	0.0
Death rates (per 100,000 associated with tuberculosis)	0.0	1.3	0.0
Goal 07: Ensure Environmental Sustainability			
Proportion of land area covered by forest (%)	33.0	29.9 (2005)	35.0
Proportion of population with sustainable access to an improved water source, urban and rural (%)	90	84.7 (2006/07)	100
Proportion of urban and rural population with access to improved sanitation (%)	97	93.9 (2006/07)	100
Goal 08: Develop a Global Partnership for Development			
Unemployment rate of 15-24 year-olds, each sex and total (%)	2.0	19.0 (2008)	0.2
Households using personal computers (%)	60	8.2 (2006/07)	100
Households (all) using internet (%)	40	2.08	70

Source: Department of National Planning

Welfare and Social Safety Measures

Government implements several welfare programs to benefit the low income families such as mothers, children, elders, disabled and other vulnerable groups who are vulnerable to shocks, particularly when they fall below the poverty line.

Cost-effective nutrition intervention programmes for improving maternal and child healthcare were implemented in 236 divisional secretariats at a cost of Rs.388 million which benefitted 44,594 expectant mothers and under the programme a nutrition food package worth of Rs. 500 per month was provided per mother. Further, 873,599 expectant and lactating mothers have been benefitted through 'Thriposha' programme implemented utilizing Rs.865 million in 2010. A package in fresh milk worth Rs. 200 is being provided per month for children between 2-5 years benefitting 82,346 children in 274 divisional secretariat areas at a cost of Rs.187 million per year.

School National Food Programme covers grade 1 to 4 children, with a cost of Rs. 2,474 million benefitting 736, 874 children in 6,248 schools in the country. The Samurdhi Social Security Programme continued in 2010 benefitting 1.52 million families at a cost of Rs. 9, 241 million. The cost of other benefit programmes offered to samurdhi beneficiaries such as 'Sipdora' school programme, marriage, death, hospitalization and child birth allowances costs Rs.50 million which benefitted 55,045 beneficiaries in 2010.

Government implements several programmes for disabled people. A monthly allowance of Rs. 3,000 is being provided to the each disabled families. Around 2,305 disabled families were benefitted from this programme which cost Rs. 82 million to the government in 2010 and it is expected to increase the number of beneficiaries to 8,911 in 2011. In addition, another Rs. 359 million was spent for the disabled persons through the self employment, housing, community based rehabilitation and provision of medical assistance programmes in 2010.

The government has proposed to implement three pension schemes for elders recognizing the need for addressing the aging population issue. The expectation of the government is that the every citizen of the country should have access to a pension scheme.

Employees' Pension Benefits Fund - Private and Cooperate Sector

Employees of private companies and public corporations are benefitting from this fund.

The employees will contribute 10 percent of the gratuity payment and 2 percent of their EPF at retirement to this fund. In addition, employees and employer contribute 2 percent each to this fund. Contributions should be made to the fund for a minimum a 10 year period to earn a pension. Monetary Board of the Central Bank manages the Employees' Pension Fund.

Overseas Employees' Pension Benefits Fund - Protect Social Security for Overseas Employees

Each overseas employee is required to contribute at least Rs. 12,000 per annum and this payment can be made in installments during the year. Each employee must contribute for a minimum period of 2 years to qualify for pension. Pension will be paid after reaching the age of 65 years.

Citizens' Pension and Insurance Fund – Every Citizen over 65 year of Age

The self-employment pension scheme will be formulated in terms of the budget proposal 2011.

Table 1.68 > **Welfare Payments and Subsidies**

Rs. Mn

Description	2005	2006	2007	2008	2009	2010
Programme for Children	**3,348**	**4,046**	**6,405**	**7,633**	**9,098**	**8,394**
Infant Milk Food Subsidy 'Poshana Malla'	-	82	418	386	505	388
Thriposha Programme	504	537	488	652	1,155	865
Free Text Books	1,080	1,123	2,250	3,387	2,196	1,941
School Uniforms	1,060	963	1,067	582	1,260	949
School Season Tickets	261	250	500	600	1,366	1,370
Handicapped Students	40	50	71	70	74	71
Dharma School Text Books and Uniforms etc	80	84	102	99	108	106
Bursaries and Scholarships	157	235	201	208	183	225
School Nutritional Foods	166	722	1,308	1,649	2,251	2474
Welfare Payments to Households	**24,078**	**32,569**	**32,233**	**37,910**	**45,381**	**39,144**
Samurdhi Relief	9,103	10,789	9,200	9,995	9,267	9,241
Assistance to Disabled Soldiers	4,749	5,921	7,426	8,694	9,946	7,388
Assistance to Internally Displaced Persons	1,592	2,586	1,666	1,457	4,538	1,016
Food Assistance	1,258	1,075	2,466	4,437	7,783	6,638
Public Assistance through Provincial Council	-	648	326	922	960	1,050
Flood and Drought Relief	276	171	345	323	738	265
Free Medicine to Government Hospitals	7,100	11,379	10,804	12,082	12,149	13,544
Agriculture	**7,028**	**12,072**	**11,140**	**26,759**	**28,053**	**24,394**
Interest Subsidy for Agriculture Loans etc	136	158	100	155	379	683
Fertilizer Subsidy	6,846	11,867	11,000	26,449	26,935	23,028
Development Subsidy	46	47	40	155	379	683
Other	**788**	**945**	**1,030**	**1,346**	**348**	**402**
Street Light	743	900	1,000	1,300	204	360
Water Subsidy for Religious Places	45	45	30	46	144	42
Total	**35,242**	**59,701**	**51,440**	**73,648**	**83,780**	**72,332**
Losses of Department Enterprises	**9,060**	**11,767**	**10,525**	**10,620**	**11,078**	**11,434**
Sri Lanka Railways	3,554	3,982	4,578	4,553	4,988	3,173
Sri Lanka Transport Board	3,854	4,976	3,653	4,087	3,541	5,508
Postal Department	1,652	2,809	2,294	1,980	2,549	2,753

Source: Department of National Budget

Housing

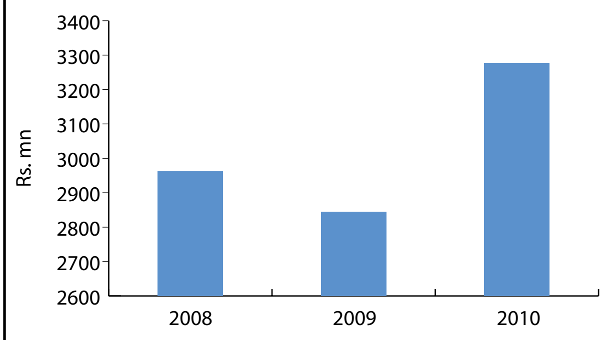
The government believes that having a decent house is the foundation for a prosperous family, which ensures household stability, strengthens the social fabric and ultimately enables households to make their fullest contribution to the development of the economy. The well developed housing sector is considered a good proxy to measure strength of a country's economy and the wellbeing of its people. In view of this, the "Mahinda Chinthana" development framework has given high priority to the development of the housing sector.

Therefore, improvements and expansion of housing is required in both rural and urban areas. According to the NHDA, in 2007 total housing stock in the country was 4.3 million. It is estimated that the country needs to build 100,000 houses per year, nationwide, until 2020 to meet short supply and backlog of housing stock.

Due to increases in income level and changing lifestyle, the government housing policy has shifted towards encouraging private sector to participate in the housing development and financing to meet the housing need of the middle and high income groups while the government becomes a strong regulator and facilitator. However, the government continues its contribution towards meeting the social housing needs of the vulnerable groups such as low income families, estate communities, underserved settlers and war affected families.

Ministry of Construction, Engineering Services, Housing and Common Amenities has carried out several housing programmes during the year 2010. Around 1,000 houses were constructed under the Jana Sevana Housing construction programme and another 2,500 low income families were provided with cash grants and technical assistance to construct their own houses. Meanwhile, the Ministry of Economic Development, under the North East Housing Reconstruction Programme, built 16,585 housing units were build in the war affected areas. The Urban Development Authority was able to raise the Rs. 10 billion by issuing a debenture to construct houses for the underserved urban settlers of the Colombo area. The required provisions have already been made to construct 2,100 housing units in Salamull in Kolonnawa and Dematagoda utilizing this fund.

Chart 1.61 > **Investment in Housing Sector 2008 - 2010**



Source: Department of National Budget

Private Sector Development

Capital Market Activities

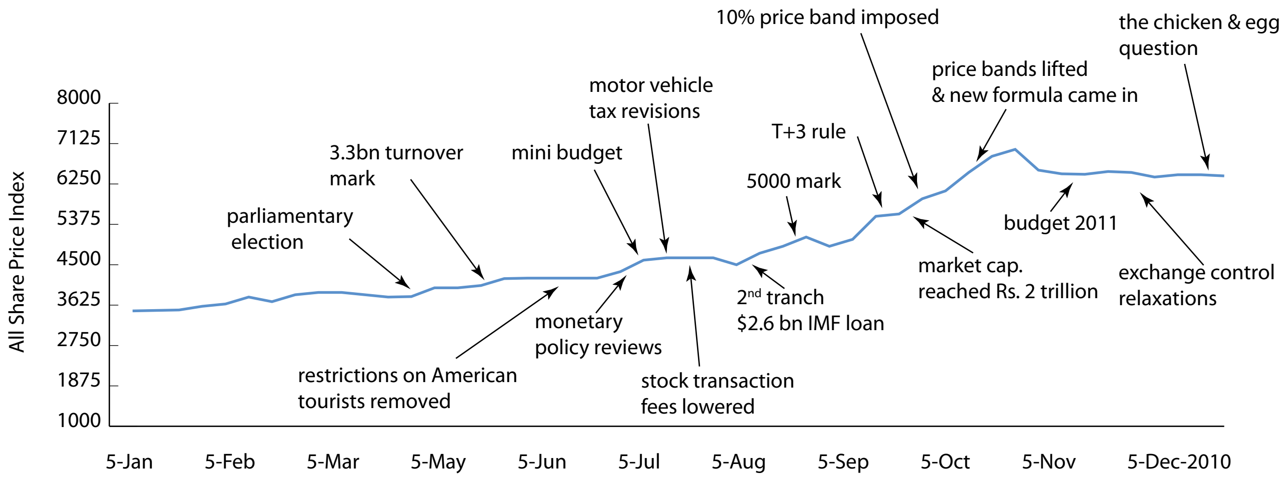
As envisaged in the 'Mahinda Chinthana' the Capital Market will also be the catalyst for accelerated economic growth particularly to drive private investment. The development of Capital Market is important to achieve the private sector investment target of 30 percent of GDP.

The success of the Colombo Stock Exchange (CSE), which has become one of the best performing stock exchanges in Asia with a market capitalization of Rs.2.2 trillion (or 40 percent of GDP), is evident for success of government capital market development strategy.

Conducive measures to develop corporate debt securities market will also be in place to satisfy financing needs of the corporate sector. The end of the conflict has positioned Sri Lanka as an inter regional centre, making it a key investment hub for the South Asian region.

The CSE has performed faster and more extensively during the last 18 months than any other period in Sri Lanka's history.It had been adjudged as the world's second **best performing capital market for two consecutive years.** The CSE had achieved a Price Earnings Ratio (PER) of 25.2 times in overall compared to its earlier PER at 16.5 times in 2009; beating the world's Emerging Market PER and Frontier Market PER. Revived investor confidence has played a crucial role for CSE to achieve the feat which has positioned the country on top of most leading stock markets in the world.

Chart 1.62 > **Response of API to Various Policy Measures and Economic Management Moves Taken by the Government**



Source: Reproduced from Stock Market Reports by Colombo Stock Exchange

New Listings in 2010

Entities continue to show their interest in listing especially from the finance sector. This is mainly due to the fact that all Initial Public Offers (IPOs) during 2010, were over-subscribed reflecting the positive investor appetite.

Table 1.69 > **IPOs and Performance in 2010**

2010 IPOs & Performance	No. of shares issued (mn)	Value of the issue (LKR mn)	No. of Times Oversubscribed
Renuka Agri Foods	120	270	12.07
Ceylon Tea Brokers	14	28	10.52
Raigam Wayamba Salterns	80	200	19.71
Vallibel Finance	5.2	114.4	9.12
Odel	16.7	250.5	63.9
PC House	57.23	629.53	4.26
Laughs Gas- Voting	75	1725	16.45
- Non Voting	52	780	17.9
Hydro Power Free Lanka	35	350	57.05
*Singer Finance	26.67	400.05	120
*Pan Asia Power	200	600	7

** To Initiate trading in January 2011*

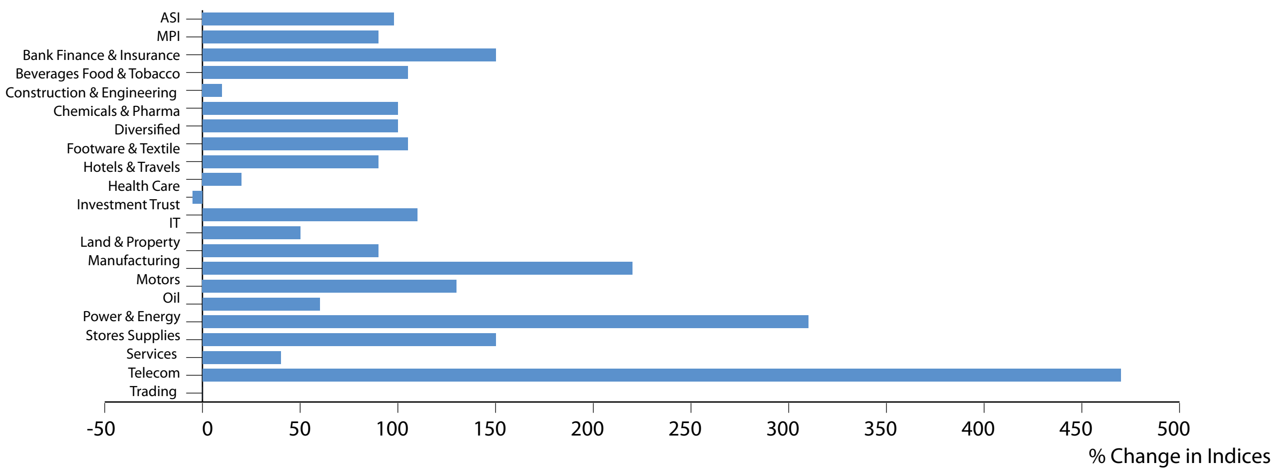
Source: Colombo Stock Exchange

Table 1.70 > **New Listings in 2010 by Sector**

Sector	No. of Issues	Voting/ Non-voting	No. of Shares Indexed	Value (Rs.)
Banks Finance & Insurance	2	Voting	27,071,193	114,400,000
Beverage Food & Tobacco	2	Voting	683,457,320	470,000,000
Services	1	Voting	114,000,000	28,000,000
Information Technology	1	Voting	228,933,334	629,566,300
Footwear & Textiles	1	Voting	144,950,000	250,500,000
Power & Energy	2	Voting	109,088,112	350,040,560
		Non-voting	52,000,000	12,250
Total	**9**		**1,359,499,959**	**1,842,519,110**

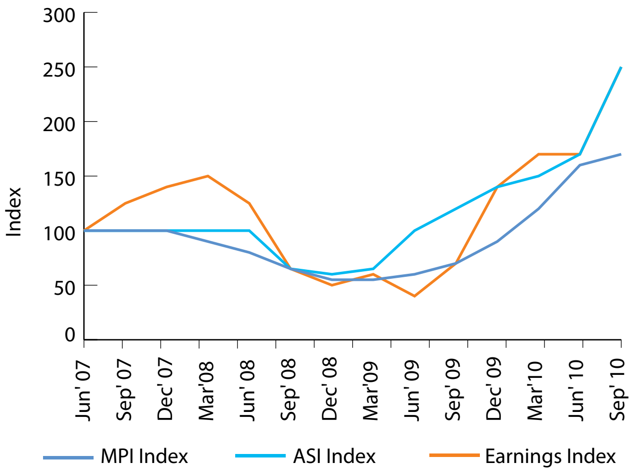
Source: Colombo Stock Exchange

Chart 1.63 > **The Performance of the Various Sectors in the CSE in 2010**



Source: Colombo Stock Exchange

Chart 1.64 > **Snapshot of Earnings of CSE.**



Source: Colombo Stock Exchange

All Share Price Index (ASPI) of Colombo Stock Exchange (CSE) rose by 96 percent to 6,635.9 points in 2010 from 3,385.5 in 2009 whilst the market prices had appreciated by 96 percent. Subsequently, Milanka Price Index (MPI) of CSE rose by 83.4 percent from 3,849.3 points in 2009 to 7,061 points in 2010.

The CSE's equity turnover, which was at Rs.142.4 billion in 2009 rose to Rs.570.3 billion in 2010, increasing market's daily average turnover to Rs.2.39 billion in 2010 compared to Rs.593.5 million in 2009, resulting in an increase in the total number of transactions to 3.35 million, from 1.26 million in 2009. Colombo Bourse had raised to total of Rs.4.3 billion in 2010 against Rs.1.2 billion in 2009.

Market capitalization had doubled from Rs.1 trillion to Rs.2.2 trillion within a year adding a total of Rs.26.3 billion foreign cash inflows in 2010 compared to Rs.789 million foreign cash inflow in 2009. On the other hand, CSE's dividend yield had fallen from 3 percent in 2009 to 1.2 percent in 2010.

However, foreign investor contribution to total turnover had decreased to 18.8 percent in 2010 from 30.5 percent in 2009 whilst the number of listed companies had increased to 241 in 2010 from 231 in the previous year 2009.

Proposed 'demutualization of CSE' is expected to make the CSE more dynamic and efficient and will increase the confidence of the foreign investors as well as the local investors in the Sri Lankan capital market.

The Securities and Exchange Commission (SEC) endeavors to increase the Colombo Bourse market capitalisation by 45 percent during the year 2011. They foresee approx 75 IPO's during the year 2011.

Private Sector Development

The government expects the private sector to play a transformative role in doubling per capita GDP by 2016. This would require private sector to invest 25 - 30 percent of GDP annually.

The incentives for private sector investments will shift from over-dependence on tax and duty concessions, to genuine business opportunities that will emerge and evolve in an environment of peace, availability of quality infrastructure, stable financial environment and the optimisation of the use of skilled workforce.

Using this conducive environment the incremental investment, to meet the growth targets would have to originate from the private sector, domestic and foreign.

The conducive business environment coupled with political stability and positive economic outlook, that prevailed in the country has raised the business sentiments and the corporate earnings of Sri Lankan firms, despite the slow global economic recovery. The percentage share of the three major sectors, namely the Agriculture, Industry and Services to the total GDP constituted 11.9 percent, 28.8 percent and 59.3 percent respectively in 2010.

Agriculture Sector

The growth rate of the **Tea sector** is registered as 13.1 percent in comparison to 2009. The favorable weather conditions during the period from January to September in 2010 had supported this growth. Export value of the Tea sector in 2010 was Rs. 81,840 million.

The value added of **Rubber** production grew by 12.7 percent in 2010, compared to 2009. The major reason for this growth was due to the increase in average price of Rubber (at Colombo auction) which rose to Rs.397.70 per Kg in 2010 from 201.66 per Kg in 2009 registering a 97.2 percent price increase.

The agriculture sector growth was further fuelled by increase in **paddy and fish** production with the opening of the North and East to the rest of the economy. The growth rate of Minor Export Crops was 37.6 percent, Paddy 17.5 percent, Fishing 12.2 percent compared to 2009.

Export value of the **Processed Food** and **Spice Sector** in 2010 was Rs.5,960 million and Rs.10,541 million respectively.

Other Food crops (highland crops, vegetables and Fruits) have recorded a growth of 4.4 percent in 2010 and earnings grew by 12 percent YoY in the 4th quarter of 2010. (The growth was due to the improved earnings of Ceylon Tobacco, Nestle Lanka and Ceylon Tea Services).

Poultry sector also sustained their growth rate benefitting from the increased chicken consumption in the country.

Industry Sector

Industry sector grew by 8.4 percent in 2010. **Manufacturing** which is the largest sub sector of the industry sector grew by 7.3 percent in 2010. Industry sector performance was affected by the rising production cost. However, the sector was assisted by the increase in demand for semi precious stones, improvement in construction and electricity gas and water sectors.

Ceramics and porcelain exports during the year was Rs. 3886 million.

Apparel exports to the EU and USA was Rs. 109.45 billion and Rs. 92.46 billion in 2010 respectively at end of the 3rd quarter. Earnings from textile and garments exports increased by 121.9 percent in 2010 compared to 2009.

Coir product exports in 2010 was Rs. 5,839 million.

Service Sector

Overall service sector marked 8.0 percent growth in 2010. The Sector was boosted by promising higher growth of its major sub sectors such as, Hotels and Restaurants by 39.8 percent, Transport and Communication by 11.9 percent, Banking, Insurance and Real Estate by 7.5percent, Wholesale and Retail Trade by 7.5 percent and Construction sector by 9.3 percent.

Banks, finance and insurance sector exhibited strong performance in terms of earnings during the year, mainly due to accelerated economic activities in the country.

Telecommunication sector, total telephone connections increased by 17.6 percent in this year. The sector comprises of four fixed access operators, five mobile operators, six facility based data communication operators, 16 non-facilitated data communication operators and 33 external gateway operators. Further with government reducing the call charges it is expected that the revenue will grow due to the high elasticity of the product coupled with the growing per capita income.

Healthcare Sector spending in this country is expected to increase over the coming years. At present there are about 700 hospitals and about 70,000 beds available in the country.

Healthcare sector recorded a 148 percent increase during the year 2010.

The sales of pharmaceutical items in Sri Lanka has increased by about Rs. 5328 million in 2010. The chemical and pharmaceutical sector grew by 55 percent in 2010 compared to 2009. The budget 2011 presented in November 2010, provides incentives such as exceptions from both import duty and VAT and this could lead to reduction of cost of pharmaceutical products.

Construction & Engineering sector performed relatively well during 2010. This was mainly backed by increasing income generated through post war developments and increasing demand for land and property in the Colombo city limits. The growth was further facilitated by reduction in income tax for construction companies and reduction in custom duties for raw materials and capital equipment. Construction and Engineering sector earnings increased by 5 percent in 2010.

Hotel and Leisure sector which is the primary beneficiary of the complete end of the three-decade long war exhibited tremendous improvement in earnings by 54 percent in 2010 and due to increased tourist arrivals and the improvement of occupancy rate Hotels and Restaurants sector recorded 39.8 percent growth in 2010 as against the growth rate of 13.3 percent for the last year. Tourists' arrival increased to 654,476 in 2010 from 447,890 in 2009 registering a growth of 46.1 percent for the reference year.

With the tourist arrival figure exceeding 600,000 marked in 2010, the blue-chip companies in the leisure sector are spending approximately Rs. 33.3 billion for additional hotel and rooms, targeting 2.5 million tourist arrivals by 2016.

The **trading sector** earnings grew by an impressive 272 percent in 2010 compared to 2009. With the latest tax and tariff reforms implemented in June 2010 there seem to be a favorable prospect for the trading sector in the future. Motor sector recorded an impressive 300 percent increase in 2010. The recent 50 percent import duty reduction on motor vehicles has helped this growth.

Domestic Demand

Domestic Demand, Supply of Goods and Services

The improved financial market conditions and increased investor confidence which was created by stable macroeconomic conditions has led to an increased domestic demand in both consumption and capital formation thereby sustaining 15.2 percent increase in nominal GDP with commendable 8 percent economic growth in 2010, compared to 3.5 percent recorded in 2009.

Sri Lanka's domestic demand over the years has remained in excess of domestic production of goods and services, thereby creating a deficit. In 2009, the country's domestic demand (which consist of consumption, fixed capital formation and changes in inventories), as a ratio of GDP has remained 106.5 percent and the ratio has increased to 109.8 percent in 2010 due to several factors including substantial increases in gross domestic fixed capital formation and increased private consumption. Gross domestic fixed capital formation as a percentage of GDP has increased to 26.9 percent in 2010, from 17.6 percent witnessed in 2009, which can be defined as a healthy development towards achieving the country's development targets. However, substantial expansion of trade deficit by 71.3 percent during the period under review is a matter of concern, which reminds us of the urgent need for the expansion of the country's export and import replacement activities, particularly in areas of energy conservation, alternative energy use and domestic food production.

Changes reflected in the aggregate demand during year 2010 proves the significant turnaround of the Sri Lankan economy during the period under review, from a severe crisis experienced in 2009 due to global economic recession. Compared to 1 percent growth of aggregate demand in 2009, a significant 18.1 percent growth has been reported in aggregate demand during 2010 which indicates the substantial expansion of the economy, by way of increased consumption and fixed capital formation. Most significant increase in Aggregate Supply has been witnessed in import of goods and services in 2010. The contraction of 20.9 percent in import of goods and servicesthat occurred in 2009 has been reversed to an increase by 28.2 percent in 2010. Sri Lanka's export of goods and services as a percentage of GDP, which stood at 21.4 percent in 2009 has decreased to 21.3 percent of GDP in 2010 which suggests the need for export diversification.

Table 1.71 > **Domestic Demand, Supply and Trade Balance**

	Current Mkt Prices Rs. Bn.		Change (%)		Ratio to GDP (%)	
	2009	**2010**	**2009**	**2010**	**2009**	**2010**
Domestic Demand	5,149	6,114	2.7	18.7	106.5	109.1
Consumption	3,967	4,557	4.1	14.9	82.0	81.3
Private	3,116	3,685	0.6	18.3	64.3	65.7
Government	852	873	19.3	2.5	17.6	15.6
Investment	1,181	1,558	2.9	30.3	23.8	27.0
Private	863	1210	-1.7	40.2	17.4	21.6
Government	318	347	17.6	9.11	6.4	6.2
Net External Demand (Trade Balance)	-314	-512	48.0	63.05	-6.5	-9.0
Exports of Goods and Services	1,031	1,215	-5.9	17.84	21.4	21.7
Imports of Goods and Services	1,345	1,726	-20.9	28.3	27.9	30.1
Domestic Supply = GDP	4,835	5,603	9.4	15.9	100	100

Source: Central Bank of Sri Lanka Annual Report 2010

Table 1.72 > **Aggregate Supply and Use of Goods and Services**

	Rs. Bn		Growth %		GDP%	
	2009	**2010***	**2009**	**2010***	**2009**	**2010***
Aggregate Demand	6,180	7,329	1.0	18.6	127.9	131
Domestic Demand	5149	6,114	2.5	18.7	106.5	109.6
External Demand=Exports of Goods and Services	1031	1,215	-5.9	17.8	21.4	21.3
Aggregate Supply	6,180	7,329	1.0	18.6	127.9	131
Gross Domestic Product	4,835	5,603	9.4	15.9	100.0	100
Import of Goods and Services	1,345	1,726	-20.9	28.3	27.9	31
Trade Gap of Goods and Services	314	511	48.0	62.7	6.5	9.6
Share of Imports in Aggregate Supply (%)	21.8	23.5	4.0	7.8	27	30

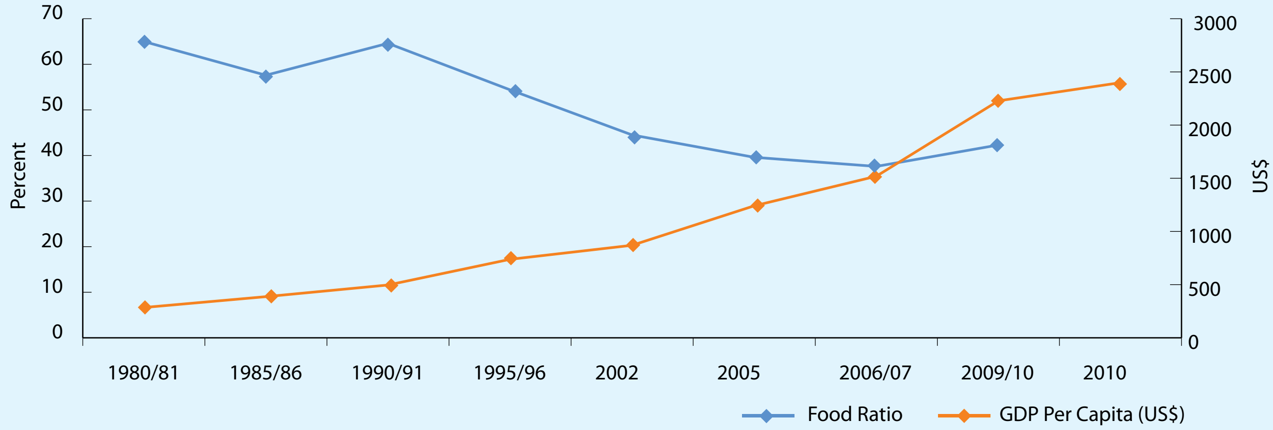
Source: Central Bank of Sri Lanka Annual Report 2010

Box 1.11
Changing Consumption Patterns of Sri Lanka

Sri Lanka has been able to achieve a per capita income of USD 2,399 (Rs. 271,259) in 2010. In 2010, Sri Lanka also graduated to middle-income status from the list of Poverty Reduction and Growth Trust of the IMF. In line with the changing income status, graduation to a middle income status is further corroborated by the changing food and non-food consumption behaviour of the Sri Lankans.

In broader terms, it is apparent that the relative share of the total expenditure spent by an average household on food items is in the decline. As evident from the periodical household surveys, the food ratio, which stood at 65 per cent in 1980/81, has declined to 42.3 percent in 2009/10 reflecting emergence of diverse consumption patterns among Sri Lankan people.

Chart 1.65 > **Food Ratio**

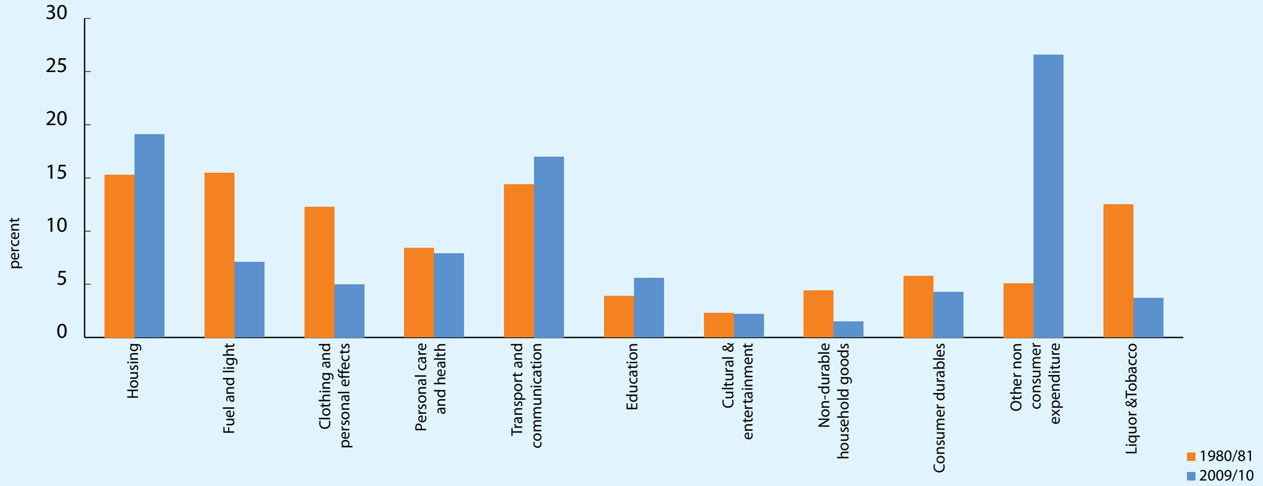


Source: Household Income and Expenditure Surveys, Dept. of Census and Statistics

The decrease in food ratio is a direct realization of an increased proportion of expenditure being spent on non-food items by the Sri Lankan consumer. Such movements in consumption expenditure could be viewed in the light of Sri Lanka's growth in per capita income which stood at USD 2,399 in 2010 vis à vis USD 285 in 1980/81 thus enabling consumers to spend more on non-food items viz. housing, personal care and health, education and other social and cultural activities.

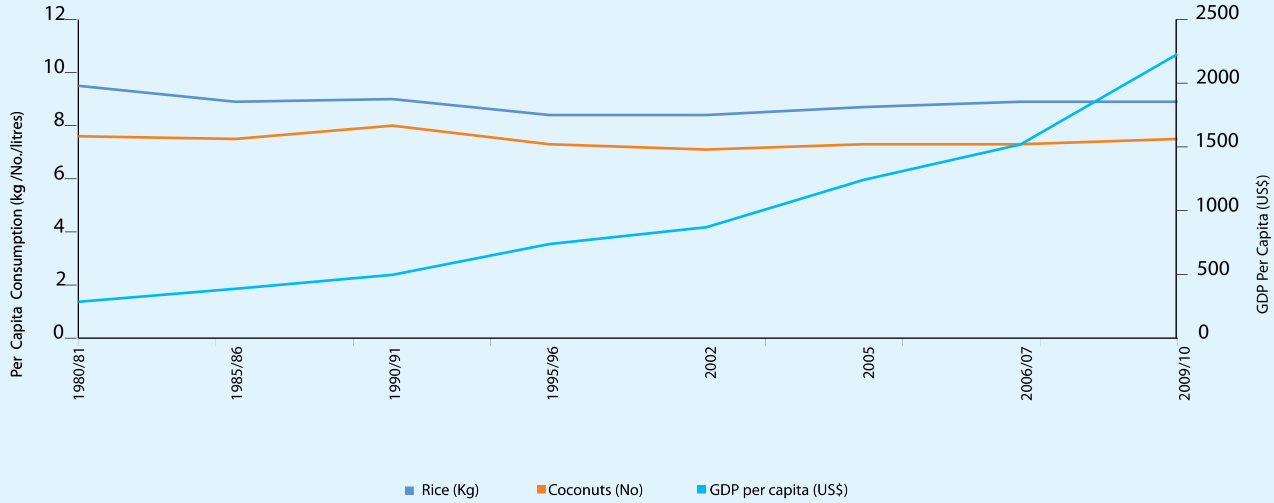
Along with the decrease in food ratio over the years, changes in the composition of the food consumed are also noteworthy. As income increases beyond a certain threshold and consumers shift to middle-income levels, they tend to consume diverse and higher valued diet. Accordingly, the shares of food expenditure on rice, wheat flour, bread and coconuts have declined while shares of expenditure on meat, fish, milk and other food and drink have increased.

Chart 1.66 > **Household Expenditure on Non-food Items (as a % of total non food expenditure)**



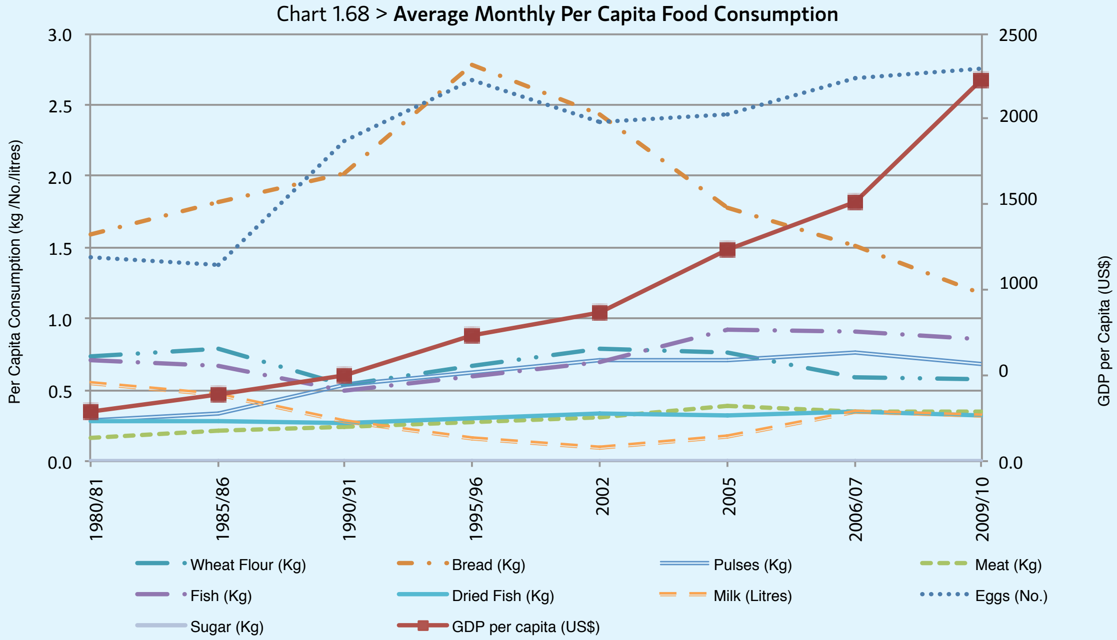
Source: Household Income and Expenditure Surveys, Dept. of Census and Statistics

Chart 1.67 > **Average Monthly Per Capita Food Consumption**



Source: Household Income and Expenditure Surveys, Dept. of Census and Statistics

Chart 1.68 > **Average Monthly Per Capita Food Consumption**



Source: Household Income and Expenditure Surveys, Dept. of Census and Statistics

Alongside the movements of relative shares of expenditure on food items, significant changes could be noted in the quantities consumed per capita as well. Noticeably, consumption of pulses and meat in quantity has increased by 136 percent and 114 percent, respectively between 1980/81 and 2009/10. With respect to eggs and sugar, the rates of increase are 93 percent and 55 percent, respectively for the same reference period. On the other hand, considerable decreases in consumption quantities could be recognized for milk, wheat flour and bread with 41 percent, 26 percent and 22 percent, respectively.

The broader transformations in dietary patterns in Sri Lanka are seemingly directed towards high income earning nations whose food consumption is largely concentrated on high value animal products/ crops viz fish, meat and vegetables.

In the sphere of non-food consumption, the share of expenditure spent on different expenditure sub groups show changes at varying rates. In particular, the share of expenditure on "other non consumer expenditure" [1] has shifted from 5.1 percent in 1980/81 to 26.6 percent in 2009/10. In addition, the share of expenditure on housing, transport and communication, education has also increased. Meanwhile, the share of expenditure on liquor and tobacco has declined significantly over the years.

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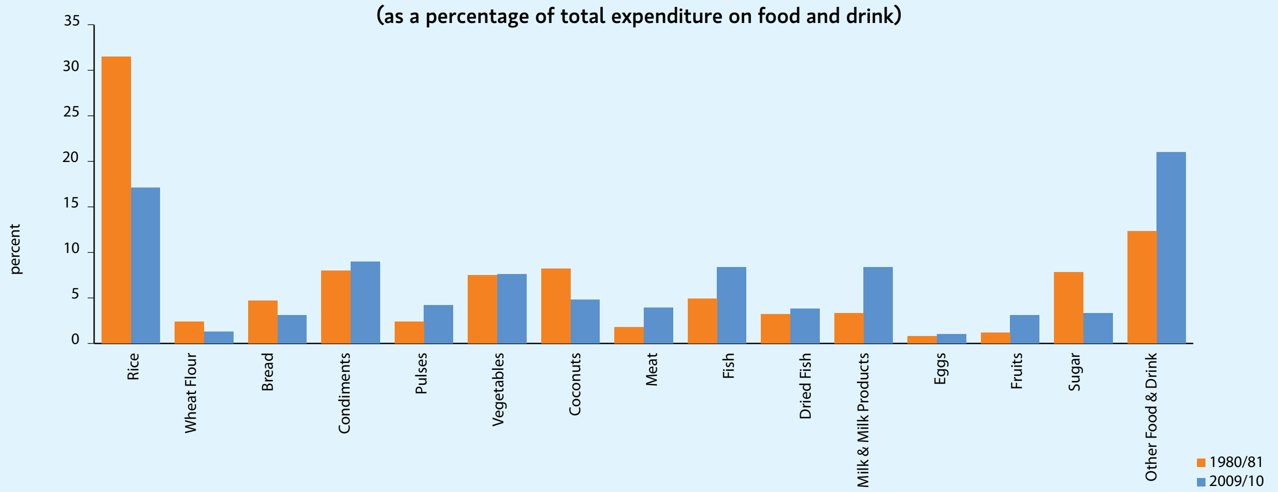
[1] *Includes the occasional but bulk expenditure incurred on social and cultural activities such as weddings, funerals, religious ceremonies etc., payments of debts, constructions and renewals of houses, savings, donations etc. and expenditure on household services like laundry charges, wages to servants, charges for day care centres etc. as well.*

Chart 1.69 > **Household Expenditure on Different Food Items (as a percentage of total expenditure on food and drink)**



Source: Household Income and Expenditure Surveys, Dept. of Census and Statistics

Investment and Savings

In order to increase the total investment to 33-35 percent of GDP with sustained commitment of public investment of 6-7 percent of GDP, the private investment needs to be raised from the current level of around 15-17 percent of GDP to about 25-30 percent of GDP during the 2010-2016 period.

Total gross investment of the country increased to 27.8 percent of GDP in 2010 from 24.5 percent in 2009. The weak private sector investment has recovered strongly from 17.9 percent of GDP in 2009 to 21.6 percent in 2010, while public investment declined marginally from 6.6 percent of GDP in 2009 to 6.2 percent in 2010. Private sector investments are mainly in the manufacturing, telecommunications, tourism and construction sectors. A favorable trend in private investment was observed during the year as indicated by a better performance in private sector credit and a noticeable increase in the imports of investment goods during that period.

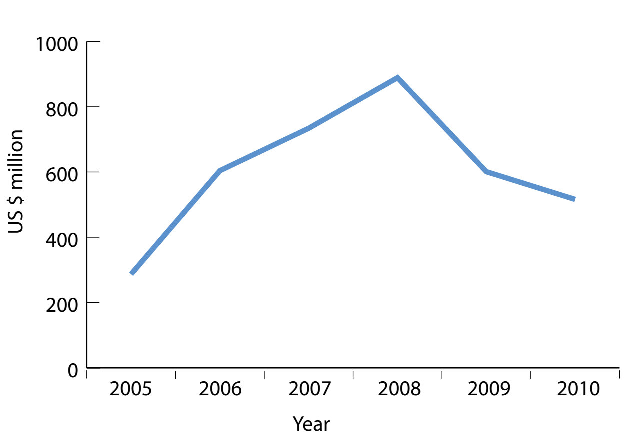
The Government expects to double the levels of inflows particularly in tourism, urban development, IT/BPO services, pharmaceutical and renewable energy etc compared to the Foreign Direct Investment flows of 1.5 percent of GDP during the past decade. In addition to the above targets, the current market capitalization of 2.2 trillion (or 40 percent of GDP) from the CSE is expected to increase to more than 50 percent by 2016.

The Foreign Direct Investment (FDI) inflows declined by 14 percent from investment commitment of USD 601 million in 2009 to USD 516 million during 2010 which would be due to changes in global capital flows after the global financial crisis.

The main contribution of FDIs to the manufacturing sector during 2010 was attracted by textile, wearing apparel, leather products and chemical coal, petroleum coal and plastics. In addition to the above, for the 2011 Budget, the government has opened the capital account in order to improve the private investment.

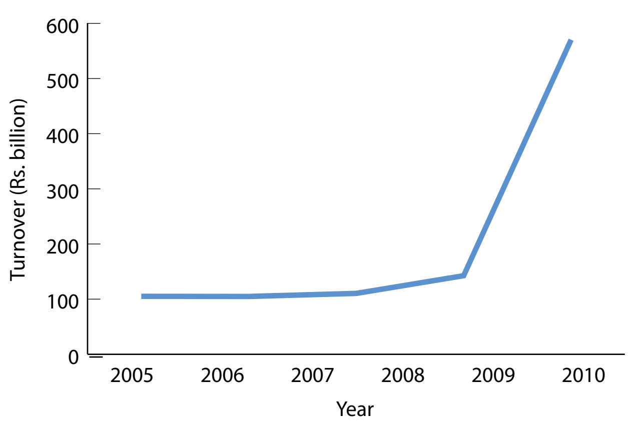
The net amount for the issuance of Treasury bills and bonds in 2010 was Rs. 433 billion and Rs. 83 billion, respectively. The total stock turnover improved drastically to Rs 570.3 billion in 2010 from Rs 142.5 billion in 2009.

Chart 1.70 > **Foreign Direct Investment 2005-2010**



Source: Board of Investment

Chart 1.71 > **Total Stock Turnover**



Source: Colombo Stock Exchange

Domestic savings in 2010 has improved to 18.7 percent of GDP in 2010 from 17.9 percent of GDP in 2009. Meanwhile, national savings, the sum of domestic savings, net foreign private transfers and net factor income from abroad, were estimated at Rs. 1381 billion in 2010 recording an improvement of 20.3 percent over the previous year. The national savings ratio (national savings/GDP) slightly rose to 24.7 percent of GDP in 2010 from 23.7 percent in 2009 due to the decrease in net factor payments abroad and lower growth in net private transfers from abroad. The improvement in national savings can also be attributed to the favourable performance of both net factor incomes from abroad and net private transfers. Net private current transfers, which consist of worker remittances has increased to Rs 465 billion in 2010 from Rs. 337 billion in 2009.

The domestic savings-investment gap as per GDP increased from 6.5 percent in 2009 to 9.1 percent in 2010. The recovery in total investment resulted in widening the national savings and investment gap to 3.1 percent of GDP, which was reflected in a higher deficit in the external current account.

Unlike past decades, now the investment climate for private sector in Sri Lanka is rapidly improving in order to increase the investment to over 30 percent of GDP and efficiency gains in investment and production from both the public and private sectors.

Chart 1.72 > **Savings Investments Gap**

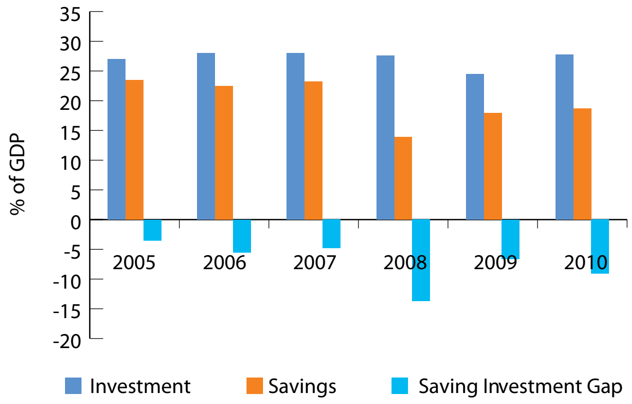


Table 1.73 > **Savings and Investment 2009 and 2010**

Item	Rs. Billion		Growth Rate		As a Percentage of GDP	
	2009	2010	2009	2010	2009	2010
Domestic Investment	1,181.4	1,556.8	-2.8	31.8	24.4	27.8
Private	863.5	1,209.6	-7.1	40.1	17.9	21.6
Government	318	347.2	11.1	9.2	6.6	6.2
Domestic Savings	867.5	1,045	41.8	20.5	17.9	18.7
Private	1,047.5	1,163.8	49.6	11.1	21.7	20.7
Government	-179.9	-118.9	-103.3	33.9	-3.7	-2.1
Domestic Savings-Investment Gap	-313.9	-511.8	-	-	-6.5	-9.1
National Savings-Investment Gap	-33.1	-175.7	-	-	-0.7	-3.1
Net Factor Income from Abroad	-55.8	-71.9	46.9	28.8	-1.2	-1.3
Net Foreign Private Transfers	336.6	408	21.2	21.2	7.0	7.3
National Savings	1,148.3	1,381.1	46.4	20.3	23.7	24.7

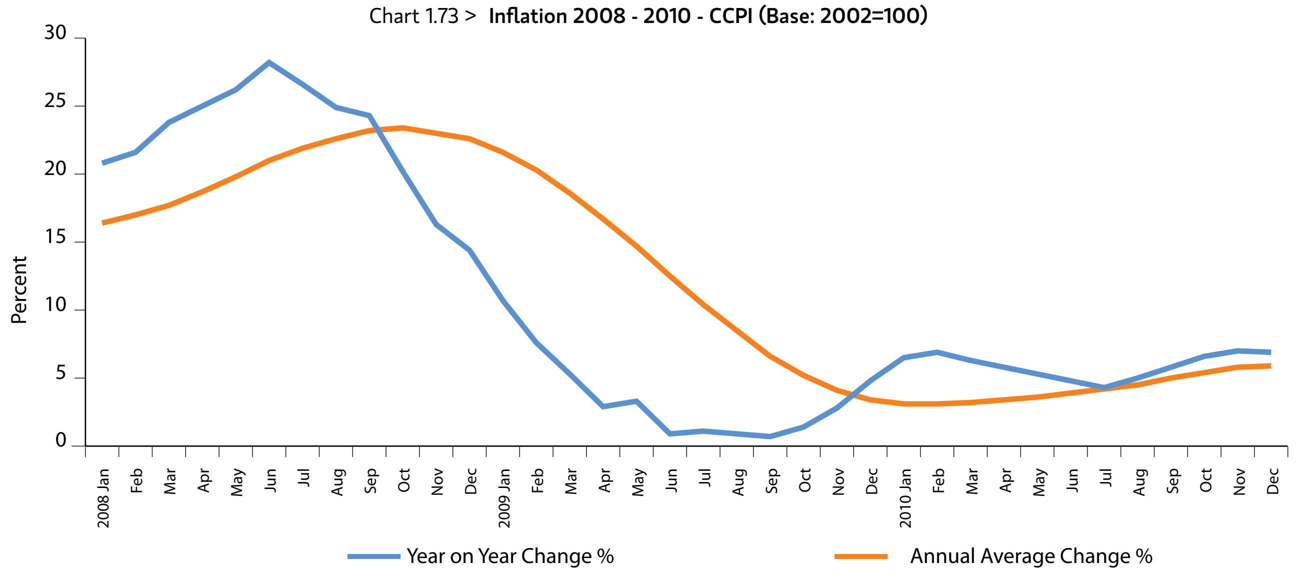
Inflation

The inflation continued to remain low at around mid single digit levels in 2010. The annual average inflation, as measured by the Colombo Consumer's Price Index (CCPI) (2002=100), which was decelerating since November 2008, reached a low of 3.1 percent in February 2010, increased gradually to 5.9 percent in December 2010. Year on year inflation, which was 6.5 percent in January 2010, decelerated to 4.3 percent in July 2010, but increased gradually to 6.9 percent in December 2010.

For annual average inflation, the contribution from domesticlly produced goods during the year was 85.2 percent while the balance came from imported items.

However, the domestic supply side improvements, measures taken by the government to bring down escalating prices on essential commodities and granting of duty waivers pertaining to key food and other consumer items as well as prudent monetary policy stance were conducive to a relatively low and stable level of inflation during 2010.

Chart 1.73 > **Inflation 2008 - 2010 - CCPI (Base: 2002=100)**



Source: Department of Census and Statistics

External Sector

Balance of Payments

Trade Balance

Earnings from exports during 2010 increased by 17.3 percent while expenditure on imports by 32.4 percent. As a result, the trade deficit expanded to USD 5,205 million in 2010. The widening of trade deficit was attributed to the surge in the price of oil which increased the total cost of imports from USD 10,207 million in 2009 to USD 13,512 million in 2010.

Exports

Earnings from exports increased to USD 8,307 million in 2010 from USD 7,085 million in 2009 as a result of higher earnings from industrial and agricultural exports. Industrial exports earnings increased by 16.3 percent to USD 6,173 million in 2010 which comprised of mainly textiles and garments, rubber products and machinery. Exports earnings from textile which account for 42 percent of total export earnings increased by 7 percent to USD 3,504 million in 2010 from USD 3,274 million in 2009 due to improved quality, increased productivity as well as increased external demand. Agriculture export earnings increased by 20.8 percent in 2010. The good performance of the tea, rubber, coconut and minor agriculture sectors as a result of favorable weather conditions and continuation of agriculture support schemes together with favorable commodity export prices made it possible to increase export earnings.

Imports

The total cost of imports in 2010 amounted to USD 13,512 million reflecting an increase of 32.4 percent due to the fact that all major categories of imports increased in 2010.

The consumer goods import category which provides a strong revenue base through duties and taxes to the government recorded an increase of 45.6 percent in 2010 to USD 2,870 million from USD 1,972 million in 2009. Expenditure on food and beverage imports increased mainly due to higher food prices in the international market. Import of milk products expenditure increased by 56.2 percent to USD 259 million in 2010 from USD 166 million in 2009.

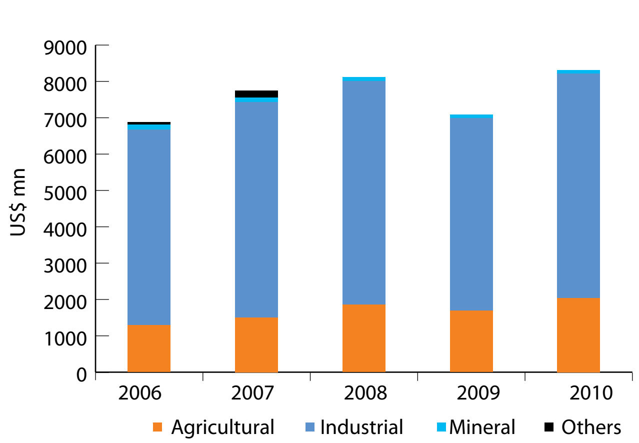
The expenditure on non-food consumer imports increased mainly due to higher vehicle imports which increased from USD 726 million in 2009 to USD 1,229 million in 2010 as a result of the reduction of duties on imports, removal of restrictions such as deposit margins on imports and improved economic activities.

Intermediate goods accounted for 55.5 percent of imports expenditure in 2010. Expenditure on import of intermediate goods grew by 32.2 percent to USD 7,496 million in 2010 compared to 2009 due to higher expenditure on petroleum import. The petroleum import rose by 39.3 percent to USD 3,019 million in 2010 due to the fact that import price of crude oil increased by 24.4 percent to USD 79.52 per barrel during the year compared to USD 63.93 per barrel in 2009. Fertilizer imports expenditure increased by 24.4 percent to USD 240 million in 2010 due to both higher prices and volume of imports.

Chart 1.74 > **Containing Trade Balance**

Source: Central Bank of Sri Lanka

Chart 1.75 > **Composition of Exports**



Source: Central Bank of Sri Lanka

Expenditure on investment goods increased due to higher imports of transport equipment machinery which increased by 21.2 percent to USD 2,970 million in 2010 compared to 2009. The non-oil import of intermediate and investment good which increased from USD 5,953 million in 2009 to US$ 7,447 million in 2010 was a key variable that contributed to the rise in investment / GDP ratio from 24.4 percent to 27.8 percent and increased in GDP growth from 3.5 percent to 8 percent.

Current Account

The trade deficit increased by 66.7 percent to USD 5,205 million in 2010 from USD 3,122 million in 2009 due to the fact that earnings from exports grew by 17.3 percent while expenditure on imports grew by 32.4 percent in 2010. With improvement in the investment climate and the gradual recovery in the global economy, the service account generated a surplus of USD 698 million. The tourism growth, enhanced port services, and ICT (Information and Communication Technology) contributed to this trend.

The adverse impact of the current account deficit was mitigated to some extent due to the increased inward remittances from USD 3,330 million in 2009 to US$4,116 million in 2010. However, income account recorded a deficit of USD 572 million in 2010 compared a deficit of USD 488 million in 2009. The combined effects of trade, services and income accounts resulted in a current account deficit of USD 1,418 million.

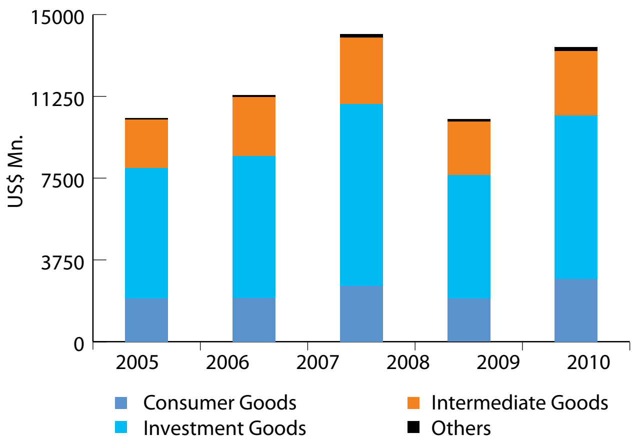
Employees' Remittances

Overseas employees' remittances recorded 23.6 percent growth in 2010 which stood at USD 4,116 million compared to USD 3,330 million in 2009. New bank branches opened in the Northern and Eastern provinces to promote inflows of employees' remittances through formal channel and encouragement of skilled labour for high earning overseas jobs, and increased number of overseas employment contributed to the increase in employees' remittances in recent years.

Capital, Financial Account and Balance of Payments

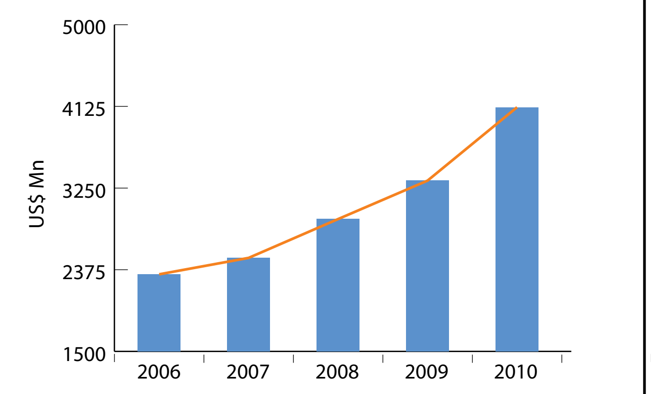
Despite global economic uncertainty prevailing during the year, the Foreign Direct Investment (FDI) increased to USD 435 million in 2010 from USD 384 million in 2009 which reflects the increased investor confidence due to peace. However, the long term financial flows to the government and private

Chart 1.76 > **Composition of Imports**



Source: Central Bank of Sri Lanka

Chart 1.77 > **Growth in Remittances**



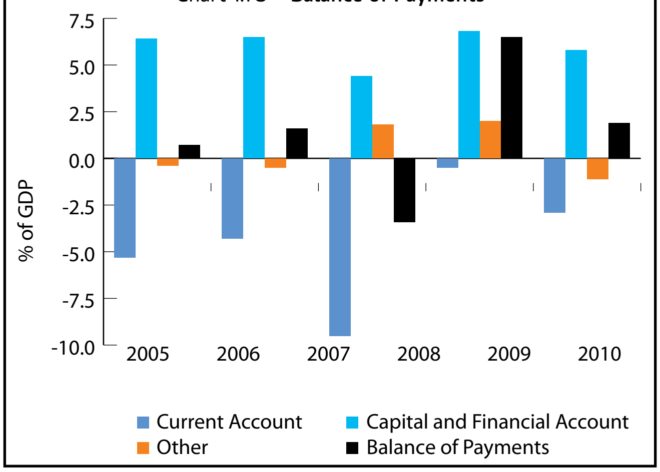
Source: Central Bank of Sri Lanka

sector have improved substantially during the period benefitting from low interest rates. The private long term capital out flows in net terms stood at USD 149 million during the period. Long term capital inflows to the private sector increased by 48.7 percent to USD 580 million in 2010 mainly due to increased investment in telecommunication, power and energy sectors. Long term official inflows in support of government infrastructure development initiatives increased from USD 1,780 million in 2009 to USD 2,460 million in 2010 while the government short term borrowings declined to USD 531 million. The gross foreign inflows to the Colombo Stock Exchange (CSE) increased to USD 819 million in 2010 compared to USD 375 million in 2009.

The mitigation of large trade deficit by enhanced overseas remuneration that made moderate deficit in the current account together with the short and long term capital inflows to the government as well as to the private sector generated a surplus in the balance of payments of USD 921 million in 2010 compared to USD 2,725 million in 2009.

The gross official reserves rose to USD 7,196 million at the end of 2010 compared to USD 5,357 million in 2009, while total reserves reached USD 8,621 million at the end of 2010 reflecting the improved foreign reserves balances in the banking system.

Chart 1.78 > **Balance of Payments**



Source: Central Bank of Sri Lanka

Table 1.74 > **Balance of Payments from 2006 to 2010**

Item	US$ Million				
	2006	2007	2008	2009	2010
Trade Balance	**-3,370**	**-3,657**	**-5,981**	**-3,122**	**-5,205**
Exports	6,883	7,640	8,111	7,085	8,307
Imports	10,253	11,296	14,091	10,207	13,512
Service (net)	**257**	**302**	**401**	**391**	**698**
Receipts	1,625	1,775	2,004	1,892	2,468
Payments	1,368	1,472	1,603	1,501	1,770
Income (net)	**-389**	**-358**	**-972**	**-488**	**-572**
Receipts	311	449	-32	116	323
Payments	700	807	940	603	895
Goods, Services and Income (net)	**-3,503**	**-3,712**	**-6,552**	**-3,219**	**-5,079**
Current Transfers (net)	**2,004**	**2,311**	**2,666**	**3,005**	**3,660**
Private Transfers(net)	1,904	2,214	2,565	2,927	3,608
Receipts (Employees' Remittances)	2161	2502	2918	3330	4116
Payments	257	288	353	403	508
Official Transfers (net)	101	97	101	77	52
Current Account	**-1,499**	**-1,402**	**-3,886**	**-214**	**-1,418**
Capital and Financial Account	**1,808**	**2,097**	**1,773**	**2,594**	**2,876**
Capital Account	**291**	**269**	**291**	**233**	**164**
Financial Account	**1,517**	**1,828**	**1,483**	**2,361**	**2,713**
Long Term	907	1,251	1,016	1,304	2,379
Direct Investment (net)	451	548	691	384	435
Private Long Term (net)	-35	31	74	79	149
Govt. Long Term (net)	491	672	252	840	1,796
Short Term	610	577	466	1,058	334
Allocation of SDRs	-	-	-	508	-
Errors and Omissions	-105	-165	728	346	-537
Overall Balance (Balance of Payments)	**204**	**531**	**-1,385**	**2,725**	**921**
Ratio to GDP in percentage					
Trade Deficit	-11.9	-11.3	-14.7	-7.4	-10.5
Current Account Deficit	-5.3	-4.3	-9.5	-0.5	-2.9

Source: Central Bank of Sri Lanka

Labour Force

Employment Creation

The unemployment rate in the country has declined continuously since 2005. It has reduced from 7.2 percent in 2005 to 4.9 percent in 2010. The total number unemployed was estimated at 401,000 in 2010, compared to 471,000 in the previous year.

According to the Department of Census and Statistics, the unemployment rate has reduced to it's lowest level at 4.4 percent in the fourth quarter of 2010 from 5.4 percent in the second quarter of 2010. Recovery of domestic economy, ongoing infrastructure development projects, re-constructions and resettlement programmes in the North and Eastern Provinces, the global economic recovery, creation of self-employment opportunities, increased agricultural activities and sectoral economic development of the country have generated a high level of employment opportunities in 2010.

It can be observed that there is a high level of female unemployment and low level of female labour force participation over the past years.

The unemployment rate continued to be high among youth even though it has reduced in 2010. This clearly suggests the necessity for urgent reforms in education and training to improve the employment of youth below 30 years of age.

The educated females' rate of unemployment is higher than educated male unemployment rate. This feature can be observed over the past years.

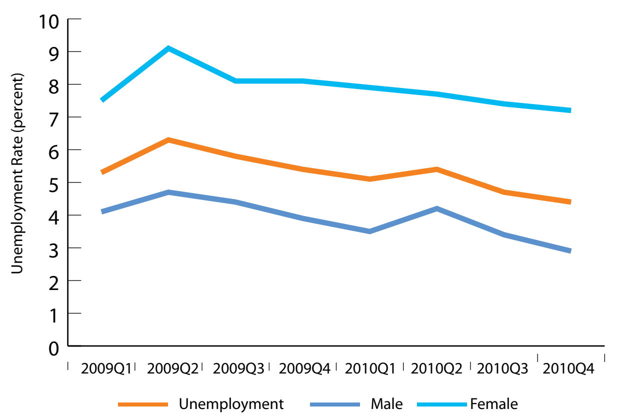
Of the total employed population, 43 percent, which is about 3.1 million, engage in the services sector while 32 percent engage in the agriculture sector. The industrial sector employs 25 percent of the employed population.

Table 1.75 > **Vital Statistics - 2010**

Population	**20,652,874**
Male	10,403,698
Female	10,249,176
Labour Force	8,107,739
Male	5,317,553
Female	2,790,186
Labour Force Participation Rate	48.1
Male	67.1
Female	31.2
Unemployment Rate	4.9
Male	3.5
Female	7.7
Dependency Ratio	46.6
Male	48.7
Female	44.8

Source: Department of Census & Statistics

Chart 1.79 > **Trends in Unemployment 2009-2010**



Source: Department of Census & Statistics

With expected high growth and development in the tourism, IT / BPO at service industries, the industry would contribute to the generation of direct and indirect employment opportunities in future. Expansion of the Manufacturing sector and ommercial agriculture sector also created new employment opportunities. Notable increase in self-employment opportunities are expected to reduce unemployment. In order to minimize youth unemployment rate it is necessary to promote demand driven skills development at all levels of education. The lower level of female labour force participation should be addressed because it can address the short supply of labour in the long run.

Table 1.76 > **Unemployment – 2010 (%)**

Age Group (Years)	Total	Gender	
		Male	Female
14-25	18.4	14.7	24.6
26-35	5.5	2.9	10.8
36-60	1.3	1.0	1.8

Source: Department of Census & Statistics

Table 1.78 > **Unemployment Among Youth**

Age(Years)	2005	2006	2007	2008	2009	2010
20-24 (%)	24.6	21.0	21.1	18.1	21.4	19.1
25-29(%)	9.5	11.0	9.4	9.5	10.3	9.2
20-29(%)	17.2	15.9	15.0	13.7	15.4	13.8

Source: Department of Census & Statistics

Table 1.77 > **Labour Force Participation 2006-2010 (%)**

	Male	Female	Total
2005	67.1	30.9	48.3
2006	68.1	35.7	51.2
2007	67.8	33.4	49.8
2008	67.8	33.2	49.5
2009	66.6	32.8	48.7
2010	67.1	31.2	48.1

Source: Department of Census & Statistics

Table 1.79 > **Unemployment and Education Levels by Sex**

Category	2008		2009		2010	
	M	F	M	F	M	F
Unemployment (%)	3.6	8.0	4.3	8.2	3.5	7.5
G.C.E. (A/L) & above (%)	5.6	14.4	6.6	15.1	7.5	15.6

Source: Department of Census & Statistics

Labour Productivity

Healthy baseline of labour force has been sustaining increment of overall labour productivity. Labour productivity measured in terms of GDP per worker increased by 6.6 percent in 2010 over the previous year, to Rs. 343,000 per worker.

Table 1.80 > **Labour Productivity by Economic Sectors**

	Labour Productivity Rs.'000	Agriculture	Industry	Service
2005	286.0	117.5	305.5	392.3
2006	294.2	112.4	312.3	424.6
2007	317.0	120.6	339.0	449.0
2008	309.3	114.8	335.6	446.1
2009	322.2	119.2	367.1	451.8
2010	343.3	125.3	407.2	472.8
Growth rate (%) 2005-2010	20.0	6.6	33.3	20.5

Wages

In 2010, the annual average nominal wages of public servants registered an increase of 3.3 percent, as a result of the adjustment in the cost of living allowance in 2009.

The minimum wage rate indices in the major categories of the formal private sector which are Agriculture, Industry and Services increased in nominal terms by 41.6 percent, 7.1 percent, and 8.2 percent respectively, in 2010. Wages in the informal Agriculture and Construction sectors have increased by 9.1 percent and 7.3 percent respectively, in 2010 against 2009.

Table 1.83 > **Minimum Wages of the Government Service 2005 - 2010**

Year	Rs.
2005	7900
2006 - 2010	11730

Table 1.81 > **Increment of Cost of Living Allowance for the Government Service - 2006-2010**

Year	Rs.
2006	1000
2007	1375
2008	2500
2009	4500
2010	5250

Source: Ministry of Finance & Planning

Table 1.82 > **Nominal Wage Rate Index**

Category	Nominal Wage Rate Index					
	2005	2006	2007	2008	2009	2010
Government	2417.5	3150.8	3828.4	4,116.1	4,502.8	4,651
Workers in Wages Boards Trades						
All	1329.7	1358.2	1648.8	2070.4	2171.4	2865.3
Agriculture	1527.4	1567.1	1821.4	2286.6	2349.4	3327.6
Industry	1078.4	1090.7	1522.4	1877.5	2054.0	2198.9
Service	779.7	777.9	1057.1	1370.8	1545.8	1673.3

Source: Department of Census & Statistics

Table 1.84 > **Minimum Daily Wages by Sector**

Year	Sector				
	Tea	Rubber	Coconut	Building Trade	
				Skilled Labour	Unskilled Labour
2005	195.50	197.50	151.25	190.00	167.00
2006	203.00	205.50	151.25	190.00	167.00
2007	260.00	260.00	206.75	223.00	200.00
2008	290.00	290.00	250.00	223.00	200.00
2009	290.00	290.00	250.00	315.00	270.00
2010	405.00	405.00	310.00	380.00	325.00
Change (%) 2005-2010	207.16	205.06	204.95	200	194.6

Source: Department of Labour

Labour Standards

In order to enter into the path towards development and to overcome a range of labour issues the government has introduced several National polices on the labour sector such as National Productivity Policy, National Policy of Sri Lanka on Gender, and National Policy for Decent Work of Sri Lanka.

Further, special achievements include, inter alia, revision of legislation related to the field of labour opportunity, generation of vocational safety under the theme of “Accident -Free Work Place” taking steps to introduce legislation to safeguard the health and welfare of the working people, establishment of the National Institute of Labour Studies for activities related to training, research and development.

02

FISCAL DEVELOPMENT

Overview

The fiscal performance in 2010 recorded an overall budget deficit of 8.0 percent of GDP compared to the high deficit of 9.9 percent in 2009. This reflected a success in the efforts made by the government to strengthen fiscal consolidation. This performance was also supported by the recovery of domestic economic activities in an extremely peaceful environment in the country, following the successful completion of the humanitarian operation to liberate Northern people from LTTE terrorist insurgency in May 2009. The continuation of global economic recovery, which had begun in the second half of 2009 and strong recovery in external trade too contributed to the favourable outlook in 2010.

The scope for the introduction of a full year budget before the commencement of the fiscal year 2010 was limited due to the holding of the Presidential Election in January 2010 and the General Election in April 2010. Accordingly, fiscal operations during the first four months were conducted under a Vote on Account approved by the Parliament in November 2009 and the next three months were under a Presidential Direction under the section 3 of Article 150 of the Constitution of the Republic. The complete budget for the financial year 2010, incorporating the previous provisions in the 2010 Vote on Account and the 2010 Presidential Direction, was approved in Parliament in July 2010[1].

Number of measures were introduced during the year aiming at rationalizing the tax system and supporting the domestic economic activity. The lowering of the tariff structure to a four band system was a significant change introduced in June 2010. In line with this, Customs Duty was exempted on import of plant and machinery, and raw materials while that of certain raw materials was reduced. The surcharge of 15 percent on customs duty payable on imported goods was also removed and the excise duty on motor vehicles was reduced by about 50 percent thereby rectifying a long felt need in relation to the taxation of imported motor vehicles. Concessions on excise duty were also granted on certain other items while the cess rates applicable on certain items were revised. In addition, the Special Commodity Levy (SCL) was revised upwards considering the decline in international market prices of several items as well as improvement in domestic supply from time to time to support the domestic agriculture. The excise duty on cigarettes was increased in June, October and November 2010 while that on liquor was increased in November 2010. Meanwhile, excise duty on LP gas and import duty on diesel was removed completely during the latter part of 2010 to mitigate the impact of rising international prices.

Revenue

Total revenue of the government in 2010, grew by 16.8 percent to Rs. 817 billion, in comparison to the budgetary target of Rs. 817 billion. As a percentage of GDP, total revenue increased marginally to 14.6 percent in 2010 from 14.5 percent as in the previous year. The revenue from Value Added Tax (VAT) and excise duties increased to 3.9 percent and 2.3 percent of GDP, respectively. The revenue from import duties however declined to 1.1 percent of GDP reflecting the downward revisions in customs tariff on various items, including petrol, diesel and wheat grain.

Recurrent Expenditure

Government continued its commitment to rationalize recurrent expenditure in 2010. As a result, the recurrent expenditure increased only by 6.5 percent to Rs. 937 billion over that of 2009. However, as a percentage of GDP, recurrent expenditure declined significantly to 16.7 percent from 18.2 percent in the previous year. Interest payments, although increased in nominal terms to Rs. 353 billion from Rs. 310 billion in 2009, as a percentage of GDP, it declined marginally to 6.3 percent. However, domestic interest payments declined considerably to 5.3 percent of GDP reflecting a favourable impact of a low interest rate regime following the policy actions by the Central Bank to reduce interest rates in the midst of low inflation outlook. In addition, measures taken by the government to restructure the debt stock by shifting high cost domestic debt to low cost foreign debt also helped to achieve this improvement. Meanwhile, the interest cost on foreign debt increased by 55 percent due to the increase in foreign debt. Reflecting gradual shift towards a borrowing pattern of a middle-income country, the cost structure of the external debt shifted gradually from concessionary financing to market-based financing, particularly since 2007, as the country raised its first international sovereign bond of USD 500 million. Salaries and wages increased reflecting the increased cost of living allowance for public sector employees and the impact of the cost of the special payment of Rs. 1,000 per month for security personnel introduced in 2009. The pension bill was also increased

[1] The Vote on Account included estimates of Rs. 197.5 billion for recurrent expenditure (excluding interest payments) , Rs. 159 billion for capital expenditure and Rs. 6.2 billion for advance account operations. The total recurrent and capital expenditure provided under Presidential Direction was Rs156 billion and Rs. 137.2 billion, respectively for the period from 1st May to 31st July 2010. The amount provided for advance account operations was Rs. 5 billion.

by about 7 percent to Rs. 91 billion reflecting the full impact of around 21,000 retirees in 2009 and the partial impact of 16,366 new retirees in 2010. The decline in defence related procurement also helped the reduction of recurrent expenditure. Accordingly, the non interest recurrent expenditure declined to 10.4 percent in 2010 from 11.8 percent in 2009.

Public Investment

Public investment, which was at 6.4 percent of GDP in 2010, reflected the sustained effort to maintain such investment over 6 percent of GDP during the post 2005 period despite many challenges faced in fiscal management. Accordingly, both mega infrastructure development projects at national level and the development of infrastructure in the emerging regions were continued at a higher pace. This reflected a high level of commitment of the government in resolving infrastructure bottlenecks in the country to facilitate private sector investment to achieve a sustainable high economic growth and reduce economic disparity among the regions. The public investment programme included the development of roads, highways, bridges, ports, airports, irrigation, water supply & sanitation, power generation as well as rural infrastructure development projects giving priority to several access roads, electricity distribution network, community water supply and minor irrigations. In particular, the completion of the phase I of the Hambantota Port Development Project in November 2010, commissioning of the Norochcholai Coal Power Plant in March 2011, as well as the Southern Highway Project and 150 MW Upper Kothmale Hydro Power Plant Project which are to be commissioned in the middle of 2011, are important milestones in the public investment programme.

Budget Deficit

The budget deficit of Rs. 446 billion in 2010 was financed through both domestic and foreign funds. The important feature of the domestic financing front was the net repayment of Rs. 1.9 billion made by the government to the banking system compared to the net borrowing of Rs. 49 billion in 2009 from the banking system. This helped the banking system to accommodate the growing demand for credit from the private sector.

Government Debt

The government debt to GDP ratio resumed its declining trend in 2010 from the high level of 105.6 percent recorded in 2002 thereby correcting the aberration experienced in 2009. Accordingly, the debt to GDP ratio declined to 81.9 percent in 2010 reflecting both the containment of the budget deficit at 8 percent of GDP as well as the higher nominal growth in GDP. This was mainly reflected in the outstanding domestic debt, which declined to 45.8 percent of GDP from 49.8 percent in the previous year. Of the total domestic debt, about 76 percent was with medium to long term maturity periods. About 63 percent of the outstanding government foreign debt was on concessional terms and conditions.

Medium Term Direction

The government is committed to strengthen the fiscal consolidation process further in the medium term. As announced in the 2011 Budget speech and accompanied report under the Fiscal Management (Responsibility) Act (FMRA), the government is committed to restore deficit plans by reducing the deficit to 5 percent by 2012 through the generation of a revenue surplus. The budget 2011 includes far reaching tax policy reforms to improve the fiscal performance to strengthen the macroeconomic stability towards achieving a high and sustainable economic growth in the medium-term, based on the policies and strategies in the development policy framework of the government.

Tax Reforms in Budget 2011

Budget 2011, presented in November 2010, includes major reform initiatives to correct the long felt deficiencies in the country's tax system. The ongoing reforms have been designed to address the fundamental changes towards a simple and broad-based tax system. They are based on an extensive consultative process among the stakeholders and broad guidelines of the Presidential Commission on Taxation.

The tax reforms are being implemented with a comprehensive medium-term view of having a simple VAT/Nation Building Tax with a wider base; well-focused excise tax system; customs duties, Cess and Special Commodity Levy for local economy safeguards and consumer protection; simple personal income tax system comparable with the region; efficient tax administration process based on compliance promotion and targeted taxes to avoid complexities in VAT refunds. The new system also includes a committee for the interpretation of the laws at the Department of Inland Revenue, Independent Tax Appeal Commission headed by a retired Supreme Court Judge and an Investment Fund Account which is created by using the 8 percent savings from the VAT on financial services and 5 percent of the reduction of the maximum corporate income tax rate for the provision of medium to long-term loans for agriculture, industry and SME related activities.

Table 2.1 > **Summary of Government Fiscal Operations**

Rs.billion

	2006	2007	2008	2009	2010
Total Revenue and Grants	**507.9**	**595.6**	**686.5**	**725.6**	**834.2**
Total Revenue	**477.8**	**565.1**	**655.2**	**699.6**	**817.3**
Tax Revenue	**428.4**	**508.9**	**585.6**	**618.9**	**724.7**
Income Tax	80.5	107.2	126.5	139.6	135.6
Taxes on Goods and Services	289.3	328.6	356.2	352.0	485.0
Taxes on External Trade	58.6	73.2	102.9	127.4	104.1
Non Tax Revenue	**49.5**	**56.1**	**69.6**	**80.7**	**92.5**
Grants	30.1	30.5	31.2	25.9	16.9
Total Expenditure & Net Lending	**713.6**	**841.6**	**996.1**	**1,201.9**	**1,280.2**
Recurrent	**548.0**	**622.8**	**743.7**	**879.6**	**937.1**
Personnel Emoluments	175.0	214.2	239.1	271.2	300.6
Interest	150.8	182.7	212.5	309.7	352.6
Subsidies and Transfers	144.2	147.4	170.9	190.2	196.2
Other Goods and Services	78.0	78.5	121.2	108.5	87.7
Capital and Net Lending	**165.7**	**218.8**	**252.4**	**322.4**	**343.1**
Public Investment	177.4	229.3	263.9	330.4	356.5
Other	-11.8	-10.4	-11.4	-8.1	-13.4
Revenue Surplus(+) / Deficit (-)	**-70.1**	**-57.7**	**-88.5**	**-179.9**	**-119.8**
Budget Surplus(+) /Deficit(-)	**-205.7**	**-246.0**	**-309.6**	**-476.4**	**-446.0**
Total Financing	**205.7**	**246.0**	**309.6**	**476.4**	**446.0**
Net Foreign Financing	**41.9**	**63.8**	**12.9**	**83.9**	**194.9**
Gross Foreign Borrowings	87.9	144.1	80.4	194.1	270.0
Debt Repayment	46.0	64.1	54.8	110.3	75.1
Total Domestic Financing	**163.8**	**182.3**	**296.7**	**392.5**	**251.1**
Net Non Bank Financing	83.8	129.4	119.1	185.2	193.9
Foreign Owned TBills and Bonds	-	37.1	-17.6	146.9	48.9
Net Bank Borrowing	80.0	15.8	195.2	49.0	-1.9
Other	-	-	-	11.3	10.2
					As a % of GDP
Revenue and Grants	**17.3**	**16.6**	**15.6**	**15.0**	**14.9**
Revenue	**16.3**	**15.8**	**14.9**	**14.5**	**14.6**
Tax Revenue	14.6	14.2	13.3	12.8	12.9
Non Tax Revenue	1.7	1.6	1.6	1.7	1.7
Grants	1.0	0.9	0.7	0.5	0.3
Expenditure	**24.3**	**23.5**	**22.6**	**24.9**	**22.8**
Recurrent Expenditure	18.6	17.4	16.9	18.2	16.7
Public Investment	6.0	6.4	6.0	6.8	6.4
Revenue Surplus(+)/Deficit(-)	**-2.4**	**-1.6**	**-2.0**	**-3.7**	**-2.1**
Budget Surplus(+)/Deficit(-)	**-7.0**	**-6.9**	**-7.0**	**-9.9**	**-8.0**
Total Foreign Financing	**1.4**	**1.8**	**0.3**	**1.7**	**3.5**
Total Domestic Financing	**5.6**	**5.1**	**6.7**	**8.1**	**4.5**

Source: Department of Fiscal Policy

Government Revenue

Total revenue of the government increased by Rs. 118 billion to Rs. 817 billion in 2010 compared to Rs. 699 billion in 2009. The revenue growth of 16.8 percent in 2010 over the previous year helped to achieve the budgetary target of the year, which is a commendable performance supported by the increases in both tax and non tax revenue. Among the major taxes, the revenue from VAT and excise duties recorded increases while that from income tax and import duties declined during the year. Improvement in domestic economic activities and the improved performance in the imports helped to increase the revenue from VAT, although the tax concessions granted on certain items in the midst of rising international prices had a negative impact on the revenue from imports. Total revenue as a percent of GDP increased marginally to 14.6 percent from 14.5 percent in 2009 reflecting a turnaround in the declining trend observed in the recent years.

Income Tax

Total income tax revenue recorded a marginal decline of 2.8 percent to Rs. 135,623 million in 2010 compared to Rs. 139,558 million in 2009. This was mainly owing to the decline in the revenue from Withholding Tax (WHT) by 27.3 percent to Rs. 38,663 million in 2010 from Rs. 53,188 million in 2009. This is mainly attributable to the decline in yield rates on government securities coupled with depositors shifting their funds to investments in share market owing to the significant improvement in the activities of the Colombo Stock Exchange (CSE), marginal trading facility granted by banks to investors in the share market and the minimum tax effect on share trading. Meanwhile, the revenue from Economic Service Charge (ESC) recorded a considerable increase of 27 percent in 2010 benefitting from the removal of exemptions in certain sectors such as hotels, exporters and deemed exporters. An 8.5 percent growth in income tax revenue from the corporate and non-corporate sectors and a growth of 12.6 percent in PAYE tax also had a positive impact on the income tax performance. Agriculture, banking and finance, construction, importation, manufacturing and petroleum sectors are the highlighted sectors in income tax revenue collection. As a percentage of GDP, revenue from income taxes declined to 2.4 percent in 2010 from 2.9 percent in the previous year.

The revenue growth of 16.8 percent in 2010 over the previous year helped to achieve the budgetary target of the year, which is a commendable performance supported by the increases in both tax and non tax revenue.

Chart 2.1 > **Government Revenue**

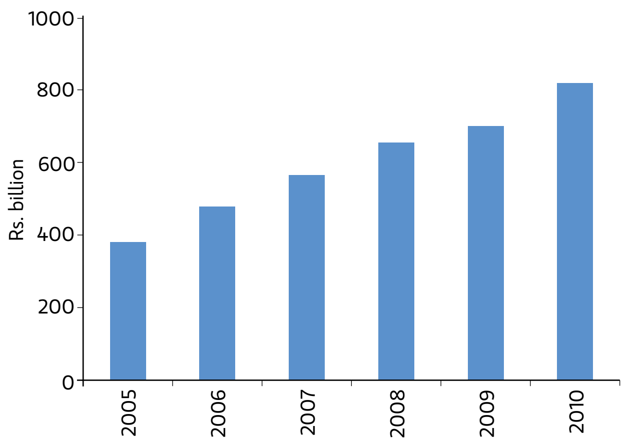
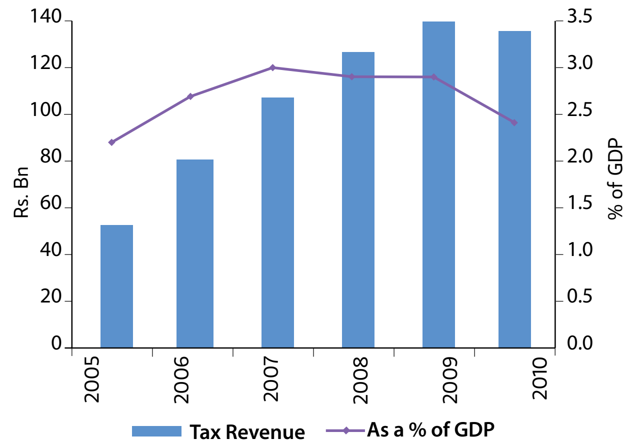


Chart 2.2 > **Income Tax Performance**



Value Added Tax (VAT)

The revenue from VAT on a net basis increased by 28 percent in 2010. The VAT revenue from domestic sector increased significantly reflecting the recovery of economic activities, particularly the trade and services sectors, while that of imports also increased, particularly due to the increased import of motor vehicles. During the year, while supporting the local industries to flourish, the government took steps to support the reconstruction and rebuilding of conflict affected areas and to facilitate large infrastructure development projects by way of granting exemption from the payment of VAT.

Chart 2.3 > **Performance of VAT: 2005 - 2010**

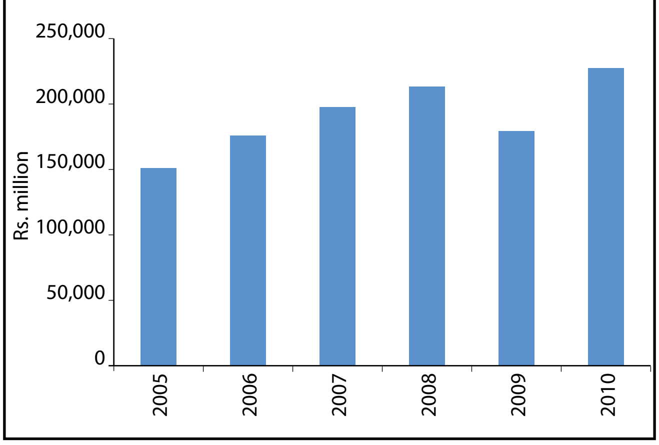


Table 2.2 > **Revenue from Value Added Tax**

Item	Amount (Rs. Mn)						Growth (%)	
	2005	2006	2007	2008	2009	2010	2009	2010
Domestic	67,756	82,620	95,738	112,616	105,486	128,618	-6.3	15.1
Imports	83,185	93,221	101,813	100,831	73,997	99,669	-26.6	47.1
Gross Revenue	**150,941**	**175,841**	**197,551**	**213,447**	**179,483**	**228,287**	**-15.9**	**27.2**
Refunds	12,281	11,174	9,957	9,801	7,973	8,724	-18.7	9.4
Net Revenue	**138,660**	**164,667**	**187,594**	**203,446**	**171,510**	**219,563**	**-15.8**	**28.0**
Net Revenue as a % of GDP	**5.7**	**5.6**	**5.2**	**4.6**	**3.6**	**3.9**		

Source: Department of Fiscal Policy

Excise Taxes

Total revenue collected from excise taxes in 2010 was Rs. 129,864 million compared to Rs. 97,604 million in 2009, which is a 33 percent increase. The main sources relating to generation of excise tax income are liquor, cigarettes & tobacco, petroleum and motor vehicles.

Hard liquor production recorded a 25 percent increase over 2009 and helped to realize Rs. 31,490 million as excise duties. Similarly, excise tax revenue on soft liquor also increased by 40 percent to Rs. 4,926 million compared to 2009. The increase of sales in the

Table 2.3 > **Excise Tax Performance**

Item	Rs. Mn					Growth (%)	
	2006	2007	2008	2009	2010 (Pro.)	2009	2010
Liquor	20,662	23,723	27,434	28,525	36,654	4.0	28.5
Cigarettes/ Tobacco	30,099	31,447	37,288	37,601	40,675	0.8	8.2
Motor Vehicles	20,731	17,415	11,067	3,192	21,199	-71.2	564.3
Petroleum & other	21,353	24,099	25,181	28,286	31,336	12.3	10.8
Total	**92,845**	**96,684**	**100,970**	**97,604**	**129,864**	**-3.3**	**33.0**

Source: Department of Excise

Chart 2.4 > **Liquor Production**

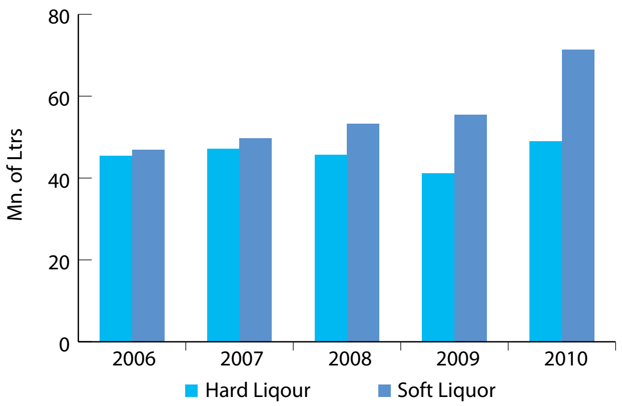


Chart 2.5 > **Tax Revenue on Liquor**

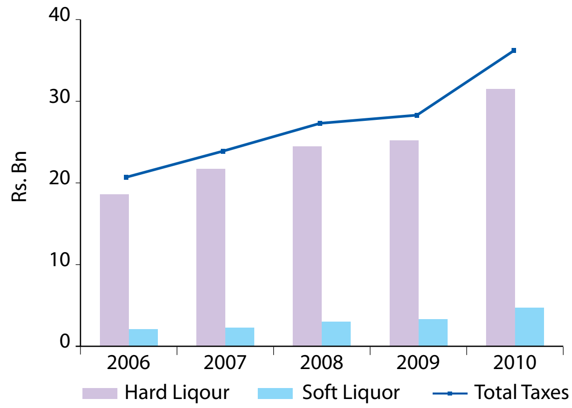
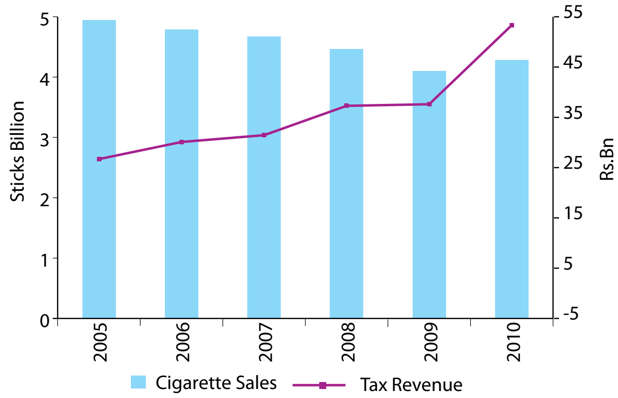


Chart 2.6 > **Cigarette Sales & Tax Revenue**



Northern and Eastern provinces due to the establishment of law and order in those areas was the main reason for the increase in the revenue from excise duty on liquor.

Excise tax generated from cigarettes was Rs. 40,643 million in 2010, an increase of 8.1 percent over that of 2009. The main reasons behind this increase were opening up of new markets in Northern and Eastern provinces and the three rate revisions in June, October and November 2010.

The excise tax on the import of vehicles increased significantly to Rs. 21,199 million in 2010 from Rs. 3,191 million in 2009. The main factor attributable to this higher growth was the duty reduction applicable on motor vehicles in June 2010 and the subsequent surge of importation of motor vehicles. Meanwhile, in comparison to 2009, the excise revenue from petroleum and other sources increased by 10.8 percent to Rs. 31,336 million in 2010 mainly owing to increase in the volume of petroleum product imports.

Table 2.4 > **Production and Excise Tax Collection from Cigarettes**

Year	Quantity Produced		Excise Tax Revenue	
	Million Sticks	% Change	Amount (Rs. Mn)	% Change
2006	4,791		30,099	
2007	4,670	-2.5	31,447	4.5
2008	4,467	-4.4	37,288	18.6
2009	4,101	-8.2	37,581	0.8
2010	4,286	4.5	40,643	8.1

Source: Department of Sri Lanka Customs

Import Duty

The revenue from import duty declined by 19 percent to Rs. 64,165 million in 2010 compared to the previous year although the value of total imports (in rupee terms) increased by 30 percent reflecting the gradual recovery of domestic economic activities. The decline was mainly attributable to the revisions introduced to the import duty structure during the year.

In 2010, the duty structure was simplified to have a three band tariff structure with 30, 15 and 5 percent rates. However, a few tariff lines were continued at higher duty rates for revenue purposes and also certain tariff lines were kept at specific (unit) rates mainly to address undervaluation issues. The tariff structure is reflected in Table 2.6.

In this process, the import duty was either removed or reduced on various items, including the raw materials used in many sectors as well as the importation of machinery and equipment to support domestic economic activity. In addition, the removal of the 15 percent surcharge applicable on imports in mid 2010 and the duty waivers granted on petrol

Table 2.5 > **Motor Vehicle Imports**

Description	Unit		
	2008	**2009**	**2010**
Tractors	28,175	12,874	18,077
Passenger Vans and Buses	1,115	649	2,766
Motor Cars (including Ambulances, Hearses etc.)	19,253	1,852	26,745
Three Wheelers	42,687	30,259	91,658
Motor Vehicles for Transtort of Goods (including dual purpose & Cabs Etc.)	13,953	5,736	21,204
Other	671	210	277
Total	**105,854**	**51,580**	**160,727**

Source: Department of Sri Lanka Customs

Table 2.6 > **Tariff Structure (As at 31.12.2010)**

Duty Rate	No. of Tariff Lines (8 digits level)
Free	2,967
5%	415
15%	1,516
30%	1,327
75%	04
100%	05
Specific	60
Specific & Advelorum	193
Total	**6,487**

Source: Department of Sri Lanka Customs

Table 2.7 > **Coverage of Products and Trade Volume under Free Trade Agreements -2010**

Trade Agreement	No.of tariff lines subjected to preferential rate/duty free (HS Code at 8 digits level)	Export Value (Rs. Mn)	Import (CIF) Value (Rs. Mn)
1. Indo-Sri Lanka Free Trade Agreement (ISFTA)	4,554	7,344	149,155
2. Pakistan - Sri Lanka Free Trade Agreement (PSFTA)	5,305	216	9,561
3. South Asia Free Trade Agreement (SAFTA)	4,744	13	1,655
4. Asia Pacific Trade Agreement (APTA)	561	164	1,035
5. Other Agreements			
a. Global System of Trade Preference (GSTP)	99	34,798	4,915
b. South Asian Association for Regional Cooperation (SAARC)	06		117

Source: Department of Sri Lanka Customs and diesel as well as the reduction of import duty applicable on milk powder imports in the wake of the higher international prices also contributed for the lower revenue from import duty. These measures however, were helpful in stabilizing domestic prices of such items.

Meanwhile, efforts were continued to be an effective partner in the global trading community, by ensuring implementation of commitments, particularly the regional Free Trade Agreements and taking part at the negotiations of WTO Agreements. The coverage of products and trade volumes under major Free Trade Agreements, which has also resulted in a revenue reduction, is given in Table 2.7.

Special Commodity Levy (SCL), the single composite levy introduced in lieu of all other taxes, was continued on selected essential commodities in order to protect the domestic agriculture while addressing the cost of living concerns due to price fluctuations in the international market. During 2010, this levy was reviewed periodically and enforced on sprats, potatoes, B'onions, red onions, garlic, peas, chick peas, green gram, lentils, dried chillies, sugar and canned fish. In particular, the SCL on big onions and potatoes was reduced during the latter part of the year providing concessions to domestic consumers. The revenue from SCL in 2010 declined by 46 percent to Rs. 10,173 million when compared with 2009 due to these reasons.

Other Taxes

The Nation Building Tax (NBT), which was introduced in 2009, generated Rs. 46,022 million in 2010 indicating an increase of 69.2 percent over the previous year. The NBT collected on imports recorded a 71.1 percent growth in 2010 while the NBT collected on domestic activities also increased by 66.5 percent over 2009. The increased imports coupled with the increased turnover of the manufacturing and services sector mainly contributed for this increase. During the year, with a view to encouraging electricity generation projects, the government granted exemption on NBT for importation of machinery and equipment by Ceylon Electricity Board (CEB) or any other agency entering into agreement with the CEB for electricity generation and supplying to the national grid.

The Ports and Airports Development Levy (PAL) recorded a 37 percent growth in 2010 generating Rs. 49,632 million mainly due to the increase in imports. The government continued to grant a lower rate of 2 percent on PAL for raw materials used for pharmaceuticals and certain machinery, including machines for preparing textile fibers and weaving machines (Looms).

The Cess, that was introduced in 2005 with a view to reduce the adverse competition on domestic value-added products as well as to control the importation of non essential products into the country, generated a total revenue of Rs. 29,752 million recording a 4.3 percent increase over the previous year. A higher amount of Cess revenue was generated from items such as plastics, cement, tiles, porcelain products, and wines in 2010. During the year, in order to protect the domestic industry, the government increased the Cess on certain imported products such as cosmetic products.

Non-Tax Revenue

Non tax revenue of the government increased by 14.6 percent to Rs. 92,532 million in 2010 compared to Rs. 80,712 million in 2009. This was mainly contributed by the profit transfers from surplus funds in government establishments reflecting a 161 percent growth to Rs. 26,315 million in 2010 from Rs.9,768 million in 2009. In addition, a levy of Rs. 10 billion on Telecommunication Regulatory Commission (TRC) also had a positive impact on the non-tax revenue. Meanwhile, the interest income from government lending to state enterprises declined further to Rs. 8,017 million from Rs. 9,043 million. Furthermore, the fees and charges stood at Rs. 22,925 million in 2010 reflecting a 9.7 percent decline against Rs. 25,387 million recorded in 2009.

Non tax revenue of the government increased by 14.6 percent to Rs. 92,532 million in 2010 compared to Rs. 80,712 million in 2009.

Table 2.8 > **Summary of Government Revenue**

Rs. Mn

	2006	2007	2008	2009	2010
Tax Revenue	**428,378**	**508,947**	**585,621**	**618,933**	**724,747**
Income Tax	**80,483**	**107,169**	**126,541**	**139,558**	**135,623**
Personal & Corporate	50,965	59,659	68,234	72,163	78,913
Economic Service Charge	8,853	12,203	14,476	14,207	18,048
Interest Income	20,665	35,307	43,831	53,188	38,662
Tax on Goods & Services	**289,342**	**328,604**	**356,161**	**352,330**	**485,035**
VAT	**164,667**	**187,594**	**203,646**	**171,510**	**219,990**
Manufacturing	22,609	23,126	24,319	28,613	32,106
Non Manufacturing	40,822	51,848	53,471	54,335	58,480
Imports	92,471	101,501	100,831	67,619	99,578
VAT on Banking & Financing	8,766	11,119	25,025	20,943	29,826
Excise Tax	**92,845**	**96,684**	**100,970**	**97,604**	**129,864**
Liquor	20,662	23,723	27,434	28,525	36,654
Tobacco/Cigarettes	30,099	31,447	37,288	37,601	40,675
Motor Vehicles	20,731	17,415	11,067	3,192	21,199
Petroleum & Other	21,353	24,099	25,181	28,286	31,336
Other Taxes & Levies	**31,830**	**44,326**	**51,546**	**83,217**	**135,181**
Stamp Duty	1,516	4,026	3,751	3,328	4,439
License Fees/Motor Vehicles & Other	2,933	6,413	8,368	8,362	24,245
Debit Tax	6,255	7,187	8,410	8,036	10,843
Ports & Airports Development Levy	21,126	26,700	31,017	36,286	49,632
Nation Building Tax	-	-	-	27,205	46,022
Tax on External Trade	**58,553**	**73,174**	**102,919**	**127,044**	**104,090**
Imports	52,681	56,017	63,844	79,559	64,165
Cess	5,872	17,157	24,472	28,520	29,752
Special Commodity Levy	-	-	14,603	18,965	10,173
Non Tax Revenue	**49,456**	**56,104**	**69,639**	**80,712**	**92,532**
Property Income	**19,066**	**22,633**	**26,720**	**42,450**	**56,366**
CBSL Profit	-	4,000	8,000	20,000	15,000
Interest	10,321	9,242	9,305	9,043	8,017
Profit & Dividends	7,451	7,682	7,365	11,982	31,301
Rent	1,294	1,709	2,050	1,425	2,048
Social Security Contribution	6,470	8,777	9,791	11,165	11,120
Fines, Fees, Sales and Charges & Other	23,920	24,694	33,128	27,096	25,047
Total Revenue	**477,834**	**565,051**	**655,259**	**699,644**	**817,280**

Source: Department of Fiscal Policy

Table 2.9 > **Variance Analysis of Government Revenue**

Item	2010 Budget Rs. Mn	2010 Actual Rs. Mn	Remarks
Income Tax	160,344	135,623	The decline of the share of withholding tax on interest income arising from the drop in yield rates on government securities. ESC exemption granted to certain exports and domestic factories coupled with exemption granted to TRC since 2009 caused a further negative impact in income taxes. Restriction of increments, increased labour turnover were negatively affected to the performance of PAYE tax.
VAT	206,730	219,990	Revival of manufacturing and services sectors, revitalization of domestic trade activities and tourism sector in the post-conflict environment, increase in the collection of VAT on imports particularly due to the increase in motor vehicle imports as a result of reduction of import duties on vehicle importation w.e.f. 01.06.2010, declined amount of VAT refunds due to efficient monitoring measures taken by the IRD and revenue boom of sub contractors in construction industry due to expansion of the economic activities are the major contributors.
Excise Tax	120,768	129,864	Upward rate revision of all categories of cigarettes and liquor contributed positively for the excise tax collection. Increased imports due to lashing of high excise duties applied on motor vehicles and increased demand for petroleum products with the opening up of new markets in North and East also contributed.
Import Duty	85,107	64,165	The granting of customs duty waiver on petrol and diesel effective throughout the year and duty waiver on wheat grain during the 1st half of the year, reduction of taxes on milk powder, the removal of the import duty surcharge and increase of the number of goods imported under duty free or nominal duty status with the coverage of free trade agreements.
Special Commodity Levy	24,889	10,173	The removal of the Special Commodity Levy on rice during the first quarter of the year and reduction in tax rates on dhal, sugar, B' onion and Potato etc during the year were attributable to this decline.
Ports and Airports Development Levy	42,012	49,632	Increase in the value of imports.
Nation Building Tax	30,212	46,022	Impact of the upward revision of the NBT rate to 3 percent in May 2009, imposition of NBT on telecommunication services, revival of the economy and the significant increase in the imports helped achieve this improvement.
Other Taxes	63,002	69,279	Improvement of domestic economic activities and more lending in the banking sector improved the revenue from debit tax while the revival of the construction and related services had a positive impact on mortgages resulting in an increase in stamp duties. Revenue collection from Cess declined mainly due to the removal of the Cess on selected imports and the reduction in the Cess on imports of raw materials for the construction sector, including cement.
Non Tax Revenue	84,722	92,532	Profit transfers of state banks, transferring surplus funds from government institutions and levy of Rs.10 billion on TRC were attributable for this increase. However, interest income declined due to the low interest rates that prevailed in 2010.

Government Expenditure

Total government expenditure in 2010 amounted to Rs. 1,280,205 million, an increase of about 6.5 percent over the previous year. As in the previous years, the government expenditure was directed towards continuing areas vital in maintaining social standards of the country and continuing much needed investments to spur economic growth in the medium to long run. Accordingly, the recurrent expenditure increased moderately by 6.5 percent to Rs. 937,094 million in 2010. However, as a percentage of GDP, recurrent expenditure declined significantly to 16.7 percent from 18.2 percent in 2009 reflecting the efforts to rationalize recurrent expenditure. Meanwhile, government was able to maintain public investment at 6.4 percent of GDP reflecting its commitment to resolve infrastructure bottlenecks in the country, particularly by continuing the momentum gained in respect of key national infrastructure development projects while implementing regional and rural infrastructure development projects as well.

Recurrent Expenditure

In 2010, although the total recurrent expenditure increased, the recurrent expenditure excluding interest payment and salaries & wages in nominal terms declined by 5 percent. This complemented the government efforts in rationalizing the recurrent expenditure.

Interest Cost: The interest expenditure, the largest single expenditure item in the recurrent budget, was Rs. 352,592 million, recording an increase of 14 percent over the last year and accounted for 38 percent of the total recurrent expenditure. However, interest expenditure as a percent of GDP declined to 6.3 percent from 6.4 percent in 2009. More importantly, the domestic interest payments, which were increased by 8.4 percent in nominal terms, declined significantly to 5.3 percent of GDP due to the favourable impact of low interest rate regime following the policy actions taken by the Central Bank to reduce interest rate in the midst of low inflation outlook. This was also supported by measures to restructure the debt stock by shifting high cost domestic debt to low cost foreign debt. However, the spillover effect of the enhanced borrowings from the domestic sources, particularly in the latter part of 2009 to provide rupee funds needed for capital and other expenditure in the midst of significant revenue shortfalls, had a negative impact on the interest cost in 2010. Meanwhile, the interest cost on foreign debt increased by 55 percent due to the increase in foreign debt and reflecting a movement towards a middle-income country borrowing pattern. Meanwhile, the non interest recurrent expenditure as a percent of GDP, declined to 10.4 percent from 11.8 percent in 2009.

Salaries and Wages: The expenditure on salaries and wages was Rs. 300,558 million and accounted for 32 percent of the recurrent expenditure as the second largest single item in the recurrent budget while absorbing 37 percent of the total revenue in 2010. This includes the expenditure on providing such

Chart 2.7 > **Composition of Recurrent Expenditure 2010**

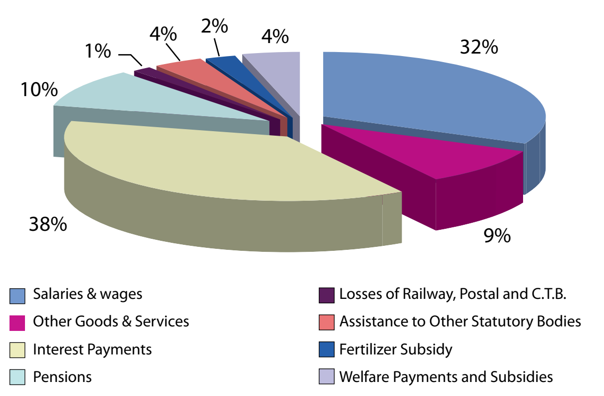


Chart 2.8 > **Salaries and Wages: 2005-2010**

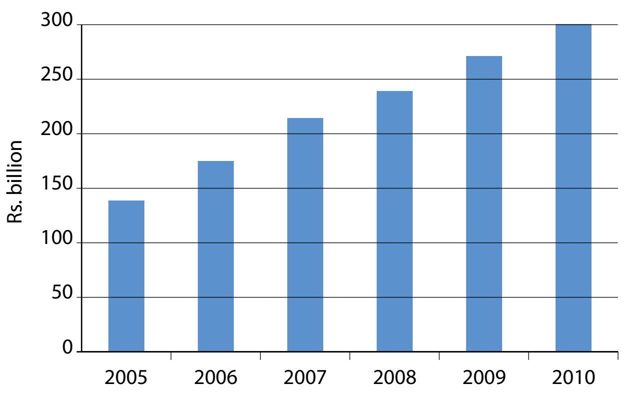


Table 2.10 > **Recurrent Expenditure: 2006 - 2010[a]**

Rs. million

Item	2006	2007	2008	2009	2010
Recurrent expenditure	**547,960**	**622,758**	**743,710**	**879,576**	**937,094**
Salaries & Wages	175,031	214,160	239,078	271,229	300,558
Other Goods & Services	77,994	78,472	121,250	108,502	87,728
Interest Payments	150,778	182,681	212,474	309,676	352,592
Foreign	16,990	21,311	24,208	35,698	55,464
Domestic	133,787	161,370	188,266	273,978	297,127
Pensions	58,006	68,822	74,922	85,139	90,995
Losses of Railway, Postal and SLTB	11,767	10,137	12,157	11,078	11,434
Assistance to Other Statutory Bodies	27,376	26,248	27,192	30,097	33,312
Fertilizer Subsidy	11,867	11,000	26,450	26,935	26,028
Welfare Payments and Subsidies	35,141	31,238	30,186	36,920	34,447
					As a % of GDP
Total Recurrent Expenditure	**18.6**	**17.4**	**16.9**	**18.2**	**16.7**
Salaries & Wages	6.2	6.0	5.4	5.6	5.4
Other Goods & Services	2.7	2.2	2.7	2.2	1.6
Interest Payments	5.1	5.1	4.8	6.4	6.3
Pensions	1.9	1.9	1.7	1.8	1.6
Losses of Enterprises	0.4	0.3	0.3	0.2	0.2
Assistance to Other Statutory Bodies	0.9	0.7	0.6	0.6	0.6

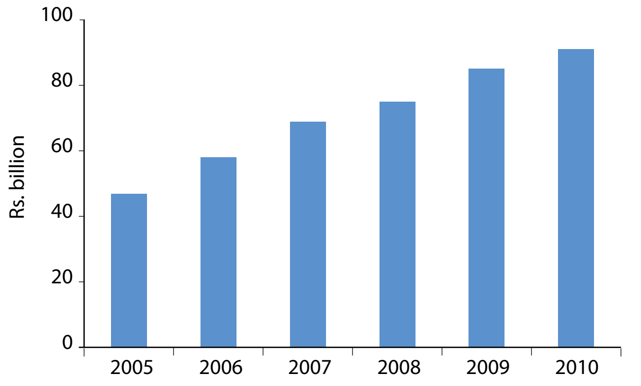
Source: Department of National Budget and Central Bank of Sri Lanka
(a) Figures as per Economic Classification

services as education, health, national security and other essential public services. The 10.8 percent increase in salaries and wages in 2010 reflected the increased cost of living allowance (COLA) for public sector employees and the impact of the cost of the special payment of Rs. 1,000 per month for security personnel introduced in 2009.

However, as a percentage of GDP, salaries and wages declined to 5.4 percent from 5.6 percent in 2009. The wage bill of the central government, including defence, public order and civil security, in 2010 was Rs. 218,671 million while the Provincial Council (PC) salaries amounted to Rs. 81,887 million.

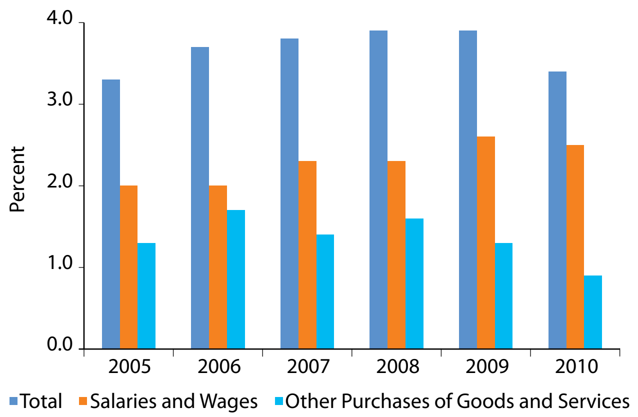
Pension Payments: The pension bill also increased by about 7 percent to Rs. 90,995 million in 2010. This reflected the full impact of around 21,000 retirees in 2009 and the partial impact of 16,366 new retirees in 2010 and increase of the existing COLA by Rs. 375.

Chart 2.9 > **Pension Payments: 2005-2010**



Defence Expenditure: The expenditure on defence and public security (Rs. 190,603 million) declined considerably to 3.4 percent of GDP in 2010 from 3.9 percent in 2009. The sharp decline in the expenditure on goods and services (excluding salaries and wages) of the defence services as a result of the declined purchases of military hardware due to the peaceful environment that prevailed in the country was the main reason for this improvement.

Chart 2.10 > **Defence Expenditure: 2005-2010 (% of GDP)**



Welfare & Social Safety Nets[1]

Social welfare & safety net programmes were continued in 2010 showing the country's distinctive commitment to promoting equitable growth further while ensuring the accomplishments in the area of social policy that surpassed many developing countries.

School Children: The country is well on the way to achieve Millennium Development Goals (MDGs) even before 2015, particularly on education by achieving universal primary education and promoting gender equality in primary and secondary education. Several programmes such as distribution of school uniforms, providing a nutritious breakfast to students of underprivileged schools and free text books programmes were carried out targeting the school going population of 5-18 ages which is about 21 percent of the population. In particular, the free textbooks programme was continued with the objective of ensuring availability of textbooks to all 4,178,548 students spread in 9,704 government schools, 75 private schools, 25 specialized schools and 722 Pirivenas. In 2010, 37 million school textbooks under 433 categories, published in three languages have been distributed. School uniforms programme benefitted 3.9 million school children in 2010. In 2010 about 77,800 students were granted scholarships and bursaries amounting to Rs. 280 million. Meanwhile, about 1,117, 219 children in 7,605 schools received mid-day meals. Altogether, the government has spent about Rs. 7,065 million in 2010 on these programmes which are aimed at the welfare of school children.

Maternal & Child Nutrition: Of the total population in 2010, infants account for 1.6 percent and children under 4 years account for 7.2 percent. To address the nutritional status of the child population, Infant Milk Subsidy Programme; the Poshana Malla and Thriposha Programme have been carried out. The government

[1] *See Chapter 1 of this publication for detailed information*

has spent Rs. 1,253 million on these two programmes in 2010. The main objective of the Thriposha programme is to reduce the incidents of low birth weight among children under 5 years of age. The target group is pregnant mothers, infants of age 6-12 months and children of 12-59 months. About 780,000 beneficiaries out of which about two third were children aged 6-59 months, are entitled to a packet of 750g of Thriposha as a daily food supplement once in every two weeks. Under the *Poshana Malla* programme, a basket of food worth Rs. 500, consisting of essential items, is distributed monthly among the most needy pregnant mothers.

Samurdhi Relief: The number of Samurdhi beneficiaries in 2010 was about 1.5 million families representing about 33 percent of the total population. Government spent Rs. 9,241 million to provide Samurdhi relief for them in 2010. Under this programme, Samurdhi beneficiary families were entitled to;

- A monthly allowance of Rs. 250 – 1,500 per family depending on the number of members in a family
- A loan of Rs. 250,000 with the interest rate of 12% with group guarantee
- A nutrition pack worth Rs. 500 per month in the case where an expectant mother lives in the family (about 72,000 expectant mothers received this facility in 2010)
- Pipe borne water supply and electricity connections at a subsidized rate

Hospital Medicine: Sri Lanka has been able to achieve significant progress in health related indicators as a result of the long standing efforts made to fulfill the healthcare needs of the people. In 2010, the government spent Rs.13,551 million on medical supplies to hospitals in the forms of vaccine, gauze, expensive drugs for cancer and other diseases, and other medical supplies for the benefit of about 45 million outpatients and about 4.19 million inpatients. Furthermore, pharmaceutical raw materials have been exempted from taxes to make pharmaceutical drugs available at lesser prices in the market.

Transfers to State Enterprises

Transfers to cover the operational losses of the Sri Lanka Railways (SLR), Sri Lanka Transport Board (SLTB) and Department of Posts (DOP) amounted to Rs. 11,434 million in 2010.

The operational losses of SLR declined in 2010 to Rs. 3,173 million from Rs. 4,988 million in 2009 due to the decline in operating expenditure in 2010. However, the operating losses of SLTB increased to Rs. 5,508 million from Rs. 3,541 million in the previous year. Meanwhile, the DOP incurred operational loss of Rs. 2,753 million in 2010.

The loss making nature of the state enterprises highlights the necessity of introducing appropriate measures to improve their financial position to lower the burden on the government budget. The rationalization of fares, diversification of services to suit the emerging needs and trends in the economy and improving operational efficiency are some of the areas to be attended in achieving this objective.

Fertilizer Subsidy

The provision of fertilizer at a subsidized price, particularly targeting small scale paddy farmers, continued in 2010. Under this, all varieties of fertilizer were provided to paddy farmers at a subsidized price of Rs. 350 per 50 kg bag. In addition, the fertiliser subsidy was also provided to tea small holders at Rs. 1,000 per

Social welfare and safety net programmes were continued in 2010 showing the country's distinctive commitment to promoting equitable growth...

50 kg bag. The government incurred Rs. 26,028 million in 2010 under this programme.

Public Investment[2]

The public investment programme, covering all the areas of the economy, continued its accelerated pace in 2010. The development challenges the country had to face in 2010 were twofold.

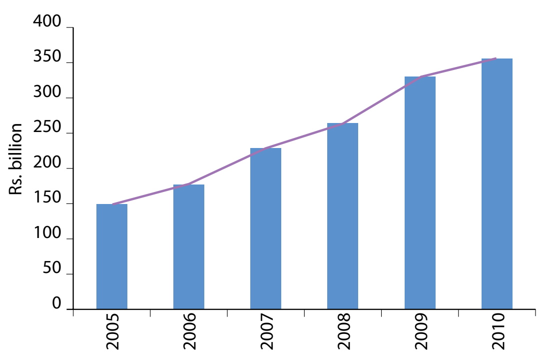
- Firstly, continuation of the medium to long-term reconstruction strategy of the areas affected by the terrorist insurgency.

- Secondly, successful completion of the massive infrastructure development initiative that has been strategically identified while implementing regional and rural development projects.

The government achieved a significant progress in terms of implementing the post insurgency recovery programme in 2010. Reconstruction and rehabilitation of the basic economic and social infrastructure such as roads, electricity, schools, hospitals, court houses, administrative facilities, police posts, drinking water, irrigation and livelihood programmes were carried out to bring the day to day life of affected areas back in to normal as work towards the realization of a 'mine threat free' Sri Lanka and complete resettlement of internally displaced persons (IDPs) were the critical targets. Accordingly, a significant progress was made in the de-mining programme. The government was able to resettle 277,351 IDPs while about 17,785 displaced persons remained in the welfare centers by April 2011. In parallel to these, a massive medium to long-term reconstruction programme was commenced to economically transform the areas affected by the insurgency.

Meanwhile, other infrastructure development initiatives were also carried out giving the priority to continuing ongoing development projects. In 2010, the country witnessed a steady progress in the construction of power plants, sea & airports, expressways, the road network & bridges, new irrigation schemes, large scale water supply projects, schools, universities, hospitals, stadiums, convention centres and several other infrastructure investments initiated under the 'Randora' programme. The expenditure on public investment programme in 2010 was Rs. 356.5 billion.

Chart 2.11 > **Public Investment**



[2] *For a detailed analysis on public investment, please refer to Chapter 1 of this publication.*

Table 2.11 > **Allocations under Section 6 of Appropriation Act No. 07 of 2010**
Allocations made during 1st January to 30th December 2010

Rs.

Head No	Ministry/Department	Purpose	Recurrent	Capital
1	His Excellency the President	Expenses for counter media activities against the image of Sri Lanka abroad, Deferred payment for procurment of earth moving machines and pre-fabricated buildings for North - East Development, Modification of the building for the Secretariat of Senior Ministers, Purchase of vehicles, Supplies, Maintenance and Other services	556,000,000	2,231,040,000
2	Office of the Prime Minister	Personal emoluments, Purchase of vehicles, Vehicle maintenance, Rehabilitation & improvement of capital assets, and Other services.	20,500,000	29,250,000
3	Judges of the Supreme Court	Travelling, Maintenance and Services	6,000,000	-
4	Office of the Cabinet of Ministers	Services and Acquisition of capital assets	795,061	1,274,000
5	Parliament	Purchase of a vehicle	-	7,500,000
6	Office of the Leader of the House of Parliament	Personal emoluments	1,200,000	-
7	Office of the Chief Govt. Whip of Parliament	Purchase of a vehicle	-	3,000,000
8	Office of the Leader of the Opposition of Parliament	Purchase of a vehicle	-	8,850,000
15	Administrative Appeals Tribunal	Personal emoluments	160,000	-
17	Department of Elections	Purchase of a vehicle	-	4,500,000
18	Auditor- General	Personal emoluments	33,900,000	-
19	Office of the Parliamentary Commissioner for Administration	Purchase of a vehicle and Services	135,000	4,000,000
20	Office of the Finance Commission	Education Sector Development Project and Purchase of a vehicle	-	8,040,000
22	Human Rights Commission of Sri Lanka	Personal emoluments, and Payment of duties & taxes for transferring the ownership of vehicles.	12,900,000	9,315,114
229	Department of Attorney General	Travelling, and Rehabilitation & improvement of capital assets	5,300,000	8,930,000
230	Department of Legal Draftsman	Electricity and Water	1,100,000	-
101	Ministry of Buddha Sasana and Religious Affairs	Purchase of a vehicle & payment of taxes for the imported vehicles, Construction of Dahampaya Building & Buddhist temple at Lumbini, Nepal, and Personal emoluments	1,500,000	55,700,000

Head No	Ministry/Department	Purpose	Recurrent	Capital
201	Department of Buddhist Affairs	Cost of obtaining a forfeited vehicle, Personal emoluments, Dhamma School allowances for text books, Uniforms for teachers, National school competitions and libraries	51,457,285	1,176,000
202	Department of Muslim Religious and Cultural Affairs	Custom clearing charges for imported Dates to be distributed during the Ramasan Festival season.	2,197,422	-
203	Department of Christian Religious Affairs	Library allowances to teachers in Dhamma Schools.	4,796,000	-
205	Department of Public Trustee	Cost for obtaining a forfeited vehicle, Personal emoluments, Stationery and Maintenance expenditure.	1,500,000	5,040,000
102	Ministry of Finance and Planning	02 vehicles and other expenses to the Social Security Board, Recurrent expenses to the Sri Lanka Auditing & Auditing Standards Monitoring Board, Maintenance expenditure, Expenses for the former Ministry of Plan Implementation, Personal emoluments, Services and Purchase of vehicles	112,044,745	35,779,853
237	Department of National Planning	Grant received for SAARC Workshop on Digital libraries, and Maintenance of vehicles	500,000	1,656,000
239	Department of External Resources	Personal emoluments, and Travelling expenses	5,330,000	1,320,000
240	Department of National Budget	Advance payment for leasing of an office premise to the Public Service Commission	4,476,795	-
241	Department of Public Enterprises	Personal emoluments, and Gratuity payment for 10 ex-employees of Colombo Commercial Co. Ltd.	4,250,000	417,391
246	Department of Inland Revenue	Maintenance expenditure, Services, and Rehabilitation & improvement of capital assets	86,700,000	267,100,000
249	Department of Treasury Operations	Loan facility for Ceylon Fisheries Corporation, Insurance premium to China Export & Credit Insurance, and Interest payment on domestic debt	1,205,000,000	76,000,000
250	Department of State Accounts	Personal emoluments	1,525,000	-
251	Department of Valuation	Personal emoluments, and Acquisition of capital assets	3,900,000	10,000,000
252	Department of Census and Statistics	Purchase of motor cycles for field officers	-	28,750,000
280	Department of Foreign Aid and Budget Monitoring	Personal emoluments and Services	2,420,000	150,000
323	Department of legal Affairs	Travelling expenses and Services	90,000	150,000
103	Ministry of Defense	Welfare programmes, Rehabilitation & maintenance of Colombo Canal System & Water Quality Improvement System, Prefabricated buildings for North & East development, Supplies and other services	78,050,000	401,681,954

Head No	Ministry/Department	Purpose	Recurrent	Capital
222	Sri Lanka Army	Payment of compensation for soldiers who were missing in action, Deferred payments, Improvement & Acquisition of capital assets, Maintenance, travelling, supplies, services, transfers and other expenditure	2,087,400,000	1,770,000,000
223	Sri Lanka Navy	Improvement & Acquisition of capital assets, Capacity building, Maintenance costs of five classes ships & crafts, Diets, Uniforms, Personal emoluments, Supplies, Transfers and Deferred payments.	3,121,000,000	1,808,459,175
224	Sri Lanka Air Force	Personal emoluments, Suppliers, Services, Maintenance, Differed payments, Commitment fee for the Russian Credit Line, and Acquisition of capital assets	625,000,000	2,117,278,010
225	Department of Police	Personal emoluments, Traveling expenses, Supplies, Transfers and Services	970,338,200	-
226	Department of Immigration and Emigration	Purchasing of 35,000 Emergency Certificates - Indian travel documents	-	10,000,000
320	Department of Civil Security	Improvement & Acquisition of capital assets, Deferred payments and Personal emoluments	75,000,000	138,000,000
325	Department of Coast Guard of Sri Lanka	Suppliers and Services	1,000,000	-
106	Ministry of Disaster Management	Flood & drought relief, Erecting tsunami warning towers in selected coastal areas, Building & structures, Purchase of vehicles	121,000,000	100,000,000
108	Ministry of Post and Telecommunication	Purchase of vehicles	5,385,000	26,466,108
308	Department of Posts	Personal emoluments, Stamps for commissioning agency post offices.	250,000,000	-
110	Ministry of Justice	Personal emoluments, Cost of living, Cost of one day workshop for Mediators , Maintenance expenditure, Services, Transfers, and Acquisition of capital assets	32,709,000	104,000,000
228	Courts Administration	Personal emoluments, Vehicle lease, Traveling, Expenses of Superior Courts Complex, Vehicle rent, Rehabilitation and improvement of capital assets, Construction of courts and judges residential complexes/official quarters	426,099,724	216,541,096
231	Department of Debt Conciliation Board	Payment of increased allowances to the Chairman and the members of the Debt Conciliation Board	765,000	-
233	Department of Government Analyst	Personal emoluments and Capacity building	2,000,000	2,500,000

Head No	Ministry/Department	Purpose	Recurrent	Capital
234	Registrar of Supreme Court	Personal emoluments, Travelling expenses for participating in the academic programmes for judges, Purchase of a photocopy machine, and Payment of taxes & duties for obtaining a forfeited vehicle	13,391,256	5,914,000
235	Department of Law Commission	Electricity and Water	200,000	-
111	Ministry of Health	Personal emoluments, Traveling, Supplies, Maintenance & Other services, Property loan interest, Expenses of Victoria home for incurables, Procurement of two machines, Capital assets for Cardiology Unit at TH Kurunegala, 3rd Medical Ward Block at NHSL, Sirimavo Bandaranayke Children's Hospital and Korea - Sri Lanka Friendship Hospital at Matara-Godagama	1,288,700,000	153,000,000
112	Ministry of External Affairs	Losses and write offs, Rents of the foreign missions and Purchase of vehicles	100,930,500	12,075,000
113	Ministry of Ports and Aviation	Purchase of vehicles	-	12,700,000
114	Ministry of Transport	Reconstruction of railway line, and Purchase of a vehicle	-	50,040,000
116	Ministry of Co-operatives and Internal Trade	Purchase of vehicles, Salaries and other recurrent expenses for Paddy Marketing Board, Payment of taxes for 02 Jeeps, and Salaries of the employees of Building Materials Corporation	5,000,000	35,020,000
298	Department of Measurement Units, Standards and Services	Expenses of the auction credited at the Consolidated Fund	42,000	-
117	Ministry of Highways	Improvement of roads in Moneragala district for the "Deyata Kirula" development programme, Maintenance of roads & bridges, Purchase of capital assets for the Deputy Minister's new office, Purchase of vehicles, Rehabilitation, improvement & acquisition of capital assets and Personal emoluments	11,990,000	5,983,610,000
118	Ministry of Agriculture	Purchase of vehicles		35,900,000
119	Ministry of Power and Energy	Rural electrification project, Rehabilitation of New Lakshapana & Wimalasurendra power plant and Purchase of a vehicle		2,776,132,981
120	Ministry of Child Development and Women's Affairs	UNICEF Child Protection Programme, Purchase of vehicles and other services	8,950,000	33,279,000
217	Department of Probation and Child Care Services	Personal emoluments	675,000	-
121	Ministry of Public Administration and Home Affairs	Purchase of vehicles	-	18,000,000
253	Department of Pensions	Personal emoluments and maintenance expenditure	1,000,000	-

Head No	Ministry/Department	Purpose	Recurrent	Capital
254	Department of Registrar General	Expenses on services of Divisional Land Registrars' Offices	2,000,000	-
255	District Secretariat, Colombo	Acquisition of capital assets	-	30,000,000
263	District Secretariat, Hambantota	Building repairs.	-	3,000,000
264	District Secretariat/ Kachcheri, Jaffna	Construction of Pediatric Unit at Chavakachcheri Hospital, and Personal emoluments	5,000,000	9,886,417
265	District Secretariat/ Kachcheri, Mannar	Personal emoluments	1,439,000	-
268	District Secretariat/ Kachcheri, Kilinochchi	Repairing the building		3,725,519
271	District Secretariat/ Kachcheri, Trincomalee	Personal emoluments	1,141,376	-
122	Ministry of Mass Media and Information	Telecasting "Ratawata Mila Darshakaya" programme and fuel expenses	4,575,000	-
210	Department of Information	Funds received for the exhibition and cultural zone of "Freedom"	24,000,000	450,968
211	Department of Government Printer	Importing the essential papers	60,000,000	-
123	Ministry of Construction, Engineering Services, Housing & Common Amenities	Personal emoluments, Traveling, Supplies, Maintenance, transfers, other services, Urban Settlement Development Authority for completing the housing programme for urban poor, Urgent repairs of 18 machines of National Equipment & Machinery Organization, Implementation of UN Habitat Programmes, Rehabilitation, improvement & acquisition of capital assets, Rural Housing Development Programme, Purchase of a vehicle, and for Rectifying the error made to the vote No. 123-02-03-07-2502(12)	35,181,235	209,309,900
309	Department of Buildings	Personal emoluments and Services	9,620,000	-
124	Ministry of Social Services	Rent & local taxes, Allowances for disabled persons, Community based rehabilitation programme, National counseling programme, Purchase of vehicles, Rehabilitation and improvement of capital assets, and Financial grants given by UNICEF	11,900,000	30,358,844
216	Department of Social Services	Salary and other expenses of National Secretariat for Elders	6,000,000	-
126	Ministry of Education	Primary education programme, Salaries for the National Institute of Education, Continuation works of Secondary Education Programme, Modernization Project II, Personal Emoluments, Cost of Living and Property Loan Interest to Public servants	221,000,000	337,190,000
212	Department of Examinations	Expenditure for evaluation of examinations	314,900,000	-

Head No	Ministry/Department	Purpose	Recurrent	Capital
127	Ministry of Labor Relations and Productivity Improvement	Travelling, other Services, and Capacity building	7,500,000	9,100,000
221	Department of Labor	Personal emoluments, Services, Property loan interest to public servants, Travelling, and Construction of "Mehewara Piyasa" Building	31,175,000	50,000,000
128	Ministry of Traditional Industries and Small Enterprise Development	Services and National Craft Council	13,100,000	-
130	Ministry of Local Government and Provincial Councils	Vehicle rent, Upgrading Disaster Response Network, Renovating Governor's quarters at Keppetipola Mawatha and building at Union Place Colombo 02, Shortfall of funds for Foreign Assisted Development Project i.e. Conflict Affected Area Rehabilitation Project, Provincial Road Improvement Project, Local Government Infrastructure Improvement Project and Upgrading the Disaster Response Network Project, and Purchase of a vehicle	700,000	2,125,100,000
314	Southern Provincial Council	Construction of two storied building at All Saints M M Vidyalaya and two storied building at Amugoda Maha Vidyalaya in Galle	-	9,841,887
315	Northern Provincial Council	Cost of living, Provincial Roads Development Project, and Northern Roads Connectivity Project	300,000,000	174,000,000
317	North Central Provincial Council	Provincial Specific Development Grant and Provincial Roads Development Project		920,500,000
318	Uva Provincial Council	Health Sector Development Project, Shortfall of WB funded road project foreign component, Provincial Roads Project-Eastern, Uva and Northern		933,230,000
321	Eastern Provincial Council	Provincial Roads Development Project		90,000,000
133	Ministry of Technology and Research	Purchase of vehicles, Renovation of Green House and construction of a laboratory at Institute of Fundamental Studies	-	15,000,000
134	Ministry of National Languages and Social Integration	Purchase of vehicles	950,000	11,076,879
135	Ministry of Plantation Industries	Plantation Reform Project, Coconut Development Authority, and Purchase of a vehicle	6,000,000	381,000,000
136	Ministry of Sports	Purchase of a vehicle, Personal emoluments and cost of renovation of the Sugathadasa Stadium for Indian International Film Festival, Initial cost for Common Wealth Games in 2018 to be held in Sri Lanka, Fuel, Maintenance and Other services	29,136,390	129,000,000
219	Department of Sports Development	National Sports Festival	25,000,000	-
138	Ministry of Indigenous Medicine	Community health facilities through indigenous system of medicine	-	3,000,000
220	Department of Ayurveda	Personal emoluments	8,000,000	-

Head No	Ministry/Department	Purpose	Recurrent	Capital
139	Ministry of Fisheries and Aquatic Resources Development	Peliyagoda New Fish Market Complex, Dikowita Fishery Harbour, Purchase of vehicles	646,000	1,089,675,130
290	Department of Fish-eries and Aquatic Resources	Travelling, Services and Transfers	5,500,000	-
140	Ministry of Livestock And Rural community Development	Estate Housing Programme, Rehabilitation and improve-ment of capital assets, Traveling and other services	3,000,000	84,339,240
142	Ministry of National Heritage and Cultural Affairs	Deyata Kirula National Development Exhibition 2011 and Personal emoluments	101,000,000	-
206	Department of Cultural Affairs	Services	11,500,000	-
207	Department of Archaeology	Travelling expenses	1,000,000	-
209	Department of National Archives	Construction of a building for the Department of National Archives and other services	2,100,000	32,000,000
143	Ministry of Parliamen-tary Affairs	Retirement benefits	15,000,000	-
145	Ministry of Re-settle-ment	Rent and local taxes, Support for resettlement activities donated by government of India	3,403,000	102,657,600
149	Ministry of Industry and Commerce	Purchase of a vehicle	-	6,300,000
152	Ministry of Irrigation and Water Resources Management	Purchase of vehicles		7,301,754
153	Ministry of Land and Land Development	Purchase of vehicles	-	15,500,000
156	Ministry of Youth Affairs	Personal Emoluments, Maintenance, Salaries for National Institute of Fisheries and Nautical Engineering, Custom duty and VAT for Technical Education Development Project, Shortfall of funds for implementing the projects at National Human Resources Development Council, Ceylon German Technical Training Institute, National Youth Services Council and Vocational Training Authority, National Apprenticeship and Industrial Training Authority, University of Vocational Technology and Purchase of vehicles to the Ministry	173,800,000	833,538,633
215	Department of Techni-cal Education and Training	Personal emoluments	6,600,000	-
160	Ministry of Environ-ment	Purchase of vehicles and services	800,000	16,724,738
166	Ministry of Water Supply and Drainage	Purchase of vehicles, Integrated Water Supply Scheme for the unserved area of Ampara District, Personal emoluments, Transport, Postal and Communication	8,600,000	1,516,000,000

Head No	Ministry/Department	Purpose	Recurrent	Capital
171	Ministry of Higher Education	Enhance research activities in Post Graduate Institute of Science, Improving relevance and quality of Undergraduate Education Project, Grants to University of Peradeniya, Purchase of vehicles, and Payment of tax for SIDA project		123,671,940
214	University Grants Commission	Contribution fees to the South Asian University	7,280,000	-
173	Ministry of Public Management Reforms	Capacity Improvement Unit at Monaragala District		1,660,000
174	Ministry of Rehabilitation and Prison Reforms	Supplies, Maintenance, Transport and Other Services, Rehabilitation, improvement and acquisition of capital assets, Development assistance to implement a programme of Rehabilitation for Misguided Youth who have Surrendered, and Purchase of a vehicle	6,300,000	342,849,224
232	Department of Prisons	Supplies, Maintenance, Services, and Property loan interest to public servants	40,000,000	-
326	Department of Community Base Correction	Personal emoluments	850,000	-
175	Ministry of State Resources and Enterprise Development	Outstanding liabilities of Hingurana Sugar Industries Ltd, Salary for the employees of Kanthale Sugar Industries Ltd, Ceylon Ceramic Corporation and National Paper Company	-	208,900,000
	Total		12,857,999,989	28,465,424,355

Source: Department of National Budget

Performance of Provincial Councils (PCs)

Total revenue collected by PCs increased by 25 percent to Rs. 37 billion in 2010 reflecting particularly the recovery of trade related activities in line with the gradual retrieval of domestic economic activity. Tax revenue, which mainly consists of turnover tax, license fees and tax on property, accounted for 73 percent of the total revenue while the balance 27 percent was from non-tax revenue, which mainly includes the revenue from sales and charges, interest as well as profits and dividends. The revenue of PCs as a percentage of GDP amounted to 0.7 percent in 2010, a marginal increase over that of the previous year.

Recurrent expenditure of PCs indicated a 7 percent increase to Rs. 119 billion in 2010 of which about 78 percent of it was on personal emoluments, mainly on the salaries and wages of the education and health sectors. Total investments of PCs amounted to Rs.37.3 billion in 2010. Investments on economic infrastructure development were mainly on roads, transport, land development and rural electrification projects. In the context of developing social infrastructure, PCs invested particularly in improving education, health facilities, indigenous medicine, housing facilities and library resources. PCs also invested on industries and agriculture while giving more consideration to activities related to tourism, fisheries, livestock and vocational training. About 47 percent of the investment expenditure of PCs was financed through Province Specific Development Grants and foreign sources. During the year, Rs. 85.3 billion was transferred as block grants to PCs from the national budget.

Table 2.12 > **Consolidated Budget**

Category	Amount (Rs.Bn)			As a % of GDP		
	2008	2009	2010	2008	2009	2010
Total Revenue	**686.6**	**729.0**	**858.4**	**15.6**	**15.1**	**15.3**
Central Government	**655.3**	**699.6**	**817.2**	**14.9**	**14.5**	**14.6**
Tax	585.6	618.9	724.7	13.3	12.8	12.9
Non Tax	69.6	80.7	92.5	1.6	1.7	1.7
Provincial Councils	**31.4**	**29.4**	**36.8**	**0.7**	**0.6**	**0.7**
Tax	26	24.9	26.7	0.6	0.5	0.5
Non Tax	5.4	4.5	10.1	0.1	0.1	0.2
Total Expenditure	**1,027.5**	**1,238.1**	**1,317.5**	**23.3**	**25.7**	**23.5**
Central Government (a)	**996.1**	**1,201.9**	**1,280.2**	**22.6**	**24.9**	**22.9**
Current	743.7	879.6	937.1	16.9	18.2	16.7
Capital and net Lending	252.4	322.3	343.1	5.7	6.7	6.1
Provincial Councils (b)	**31.4**	**36.2**	**37.3**	**0.7**	**0.7**	**0.7**
Current	26.4	33.9	33.8	0.6	0.6	0.6
Capital	4.9	2.3	3.5	0.1	0.1	0.1
Budget Deficit	**-340.9**	**-509.1**	**-459.1**	**-7.7**	**-10.5**	**-8.2**

Source: Department of National Budget

(a) Includes transfers to PCs

(b) Includes expenditure incurred by PCs using their own funds

Debt Management

Borrowing Programme

The gross borrowing limit in the Appropriation Act approved by Parliament for the financial year 2010 was Rs. 980 billion. The fiscal operations of the government in 2010 were managed well within this approved borrowing limit as reflected by the actual gross borrowings of Rs. 922 billion made during the year. The original borrowing plan was changed subsequently as the borrowings from foreign sources exceeded the target due to the higher inflows of foreign funds following enhanced investor confidence. This resulted in a corresponding decline in the borrowings from domestic sources than the original target.

The lower level of borrowings from domestic sources to finance the budget deficit along with the repayment to the domestic banking system eased the pressure on domestic market interest rates. It also helped make available an enhanced amount of domestic resources to the private sector for their economic activities. The actual gross borrowings in 2010 constituted borrowings from domestic (Rs. 594.2 billion) and foreign commercial sources (Rs. 164.0 billion) and project/ programme loans (Rs. 163.9 billion). The domestic borrowings mainly consisted of Treasury bills and Treasury bonds.

During the year, the favourable economic environment facilitated the government to issue a 10-year Treasury bond extending the yield curve for government securities. The government was also able to issue Sri Lanka Development Bonds (SLDBs) at relatively lower yield margins for longer maturities. Meanwhile, the improved domestic economic conditions as well as the improvement in foreign investor confidence subsequent to restoration of normalcy in the country, upgrading of the country's sovereign rating by international sovereign rating agencies and the continuation of the Stand-By Arrangement (SBA) facility with the IMF helped Sri Lanka to successfully conclude its third international sovereign bond issue of USD 1,000 million. The funds received through this bond were utilized mainly to restructure the government debt stock by retiring a portion of high cost short-term government debt. In addition, the non-resident investments in rupee denominated government securities also increased considerably by Rs. 55 billion to Rs. 241 billion as at end 2010.

Debt Service Payments

Total debt service payments in 2010 amounted to Rs. 820 billion, recording a decrease of Rs. 5.2 billion compared to 2009. Out of the total debt serviced, Rs. 468 billion or 57

Table 2.13 > **Government Borrowing [a]**

Category	Rs. Bn	
	2010 Planned	**2010 Actual**
Gross Borrowing by Instrument		
Domestic	**685.3**	**594.2**
Rupee Loans	-	-
Treasury Bonds	559.3	433.6
Treasury Bills	40.0	82.8
SLDB/OBU	74.0	71.2
CBSL Advances	12.0	4.0
Other	-	2.6
Foreign [b]	**294.7**	**327.9**
Concessional	172.5	163.9
Non-concessional	122.2	164.0
Total	**980.0**	**922.1**

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

(a) *Amount in book value*

(b) *Excludes disbursements of Rs.51.5 billion of the loan involving phase II of the Puttalam Coal Power Project* per cent was for the amortizations payments while Rs. 353 billion or 43 percent was for the payment of interest. Total debt service payments as a percent of government revenue was 100.3 percent in 2010, showing a significant improvement compared to 118 percent recorded in 2009. This was mainly due to the higher growth of the government revenue and lower debt service payments in 2010. This ratio is expected to decline further in the medium term with improvements in government revenue, gradual reduction in government budget deficit and improvements in debt and Treasury cash flow management activities. Meanwhile, benefiting from the higher growth in the earnings from exports, the ratio of foreign debt to export of goods and services also declined to 166.4 percent in 2010 from 170.7 percent in the previous year.

Government Debt

Total government debt increased by Rs. 428.8 billion to Rs. 4,590.2 billion during 2010 compared to that of Rs. 4,161 billion as at end 2009. This comprised of 55.9 percent of domestic debt (Rs. 2,565.7 billion) and 44.1 percent of foreign debt (Rs. 2,024.5 billion). However, the government debt to GDP ratio resumed its declining trend in 2010 from the high level of 105.6 percent recorded in 2002 and declined to 81.9 percent in 2010 thereby correcting the aberration experienced in 2009. Accordingly, the outstanding domestic debt declined to 45.8 percent of GDP from 49.8 percent while the foreign debt to GDP ratio also declined to 36.1 percent from 36.5 percent in 2009.

Of the total domestic debt stock, the share of medium and long term debt was 76 percent. Accounting for 64 percent, Treasury bonds dominated the total outstanding domestic debt portfolio. With the gradual retirement of Rupee loans, its share in the total domestic debt declined further to 3.4 percent. Of the short term debt stock (24 percent of the domestic debt), Treasury bills represented 83 percent. Meanwhile, Government debt to the banking system declined to Rs. 691.7 billion in 2010 from Rs. 705.8 billion in the previous year, reflecting both the higher borrowings from the non-bank sources and the repayments made by the government to banks, mainly reflecting the retirement of Treasury bills held by the Central Bank. Accordingly, the share of outstanding debt to the banking system in the total domestic debt stock declined to 27 percent from 29 percent in 2009 while that of non-bank sources increased to 73 percent from 71 percent in the previous year.

Of the total outstanding foreign debt, about 63 percent of the debt was on concessional terms and conditions. About 67 percent of total bi-lateral loans amounting to Rs.478,931 million had been received from Japan by end 2010 while the outstanding debt to Asian Development Bank (ADB) was Rs. 358,872 million by end 2010. The outstanding debt to International Development Association (IDA) was Rs. 281,217 million by end 2010.

Chart 2.12 > **Domestic Debt**

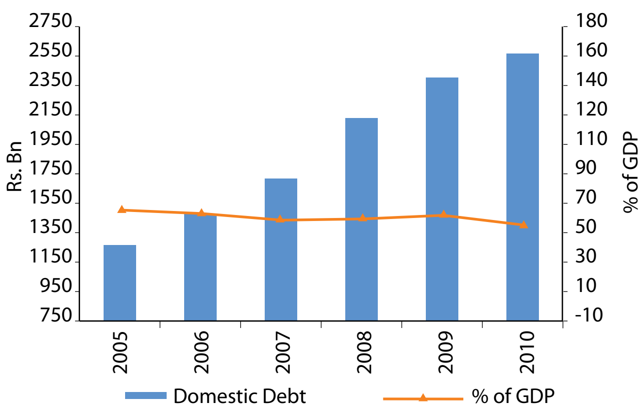


Chart 2.13 > **Composition of Domestic Debt-2010**

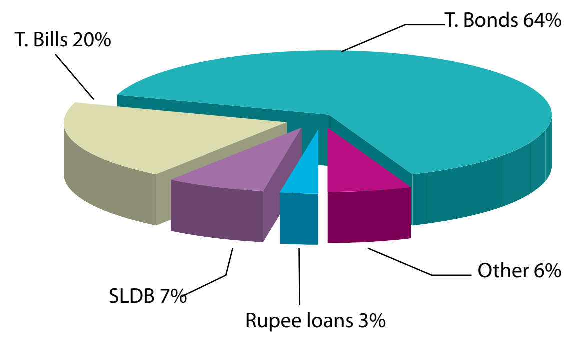


Table 2.14 > **Total Foreign Debt - 2010**

Category	Number of Loans	Amount (Rs. mn) [(a)]
Bi-lateral	**343**	**711,899**
Japan	107	478,931
China	10	56,459
Germany	42	50,263
USA	72	42,414
Other	112	83,833
Multi-lateral	**293**	**674,936**
ADB	157	358,872
IDA	107	281,217
Other	29	34,847
Export Credit (b)	**55**	**141,022**
Commercial	**12**	**496,725**
International Sovereign Bonds	3	221,906
Non-resident Investments in Treasury Bills	-	57,317
Non-resident Investments in Treasury Bonds	-	183,538
Other	9	33,964
Total Foreign Debt	**703**	**2,024,583**

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

(a) Provisional

(b) Excludes the loan involving Phase II of the Puttalam Coal Power Project (Outstanding of Rs.50,097 million as at end 2010)

Chart 2.14 > **Foreign Debt by Source - 2010**

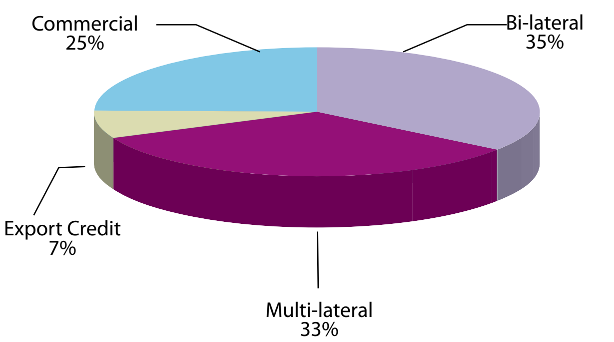


Table 2.15 > **Currency Composition of Foreign Debt**

Currency	Percent		
	2008	**2009**	**2010**
Special Drawing Rights (SDR)	36.7	32.2	28.3
Japanese Yen	30.8	25.7	25.1
US Dollars	17.7	18.8	23.5
Euro	9.1	8.2	7.0
Sri Lankan Rupees	1.7	10.5	11.9
Other	4.0	4.6	4.1
Total	**100**	**100**	**100**
Memo: Total Foreign Debt (Rs. Billion)	1,449	1,760	2,025

Sources: Central Bank of Sri Lanka and Department of Treasury Operation

03
REFORM INITIATIVES

Overview

2010 - 2011 End May

Having ended the long drawn conflict, the Government focused on promoting public investment in strategic industries, and consolidating reforms in several areas to create an enabling environment for accelerated growth. Reforms were witnessed in areas including taxation, banking and finance, investment, governance and accountability, social security, institutional reorganization and public procurement.

The consultation process associated with the following, providing the Government with greater insight into stakeholder views required to be recognized in the development process.

- Inputs received from representatives at national, provincial and local government levels, during the island wide consultation process carried out by His Excellency the President in each Provincial Council area, with a view to identifying need based provincial development concerns.

- Inputs received in the process of the continuous dialogue between His Excellency the President with representatives of trade unions, trade and industry chambers, professionals, the business community, the SMEs and self-employment associations and the informal sector representatives, adopting a need based approach towards economic reforms.

- The outcome of the dialogue between the Ministry of Finance and Planning and the members of the Sectoral Clusters, paving way for tax payers as well as other stakeholders in the process of development to give an insight to their practical needs and the obstacles, enabling the government to formulate policy with greater awareness of the ground realities.

- The Final Report of the 10 member Presidential Commission on Taxation that was appointed in July 2009 as envisaged in the Budget Speech 2009, which was submitted in October 2010 having had extensive consultations, also gave valuable recommendations on the desired changes and reforms.

- The Final Report of the five member Ministerial Sub - Committee appointed in May 2010, assisted by a panel of Public Officials with diverse expertise, to identify Impediments to Investment submitted its report in November 2010, identifying such impediments and suggesting possible remedial measures. This report has been prepared after extensive discussions with investors, businessmen, private and public sector officials, representatives of trade chambers and lawyers and hence gave a vivid view of related concerns.

Stemming from these insights and recognizing the global and regional challenges faced by the country, a reform package with emphasis on taxation was introduced through the 2011 Budget. The other reforms signify system improvement endeavours by the government, involving institutional, administrative and procedural related advances.

The reform agenda recognized building Sri Lanka's economic future on five, well connected pillars involving port, shipping, aviation, energy, commerce and knowledge. Growth strategies linked to such a 'hub based' development, placed emphasis on promoting investment to reap the peace dividend by developing value added manufacturing and services. Tourism was promoted in the backdrop of the international publicity portraying Sri Lanka as one of the preferred eco-friendly tourist destinations with unique bio diversity. Agriculture was incentivized through many measures including a fertilizer subsidy and guaranteed producer prices to ensure food security. Small and Medium Enterprises (SMEs) received priority treatment to exploit their vast and untapped potential.

Tax Reforms

In the area of tax reforms, the standard corporate tax rate was reduced from 35 percent to 28 percent and the capital consumption allowance was increased to make the system more investor friendly. The threshold for the chargeability of the Economic Service Charge was increased from Rs. 7.5 million to Rs. 25 million a quarter, mainly for the benefit of the SMEs.

In the case of individuals, the maximum income tax rate was reduced from 35 percent to 24 percent. The tax slabs were broadened. Tax on certain terminal benefits was removed, while chargeability of tax on certain other retirement benefits was also reduced. Further, in relation to those whose only source of income is employment, the need to file income tax returns was removed by making PAYE as a tax at source. Provisions were made to permit the submission of quarterly returns for VAT while having to make monthly payments, to simplify compliance.

The Nation Building Tax (NBT) is also simplified and extended up to the wholesale and retail level by amalgamating the provincial turnover tax relating to those sectors, with the introduction of a system in which revenue sharing was permitted between the central government and the provincial councils. This was supported by providing to transfer 33 1/3 percent of the total tax collection to the Provincial Councils.

A composite telecommunication levy was introduced having removed VAT, NBT, Regional Infrastructure Development Levy, Environment Conservation Levy and the Mobile Subscriber's Levy on the telecommunication sector.

In relation to the Banking and Finance Sector, an investment fund account was created to be maintained by banks or financial instruments using,

• Tax savings of VAT[1]
• Tax savings of Income Tax[2]

to be used towards long term credit financing in the economy.

Certain Taxes such as the Regional Infrastructure Development Levy, Social Responsibility Levy and Debit Tax were altogether removed, responding to public demands for a simpler tax system.

In relation to other facets of tax administration, there was a common grievance that a level playing field did not exist among tax payers with regard to interpretations of tax laws, since different individuals, gave contradicting interpretations with regard to similar matters. Further, there was another common grievance that justice did not prevail with regard to the appeals process that prevailed with the operation of the Tax Appeals Board since the Board was virtually a part of the Inland Revenue Department and hence decision makers were not sufficiently independent. Consequently, there was a tendency for many such appeals to end up in Court, which is a time consuming exercise for the state and which also increases the workload of the judiciary contributing to laws delays, which could be avoided, if an effective appeals mechanism is introduced.

In this backdrop, a uniform interpretation mechanism and an autonomous appeals process was institutionalized. An Interpretations Committee that is in charge of providing interpretations, consisting of senior officers of the Inland Revenue Department was formulated having made the necessary changes to the Inland Revenue Act [3]. Further, with the enactment of the Tax Appeals Commission Act No. 23 of 2011, an autonomous Tax Appeals Commission was appointed to hear appeals.

Changes to Key Tax Legislations - At a Glance

BOX 3.1
Economic Service Charge Act No. 13 of 2006

Effective from 1.4.2011

- Simplification of the rates schedule.
- Introduction of exemptions for certain categories such as distributors, dealers in Lottery, Unit Trusts and Mutual Funds, Airlines and Shipping Lines.
- Permitting to file annual returns with quarterly payments.
- Threshold increased from Rs. 7.5 mn to Rs. 25 mn.
- Exemptions granted relating to past non-payments consequent to the conflict environment that prevailed, to the benefit of the SME Sector.

BOX 3.2
Value Added Tax Act No. 14 of 2002

Effective from 1.1.2011

- VAT on financial services reduced from 20 percent to 12 percent and the tax savings to be used to create an Invesment Fund Account to promote long term lending.
- A new VAT Suspension Scheme introduced.
- New exemptions and a set-off mechanism on unabsorbed input credit as at 31.12.2010 introduced.
- Witholding Tax on VAT removed.
- A concessionary rate structure on optional VAT introduced

1 VAT was reduced from 20 percent to 12 percent
2 Corporate Income Tax was reduced from 35 percent to 28 percent
3 Section 208 A of the Inland Revenue Act No 10 of 2006 as amended by Inland Revenue (Amendment) Act No. 22 of 2011 required the appointment of a Committee consisting of Senior Official of the IRD to interpret the provisions of all Acts administered by the Commissioner General of Inland Revenue.

Box 3.3
Inland Revenue Act No. 10 of 2006

Effective from 1.4.2011

Individual Tax

- Tax rates and slabs were amended to expand concessions. Maximum tax rate applicable to individuals was reduced from 35 percent to 24 percent. The tax slabs were widened and the tax free allowance was increased from Rs. 300,000 to Rs. 500,000.
- With regard to employees, if their only source of income is employment, an additional tax free allowance up-to Rs. 100,000 was granted. The Provident Fund withdrawals were exempted from income tax. A vehicle allowance upto Rs. 50,000 or the benefit of providing a vehicle, were also exempt from income tax.

Corporate Tax

- The maximum corporate tax rate was reduced from 35 percent to 28 percent. The concessionary rate for exports, tourism, construction etc., was reduced from 15 percent to 12 percent.
- With regard to high value added exports or where their total annual turnover is less than Rs. 300 mn - applicable tax rate was fixed at 10 percent.
- Capital allowances were increased, and double deductions were introduced for expenses on research and development.
- Company listing expenditure was allowed up to a certain level, and the Nation Building Tax paid was allowed in full as deductions. Restrictions were reduced in relation to advertisements, management expenses etc.
- Withholding Tax (WHT)
  - WHT on specified fees, rent and similar services was removed.
  - WHT rate on interest income was reduced to 8 percent.
  - WHT limits for application of directions were amended to match with the new tax rates.
  - WHT on corporate debt securities was adjusted to be on par with Government securities.
- Others (including administrative changes)
  - Provisions were introduced to identify Islamic Financial Transactions.
  - Provisions were introduced to require any person who carries on any trade, business or vocation in several units or undertakings, to maintain and prepare separate statements of accounts, in respect of each unit or undertaking.
  - A time bar was introduced for the making of an assessment, effective from the date of submission of the return.
  - The Board of Review that heard tax appeals was abolished and an autonomous Tax Appeals Commission was setup in terms of a new statute.
  - A Tax Interpretations Committee was Introduced to ensure uniformity in relation to interpretations.
  - Provisions were made to enable transfer of refunds directly to the tax payer's bank
  - Deterrents were introduced against misinterpretation of the provisions of the Act by auditors and tax practitioners.
  - Charitable institutions were redefined.
  - Restrictions were imposed with regard to qualifying payments in certain sectors.

Box 3.4
Nation Building Tax Act No. 9 of 2009

Effective from 1.1.2011

Rates

- Reduced from 3 percent to 2 percent.

Liability to Tax

- Liability extended to include the carrying on business of wholesale or retail trade of goods other than the sale of;
    - Pharmaceuticals.
    - Any article subject to the Special Commodity Levy by the importer.
    - Gems and jewellery on the payment of foreign currency.

Threshold

- Reduced generally from Rs 650,000/- to Rs 500,000/- per quarter.
- Increased from Rs. 500, 000/- per quarter to Rs 25 mn per quarter for the following categories;
    - Operating a hotel, guest house, restaurant or other similar business.
    - Local value added agricultural produce, rice based products.
    - Local educational institutions.
    - Supply of labour (manpower) or employment.
    - Introduction of a special threshold on the liable limit of buying and selling.

To implement the policy announced in the 2011 Budget, 15 legislations were enacted in end March 2011, prior to the commencement of the Financial Year, on 1.4.2011. The following laws have been enacted in 2010 till end May 2011:

Statute	Objective
Secretary to the Treasury (Nomination of Representative) Act No. 15 of 2010	To make legal provision for the Secretary to the Treasury to be able to nominate representatives on his behalf, to attend committees and meetings of Authorities, Boards or other Institutions in which the ST has been made a member, except in the case of the Monetary Board of the Central Bank of Sri Lanka and the Finance Commission.
Default Taxes (Special Provisions) Act No. 16 of 2010	To introduce a speedy recovery process of taxes in default for a long period of time, to introduce a mechanism to write-off taxes of government institutions and cooperatives and ensure that taxes in default are maintained at a reasonable level *inter alia* by making tax officers more accountable towards collecting taxes.
Casino Business (Regulation) Act No. 17 of 2010	To designate areas within which Casinos can be operated and to prohibit carrying on of the business of running a Casino without a license, after 01.01.2012.
Public Enterprises Reform Commission of Sri Lanka (Repeal) Act No. 18 of 2010	To repeal the Public Enterprises Reforms Commission of Sri Lanka and to attach officers and employees who are deemed essential to the Public Enterprises Department.
Recovery of Loans by Banks (Special Provisions) (Amendment) Act No. 1 of 2011	To ensure that *"Parate Execution"* will be applicable only if the sum borrowed in relation to a mortgaged property is over Rs. 5 million, excluding any interest or penalties.

Statute	Objective
Regulation of Insurance Industry (Amendment) Act No. 3 of 2011	To replace DG – SEC with the Registrar of Companies as an *ex-officio* member of the Insurance Board, to limit the registration of a company only pertaining to one class of insurance business that is long-term or General and to require existing companies carrying on both classes of businesses to segregate its businesses within the timeframe given and to empower the Insurance Board to consider the persons proposed to be appointed as Principal Officers.
Value Added Tax (Amendment) Act No. 09 of 2011	To introduce a new VAT suspension scheme for exporters and deemed exporters, to provide for reduction, removal, exemption and simplification of VAT, to provide concessions to identified segments of the society affected during the period of conflict.
Nation Building Tax (Amendment) Act No. 10 of 2011	To expand the tax base, to introduce NBT to wholesale and retail trade, to revise applicable thresholds including a revision for the benefit of SMEs, to introduce new exemptions and concessions to identified segments of the society affected during the period of conflict.
Economic Service Charge (Amendment) Act No. 11 of 2011	To simplify the rates schedule and to introduce Annual Returns in place of Quarterly Returns.
Strategic Development Projects (Amendment) Act No. 12 of 2011	Changes introduced to bring in greater clarity relating to its provisions and to add subsequent legislation to the Schedule, in order to enhance the scope of exemptions in relation to strategic investments.
Provincial Councils (Transfer of Stamp Duty) Act No. 13 of 2011	To enable the transfer of revenue collected by the Inland Revenue Department to the Provincial Councils.
Debits Tax (Repeal) Act No. 14 of 2011	To repeal the Act and remove the Debit Tax.
Finance (Amendment) Act No. 15 of 2011	To remove the Social Responsibility Levy, to exempt Special Projects from the Construction Industry Guarantee Fund Levy, to revise the rate of the Share Transactions Levy, to remove the Cellular Mobile Subscribers' Levy, to extend the period during which tax has to be paid to qualify to get a concessionary rate on the importation of vehicles in the case of good tax payers, to introduce a levy on 5 star hotels based on the room rate and to introduce new rates for luxury and semi- luxury motor vehicles.
Regional Infrastructure Development Levy (Repeal) Act No. 16 of 2011	To repeal the Act and remove the Regional Infrastructure Development Levy.
Excise (Special Provisions) (Amendment) Act No. 17 of 2011	To introduce an amendment to simplify the calculation of Excise Duty.
Ports and Airports Development Levy Act No. 18 of 2011	Removal of PAL applicable to items imported for special projects.
Recovery of Loans by Banks (Special Provisions) (Amendment) Act No. 19 of 2011	*Parate Execution* rights introduced in terms of the Act not to be applicable in instances where the principal amount borrowed is less than Rs. 5 Mn. excluding any interest and or penalties, mainly for the benefit of SMEs.
Excise (Amendment) Act No. 20 of 2011	To permit tapping of Palmyra and Kithul trees without having to obtain a license to encourage related domestic industries.
Telecommunication Levy Act No. 21 of 2011	To Introduce a composite levy relating to telecommunication service, in lieu of VAT, NBT Cellular Mobile Subscribers Levy and Environment Conservation Levy.

Statute	Objective
Inland Revenue (Amendment) Act No. 22 of 2011	To reduce the rates of individual taxes, to expand tax slabs, to revise corporate tax rates, to simplify the income tax system, to improve tax administration, to appoint an Interpretation Committee, to grant concessions to identified segments of the society affected during the conflict period.
Tax Appeals Commission Act No. 23 of 2011	To establish an autonomous Tax Appeals Commission, to hear all appeals relating to imposition of taxes and levies with regard to Statutes set out in the Schedule, and to make the appeal process independent and expeditious.

Box 3.5
Tax Appeals Commission Act No. 23 of 2011

Effective from 1.4.2011

The Tax Appeals Commission established by Tax Appeals Commission Act No. 23 of 2011, is responsible for the hearing of all appeals in respect of matters relating to imposition of any tax or levy.

As required in terms of the provisions of the Act the following are the members appointed by the Minister of Finance as members of the Commission;

1. Justice Hector Yapa – Retired Judge of the Supreme Court.
2. Mr. P. A Pematillake – Retired Auditor General.
3. Mr. Jolly Somasunderam – Retired Director, National Budget Department.

The Hon. Minister has also appointed Mr. K. A. P. Kaluarachchi – a Deputy Commissioner General of the Inland Revenue Department, released on full-time basis, as the Secretary to the Commission. A panel of 10 Legal Advisors are also being appointed to assist the Commission.

As provided for in the Act, a person aggrieved by a determination of the Commissioner General of Inland Revenue given in respect of an imposition of a tax or levy under the provisions of the Inland Revenue Act No. 10 of 2006, Value Added Tax Act No. 14 of 2002, Nation Building Tax Act No. 9 of 2009 or the Economic Service Charge Act No. 13 of 2006 could appeal to the Commission upon the payment of a sum equivalent to 25 percent of the assessment as assessed by the Commissioner General of Inland Revenue, which assessment is the subject of the appeal.

Once the intention of an aggrieved party to prefer an appeal against a determination is communicated to the Commission and within one month of receipt of such appeal, a copy of the same is forwarded to the Commissioner General by the Commission requiring him to transmit in writing the reasons for his determination.

If the party aggrieved is not satisfied with the reasons given by the Commissioner General, he has the right to refer an appeal to the Commission, within 30 days on receipt of the same.

A decision in respect of the appeal has to be made within One Hundred and Eighty (180) days from the date of the commencement of the hearing of such appeal.

The appeals pending before the respective Board or Boards of Review are transferred to the Commission. If any appeal had commenced prior to the date of coming into operation of this Act, such appeal should either be determined or an opinion should be expressed within One Hundred and Eighty (180) days from the date of coming in to operation of the Act.

The Investment Regime

Section 16 of the BOI Law	Foreign Investors seeking to bring inward Foreign Direct Investment, could get approval of the Board of Investment (BOI) in terms of this section.
Section 17 of the BOI Law	Foreign Investors seeking concessions to bring inward Foreign Direct Investment could seek facilitation of the BOI under this Section. The BOI may grant exemptions from the laws referred to in Schedule B of the BOI Act i.e. Inland Revenue Act, Customs Ordinance, Exchange Control Act, Companies Act, Merchant Shipping Act, Finance Act No. 65/1961 and Air Navigation Act. The BOI and the Inland Revenue regime has been harmonized in relation to Section 17.
Inland Revenue Act No. 10 of 2006, as amended	16 A Fisheries, 16 B Seed and Plant Material, 16 C Medium Scale Investments, 17 A Large Scale Investments, 24 A Cinamatographic Films (For details, refer the explanatory section below on Fiscal Concessions and Incentives under the Inland Revenue Act).
Strategic Development Projects Act No. 14 of 2008, as amended	Foreign Investment of a strategic nature could be treated in terms of the Strategic Development Projects Act. The BOI can facilitate this process in consultation with the Minister in charge of the subject of Investment and the Minister in charge of the subject of Finance, having followed the process envisaged in the Act.

Fiscal Concessions and Incentives - Inland Revenue Act No. 10 of 2006, as amended

Item	Description
Section	- **16A Fisheries**
- Exempt Undertakings	- Any person or partnership carrying on an undertaking for fishing.
- Criteria for exemption	- "Undertaking for fishing" includes cleaning, sizing, sorting, grading, chilling, dehydrating, packaging, cutting or canning of fish in preparation for the market.
- Investment Requirement	- Not applicable.
- Period of tax holiday	- The trade profits and income within the period of five years, commencing 1.4.2011.
- Relevant Gazette No.	- Need not be gazetted.
Section	- **16B Seed and Plant Material**
- Exempt Undertakings	- Any person or partnership carrying on an undertaking of producing agricultural seeds or planting material, or primary processing of such seeds or material.
- Criteria for exemption	- Carrying on an undertaking of producing of agricultural seeds or planting material, or primary processing of such seeds or material. - "Primary processing" means cleaning, sizing, sorting, grading, chilling, dehydrating, cutting, canning or packaging for the purpose of preparation of such produce for the market.

Item		Description
Section	-	**16B Seed and Plant Material** contd...
- Investment Requirement	-	Not applicable.
- Period of tax holiday	-	Trade profits and income, other than profits and income from the disposal of any capital asset, within the period of five years, commencing 1.4.2011.
- Relevant Gazette No.	-	No gazetting requirement.
Section	-	**16C Medium Scale Investments**
- Exempt Undertakings	-	Any person or partnership investing in a new undertaking, investing a minimum of Rs. 50 Mn.
- Criteria for exemption	-	"New undertaking" means an undertaking - (a) engaged in the manufacture of any article other than liquor or tobacco; (b) in which the sum invested in the acquisition of fixed assets after 22.11.2010 but before 31.03.2012, is not less than Rs. 50 Mn. and, (c) which has commenced commercial operations on or after 1.4. 2011.
- Investment Requirement	-	Not less than Rs. 50 Mn.
- Period of tax holiday	-	Trade profits and income for 3 years, from the year in which the company commences to make profits from that year's transactions, or from 2 years from the date of commencement of its commercial operations, whichever is earlier.
- Relevant Gazette No.	-	Need not be gazetted.
Section	-	**17A Large Scale Investments**
- Exempt Undertakings	-	A New undertaking commenced on or after 1.4.2011.
- Criteria for exemption	-	"New undertaking" means an undertaking engaged in any activity prescribed by the Minister, as needed for the economic development of the country.
- Investment Requirement	-	Not less than USD 3 Mn. currency invested in fixed assets.
- Period of tax holiday	-	The trade profits and income for a period of 5 years, from the year in which the company makes profits from that year's transactions or 2 years from the date of commencement of its commercial operations, whichever is earlier, a tax holiday period not exceeding 7 years.
- Relevant Gazette No.	-	Needs to be gazetted.
Section	-	**24A Cinematographic Films**
- Exempt Undertakings	-	Exhibition on or after 1.4.2007 of any cinematographic film in any; - new cinema. - upgraded cinema.

Item	Description
Section	- **24A Cinematographic Films** contd...
	"New Cinema " means a cinema; (i) in which the exhibition of cinematographic films commences on or after 1.4.2007; and (ii) which is certified by the National Film Corporation as being equipped with digital technology and Digital Theatre Systems and Dolby Sound Systems, and "Upgraded Cinema" means a cinema; (i) in which the exhibition of cinematographic films had commenced prior to 1.4.2007. (ii) which was not equipped with digital technology and Digital Theatre Systems & Dolby Sound Systems prior to 1.4.2007. (iii) which is certified by the National Film Corporation of Sri Lanka, established by the National Film Corporation as being equipped on or after 1.4.2007, with digital technology & Digital Theatre Systems & Dolby Sound Systems.
Criteria for exemption	- In relation to any cinema or upgraded cinema , from the year in which the exhibition of cinematographic films commenced.
Investment Requirement	- Not Applicable.
Period of tax holiday	- 10 years - new cinemas, 07 years - upgraded cinemas.
Relevant Gazette No.	- Need not be gazetted.

Strategic Development Projects Act No. 14 of 2008, as amended by Act No. 12 Of 2011 (April 2011)

Projects coming under the purview of the Board of Investment of Sri Lanka, bringing in strategically important foreign investment into the country are provided with facilities as envisaged in the Strategic Development Project Act. A project, which in the national interest, is likely to bring economic and social benefits to the country and which is also likely to change the landscape of the country, primarily through;

- strategic importance attached to the proposed provision of goods and services, which will be of benefit to the public.
- substantial inflow of foreign exchange to the country.
- substantial employment, which will generate and enhance income earning opportunities.
- the envisaged transformation in terms of technology, could be recommended to be declared as a Strategic Development Project(SDP) [4].

A SDP may be granted exemptions, either in full or part, from time to time, from the applicability of the provisions of one or more of the following enactments[5];

- 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 Provision) Act No. 13 of 1989.
- Economic Service Charge Act No. 13 of 2006.
- Debits Tax Act No. 16 of 2002.
- Customs Ordinance (Chapter 235).
- Nation Building Tax Act No. 09 of 2009.
- Ports and Airports Development Levy Act No. 18 of 2011.

Further, SDPs may be given such other assistance or facilitation as may be necessary, but any tax exemption is subject to a maximum of 25 years.

The Process Required To Be Followed[6];

- The Board of Investment (BOI) and the relevant line Ministry, identifies SDPs,
- The Minister of Investment to publish a notice in the Gazette to bring information relating to the SDP to the public domain;
- Upon the expiry of 30 days from such Gazette notification, the Minister of Investment - in consultation with the Minister of Finance, informs the Cabinet of Ministers the rationale for considering such project as a SDP, the period of exemption proposed to be granted, and obtain Cabinet approval to identify such project as a SDP and the exemptions proposed to be granted;
- If approved by the Cabinet of Ministers, the Minister of Investment must within 6 weeks hence, publish for the second time an Order in the Gazette to bring more specific information of the SDP to the public domain, i.e the name of the SDP, the proposed date of commencement of such a project, the commencement and end dates of proposed exemptions.
- Every such Order published in the Gazette should be placed before the Parliament within 3 months from the date of publication.

Such an Order will become operative immediately upon approval by Resolution of Parliament. If not approved by Parliament, the order is treated as rescinded with immediate effect without prejudice to anything previously done[7].

In the event a SDP requires land for such investment, land will be dispossessed as per the Government's land alienation policy, subject to applicable laws and regulations.

4 Section 6, Strategic Development Act No 14 of 2008 as amended by Act No 12 of 2011

5 Schedule, Strategic Development Act No 14 of 2008 as amended by Act No 12 of 2011

6 Section 3, Strategic Development Act No 14 of 2008 as amended by Act No 12 of 2011

7 Section 4, Strategic Development Act No 14 of 2008 as amended by Act No 12 of 2011

Table 3.1 > **A Regional Comparison of Standard Tax Rates – At a Glance**

Countries	Indirect Tax Rates %	Corporate Income Tax Rate %	Personal Tax Rate %
	VAT / GST		[Maximum Rate]
	Year 2011	Year 2010	Year 2009
China	17	25	45
Pakistan	17	35	20
New Zealand	15	30	39
India	12.5	30	30
Philippines	12	30	32
Australia	10	30	45
Indonesia	10	25	35
Korea (South)	10	22	35
Malaysia	5 to 10	25	28
Vietnam	10	25	40
Singapore	7	17	20
Thailand	7	30	37
Japan	5	30	40
Taiwan	5	20	40
Sri Lanka (2011)	12	28	24

Source;

Indirect Taxes	*The 2011 worldwide VAT, GST and Sales Tax Guide issued by Ernst & Young*
Corporate Income Tax	*The 2010 worldwide Corporate Tax Guide issued by Ernst & Young*
Personal Tax	*Singapore Budget 2009 synopsis, except Pakistan and New Zealand*

Banking Sector Reforms

Several reforms were introduced in the year 2010/2011 in the area of Banking and Finance, having noted the demand of the sector and the regulatory intervention desirable. Key reforms include permitting all licensed banks to grant credit facilitates for repayment of Non-Performing Loans (NPLs) in the name of the same borrower or any other party without requiring the new facility to be classified as NPL, until 30th June, 2011.

With a view to ensuring that banks are adequately capitalized to facilitate the asset growth in the wake of expected growth in per capita income, the minimum capital requirement of licensed banks were increased as shown in Tables.

All unlisted private licensed banks were requested to be listed in the Colombo Stock Exchange, *inter alia* to improve better accountability as a listed company and to create an impetus in the capital market operations. With a view to enhancing the ability of banks to raise additional capital in a more transparent manner and to further improve governance through market discipline, all locally incorporated private banks were informed to be listed in the Colombo Stock Exchange by 31.12.2011.

All banks were requested to take appropriate measures to reduce interest rates on housing loans to 14 percent per annum, interest rates on credit card advances to 24 percent per annum and interest rates on other loans and advances by 1 to 2 percent per annum, by end of October 2010.

Considering the improved conditions in the banking sector, the general provision requirement was reduced from 1 percent to 0.5 percent on a staggered basis at a rate of 0.1 percent per quarter, commencing from the quarter ending 31 December 2010 and ending by 31 December 2011.

A Sri Lanka Deposit Insurance Scheme was implemented under the provisions of the Monetary Law Act. Further, Directions were issued on “Outsourcing of business operations of licensed banks” to all licensed banks. The assessment of fitness and propriety was extended to officers performing executive functions of banks. All licensed banks were required to adopt appropriate risk management standards and introduced limits on banks’ exposure to margin trading on shares. In order to protect the customers of banks, a “customer charter” was prepared with the primary objective of introducing rights and obligations of customers and fair banking practices, which will be launched shortly. An exposure draft was issued to banks for comments within two months. Amendments to the Banking Act were finalized with a view to further strengthening the supervisory and regulatory framework in line with best practices and standards.

Table 3.2 > **Minimum Capital Requirement of New Banks**

(Rs. billion)

Type of Banks	From 2010	From 2012	From 2014
Licensed Commercial Banks	3.0	4.0	5.0
Licensed Specialized Banks	2.0	2.5	3.0

Source; Central Bank of Sri Lanka

Table 3.3 > **Minimum Capital Requirement of Existing Banks**

(Rs. billion)

Type of Banks	End 2011	End 2013	End 2015
Licensed Commercial Banks	3.0	4.0	5.0
Licensed Specialized Banks	2.0	2.5	3.0

Source; Central Bank of Sri Lanka

Box 3.6
Finance Business Act No. 15 of 2011

The Cabinet of Ministers in December 2010 approved the submission of the draft Finance Business Act, to Parliament. This Act is aimed at regulating finance business and repealing and replacing the Finance Companies Act, No. 78 of 1988 (FCA). This Act has since then been submitted to the Parliament and is pending the 2nd reading.

The need to amend the FCA has been felt by the financial sector as well as the regulator in order to update the law with the developments in technology and practices, the need for combating unauthorized deposit taking businesses and to enhance effective regulation of the financial sector to overcome challenges to the stability of the financial sector.

The following are some of the salient features of the Bill (including committee stage amendments):

- Acceptance of deposits without authority is made an offence.
- Definition of "deposit" is introduced.
- Enhanced Examination & Investigative powers.
- Enhanced powers to curb unauthorized finance business & acceptance of deposits.
- Restriction/prohibition of the use of certain words.
- Use of the words 'finance', 'financing' and 'financial' in a name or description of an entity is restricted.
- Use of an abbreviated name or acronym of a licensed finance company by any other company is prohibited.
- Enhancement of supervisory action on licensed finance companies.
- Enhanced public disclosure.
- Penalties under the Act are enhanced and abetting to commit an offence is also made an offence.
- Carrying on finance business without authority and accepting deposits without authority are made indictable offences by the Attorney General in the High Court.
- Introducing requirements to inform of any reasonable suspicion relating to carrying on finance business or accepting deposits from the public, without authority.

Capital Markets Reforms

In 2010, the Securities and Exchange Commission of Sri Lanka also implemented several reforms with a view to enhance capital market operations. These initiatives are consistent with the government's strategic priorities and strive to ensure that the SEC continues to play a significant role in the securities regulatory landscape.

The SEC granted licenses to 5 Stock Brokers, 5 Investment Managers, 9 Margin Providers, 3 Underwriters and 1 Stock Dealer. The SEC directed the CSE and the CDS to mandate the lodging of certificates pertaining to all listed securities at the CDS and thereby implement a system of dematerialization of all listed securities. During the course of 2010 the SEC finalized the regulatory framework for exchange traded funds, updated the Code for Unit Trusts, finalized the drafting of Rules pertaining to Employee Share Option Plans, simplified and reduced the transactions at the Colombo CSE by about 20 percent, reduced the tick size pertaining to the share price from 25 cents to 10 cents across the boards to facilitate a more accurate price discovery mechanism and to mitigate chances of market manipulations and conducted a consultation on the advisability to mandate all public listed companies to maintain a specified percentage as public holdings. With the aim of enhancing surveillance functions. The SEC procured a state of the art surveillance system in 2010. This new system has the capacity to provide enhanced solutions that will enable the SEC to monitor the market more effectively and prevent misconduct.

In the year 2010, price bands were introduced to arrest the volatility in the market and to formalize credit arrangements to clients. Such price bands were introduced after observing that prices of certain stocks rising without being backed by sound fundamentals. In order to promote Unit Trusts to mobilize savings, several significant steps were taken including the turnover of the Unit Trust industry being exempted from Economic Service Charge whilst foreign investment restrictions placed on Unit Trusts investing in Government Securities being relaxed. To encourage companies to list on the Colombo Stock Exchange, expenses on listing a company were permitted to be deductible subject to a limit on the value of the Initial Public Offering. The anomalies which existed in the application of withholding tax between corporate debt securities and government securities were removed enabling both categories to be treated alike in respect of withholding tax.

Table 3.4 > **Market Performance**

	2010	2009
All Share Price Index (ASPI)	6,635.9	3,385.5
% Change	96.0	125.5
Milanka Price Index (MPI)	7,061.5	3,849.3
% Change	83.4	135.9
Equity Turnover (Rs Mn)	570,326.8	142,462
Daily Average Turnover (Rs Mn)	2,396.3	593.5
Transactions (No)	3,355,126	1,266,299
Net Foreign Inflow (Rs Mn)	(26,376.3)	(789)
Foreign Investor Contribution to Total Turnover (%)	18.8	30.5
Listed Companies (No)	241	231
Member Firms/Trading Members (No)	23	21
Market Cap (Rs Bn)	2,210.5	1,092.1
Market PER (Times)	25.2	16.5
Turnover to Average Market Cap (%)	34.2	18.0
Dividend Yield (%)	1.2	3.0
No of New Issues	10	3
Amount Raised (Rs Mn)	4,347.4	1,219.3

Source; Securities and Exchange Commission of Sri Lanka

Insurance Reforms

During the year 2010, the Insurance Board of Sri Lanka has endeavored to give the sector a new growth momentum in terms of Investment, strategies and regulatory scope. While strengthening the stability of the Insurance market, the Board has strengthened the supervisory and regulatory framework.

Emphasis was placed on maintaining integrity and professionalism, to safeguard the interest of policyholders as well as the potential policyholders. The supervisory aspects were consolidated by strengthening rules to be able to scrutinize aspects such as the solvency margin, investments, and the minimum capital requirement. However, keeping pace with the developments in the global insurance industry and the prevailing trends in the financial markets, steps were taken to transform the rules- based supervisory system to a risk sensitive capital model for insurance industry supervision. As a risk based capital mode yields for a more risk sensitive capital requirement, the Board took steps to increase the minimum capital requirement for new companies that seek registration as an insurer, from Rs. 100 million to Rs. 500 million per class of insurance business. It is believed that this new model will standardize the supervisory system of the insurance industry in Sri Lanka to be on par with international standards of risk oriented management of insurers.

To facilitate development and liberalization of the financial market, a VAT exemption was extended in relation to re-insurance claims and commissions. This exemption came into effect from 1st January 2011 as announced in the Budget 2011.

Acknowledging that a transparent and advanced supervisory system is a must to stabilize the insurance industry, the regulatory scope of the Board was broadened and strengthened during the year 2010, the following significant changes have been introduced to the Regulation of Insurance Industry Act No. 43 of 2000.

- Amendments were made to enhance the regulatory scope of the Board through new provisions to enable registration of persons as loss adjusters.

- Companies carrying out both classes of Insurance business (Long term and General) were required to segregate their businesses through two separate companies within a stipulated period enabling the identification of capital, assets and liabilities of each class separately, so that losses of one class would not be set-off against another to look after a narrow interest.

- Every insurer was required to list their businesses in a stock exchange licensed under the Securities and Exchange Commission of Sri Lanka within a stipulated period in order to enhance the transparency and to improve accountability of insurance companies.

- The directors and specified officers in insurance companies were required to adhere with stipulated minimum qualifications/ criteria to ensure their suitability to be appointed and to continue in employment.

- Similar minimum criteria were introduced for corporate bodies to be registered as insurance agents of insurance companies and insurance brokering companies, since earlier this was limited to individuals.

- The IBSL was empowered to increase the Capital requirement of registered Insurance Companies and Brokering Companies even after registration, in terms of rules made in that behalf.

- The National Insurance Trust Fund (NITF) was brought under the regulatory scope of the IBSL thereby ensuring more transparency in insurance related activities.

- The IBSL was empowered to settle disputes in relation to general insurance business to boost the confidence of the general public.

Procurement Related Reforms

In terms of Government Procurement Guidelines three levels of procurement related committees function as follows :

Procurement Committees

Authority	GOSL Funded Projects	Foreign Funded Projects
Cabinet Appointed Procurement Committees (CAPCs)	More than Rs. 150 Mn.	More than Rs. 500 Mn.
Ministry Procurement Committees (MPCs) (Works, Goods and Services)	Up to Rs. 150 Mn.	Up to Rs. 500 Mn.
Departmental Procurement Committees (DPCs) Project Procurement Committee (PPC) (Works, Goods and Services)	Up to Rs. 50 Mn.	Up to Rs. 150 Mn.

The *ad hoc* appointments of Secretaries and other senior officials to Cabinet Appointed Procurement Committees resulted in many senior officials ending up having being appointed to a number of CAPCs simultaneously, thereby making it impractical for such members to make an effective contribution.

Addressing these issues, the Government appointed Standing Cabinet Appointed Procurement Committees with regard to thirteen Ministries that generally involve in a large volume of transactions.

Standing Cabinet Appointed Procurement Committees (SCAPCs) (JANUARY 2011)

Standing Cabinet Appointed Procurement Committees consisting of the following 5 members each were appointed for 13 Ministries involved in a large volume of transactions.

- A Secretary to a Ministry, other than the Secretary to the relevant line ministry- to operate as the Chairman.
- Secretary to the relevant line Ministry or an Additional Secretary in place of such a Secretary (Ministry member)
- A Secretary to any other line ministry and /or a senior officer from an all island service, or a University or a Statutory Body, who has expertise in the relevant subject
- A Treasury Representative
- In the event the Treasury Representative is not a member of the Sri Lanka Accountant's Service, any senior officer from the Sri Lanka Accountants' Service

The 13 Ministries are the following;

- Ministry of Health
- Ministry of Water Supply and Drainage
- Ministry of Economic Development
- Ministry of Power and Energy
- Ministry of Petroleum Industries
- Ministry of Defence
- Ministry of Finance and Planning
- Ministry of Ports and Highways
- Ministry of Agrarian Services and Wild Life
- Ministry of Transport
- Ministry of Construction, Engineering Services , Housing and Common Amenities
- Ministry of Civil Aviation
- Ministry of Higher Education

The procurement recommendations of such Committees have to obtain the approval of the Cabinet of Ministers, prior to awarding tenders except in relation to procurement of petroleum and petroleum related products, which are being carried out based on weekly price quotations.

In addition, two Procurement Planning Committees have been appointed pertaining to the procurement of pharmaceuticals and fertilizer, to enable the preparation of procurement plans for pharmaceuticals and fertilizer.

Another aspect that demanded attention is that there was no accepted process to be followed in relation to unsolicited proposals.

Appointment of a Standing Cabinet Appointed Review Committee (SCARC) to Process Unsolicited Proposals (June 2010)

In the backdrop that raising funds at concessionary or low interest rates through conventional lending sources is no longer easy, bilateral lending arrangements have expanded through export credit agencies of emerging economies where each lender has its own procurement systems and where such lending Governments or agencies, nominate their contractors. In this backdrop, considering the fact that development projects need to be expedited in the national interest, it was deemed prudent to consider securing alternative funding where appropriate, through a mechanism that will take care of acceptable project financing arrangements. Hence, the Standing Cabinet Appointed Review Committee (SCARC), was appointed consisting of the following public servants at the highest level, to assess unsolicited or stand alone development proposals, in order to decide and advise the manner in which such proposals should be proceeded with;

- Mr. S. Amarasekera, Secretary to the Prime Minister – (Chairman);
- Mr. S. Abeysinghe, Secretary to the Cabinet of Ministers – (Member)
- Mrs. Sujatha Cooray, Secretary, Ministry of Ports and Highways – (Member)
- Mr. M. M. C. Ferdinando, Secretary, Ministry of Power and Energy – (Member)
- Mr. Ivan de Silva, Secretary, Ministry of Irrigation and Water Resources Management – (Member)
- Mr. A. Abeygunasekera, Secretary, Ministry of Water Supply and Drainage – (Member)
- Mr. K. V. P. Ranjith de Silva, Secretary, Ministry of Ports and Aviation – (Member)

The SCARC can obtain assistance from supporting committee/s with relevant expertise towards evaluating proposals. Having been appointed by the Cabinet of Ministers, the following Guidelines have been prepared by SCARC in consultation with relevant stakeholders, to be followed when dealing with unsolicited/stand alone development proposals, further to the broad outline given in "Guidelines on Government Tender Procedure Part II" issued in 1998.

Projects which are generally not of a strategic nature and can be managed through the normal procedure as well as procurements of a general nature, should not be processed in terms of these Guidelines. Secretaries to line Ministries and Heads of Government Agencies are required to make an assessment themselves and ensure that only proposals which are covered in terms of the Guidelines, are submitted to the SCARC.

The following classifications in relation to project proposals have been adopted to facilitate effective processing;

- Category I
  Public Sector Development Project Proposals to be financed on credit terms pertaining to which the lender nominates the contractor.

- Category II
  Development Project Proposals to be undertaken by Private Investors in the form of Private Public Partnership (PPP), Build Own Operate (BOO), Build Own Transfer (BOT) and other partnership arrangements with line ministries or other Government agencies.
- Category III
  Private investment initiatives which involve having to dispose either by sale, grant or otherwise - any state land or land owned by a state entity.

The process relating to Category I and II requires the Secretary to the line Ministry or the Head of the relevant Government Agency who receives an unsolicited or a standalone proposal to consider and be satisfied that such a proposal is likely to bring about exceptional benefits to the country, both in terms of funding and otherwise and consequently proceeding with such a unsolicited proposal without going through the normal procurement process, if advantageous. He must be satisfied that the proposal and the funding offer appears important and relevant in the overall context of the public investment plan and the policy strategies of the Government or that the proposed investor commands a reputation and knowhow, that is otherwise scarcely available. In the case of a proposal that contains merit to proceed, it should be submitted to the Standing Cabinet Appointed Review Committee (SCARC) for an assessment. The SCARC upon receiving such a proposal for consideration, with the assistance of supporting committees where necessary should evaluate and recommend whether such a proposal should be proceeded with or not. As stipulated in the relevant Guidelines, in deciding whether a deviation from the standard tender procedure is justifiable, consideration should be given to the strategic nature of the project and the ultimate benefits it is likely to bring to the economic development of the country, whether the proposal is within the planned development agenda of the government, the likely transformation of the knowledge, knowhow that is likely to flow from such project, the proposed conditions being attractive and acceptable and advantageous in the national interest. If deemed suitable accordingly, such a proposal should be recommended for the approval of the Cabinet of Ministers to be proceeded with. However, in order to ensure transparency and accountability, the guidelines require that related project financing should necessarily be extended through a reputed banking or financial institution acceptable to the government and that the project financing terms should extend to at least up to 15 years including a grace period of at least 3 years. Further, the line agency is also required to make an assessment and inform whether related repayments are possible out of funds generated from the project or other funds within the control of such agency. It is a requirement that a ‘no objection’ should be obtained from the Central Bank regarding the external financing terms.

The process relating to Category III deals with situations where the proposal involves *inter alia* the disposition of land either owned by a state or a state owned institution. In relation to such a proposal, if the Secretary to the line Ministry or the Head of the relevant government agency having made an assessment is satisfied that such a proposal is likely to bring substantial, social or economic benefits to the country or will facilitate to change the landscape of the country, he could submit such a proposal to the SCARC for consideration. If the SCARC is of the view that such a proposal deserves to be proceeded with, it can be proceeded *inter alia* with Cabinet approval subject to regulatory clearances required. To ensure accountability, the relevant Secretary to the line Ministry or the Head of the relevant Government Agency is required to obtain a valuation from the Government Chief Valuer based on which the transaction should be concluded. It is also a requirement that Secretary to the line Ministry or the Head of the relevant Government Agency credits any proceeds received from such transactions to the Account of the Deputy Secretary to the Treasury, where in-turn such funds can be utilized only for specific capital investments within the related agency as approved by the National Budget Department.

What is important to note is that although with the approval of the Cabinet of Ministers, steps can be taken to proceed with a stand-alone or unsolicited proposal without having to go through the General Tender Guidelines to select a party, the post award and compliance process has to be followed in terms of the procedure applicable to the Government and government related institutions. In this regard, Public Finance Circular No. 444 was issued on 04th August 2010, having obtained necessary approvals from the Cabinet of Ministers.

Other Reforms

Land Alienation Policy to Promote Investment and Development Activities (April 2011)

The Government having fully recognized that national resources and public assets should be used in an economical, effective and an environmentally sound manner, recognized the need to revisit the country's land alienation policy in order to further accelerate the development momentum.

In the process of deciding on a new land alienation policy, emphasis was *inter alia* given to;

- Address investor interests while also safeguarding the national interest.
- Ensure that there is a level playing field created in relation to investors.
- Ensure that there is a coherent and consistent policy on the extent of land that would be made available for specific purposes.

The following Guidelines have been approved by the Cabinet of Ministers, reflecting the policy of the Government on the manner in which land will be alienated;

Agriculture and Manufacturing;

- Land alienation for agricultural purposes should be done strictly on the basis of lease arrangements, and the lease term should not exceed 35 years.
- Land alienation for industrial purposes should also be done strictly on the basis of lease arrangements and the lease term should not exceed 35 years.
- However, in the case of land required for agricultural or industrial purpose, if the investment is over USD 20 Million and USD 30 Million respectively, a suitable disposition on a long term tenure could be considered.

To set up Zones:
Industries;

- on the basis of a 99 year lease and the extent of land relating to such a lease should be in the range of 200 – 300 acres.

Tourism and Leisure;

- on the basis of a 99 year lease, and the extent of land relating to such a lease should be 30 acres or less.
- if the required extent of the land is 10 acres or less, the land can be dispossessed as may be approved by the Cabinet of Ministers *inter alia* considering the quantum of the proposed investment.

Fiscal Management Efficiency Programme (Commenced in April 2010)

The Government consolidated its fiscal management efforts steered through the Fiscal Management Reforms Programme that was commenced in 2004 and substantially completed by end 2010. Following the success of this initiative, the Asian Development Bank supported a new programme – the Fiscal Management Efficiency Project (FMEP) in April 2010 covering the period till 2014. The overall reform objective of the FMEP is to create fiscal space through improved revenue collection and better management of expenditure; fiscal and governance reforms and capacity development of those in the Ministry of Finance, the revenue collection agencies and the western Provincial Council.

The improvement of revenue and better management of expenditure are primarily to be achieved through the three main components envisaged under the project.

i) the introduction of Information Technology Systems at the Inland Revenue Department of Sri Lanka, ii) the introduction of Information Systems at the Ministry of Finance and Planning, and iii) Human Resource Capacity Development through a structured and comprehensive training programme to ensure that those serving in the Ministry of Finance and Planning and the revenue agencies are groomed through training in change management, to be able to adopt to work in an automated environment, with sufficient know- how to make maximum use of the automated systems. Further, through structured training programmes spanning over three years, subject specific knowledge and expertise of such officers are also to be improved. Under this component it is proposed to set-up a new state of the art Academy with the necessary infrastructure facilities in order to sustain the above training and develop in-house skills.

On the information technology front, the introduction of IT Systems' components of the project would cover two main areas,

i) the automation of all the business processes of the Inland Revenue Department which will address inefficiencies in the current revenue management system and lead to a more accountable system for increasing revenue collection by enabling access to timely and accurate information, tracking tax collections, and

ii) the introduction of an Integrated Treasury Management Information System which will automate key departments of the Treasury/Ministry of Finance and Planning and will cut across various functions of the General Treasury activities ensuring proper and effective management in fiscal and treasury operations.

In relation to the progress as of mid 2011, Invitation for Bids were issued during February - May 2011 , following the International Competitive Bidding procurement procedure to invite prospective bidders for the design, implementation and commissioning of both the above Information Technology systems for the Inland Revenue Department and the Ministry of Finance and Planning. It is expected that following a due process involving both government and ADB tender guidelines, the prospective vendors for both these project will be on board within 2011.

The FMEP's capacity development component has been commenced by improving and enhancing language skills of employees, particularly in the use of the Business English. The FMEP has obtained the services of the British Council Colombo to design and conduct a structured English language training programme to see sustainable results in Business English related skills and know-how. Arrangements are being finalized to conduct training in reputed institutions such as the National University of Singapore.

The Academy of Financial Studies (Established in August 2010)

Following the approval of the Cabinet of Ministers in August 2010, the Academy of Financial Studies (AFS) was set up, as the training arm of the Ministry of Finance and Planning, in order to meet the skills demand of those in Accountancy, Planning, Inland Revenue, Customs, Excise and the Treasury Services.

To ensure a consolidated and focused approach towards training, the training activities of the Institute of Government Accountants and Finance (INGAF) and the Institute of Public Finance and Development Accountancy (IPFDA) were taken over by the AFS and are being restructured. An administrative structure relating to AFS has also been put in place with the overall supervision being placed under the purview of a Governing Council headed by the Secretary, Ministry of Finance and Planning. A Director General has been appointed as the administrative Head of the academy and a core team of around 3-5 professionals/experts have been appointed to be in charge of teaching.

It is proposed to identify and invite reputed academics/ professionals in specialized areas from places such as the Central Bank, Institute of Policy Studies, the Post Graduate Institute of Management and the private sector and entrust them to formulate syllabuses etc. under the overall policy guidance of the core staff. With a view to infuse world-class standards to the AFS, discussions are under way to enter into a suitable arrangement with a renowned foreign academic training institution to secure periodic training visits by its staff to the AFS.

Negotiations are also in progress with reputed institutions such as the National University of Singapore to commence these programs, once the Academy commences its operations at the proposed new location, by end 2011/2012.

Contract Management
A Dispute Resolution Procedure (April 2011)

To facilitate the transformation of Sri Lanka as a middle income country, the importance of creating a predictable investment environment became even more important. Seemingly attributable to the rapid development activities that are taking place and a greater number of contracts having been entered into, a notable increase was witnessed in the number of unsettled claims associated with disputes in relation to contract management, relating to contracts entered into by the Government and agencies under the purview of the line Ministries.

This caused development work to be delayed or even suspended, and compelling parties to be entangled in costly and protracted litigation or arbitration, both of which are time consuming and costly. The Government in a bid to reverse this trend formulated and approved a mechanism to be adopted towards resolving disputes in relation to contract management[8];

- The new procedure requires that in the case of a contract in dispute, the Secretary to the relevant line Ministry or the Head of the relevant government institution should make an assessment of the present position with regard to the related contract in consultation with the Hon. Attorney General and decide as to whether pursuing an amicable settlement is desirable.

- In the event it is decided that pursuing an amicable settlement is desirable, to submit a settlement proposal to the Standing Cabinet Appointed Review Committee (SCARC), for evaluation and deliberations after having obtained views of the Hon. Attorney General, on whether the proposed settlement is beneficial in the overall legal context.

- The relevant head of the Departments or the agency, along with the Secretary to the Ministry of Finance and Planning to make an assessment of the impact of the proposed settlement considering the macroeconomic overview of Sri Lanka, the donor perspective, the financial and budgetary implications and the likely contingent risks.

- The Secretary to the relevant line Ministry to be responsible for compiling the required information and assist the related Minister in Charge to appraise the Cabinet of Ministers towards taking a decision.

- The Secretary to the relevant line Ministry to pursue the settlement as may be approved by the Cabinet of Ministers.

This process is expected to promote settlements on a fast-track basis, avoiding delays and thus decreasing the contingent liabilities of the Government caused by indecisiveness in resolving such disptutes. This new procedures would strengthen the administrative system by empowering the relevant officials to resolve such disputes through a systemic process.

8 *Litigation or Arbitration, whether held in Sri Lanka or overseas, depending on the provisions in the then related contract, are both very costly and time consuming and any consequent breach of payments in violation of contractual obligations has other serious ramifications such as the impact of 'cross default' provisions being invoked etc., that are unfavorable developments likely to erode investor confidence.*

The Role of Chief - Accounting Officers of Line Ministries (February 2011)

The Constitution stipulates that there shall be for each Ministry a Secretary who shall be appointed by the President and that the Secretary shall subject to the direction and control of the Minister exercise supervision of the departments of the government or other institutions in charge of his Minister [9].

The Financial Regulations 1992 which have been approved by the Hon. Minister of Finance are binding on Ministries, Departments, Statutory Bodies and all State Employees. They apply to Government Corporations unless they have duly adopted their own comprehensive Financial Rules and Procedures. His Excellency the President, acting under the powers vested on him by the Constitution has assigned to the Minister of Finance, the subject of the Government Financial Regulations, Interpretations, Amendments, etc [10]. The objectives of these Regulations are to enable the Government to carry out its financial transaction in an orderly manner and are not intended to be an obstruction to the execution of the Government Programme of work.

As such; once a Secretary is appointed he becomes the Chief Accounting Officer of his Ministry, and is required to perform responsibilities entrusted *inter alia* in terms of the Financial Regulations of the Government.

In February 2011 attention of all those who were appointed as Secretaries to line ministries were drawn to the role they are expected to play including the following aspects. They were also requested to adhere with their duties and responsibilities;

- In terms of FR 124(1) the Minister of Finance who is in charge *inter alia* with the general oversight of all financial operations of the Government and the Treasury, lays down the broad framework within which government financial transactions should be undertaken.

- In terms of FR 124(2) the Minister of Finance appoints Secretaries to Ministries who are the chief accounting officers, and delegates to them the responsibility to supervise related financial transactions subject to the directions of the Treasury.

- Accordingly, as the Chief Accounting Officer, a Secretary is responsible to the Minister of Finance as well as to his own Minister, for the overall supervision of the financial administration of the relavent unit, whether it is a department or any other institution gazetted under the Ministry, including Public Corporations, Government Owned Companies and their subsidiaries as well as Programmes and Projects. A Chief Accounting Officer is required to adhere *inter alia* with the undernoted Financial Regulations;
  - FR 127 - General Responsibilities of Chief Accounting Officers
  - FR 128 - General Responsibilities of Accounting Officers
  - FR 150 - Appropriation Accounts
  - FR 151 - Revenue Accounts
  - FR 152 - Committee on Public Accounts
  - FR 625 - Recording of Foreign Aid Expenditure in the Treasury Books.

- Supervision of the financial transactions are entrusted to the Secretary as the Chief Accounting Officer so as to ensure that related institution will achieve its respective mission and objectives, while adhering with the instructions issued by the General Treasury, which exercises the overall supervision and control over Government Finance, as envisaged in FR 126, subject to the ultimate control by the Parliament in terms of Article 148 of the Constitution.

- In this backdrop, the attention of Secretaries were drawn to the following;

  a. As the Chief Accounting Officer, every Secretary is required to ensure the efficient and effective utilization of funds and all other resources received through voted provisions and otherwise, and account for all such funds in terms of applicable Regulations and Guidelines.
  b. Secretaries should ensure compliance with the Minutes of Secretaries, the Establishment Code, and Circulars/ Instructions of the Government issued from time to time, including those issued by the Treasury and the Ministry of Public Administration.
  c. It should be noted that Circulars /Instructions issued in relation to the re-structuring Public Service salaries, re- employment of retired public servants, availing official transport are complied with.
  d. In the event of any inconsistency/conflict between the provisions in the Financial Regulations or Administrative

9 *Article 52 of the Constitution of the Democratic Socialist Republic of Sri Lanka*

10 *Article 44, Paragraph (1) (a) of the Constitution of the Democratic Socialist Republic of Sri Lanka*

Regulations and subsequent Minutes of Secretaries, please note that the Minutes of Secretaries will prevail.

- Secretaries are urged to introduce/improve systems and procedures so that there would be effective supervision and control over the financial administration, procurement management, project implementation and management of related institutions.

- In order to ensure adequacy of internal controls and also to prevent/detect errors, omissions and/or frauds, it is necessary to establish Internal Audit Units as envisaged in FR 133. Available resources should be mobilized as may be suitable to strengthen Internal Audit Units. In order to ensure effective functioning of the Internal Audit Mechanism, separate Internal Audit Units should be established for all large Departments and Institutions, while the General Internal Audit Unit of the Ministry should have the internal auditing mandate over all remainder Departments and Institutions. They should be required to submit periodic reports, at least on a quarterly basis.

- Secretaries are urged to introduce/improve an early warning system relating to financial controls as it would help to ensure proper conduct of government finance. Hence, observations of Internal Audit Units as well as observations of the Auditor General should be reviewed at regular intervals and responses should be suitably submitted while immediate measures should be taken to remedy the situations. The Audit Committees' Reports should be reviewed at least on a quarterly basis at staff meetings, so as to ensure transparency and accountability.

- With regard to the Programmes and Projects being implemented under various funding arrangements, the relevant Management Circular should be strictly adhered with. Appropriate management arrangements (i.e. Steering Committees etc.) should be in place so that the required management capabilities could be streamlined to ensure effectiveness and sustainability. Such Programmes/Projects should be implemented on time while effectively utilizing the allocated amounts to achieve the best output in line with the related implementation goals. An effective mechanism should be put in place to sustain, post monitor as may be necessary, the outcome of such Programmes/ Projects.

- It is important to maintain and update inventories with regard to all assets, including vehicles, computers, communication equipment, and furniture etc., provided through Government funds, Programmes/Project funds, and donations so as to ensure that the Ministry is in a position to account for such assets in the Government Accounts.

- Corporate Plans, Action Plans, Annual Accounts and Performance Reports of the Ministry and related institutions, as may be appropriate, should be submitted to the Parliament, in a timely manner.

- Special attention should be paid to the observations of the Auditor General, the Committee on Public Accounts (COPA) and the Committee on Public Enterprises (COPE). While the minutes of the meetings of the COPA and COPE contain observations/ directives to be complied with, the reports submitted by such Committees to the Parliament contain recommendations to be implemented by the relevant line Ministry, or the relevant institution pertaining to accounting and other deficiencies, reporting delays, system weaknesses, inadequacies etc. Appropriate actions as well as remedial measures should be taken without delay.

- An assessment of the internal capacity of each Ministry should be made by the Secretary and appropriate measures should be taken to have in place sufficient skills and human resources required to assist to carry out the tasks that a Secretary is entrusted with, as the Chief Accounting Officer.

- Secretaries are requested to be mindful *inter alia* of the following when awarding tenders, so as to ensure that tenders are awarded in a timely manner while safeguarding the national interest.

  a. The least cost which brings maximum benefit to the Government.
  b. Optimum economic advantage to the nation.
  c. Maximum income in the disposal of assets or in granting of rights, concessions or exclusive benefits.

- The recent decisions taken by the Cabinet of Ministers in relation to the Tender Process, including the process to be followed regarding unsolicited or stand alone development proposals, relating to which a Standing Cabinet Appointed Review Committee (SCARC) has been appointed should be complied with.

Publication of Guides

A Guide for Treasury Representatives (July 2010)
A Guide for Chairmen and Board of Directors of Public Enterprises (October 2010)

These two guides were published to provide an overview of the unique catalytic role played by the Chairmen and Directors of Boards of Public Enterprises, including Treasury Representatives - who are the drivers of the Public Enterprises.

The contents *inter alia* emphasize the following;

- The intention of the publications is to empower and guide Chairmen, Board Members and Treasury representatives serving in Boards of Public Enterprise, *inter alia* in relation to their duties and responsibilities.

- The guides set out in brief, the legal and regulatory framework governing Public Enterprises and the legal provisions governing the appointment of Secretaries to Ministries and Boards of Directors of such Enterprises.

- Public enterprises are established with specific objectives. Some are established to satisfy wider commercial, economic and social goals, some to achieve commercial or social goals, while others are required to achieve both commercial and social goals. These enterprises are expected to combine business autonomy with public accountability. The Government has recognized that, as much as private enterprises, the public enterprises are also important for the socio economic development of the country and in many instances Public Enterprises lead development in a competitive environment by adding market competition when it is distorted by market imperfections.

- The overall Financial Management in the public sector including Public Enterprises falls within the purview of the Ministry of Finance and Planning.

- The Treasury official has a special responsibility to guide the Board of Directors and ensure that there is sufficient interfacing among all stakeholders.

- Chairmen and the Boards of Public Enterprises should ensure that they work in consultation with the Secretary to the relevant line ministry, who is entrusted with supervisory powers.

- Public Enterprises essentially contribute towards infrastructure development and in the provision of services. Some of the Public Enterprises are dominant players in the banking and financial service industry who are also trend setters in that sector. Some are in other important areas such as education, health and social security while others are predominant service providers in agriculture industry, engineering, construction, trade etc. The expenditure of such enterprises must therefore be justifiable, and be spent within the overall Government vision and the Public investment strategy.

- Several state Enterprises are established under statutes and as such their performance should be carried out in compliance with such statutory requirements subject to the provisions of other laws as applicable.

- There is an urgent need to ensure best practices relating to Corporate Governance. Hence it should be noted that while Corporate Governance practices introduced by the Central Bank of Sri Lanka require state banks to adopt and follow such practices, Public enterprises are required to follow guidelines published by the Department of Public Enterprises.

- Attention is drawn to the provisions In relation to the role of the Auditor General, and the Committee on Public Enterprise (COPE) that carries out oversight functions, as more fully explained in the publications.

- Attention is also drawn to the provisions of the Companies Act No.7 of 2007 on the Rights of the Government, Solvency Test, Serious Loss of Capital, Duties of Directors, Interests of Directors in Transactions, Accounting Records, Group Financial Statements, Annual Report and its contents, and provisions relating to Subsidiaries of a Company, as more fully explained in the Publications.

- Attention is also drawn to the key provisions of the Finance Act No.38 of 1971 such as Financial Obligations of a Public Corporation, Preparation of Budgets of Public Corporations, Appropriation of Net Surplus Revenue, Investment of Moneys of a Public Corporation and Rendering of Accounts and Audit in relation to Financial Control of Public Corporations, as also more fully explained in the publications.

Proposed Establishment of Contributory Pension Funds (April 2011)

In the 2011 Budget, it was proposed to setup three separate contributory pension funds to ensure that there will be retirement benefit schemes to people who reach non-working age. Accordingly, 2 separate legislations were placed before the Parliament in April 2011, to set up the Employees' Pension Benefits Fund, the Foreign Employment Pension Benefits Fund. The Self Employment Pension Benefits Fund is being drafted.

Box 3.7
Proposed Employees' Pension Benefits Fund
(Bill Submitted to Parliament in April 2011, with Proposed Amendments)
Salient Features

• Administration of the Fund	- Commissioner General of Labour.
• Maintenance of the Fund	- Central Bank of Sri Lanka under the purview of the Monetary Board.
• Audit	- Auditor General.
• Coverage	- All employees not covered under the Government Pension Minutes or other Pension Funds approved by Commissioner General of Labour.
• Membership - Mandatory	- for employees who have 10 years or more of cumulative service with one or more employers, before reaching the age of 60;
- Optional	-for employees who have less than 10 years, on the basis that a lump sum will be contributed for the 'short period'.
• Pension Payable	– Commencing from 60 years of age throughout the life of the employee.
• Measure to Prevent Misuse	- Annual verification whether member is alive.
• Return of a Lump sum	– A lump sum equivalent to 60 per cent of the amount lying to the credit of the individual account, will be paid to any member who ceases to be employed while contributing, due to a permanent or total incapacity. - If the member dies before drawing a pension, a lump sum equivalent to 60 per cent of the amount lying to the credit of the individual account, will be paid to the surviving spouse or any child below 18 years of age or physically or mentally disabled.
• General Category Contribution; An amount of;	- 2 per centum of the monthly Gross Salary of the employee, being the employer's contribution, payable monthly. - 2 per centum of the employee's monthly Gross Salary, being the employee's contribution, payable monthly. - 10 percent of the employee's Gratuity, to be transferred to the employees individual account at the time Gratuity is paid. - 2 per cent of the Gross Balance in the individual account in the Provident Fund, to be transferred to the employee's individual account when EPF is paid.
• 3 State Banks	- Institutions that do not extend Pension benefits to its employees although having extended such benefits prior to 01.01.1996. Will be applicable to employees who have joined such institutions from the date of removal of such pension benefits and the date of this Act.

Contd...

Contributions; An amount;

- equivalent to 5% of the monthly gross salary of the employee, as the employer's contribution, from the date that such an institution has removed pension rights and the date on which such person becomes a member of this Fund, payable as a lump sum.
- equivalent to 5% of monthly gross salary of the employee, as the employer's contribution, from the date on which such employee becomes a member of the Fund.
- the total of the Gratuity for which provisioning has been made by the institution (on the basis that the employee will renounce its rights to receive Gratuity pertaining to the past period) to be paid by the employer as a lump sum on the date on which the employee becomes a member of the Fund.
- The future Gratuity to be provided and paid annually, ensuring the maintenance of an amount equivalent to a half months salary of the last drawn salary of an employee for every year of service..
- 5 per cent of the Gross Balance lying to the credit of the employee in an individual account of the Provident Fund, to be transferred by the Commissioner General of Labour, when EPF is paid.

However, employees who join such institutions after coming into operation of the Act, will belong to the General Category.

As more fully set out in the Act a member in the General Category at the age of 60 years will start drawing a monthly pension throughout his life as follows;

- 10 – less than 20 years service - 15 percent of the average salary of the last 10 year period.
- 20 – less than 30 yrs service - 30 percent of the average salary of the last 10 year period.
- Over 30 years service - 60 percent of the average salary of the last 10 year period.

In relation to members in the 3 State Banks as more fully set out in the Act, a member at the age of 60 years will get a monthly pension available throughout his life as follows;

- If such member has not less than 20 years of service, a sum equal to 30 per cent of the last drawn salary of the respective employee. In doing such calculation, for any lesser period, at the rate of 2 percent per year will be reduced and for any period in excess, at the rate of 2 percent per year will be added.

All claims to pensions, will be determined by the Commissioner General of Labour.

An aggrieved party may appeal to the Tribunal of Appeal and finally to the Court of Appeal.

To ensure viability, following initial contributions will be transferred to the Fund;

- 10% of the annual profits of the Employees Trust Fund.
- Funds lying to the inactive accounts of the Members of the Employees' Provident Fund who have passed the age of 70 on the basis that any future claim will be met by the Fund.
- Long Term Government Bond worth Rs. 1000 Mn. redeemable if required or will earn an interest till maturity which will accrue additionally to the Fund.

Box 3.8
Proposed Foreign Employment Pension Benefits Fund
(Bill Submitted to Parliament in April 2011 with Proposed Amendments)
Salient Features

- The objective of setting up this fund is to recognize the significant input made by citizens of Sri Lanka who are engaged in foreign employment, contributing to the economic wellbeing of the country, and to ensure that such employees will have a retirement benefit scheme, when they reach non-working age. Any Sri Lankan citizen in foreign employment, can opt to join this pension scheme.

- The Government will provide Rs. 1000 million, by way of an initial capital to this Fund in the form of long term bond on the basis explained before. Further, all funds lying to the credit of the Foreign Employment Bureau as of 30.04.2011 will be credited to this Fund. Contributions will be as follows;
  - Each employee is required to contribute a minimum amount of Rs. 12,000 per annum to this Fund.
  - Such contributions have to be made with regard to a minimum of two (2) years.
  - Such a contribution can be made in one or more installments, prior to reaching the age of 50 years in the case of women and 55 years in the case of men.
  - The Pension will be paid upon a member reaching 60 years in the case of women and 65 years in the case of men, throughout their lifetime.
- The amount of the Pension will be worked out on the basis of the Employee's balance in the individual account of the Fund.

Box 3.9
Proposed Self Employment Pension Benefits Fund
(Bill Being Prepared)
Salient Features

- The objective of setting up this fund is to provide those who are engaged in self employment, to be able to opt to a contributory Pension benefits fund so that they will have a retirement benefit scheme, when they reach non-working age.

- The Government will provide Rs. 1000 million, by way of an initial capital to this Fund in the form of long term bonds.

- Any person engaged in self employment seeking to be a member will have to contribute a minimum of Rs.10,000 per annum to this Fund. The annual contribution could be made in one or more installments.

- A minimum of a 10 year contribution has to be made, to be paid a pension at the age of 65 years.

- In the event the member does not have 10 years within which to make such contributions before reaching the age of 65, the member could opt to make the payments pertaining to the period that is short, in one or more lump sum installments. However, such payment has to be completed by the member prior to receiving the Pension.

04
STATE OWNED ENTERPRISES (SOE)

Overview

The SOE portfolio consists of 81 state Corporations set up under various statutes and fully government owned companies incorporated under the Companies Act no 7 of 2007. The government is also a partial owner of several companies incorporated under the Companies Act. The total turnover of SOEs at Rs. 954 billion is equivalent to the recurrent expenditure of the national budget whilst the total turnover of the top five enterprises at Rs. 584.4 billion exceeds the total turnover of all the 245 Companies listed in the Colombo Stock Exchange at Rs. 570.3 billion[1]. The size of these SOEs along with the wide spectrum of sectors it operates makes SOEs strategic to the development of the country.

The government having established its clear policy of non privatization of SOEs in 2005 in the Mahinda Chintana Vision for the Future, encourages SOEs to adopt innovative management reforms so that they will become commercially efficient and reduce their reliance on government assistance by orienting them towards a dividend paying entrepreneurial culture.

As such, in 2010 amongst its many initiatives to enhance the performance of underperforming SOEs and state assets, the government set up the Ministry of State Resources and Enterprise Development which is responsible for the restructuring of 23 SOEs, appointed private sector entrepreneurs and professionals to the boards of strategic SOEs, strengthened the regulatory function of utilities (electricity, petroleum and water) through the establishment of agencies such as the Public Utilities Commission of Sri Lanka and consolidated the monitoring and supervisory function of the Department of Public Enterprises of the Treasury.

In this regard, it is encouraging to note that despite facing challenges both structural and external, the performance of SOEs in 2010 with entities such as Ceylon Electricity Board (CEB) earning profits, Sri Lanka Ports Authority (SLPA) embarking on private public partnerships, Peoples Bank winning the Peoples award for the fifth consecutive year, Bank of Ceylon (BoC) and National Savings Bank (NSB) maintaining AA and AAA ratings respectively, etc made a positive difference to the overall performance of SOEs.

Yet many SOEs still continue to incur losses and remain as under performing entities. While losses of Sri Lanka Transport Board (SLTB) and CPC could be mainly attributed to non cost reflective pricing policies pursued due to the government discharging its social responsibilities, other loss making SOEs continued to incur losses due to lack of good governance, low productive use of employees, weak financial management, lack of internal controls and structural deficiencies. It is noted that Boards of management of some key SOEs, which have often made decisions that were neither socially nor economically viable, violating the government policies and regulations contributed significantly to the losses incurred by SOEs.

As such the government channelled Rs. 30,661 million or 0.5 percent of the GDP in 2010 to support their operational activities. The government has also supported the SOEs to finance their operations through the issuance of guarantees, which as at the end of 2010 amounted to Rs. 189,412 million accounting for almost 90 percent of the total guarantees issued by the government. The bulk of such guarantees are on account of electricity, petroleum and fertilizer.

Lack of good corporate practices and management lapses have resulted in compromising the SOEs ability to manage risks that arises from both internal and external factors, has in turn weakened the balance sheets of SOEs.

Therefore, while the government policy is to encourage SOEs to improve corporate management, the absence of the required human capital to undertake and implement business models and boards of management that have yet not displayed the ability to lead SOEs as dynamic enterprises remains a major challenge in the SOE sector.

It is noted that considering the magnitude and the very nature of operations that SOEs are engaged in, if action is taken immediately to overcome the aforementioned weaknesses the performance of the SOEs could boost the growth momentum of the country.

SOE Contribution to the National Economy

Total turnover of the SOEs at Rs. 954 billion, forms a significant part of the Sri Lankan economy constituting 17.2 percent of the GDP in 2010 in comparison to 16.7 percent in 2009. This is in line with the government's target stipulated in the "Mahinda Chintana" of achieving a total turnover to GDP ratio of 22 percent in 2016 and further increase to 26 percent in 2020.

SOEs continue to be a significant employment generating sector with total employees at SOEs at almost 160,00 in 2010, which constituted about 2 percent of the total labour force.

In 2010 the government enunciated its policy on dividends and levies. As such, all SOEs are required to contribute 30

[1]*Ceylon Electricity Board (CEB), Ceylon Petroleum Corporation (CPC), Sri Lanka Ports Authority (SLPA), Bank of Ceylon (BoC) and People's Bank (PB)*

percent of their profit or 15 percent of their equity, whichever is higher, to the consolidated fund as dividends. Reflecting the improvement in the performance of SOEs in 2010 the Dividends and Levies received from the SOEs amounted to Rs. 31,301 million. Levies and Dividends constituted 27 percent of the non tax revenue in 2010 as against 12 percent in 2009.

Partnership Role in Development

SOEs have been at the forefront of implementing the majority of the large infrastructure projects of the government. In this regard, SOEs such as Ceylon Electricity Board, Sri Lanka Ports Authority, National Water Supply and Drainage Board have become strategic in sustaining the public investment momentum.

Selective SOEs have commanded using their own strengths to attract investments. In 2010 Sri Lanka Ports Authority has entered into the country's largest Private Public Partnership so far, to develop the Colombo South port terminal. The government assisted by raising a loan of USD 300million from the Asian Development Bank to construct the breakwater at a cost of USD 450 million. This public investment is expected to attract USD 500 million for the construction of the first terminal. Similarly Urban Development Authority too, successfully issued a Debenture for Rs. 10,000 million which was oversubscribed by almost six times to finance urban infrastructure development initiatives.

Private Public Partnership (PPP) a joint venture business model has proved to be a win-win situation as apparent from the performance of Sri Lanka Telecom which has continued to be one of the best performing listed companies in the Colombo Stock Exchange in 2010. The initiative taken by the Ceylon Electricity Board (CEB) to form a joint venture to build and service the Coal fired power plant at Sampur at a cost of USD 500 million is another milestone in promoting investments with the least burden to the national budget.
With the country approaching upper middle income status, its investment decisions will be increasingly driven by performance. The government's expectation from SOEs is not merely to implement government policy, but to see SOEs create a brand out of their corporate identities, which will enhance the value of the government investment portfolio. It is expected that this will enhance the prospect of capital promotion in the future.

Chart 4.1 > **Annual Return on Investment**

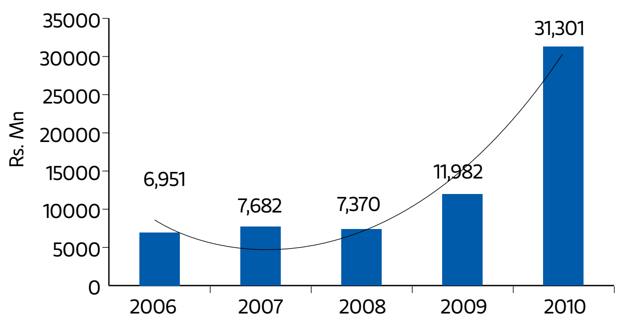


Table 4.1 > **Total Levies / Dividends received from SOEs (Rs. Mn)**

	2001- 2005	2006 - 2010
Commercial Corporations	5,580	36,177
State owned banks	11,152	22,144
Companies 100% owned by the government	223	403
Sub Total	16,955	58,724
Companies less than 100% but more than 50% Owned By The Government	1,265	1,842
Companies less than 50% Owned By The Government	2,990	4,674
Plantation Companies less than 50% Owned By The Government	39	45
Sub Total	4,294	6,561
Total	**21,249**	**65,285**

Source: Department of Public Enterprises and Department of Treasury Operations

Table 4.2 > **Levy/Dividend Income from Public Enterprises (Rs. Mn)**

	2005	2006	2007	2008	2009	2010
Levy						
Bank of Ceylon	1,150	1,173	846	1,046	1,346	2,923
National Savings Bank	1,310	810	1,060	1,060	1,750	2,312
State Mortgage & Investments Bank	135	116	25	-	50	-
People's Bank	818	668	1,416	816	1,139	3,253
Other Regional Development Banks	24	46	50	40	144	55
State Timber Corporation	50	75	150	75	50	10
State Pharmaceuticals and Manufacturing Corporations	79	25	30	40	30	85
Sri Lanka Ports Authority	50	115	65	-	-	-
National Insurance Trust Fund	-	-	-	-	2,250	2,000
SL Export Credit Insurance Board	-	-	16	25	30	-
State Institutions Temporary Surplus Fund*	-	-	-	-	-	6,110
Other	1,154	2,179	2,272	3,164	3,458	13,862
Sub Total	4,770	5,207	5,930	6,266	10,247	30,610
Dividends						
Sri Lanka Telecom PLC	447	670	893	893	893	223
De La Rue Lanka (Pvt) Ltd	152	-	100	100	38	-
Lanka Mineral Sands Ltd	132	98	50	34	60	35
Lanka Phosphate Ltd	-	5	4	4	5	10
Lanka Industrial Estates Ltd	20	20	62	31	31	31
Ceylon Petroleum Storage Terminal Ltd	-	-	438	-	-	-
Airport and Aviation Services Ltd	280	-	100	-	200	-
Lanka Electricity Company Ltd	75	100	75	-	-	300
Lanka Leyland Ltd	-	-	11	18	10	-
Chilaw Plantations Ltd	50	-	-	-	30	-
Sri Lankan Airlines Ltd	-	788	-	-	-	-
Other	3	63	19	24	467	92
Sub Total	1,159	1,744	1,752	1,104	1,734	691
Total	**5,929**	**6,951**	**7,682**	**7,370**	**11,981**	**31,301**

Source: Department of Public Enterprises and Department of Treasury Operations

** National Lotteries Board, State Timber Corporation, SL Rupavahini Corporation, State Pharmaceuticals Corp, SL Land Reclamation and Development Corp, Export Credit Insurance Corp, Lanka Mineral Sands Ltd, SL Tea Board, National Gem and Jewellery Authority, National Lotteries Board (Sewana Fund), Telecommunications Regulatory Commissions of Sri Lanka, Securities and Exchange Commission of SL, National Housing Development Authority, SL Bureau of Foreign Employment, Urban Development Authority, Board of Investments of SL, Geological Survey and Mines Bureau of SL, Coconut Development Authority*

Finance Sector

The state banking sector which comprises of two Licensed Commercial Banks (LCB) and six Licensed Specialized Banks (LSB) made a significant contribution to the overall economic development through its network of 1,690 branches and service delivery points and a workforce of 22,531 in 2010. During the year 2010, State owned banks have opened 24 banking outlets in the Northern and Eastern Provinces taking a lead in the post conflict development programmes in those areas. In the year 2010, State owned banks also continued providing financial facilities introducing various credit schemes, easing the requirements of collateral on development loans being some of the key development initiatives implemented.

While consolidating their position as premier financial entities in the market, state owned banks effectively continued their participation in implementation of government policies and directives in respect of development of the finance sector which have significant economic benefits. However, it is noted that the investment banking arms of the State Banks should acquire the capacity needed to facilitate SOEs in accessing financing from external sources through instruments such as debentures, IPOs, share issuances etc.

During the year 2010, the Pradeshiya Sanvardhana Bank by amalgamating six Regional Development Banks was established. The process of amalgamation of Sri Lanka Savings Bank (SLSB) was established to provide relief to the depositors of the defunct Pramuka Savings and National Development Trust Fund (NDTF) with a view to strengthen the capital base of SLSB, which was also in progress.

With a view to channel increased volume of long term liquidity to the economy the Government has required all banks and financial institutions to maintain a separate investment fund account by transferring tax savings arising from the 2011 Budget Proposals on corporate tax and VAT.

The performance of state banking sector during the year

Total asset base of state owned banks amounting to Rs. 1,758 billion accounted for nearly 50 percent of the total asset base of the entire banking industry in 2010 registering a growth of 21.5 percent over the previous year. The total asset base of this sector constituted mainly 48 percent of loans and advances and 36 percent of investments.

Stimulated by the low interest regime, credit growth of state banks recorded a significant increase in 2010. Total loans and advances of the state banks amounted to Rs. 879 billion at the end of 2010, registering a considerable growth of 30.5 percent over the 6.9 percent growth in 2009. Two Licensed Commercial Banks i.e Bank of Ceylon (BOC) and People's Bank (PB) contributed to the 83.1 percent of loans and advances disbursed by the state banks.

The asset quality of state banks which has been improving during the last few years, continued in 2010 too. The total non performing loans of state banks amounted to Rs. 45.8 billion by the end of 2010 registering a significant decline of 9.71 percent over the previous year. Although the, non-performing loan ratio has declined to 5.1 percent in 2010 from 7.2 percent in 2009, and was below the 5.3 percent of the industry average of non performing loans in 2010, it amount of Rs. 45.8 billion indicates that the banks have to embark on a concerted effort to recover these loans which could help to support Banks' liquidity positions. The deposit base of the state banks continued to increase with the total deposit base at Rs. 1,404 billion by the end of the year 2010 and registering a year on year growth of

Chart 4.2 > **Movement of Non Performing of State Owned Banks 2006 - 2009**

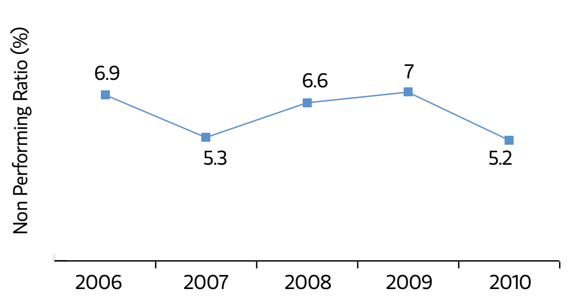


Table 4.3 > **Non Performing Loans of State Banks**

Name of the Bank	2009 Rs. Mn	2010 Rs. Mn	Increase/ (Decrease) (%)
Bank of Ceylon	15,542	12,638	(18)
People's Bank	20,040	18,738	(6.4)
National Savings Bank	2,381	2,119	(11)
State Mortgage & Investment Bank	5,642	5,168	(8.4)
HDFC Bank	2,743	2,840	3.5
Lankaputhra Development Bank	1,579	1,587	0.5
Pradeshiya Sanwardhana Bank	1,270	1,152	(9.2)
Sri Lanka Savings Bank Ltd	1,669	1,538	(7.8)
Total	**50,866**	**45,780**	

Source: Department of Public Enterprises

20.2 percent. The growth in deposits of state banks exceeded the industry average of 15.9 percent in 2010 reflecting the improved confidence in these institutions in comparison to private banks.
The total lendings of state banks recorded a significant growth of 30.5 percent amounting to an increase of Rs. 205 billion in 2010, in sharp contrast to the negative growth of 24.6 percent recorded in 2009. The banks lent these funds to finance the expanded economic activities in 2010. Total capital funds employed by state owned banks amounted to Rs. 83.7 billion in 2010, a 19.2 percent growth over the year 2009. This was mainly due to increased profitability which resulted in an accumulation of retained profits of the state banks in 2010. By the end of 2010, all state banks excluding HDFC Bank were within the enhanced capital requirements effective from 31.12.2011.

Chart 4.3 > **Deposits of State Owned Banks**

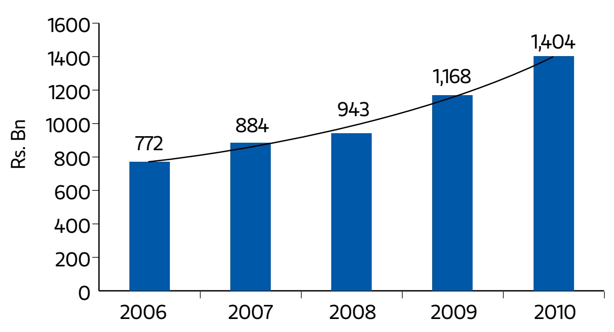


Chart 4.4 > **Profitability of State Owned Banks**

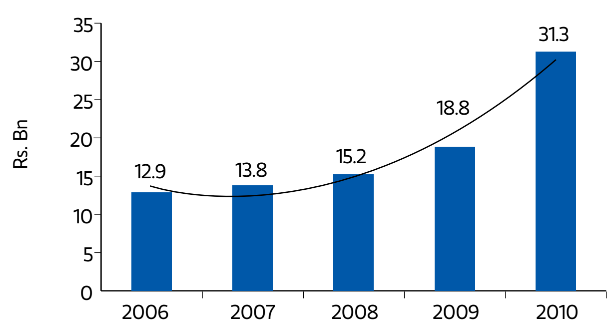


Table 4.4 > **Key Performance Indicators of State Banks**

	2005	2006	2007	2008	2009	2010
Assets (Rs. Bn.)	855.2	1,001.6	1,149.7	1,247.2	1,447.4	1,757.9
Loans & Advances (Rs. Bn.)	366.2	503.8	624.0	630.0	673.4	878.8
Non Performing Advances (Rs. Bn.)	36.1	36.3	36.2	43.1	50.7	45.8
Deposits (Rs. Bn.)	711.0	772.0	883.8	942.9	1,168.0	1,404.4
Capital Funds (Rs. Bn.)	38.9	49.4	53.4	63.2	70.2	83.7
Total Lendings (Rs. Bn.)	98.9	136.5	151.0	176.0	132.7	189.2
Interest Income (Rs. Bn.)	72.8	88.2	124.0	155.0	177.3	167.7
Interest Expenses (Rs. Bn.)	39.1	50.6	82.6	108.0	119.8	98.8
Net Interest Income (Rs. Bn.)	30.6	37.9	41.3	47.0	57.5	68.9
Profit Before Tax (Rs. Bn.)	11.8	13.0	13.9	15.2	18.9	31.3
Profit After Tax (Rs. Bn.)	7.6	8.4	7.4	7.9	10.9	18.6
Return on Assets (%)	1.0	0.9	0.7	0.7	0.8	1.2
Return on Equity (%)	21.7	19.0	14.4	13.5	16.3	24.1

Source: Department of Public Enterprises

Chart 4.5 > **Return on Assets of State Owned Banks**

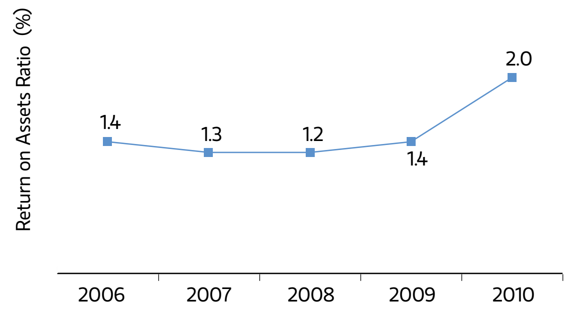


Chart 4.6 > **Return on Equity Ratio - State Owned Banks**

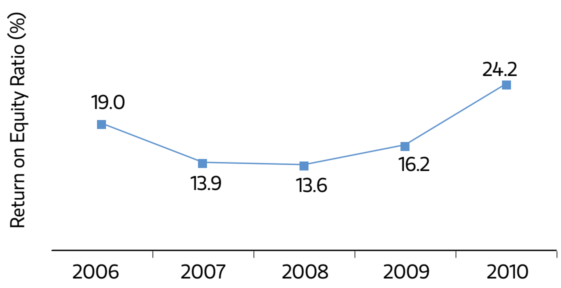


Table 4.5 > **Sector-wise Credit Concentration of Major State Banks**

	2010	
	Rs. Bn	**(%)**
Agriculture & Fishing	73.5	9.3
Manufacturing	58.1	7.4
Tourism	9.4	1.2
Transport	18.4	2.3
Housing	157.8	20.0
Trading	138.8	17.5
Financial & Business services	14.6	1.8
Pawning	194.5	24.6
Others	126.0	15.9
Total	791.1	100.0

Source: Department of Public Enterprises

Bank of Ceylon (BOC)

BOC the nation's largest bank, continued to consolidate its position in the market in 2010. Giving credence to being the largest bank in Sri Lanka BOC asset base increased to Rs. 715 billion, which amounted to 20.2 percent of the total asset base of the banking industry. At the same time BOC's Rs 372.7 billion worth lending portfolio is also the country's largest. BOC provides its services to the customers with a network of 309 branches and 218 Extension Offices and 352 ATMs. The Bank has 10 subsidiaries and 6 associates. In 2010, the bank converted its London Branch into a fully owned subsidiary.

The BOC's assets grew by 32.8 percent in 2010 mainly due to the growth of its loan portfolio and investments in securities. The net loans and advances showed a significant growth of 40.6 percent in 2010 in comparison to the negative growth recorded in the previous year. Non- performing loan ratio of the bank has declined from 5.7 percent in 2009 to 3.3 percent by the end of the year 2010, indicating an improvement in the assets quality of the bank in the backdrop of improved debt recoveries.

The deposit base of the BOC accounts for nearly 20.4 percent of the total deposits of the entire banking industry in the country. The year on year growth of BOC's deposit base remained unchanged at around 29 percent in 2010 in comparison with the previous year.

In 2010, the bank's profits (before tax) have significantly increased from Rs. 4.2 billion in 2009 to Rs. 10 billion, mainly due to an increase in net interest income and non-interest income which rose by 32.7 percent and 28 percent respectively. The non interest (non funded) income growth is explained largely by the capital gains earned from stock market transactions.

Table 4.6 > **Key Performance Indicators of Bank of Ceylon**

	2005	2006	2007	2008	2009	2010
Number of Branches (Nos)	304	305	307	309	310	309
Number of Employees (Nos)	8,891	8,363	8,253	7,912	7,533	8,204
Assets (Rs. Bn.)	319.5	378.3	437.9	484.9	538.2	715
Deposits (Rs. Bn.)	232.5	262.6	308.6	316.1	408.6	524.2
Number of Deposits Accounts (Nos. in Mn)	5.8	6.2	7.0	7.4	7.5	9.3
Foreign Currency Deposits (Rs. Bn.)	91.6	90.3	106.3	96.6	126.8	166.4
Corporate & Retail Lending (Rs. Bn.)	165.7	223.2	282.4	271.1	265.0	372.7
Profit Before Tax (Rs. Mn.)	3,120	4,137	4,518	5,231	4,208	10,053
Profit After Tax (Rs. Mn.)	1,894	2,627	2,843	3,561	3,084	6,365
Capital Adequacy Ratio - I (%)	12.7	11.9	12.1	11.3	11.2	10.3
Capital Adequacy Ratio -11 (%)	13.2	12.3	13.2	15.7	14.2	13.7
Non Performing Loans (Rs. Mn.)	12,495	13,602	11,334	13,816	15,542	12,638
Non Performing Loan Ratio (%)	7.2	5.8	3.9	4.9	5.7	3.3
Rating (fitch lka)	AA	AA	AA	AA	AA	AA

Source: Bank of Ceylon

Peoples Bank (PB)

The nation's second largest commercial bank continued its robust growth momentum in 2010, while being proactive in the country's development effort. At the end of 2010, PB's asset base accounted for 15.4 percent of the total asset base of the entire banking industry. The Bank operates with an extensive branch network comprising of 329 branches and 350 outlets catering to a broad clientele base in the country. The bank was able to increase its profit before tax to Rs. 8.7 billion in 2010 from Rs 6.1 billion in 2009, maintaining the growth momentum recorded in recent years.

The Bank's total assets recorded a significant growth of 15 percent during the year 2010. PB's loan book grew by 26 percent in 2010 at Rs. 357.3 billion. This included the bank's exposure to pawning advances which accounted for 35.8 percent of total loans of the bank. Asset quality of the bank improved as witnessed by the reduction of NPL ratio up to 5 percent in 2010 from 6.7 percent in 2009.

Supported by the extensive branch network, the bank's deposits recorded a growth of 16.7 percent during the year 2010. PB maintained a Capital Adequacy Ratio (CAR) of 12.8 percent by the end of 2010, which is well above the minimum CAR of 10 percent.

The bank won the "People's Award" for the banking and financial sector in 2010 for the fifth consecutive year. The Banks ratings improved significantly from "A" to "AA -", a reflecting the bank's consistent improvement in performance.

Table 4.7 > **Key performance Indicators of People's Bank**

	2005	2006	2007	2008	2009	2010
Number of Branches	624	630	639	642	645	679
Number of Employees	9,531	9,516	8,416	8,587	8,863	8,399
Assets (Rs. Bn.)	275.3	338.5	380.6	397.5	476.2	547.7
Deposits (Rs. Bn.)	255.6	269.9	300.9	324.5	396.0	462.1
Number of Deposits Accounts (Nos in Mn)	10.0	10.5	11.0	11.6	12.3	12.9
Corporate & Retail Lending (Rs. Bn.)	142.5	207.1	238.3	248.6	283.7	357.3
Profit Before Tax (Rs. Mn.)	4,035	4,079	5,002	5,664	6,076	8,771
Profit After Tax (Rs. Mn.)	2,771	3157	2,374	2,705	3,320	5,206
Capital Adequacy Ratio (1) (%)	1.5	3.7	5.3	6.5	7.7	7.9
Capital Adequacy Ratio (11) (%)	1.9	5.6	6.9	10.5	13.4	12.8
Non Performing Loans (Rs. Mn.)	16,796	15,951	14,865	17,857	20,040	18,738
Non Performing Loan Ratio (%)	10.7	7.2	5.9	6.8	6.7	5.0
Rating (fitch lka)	BBB+	BBB+	BBB+	A-	A	AA-

Source: People's Bank

National Savings Bank (NSB)

The performance of NSB in 2010 was strong, showing signs of being able to reach the Government's target of a Rs 1 trillion asset base by 2020. The NSB is required to invest not less than 60 percent of its deposits in government securities in terms of the National Savings Bank Act. At the end of 2010, 71.8 percent of the bank's assets have been invested in various securities while only 20.3 percent of total assets were held in the form of advances. The bank's non performing ratio decreased from 3.5 percent in 2009 to 2.6 percent by the end of 2010.

NSB's performance is commendable with the bank holding 13.7 percent of market share of the entire banking industry. However, the bank held 82.1 percent of the total deposit base of Licensed Specialized Banks (LSB). The bank's profit before tax has increased up to Rs. 9.8 billion in 2010 from Rs. 6.9 billion in 2009. Significant increase in gains from investment in securities is the main reason for the boost of the bank's profitability in 2010. The bank also ventured in to mobilizing overseas remittances as a part of its promotion of savings. The foreign currency deposits of the bank amounted to Rs. 4.3 billion by the end of 2010 which is a considerable increase of 20.2 percent over the previous year. The Bank sustained its "AAA" rating underscoring its excellent performance in 2010.

Table 4.8 > **Key Performance Indicators of National Savings Bank**

	2005	2006	2007	2008	2009	2010
Number of Branches	128	114	117	123	123	186
Number of Employees	2,890	2,900	2,867	2,883	2,915	3,050
Assets (Rs. Bn)	222.1	235.5	270.2	294.3	354.4	403.2
Deposits (Rs. Bn)	202.4	212.2	235.3	259.6	313.0	355.3
Number of Deposits Accounts (Mn.)	14.6	15.1	15.4	15.6	16.3	16.7
Foreign Currency Deposits (Rs. Mn.)	30.2	460.7	13,42.8	2,140	3,580	4,305
Corporate & Retail Lending (Rs. Bn.)	25.4	33.8	54.0	56.3	68.3	81.7
Profit Before Tax (Rs. Mn.)	3,457	3,501	3,301	3,100	6,944	9,788
Profit After Tax (Rs.Mn.)	2,106	1,885	1,573	1,059	3,736	5,401
Capital Adequacy Ratio -1 (%)	44.9	40.7	33.3	34.8	25.6	19.6
Capital Adequacy Ratio-II (%)	21.8	11.7	12.2	19.4	22.0	16.4
Non Performing Loans (Rs.Mn)	700	521	740	1,080	2,381	2,119
Non Performing Loan Ratio (%)	2.7	1.5	1.4	1.9	3.5	2.6
Rating (Fitch lka)	AAA	AAA	AAA	AAA	AAA	AAA

Source: National Savings Bank

State Mortgage & Investment Bank (SMIB)

The performance of the government's main housing finance bank, SMIB was mixed. The SMIB accounts for around 3 percent of the assets of all LSB's and predominantly concentrates on the business of housing finance (96.7 percent). Even though the SMIB Act has provisions to provide financial assistance for agriculture and other development activities, the bank has not paid much attention on lending to these operations so far.

The bank recorded only a marginal increase in advances in 2010. 48.4 percent of total loans and advances were granted in the form of housing loans against EPF balances. The bank's deposit base recorded only a marginal increase of 1.2 percent in 2010. However, continuation of poor quality advances has resulted in the non performing loan ratio to remain at 37.6 percent in 2010. This is a matter of serious concern to the bank as it has eroded the profitability of the bank as well as the capacity to expand the lending portfolio.

The bank's after tax profit has significantly increased up to Rs. 464 million in 2010 from Rs. 73 million in 2009 mainly due to increase in interest income on loans and advances and significant decline in interest expenses on long term borrowings.

It is fair to note that SMIB performance is yet below par, despite significant improvements achieved in 2010. However, it is encouraging to note that the bank has undertaken a serious revamping exercise that is expected to yield positive results in the future.

Table 4.9 > **Key Performance Indicators of State Mortgage & Investment Bank**

	2005	2006	2007	2008	2009	2010
Number of Branches	5	7	12	12	12	14
Number of Employees	304	349	339	328	320	308
Assets (Rs. Bn.)	9.1	10.2	12.1	14.5	16.8	17.2
Deposits (Rs. Bn.)	4.7	5.7	7.5	10.1	12.3	12.5
Corporate & Retail Lending (Rs. Bn.)	8.4	9.5	11.0	13.3	13.4	13.6
Profit Before Tax (Rs. Mn.)	415	318	124	41	119	642
Profit After Tax (Rs. Mn.)	312	213	83	32	73	464
Capital Adequacy Ratio - 1 (%)	87.3	81.2	56.9	29.1	25.3	27.0
Capital Adequacy Ratio- 11 (%)	88.6	82.5	57.9	29.6	26.0	27.7
Non Performing Loans (Rs. Mn)	3,492	3,431	4,203	4,706	5,642	5,088
Non Performing Loan Ratio (%)	40.6	35.8	37.7	35.2	41.8	37.2
Rating	A (fitch)	A (fitch)	A (fitch)	A-(fitch)	A (RAM)	A (RAM)

Source: State Mortgage and Investment Bank

HDFC Bank (HDFC)

The bank's assets base recorded a marginal increase of 7 percent in 2010. 90 percent of the bank's loans are for small and medium housing units. The deposit base of the bank has increased up to Rs. 7.7 billion in 2010 from Rs 6.1 billion in 2009. A before tax profit of Rs. 189 million in 2010 reflected a significant increase over previous year. The bank's non-performing loans ratio recorded a slight decline in 2010 to 21.6 percent, but remained well above the industry average.

Lankaputhra Development Bank (LDB)

LDB was set up in February 2006, to take the forefront in implementing Government's policy to facilitate financing of small and medium enterprises. While focusing on development oriented lending, the bank has adopted a selective approach in expanding its loan portfolio. Being a newly established bank, its presence is still limited to several districts.
The bank recorded a profit before tax of Rs. 152 million in 2010, which is lower than the profit of Rs. 250 million recorded in 2009. The total deposit mobilized by LDB amounted to Rs. 295 million in 2010 reflecting only a 5 percent increase over the previous year. The total assets base of the bank stagnated in 2010 mainly due to the reduction in its loan book by 13.7 percent in comparison to the previous year. The bank's high non performing ratio is a matter of serious concern that requires urgent action to improve by concentrating on debt recovery programmes.

Table 4.10 > **Key Performance Indicators of HDFC Bank**

	2005	2006	2007	2008	2009	2010
Number of Branches	20	20	21	21	26	28
Number of Employees	290	205	286	289	355	425
Assets (Rs. Bn.)	8.8	10.7	13.4	14.1	14.3	15.3
Deposits (Rs. Bn.)	1.5	2.5	4.9	4.9	6.1	7.7
Number of Deposits Accounts	62,407	71,538	74,637	142,407	177,354	212,914
Corporate & Retail Lending (Rs. Bn.)	8.1	10.1	11.9	11.9	11.9	12.8
Profit Before Tax (Rs. Mn.)	162	239	47	(94)	92	189
Profit After Tax (Rs. Mn.)	117	172	21	(92)	57	135
Capital Adequacy Ratio-1 (%)	42.1	37.6	31.0	25.4	17.6	22.1
Capital Adequacy Ratio-11 (%)	42.4	37.8	31.8	26.5	18.7	21.2
Non Performing Loans (Rs. Mn.)	1,465	1,892	2,099	2,500	2,743	2,840
Non Performing Loan Ratio (%)	18.0	18.6	17.6	20.7	22.6	21.6
Rating	A	A	A	BBB+	BBB+	BBB+

Source: HDFC Bank

Pradeshiya Sanvardhana Bank

Development of the rural economy is a key objective of the government's economic policy framework. In this regard, having recognized the need to improve accessibility of rural communities to financing sources, the Bank was established in May 2010 with the amalgamation of Wayamba Development Bank, Ruhuna Development Bank, Kanduarata Development Bank, Uva Development Bank, Sabaragamuwa Development Bank and Rajarata Development Bank. Pradeshiya Sanvardhana Bank's total assets account for only 1 percent of that of the banking industry and 6.4 percent of the total assets of the LSB's in Sri Lanka.

The total assets of the bank at the end of the year 2010 were Rs. 46,610 million, recording an increase of 19.4 percent over the previous year. The majority of the assets of Pradeshiya Sanvardhana Bank constituted of loans and advances (79.6 percent) and investments in government securities (14.3 percent).

Although the bank's loan book indicated a growth of 32.2 percent in 2010 against the 6.9 percent growth recorded in the previous year, it is necessary to assess the role played by the bank with its objectives of incorporation.

Table 4.11 > **Key Performance Indicators of Lankaputhra Development Bank**

	2005	2006	2007	2008	2009	2010*
Number of Branches	Was not in operation	3	5	4	7	7
Number of Employees		62	114	166	165	162
Assets (Rs. Mn.)		2,132	4,175	6,568	6,855	6,628
Deposits (Rs. Mn.)		259	1,994	133	281	295
Corporate & Retail Lending (Rs. Bn.)		427	1,656	2,430	2,302	1,986
Profit Before Tax (Rs. Mn.)		52	58	227	250	152
Profit After Tax (Rs. Mn.)		23	23	76	83	50
Capital Adequacy Ratio-1 (%)		229	62.8	91	71.9	81.8
Capital Adequacy Ratio-11 (%)		229	63.1	91.5	72.2	82.1
Non Performing Loans (Rs.Mn)		-	85	618	1,579	1,587
Non Performing Loan Ratio (%)		-	5	19.2	55.9	66.4
Rating		-	-	-	A	A

Source: Lankaputhra Development Bank
**Unaudited*

Table 4.12 > **Key Performance Indicators of Pradeshiya Sanvardhana Bank**

	2005	2006	2007	2008	2009	2010*
Number of Branches	203	209	211	215	223	248
Number of Employees	1,717	1,908	1,986	1,934	1,933	1,912
Assets (Rs. Bn.)	20.6	26.1	31.0	34.4	39.0	46.6
Deposits (Rs. Bn.)	14.2	18.7	21.9	25.9	30.9	37.9
Corporate & Retail Lending (Rs. Bn.)	15.7	19.3	23.0	26.3	28.1	37.1
Profit Before Tax (Rs. Mn.)	658	633	814	1,037	942	992.7
Profit After Tax (Rs. Mn.)	381	299	416	424	407	336.8
Capital Adequacy Ratio -1 (%)	8.7-15.4	9-14.4	8.2-15.1	8.4 -15.8	9.5–13.0	11.0
Capital Adequacy Ratio – 11 (%)	11.5-17	11.4- 18.1	9.8-15.7	8.9-16.73	8.9-14.2	11.7
Non Performing Loans (Rs. Mn.)	1,140	1,161	1,252	1,214	1,270	1,152
Non Performing Loan Ratio (%)	6.8	5.6	5.3	4.5	4.4	3.0
Rating	BBB+	BBB+	BBB+	BBB+	BBB+	BBB+

Source: Pradeshiya Sanvardana Bank
**Unaudited*

Pradeshiya Sanvardhana Bank exposure on pawning advances remained at 36.6 percent of total loans of the bank. A significant portion of loans and advances of Pradeshiya Sanvardhana Bank amounting to 31 percent was granted as agricultural loans, 24 percent was for housing purposes. Small industrial sector has received only 10 percent in 2010. The improvement in asset quality of Pradeshiya Sanvardhana Bank contributed towards the marginal reduction of non-performing loans from Rs.1.3 billion in 2009 to Rs. 1.2 billion in 2010. The non performing loan ratio declined to 3 percent in 2010 from 6 percent in 2009.

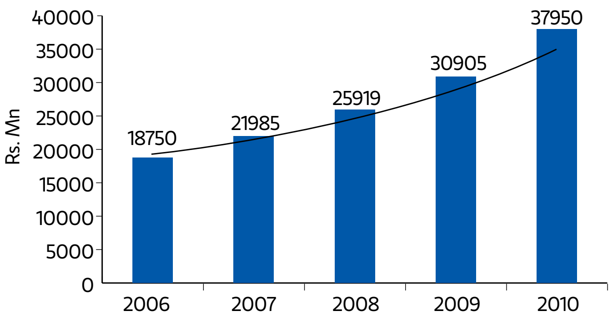
The total capital funds employed by Pradeshiya Sanvardhana Bank amounted to Rs. 3,755 million at the end of 2010 which is an increase of 20 percent over the year 2009. Bank's borrowings recorded a year on year growth of 2.6 percent. The deposits collected by Pradeshiya Sanvardhana Bank recorded a growth of 22.8 percent, amounting to Rs 37.95 billion over 2009. Pradeshiya Sanvardhana Bank reported a profit before tax of Rs. 1.5 billion at the end of 2010 a significant increase over the previous year.

Table 4.13 > **Decomposition of the loan portfolio of Pradeshiya Sanvardhana Bank**

	2009		2010	
	Rs. Mn	(%)	Rs. Mn	(%)
Agriculture	6,817	23	11,375	31
Animal Husbandry	506	2	864	2
Fisheries	190	1	703	2
Industries	3,141	11	3,608	10
Business & Commerce	5,216	18	5,592	15
Housing	7,354	25	8,992	24
Consumption	1,885	6	4,157	11
Others	3,981	14	1,676	5
Total	29,090	100	36,967	100

Source: Department of Public Enterprises

Chart 4.7 > **Deposits of Pradeshiya Sanvardhana Bank**



Sri Lanka Savings Bank Ltd (SLSB)

Sri Lanka Savings Bank Ltd was established to operate as a LSB while providing relief to the depositors of defaulted Pramuka Savings and Development Bank (PSDB). Accordingly, assets and liabilities of PSDB were vested with SLSB. Further, action was taken to amalgamate National Development Trust Fund with the SLSB. Accordingly, the bank's asset base was reported at Rs. 6.1 billion by the end of 2010. 74.5 percent of assets of the bank were in the form of investments. The bank has granted Rs. 9.5 million by the end of 2010 as credit against deposits and collected Rs. 199.9 million in various forms of deposits. In terms of the settlement scheme for PSDB customers published by the Central Bank of Sri Lanka, loans granted by PSDB amounting to Rs. 107 million were recovered during the year 2010. Further, during the year the bank has settled Rs. 320 million to PSDB depositors. SLSB made a profit before tax amounting to Rs. 275 million in 2010 which is a marginal increase over the previous year.

Table 4.14 > **Key Performance Indicators of Sri Lanka Savings Bank Ltd**

	2005	2006	2007	2008	2009	2010
Number of Branches		Was not in operation		1	1	1
Number of Employees				41	45	56
Assets (Rs. Mn.)				1,293	1,468	6,155
Deposits (Rs. Mn.)				1,605	599	572
Corporate & Retail Lending (Rs. Mn.)				1,828	2,110	2,669
Profit Before Tax (Rs. Mn.)				150	239	295
Profit After Tax (Rs. Mn.)				131	187	278
Capital Adequacy Ratio -1 (%)				-6,410	-4,684	41.9
Capital Adequacy Ratio – 11 (%)				-5,559	-3,374	76.1
Non Performing Loans (Rs. Mn.)				1,828	1,669	1,431
Non Performing Loan Ratio (%)				100	79.1	54.8
Rating				N/A	N/A	N/A

Source: Sri Lanka Savins Bank Ltd

Infrastructure Development Enterprises

Well developed infrastructure facilities are a prerequisite for Sri Lanka to attract investment necessary for development. Recognizing that SOEs are the core of infrastructure development in Sri Lanka the government during the period 2006-2010 invested in key infrastructure providing SOEs Rs. 510,884 million which is an increase of 226 percent from the investments made during the period 2001-2005 amounting to Rs. 156,432 million.[2 3]

The policy of aggressively investing in SOEs while improving the infrastructure facilities of the country had the twin impact of improving the quality of life of the people through greater accessibility to electricity (increase in coverage to 87 percent), water (increase in coverage to 27 percent) etc, as well as in facilitating an increase in the productivity of SOEs. This was evident with a turnaround of CEB into a profitable one in 2010 while SLPA was able to record the fastest growth among many peer ports in the region.

Ceylon Electricity Board (CEB)

The CEB earned a profit of Rs. 5,062 million in 2010 recording a remarkable turnaround from the loss incurred in 2009 of Rs. 11,208 million, an improvement of 145 percent. This performance is noteworthy as CEB has been incurring continuous losses since the year 2000.

During the year CEB's asset base increased to Rs. 287 billion recording a growth of 4.3 percent and is in line to achieving the government's target of Rs. 1,000 billion by 2020. The year on year demand for electricity increased by 9.8 percent to 9,263 GWh in 2010, propelled by significant demands posted in almost all sectors of the economy whilst generation capacity of the CEB recorded an increase of 8.1 percent to 10,689 GWh at the end of 2010. CEB earned on average Rs. 13.16 per unit sold whilst its cost of production in 2010 declined to Rs. 13.01/unit from Rs. 14.94/unit in 2009, an improvement of 12.9 percent. This can be attributed to mainly the heavy rainfall experienced in 2010 and the provision of subsidized fuel[5]. While the former resulted in 5,451 GWh or 51 percent of total electricity to be generated through the relatively cheaper[6] hydro power plants and only the balance 49 percent or 5,238GWh from the more expensive[7] thermal power plants, the latter

Table 4.15 > **Investments[4] in key infrastructure providing SOEs (Rs. Mn)**

	2001-2005	2006-2010
Ceylon Electricity Board	47,566	86,813
National Water Supply and Drainage Board	42,713	90,422
Road Development Authority	59,976	272,587
Sri Lanka Ports Authority	6,177	61,062
	156,432	**510,884**

Source : Department of National Budget

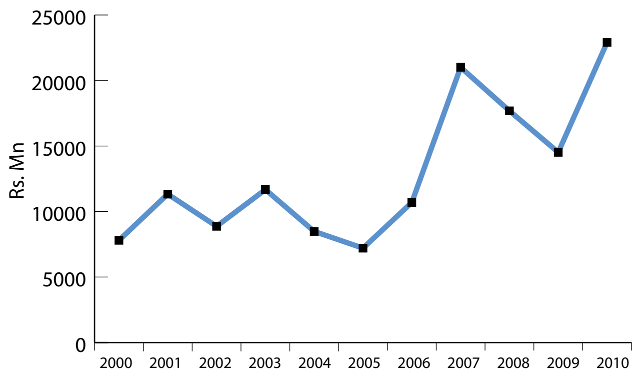
[2] Includes recurrent, capital transfers made. With regard to CEB and SLPA the on-lending of funds through the budget is also included
[3] Ceylon Electricity Board, Sri Lanka Port Authority, Road Development Authority, National Water Supply and Drainage Board
[4] Includes recurrent, capital and on-lending facilities granted
[5]Heavy fuel was sold to CEB from January 2010-August 2010 at Rs.25/l and from September 2010 –December 2010 at Rs. 40/l, whilst the average cost to CPC was between Rs. 50-65/l
[6]Average cost of Hydro (CEB) – Rs 1.35/KWh and privately owned Mini Hydro-Rs 13.13/KWh
[7]Average cost of Thermal (CEB) – Rs. 18.11/KWh and Thermal(IPP) Rs. 18.48/KWh

made thermal power less expensive[8], specially the thermal power plants owned by the Independent Power Producers (IPP) despite utilizing them at full capacity[9] to meet the boost in demand for electricity. At the same time the operation and management reengineering process implemented through the "Ten year plan" also allowed the CEB to increase its productivity significantly.

The policy of the government to invest in excess of Rs. 35,000 million during the last five years for upgrading and maintenance of power plants such as New Laxapana. Moragolla, Upper Kothmale, Ukuwela etc. increased the capacity of the water tanks allowing CEB to reap the benefits of heavy rainfall. At the same time the investments in Distribution and Transmission of about Rs. 30,000 million during the last five years in the upgrading of the power grids in Kerawalapitiya, Galle, Kilinochchi and the North and East resulted in the CEB being able to cut down its system losses to 13.39 percent in 2010 from 14.58 percent in 2009, thus making CEB one of the most efficient power operators in the region.

As such, although the government increased the price of Heavy Fuel to Rs. 40/l in September 2010 from Rs. 25/l in January 2010, due to the systems being improved, CEB was able to absorb the increase in cost of production and yet earn a profit. While CEBs balance sheet improved in 2010, its dues to CPC amounting to Rs. 46 billion as at the end of 2009 remain unpaid. In line with a government directive all purchases of fuel made by CEB from CPC in 2010 was settled in full. The government continued to support CEB in 2010 too with the continuation of the debt moratorium extended to CEB since 2007, costing the government almost Rs. 11 billion per annum. This is in addition to the on lending facilities extended to CEB of Rs. 30 billion in 2010 for various developmental projects. In addition the government has issued guarantees amounting to Rs. 14,741 million enabling CEB to secure financing from external sources for both operational and capital expansionary purposes.
During the year CEB provided connections to almost 87 percent of households continuing its efforts to achieve 100 percent electrification

Chart 4.8 > **Budgetary Support to the CEB 2000 -2010**



The government has invested in excess of Rs. 35,000 million during the last five years for upgrading and maintenance of power plants

[8]CEB incurred Rs. 79,421 million on the purchase of fuel in 2010. However, if there was no subsidy the cost of fuel for thermal power would be almost Rs. 100,000 million
[9]Full capacity of the IPPs-1,059 MW

of all households in the country and was a proactive partner of the government's efforts of rapidly providing infrastructure facilities to the Northern and Eastern provinces of the country.

It is expected that with the commissioning of the Coal fired power plant in Norochcholoi (2*300MW) in 2011 and the Upper Kotmale hydro power plant (150MW) in 2012, the generation capacity of the CEB will improve significantly facilitating the fulfillment of the rapidly increasing demands of a growing economy. At the same time in line with the twin objectives of providing affordable yet environmentally clean power, the government has initiated a process to explore the viability of using LNG and other clean renewable energy sources in the Sri Lankan generation mix. It is expected that with the increased capacity and cleaner better processes the efficiency and productivity of CEB will increase, the benefits of which could be passed on to the consumer through more competitive tariffs.

Table 4.16 > **Key Performance Indicators of Ceylon Electricity Board**

Category	Unit	2005	2006	2007	2008	2009	2010
Installed Capacity	MW	2,411	2,443	2,443	2,645	2,695	2,817
CEB Hydro	MW	1,207	1,207	1,207	1,207	1,207	1,207
Thermal	MW	548	548	548	548	548	548
Wind	MW	3	3	3	3	3	3
Private Hydro	MW	84	107	116	138	158	175
Thermal	MW	567	567	567	749	779	842
Renewable Energy	MW						42
Electricity Generation	GWh	9,389	9,814	91,814	9,912	9,883	10,689
CEB Hydro	GWh	3,173	4,290	3,603	3,700	3,356	4,986
Thermal	GWh	2,162	1,669	336	2,336	2,091	1,394
Coal	GWh	-	-	-	-	-	-
Wind	GWh	2	2	2	2	3	3
Private Hydro	GWh	277	345	345	345	549	705
Thermal	GWh	3,152	3,082	3,528	3,529	3,884	3,601
Total Sales by CEB	GWh	7,255	7,832	8,398	8,336	8,432	9,263
Domestic and Religious	GWh	2,444	2,622	2,771	2,831	2,925	3,191
Industrial	GWh	2,446	2,605	2,627	2,518	2,518	2,882
General Purposes	GWh	1,254	1,395	1,626	1,636	1,636	1,755
Local Authorities/ LECO	GWh	1,027	1,111	1,144	1,120	1,120	1,189
Street Lightning	GWh	83	98	108	108	108	108
Hotel	GWh			122	123	125	138
Total Revenue	Rs. Mn.	55,977	69,941	87,575	111,287	110,158	121,310
Consumers	No. Mn.	3.39	3.63	3.86	3.96	4.75	4.96
Average Unit Cost	Rs.	10.14	10.88	13.48	18.21	14.94	13.16
Average Unit Selling Price	Rs.	7.71	8.99	10.58	13.22	13.11	13.16
Operational Profit/(Losses)	Rs. Mn.	(1,218)	(14,176)	(22,314)	(33,870)	(7,440)	4,962
Investments	Rs. Mn.	2,897	3,152	3,882	4,539	4,678	4,447
Bank Borrowings	Rs. Mn.	5,903	7,669	7,075	3,778	12,507	12,795

Source : Ceylon Electricity Board

National Water Supply & Drainage Board (NWS&DB)

Providing access to water supply and sanitation is a key development objective of the government. In this regard the NWS&DB is the sole government organization entrusted with the task of providing safe water to the population.

By the year 2010 the board operated 315 water supply schemes for the provision of drinking water. While access to safe drinking water coverage is around 82 percent in 2010, the water board accounts for 40 percent of the safe drinking coverage of the country, from which 32 percent is through pipe borne water and 8 percent from CBO and local authorities. As such, 42 percent of the population uses safe drinking water through other sources. During the year under review, the 7 percent increase in new water connections contributed to the increase in revenue from drinking water by 11 percent to Rs.10,744 million. NWS&DB produced 470 million cubic meters (cbm) of water recording a year on year increase of 4.6 percent at a cost of Rs.6,772 million. While the Board managed to enhance efficiency in the usage of its main inputs of chemicals and electricity, its inability to arrest significant wastage resulting in the non revenue generating water (almost 33 percent of the total production), contributed to the cost of production to increase by 7.69 percent to Rs.21/ cbm in 2010 from Rs. 19.50/cbm in 2009. It is estimated that if the Board is able to control non revenue water, the cost of production of water could be maintained at around Rs. 14.31/cbm which is less than the average price of water at Rs. 33.40/cbm.

At the end of 2010, despite the continued existence of excessive leakages NWS&DB earned a consolidated gross profit of Rs. 5,261 from its operations which is a 10.87 percent increase over 2010. However the Board incurred a consolidated net loss of Rs. 14,662 million in 2010, mainly due to a 27 percent increase in administration and other overhead expenses and a deficit provision on an asset revaluation (devaluation of assets) amounting to Rs. 12,697 million. It is noted that the implication of the devaluation of assets is significant as it indicates that the method adopted so far in capitalization of costs of completed projects has not been accurate. This has a negative impact on the balance sheet of the Board.

Although NWS&DB's liquidity position has improved significantly during the year under review with a net cash profit of Rs. 1,938 million in 2010 reflecting a 112 percent growth, the Board has failed to service its dues to the Treasury of Rs 2,702 million in 2010. The total dues to the Treasury on the on lent funds stands at Rs. 24,325 million at the end of the year 2010.

Despite a less than 1 percent decrease in the total work force to 9,018 employees, the total cost of employment in 2010 at Rs. 5,229 million is an increase of 21 percent as against 2009. The water board is faced with the challenge of ensuring a continuous supply of safe drinking water while enhancing its coverage of providing water to 94 percent of the country by 2016. As such the Board will have to devise strategies to sustain a capital investment programme with minimum dependence on the government while overcoming the high system losses which will increase productivity.

Chart 4.9 > **Drinking Water Coverage in Sri Lanka**

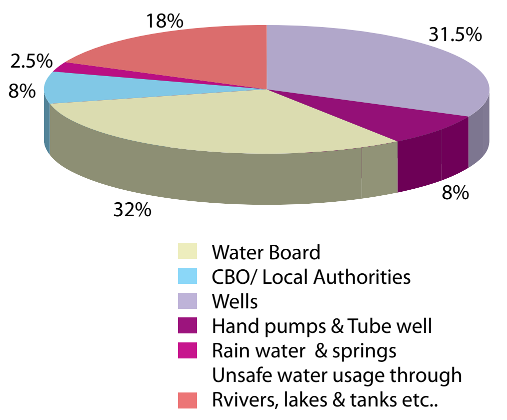


Chart 4.10 > **Profit of NWS&DB**

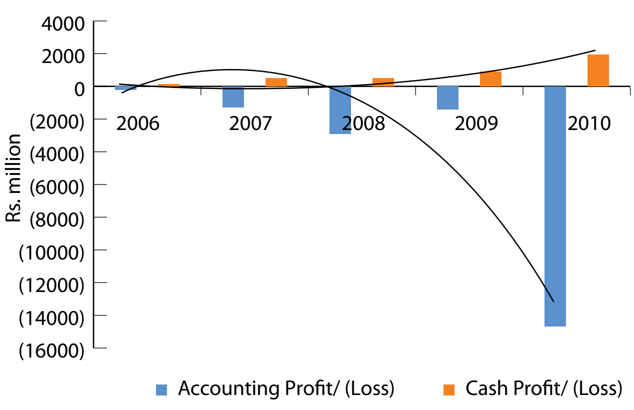


Table 4.17 > **Key Performance Indicators of National Water Supply & Drainage Board**

	Description	Unit	2005	2006	2007	2008	2009	2010
OPERATIONS	Water Turnover	Rs. Mn.	5,446	5,869	6,482	8,134	9,670	10,744
	Cost of water production	Rs. Mn.	3,478	3,896	4,711	5,824	6,021	6,722
	Gross Profit/(Loss)-Water segment	Rs. Mn.	2,720	2,984	2,811	2,193	4,923	5,458
	- Sewerage segment	Rs. Mn.	(35)	(76)	(75)	(81)	(80)	(81)
	- Ground Water segment	Rs. Mn.	(28)	(44)	(27)	(67)	(98)	(116)
	Total Gross Profit/(Loss)	Rs. Mn.	2,657	2,864	2,709	2,045	4,745	5,261
	Non–Operating income	Rs. Mn.	33	114	203	60	49	98
	Administration and other overheads	Rs. Mn.	2,220	2,616	3,284	3,761	4,553	5,800
	Asset revaluation deficit	Rs. Mn.	-	-	-	-	-	12,697
	Finance cost	Rs. Mn.	492	512	852	1,193	1,569	1,419
	Net accounting profit/(Loss) [with provisions]	Rs. Mn.	(92)	(214)	(1278)	(2,915)	(1,417)	(14,662)
	Net cash profit/(loss) [without provisions]	Rs. Mn.	521	129	(491)	(509)	914	1,938
FINANCIAL	Asset value	Rs. Mn.	77,291	89,863	100,697	115,541	135,901	140,652
	Investments	Rs. Mn.	816	1,779	966	514	381	678
	Current assets	Rs. Mn.	11,659	13,620	13,094	15,190	13,460	15,030
	Current liabilities	Rs. Mn.	2,183	2,136	2,852	5,315	7,379	9,345
	Non-current liabilities	Rs. Mn.	14,948	17,301	18,257	20,281	23,324	26,475
	Equity	Rs. Mn.	71,964	84,174	92,797	105,226	118,734	119,927
KEY PERFORMANCE INDICATORS	Water connections	Nos.	907,622	989,395	1,078,892	1,186,931	1,266,328	1,353,573
	Water production	Mn./cbm	383	398	424	440	449	470
	Water Sales	Mn./cbm	253	261	284	299	309	322
	NRW supply % of water production	%	33.38	34.44	33	32.09	31.13	31.55
	Water supply schemes (Revenue units)	Nos.	291	295	308	309	312	315
	Revenue per employee/month	Rs.	57,348	58,683	61,049	62,396	88,914	99,283
	Cost of employment/employee/month	Rs.	24,126	28,116	32,688	36,647	39,820	48,319
	Cost of production/employee/month	Rs.	36,623	38,950	44,370	53,895	55,361	65,120
	Production cost per unit without NRW	Rs./cbm	9.08	9.80	11.10	13.24	13.41	14.31
	Production cost per unit with NRW	Rs./cbm	13.72	14.98	16.58	19.49	19.47	20.91
	Total cost per unit produced	Rs./cbm	21.46	22.62	26.72	31.55	36.54	78.04
	No. of employees per 1000 connections	Nos.	9	9	8	8	7	7
EMPLOYEES	Water segment - Production	Nos.	3,000	3,600	3,675	3,690	3,700	3,802
	- Distribution	Nos.	2,000	1,950	2,016	2,063	2,087	2,024
	- Projects	Nos.	140	145	140	140	136	150
	- Supportive staff	Nos.	1,500	1,550	1,553	1,577	1,640	1,560
	Sewerage segment	Nos.	225	220	215	208	224	216
	Ground water supply segment	Nos.	275	270	268	262	238	232
	Head office staff segment	Nos.	774	600	981	1,066	1,038	1,034
	Total Employees	Nos.	7,914	8,335	8,848	9,006	9,063	9,018

Source : National Water Supply and Drainage Board

Sri Lanka Ports Authority (SLPA)

Considering the strategic geographical location of Sri Lanka for trade and port related activities the government has embarked on an aggressive infrastructure development programme. During the year 2010 SLPA commissioned the 1st phase of the Hambantota port and has already initiated work on the 2nd phase, whilst the Colombo South port expansion project is on track to be completed by 2013.

From a wider perspective the SLPA's expansion programme has resulted in the introduction and growth of ancillary industries such as bunkering, provision of warehouse and storage facilities, ship building and repairing, insurance, banking and other services. This in turn will yield high dividends both financially and socially within the medium term through the growth of direct and indirect employment, transfer of technology which will add value to the economy and increase productivity.

In 2010 with the enhancement of economic activities, SLPA handled 2.1 million TEU's achieving a year on year growth of 23 percent, despite a decline in the arrival of ships by 9.7 percent. The growth experienced by the Colombo port at 19.4 percent was better than the growth recorded by regional peer ports, Shanghai at 16.2 percent, Singapore at 9.9 percent and Hong Kong at 12 percent. During 2010, SLPA's consolidated revenue increased by 19 percent to Rs. 28,279 million. Foreign exchange revenue also experienced a sharp increase of 23 percent by Rs. 3,968 million in 2010. Although SLPA recorded a year on year growth in operating profit of 125 percent to Rs. 4,387 million, due to the negative impact of exchange rate losses related to the repayment of the JBIC loan, SLPA incurred a net loss of Rs. 1,190 million at the end of the year 2010. It is encouraging to note that SLPA has showed signs of improving its productivity with TEU's handled per employee increasing to 169 in 2010 from 128 in 2009 despite a decrease in the total employees by 4 percent.

Table 4.18 > **Key Performance Indicators of Sri Lanka Ports Authority**

	Units	2005	2006	2007	2008	2009	2010
Vessels Arrived	Nos	5,092	5,117	5,366	5,430	5,162	4,657
Colombo	Nos	4,425	4,583	4,760	4,771	4,560	4,343
Galle	Nos	258	267	304	333	222	169
Trincomalee	Nos	409	267	302	326	380	145
Total TEU's handled	Mts (Mn)	1.5	1.7	1.8	1.9	1.7	2.1
Revenue	Rs. Mn.	20,550	23,004	25,913	25,142	23,331	28,279
Colombo	Rs. Mn.	19,789	22,318	25,296	24,561	23,257	27,724
Galle	Rs. Mn.	449	465	361	268	169	279
Trincomalee	Rs. Mn.	312	221	256	314	361	277
Total Expenditure	Rs. Mn.	14,370	18,217	23,562	23,322	21,774	25,118
Colombo	Rs. Mn.	13,589	17,196	22,265	22,159	20,533	23,834
Galle	Rs. Mn.	370	515	636	613	544	662
Trincomalee	Rs. Mn.	411	506	661	550	597	622
Operating Profit	Rs. Mn.	7,367	5,903	3,498	2,941	1,942	4,387
Foreign Loan	Rs. Mn.	40,248	38,521	39,334	51,202	53,842	42,143
Interest on Foreign Loan	Rs. Mn.	1,186	1,115	1,147	1,211	1,159	1,225
Foreign Exchange Gain/(Loss)	Rs. Mn.	7,058	(1,168)	(3,944)	(11,790)	591	(4,409)
TEU's per Employee	Nos	113	128	113	144	128	169
Revenue per Employee	Rs. Mn.	1.5	1.7	1.9	1.8	1.7	2.2
Cost per Employee	Rs. Mn.	1.1	1.3	1.7	1.7	1.6	1.9
Total Cost of Employment	Rs. Mn.	6, 503	8,936	14,013	13,388	12,592	14,088

Source: Sri Lanka Ports Authority

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

In 2010 international flight movements increased to 34,092 from 28,624 in 2009, a growth of 19 percent. As such after 27 years of operations the Bandaranaike International Airport (BIA) is becoming in 2010 one of the fastest growing airports in the region boosted by a 46 percent expansion in the Sri Lankan tourism industry.

During the year under review the financial performance of the company was commendable, recording a total revenue of Rs. 6,091 million. This is an increase of 10 percent compared to Rs 5,491 million in 2009. Profit before tax also recorded a year on year growth of 36 percent at Rs 1,962 million.

AASL which manages BIA and all the other airports in Sri Lanka is the national arm responsible for providing infrastructure facilities in the aviation field. In 2010, AASL received the ISO 9001: certification, recognizing that AASL possesses worldwide quality assurance systems in relation to airport operations and the provision of effective air navigation services.

AASL initiated steps to construct the 2nd international airport at Mattala, in the Hambanota District and undertook the expansion and development of BIA. The cost of the 2nd international airport at Mattala which is estimated at USD 209 million is under construction with financial arrangements being made with China Exim Bank.

With the commissioning of the airport in 2012, it is expected that it will have the capacity to facilitate 1 million passenger movements, 45,000 metric tons of cargo and 30,000 aircraft movements per annum. Hence, AASL expects to increase its passenger handling capacity to 12 million by 2016 with the completion of the 2nd phase of this airport. However, AASL should have a clear strategy on the different functions that should be undertaken by the existing and the proposed airports in the country so as to optimize the outcome. In this regard they should have a coordinated approach in the expansion programmes undertaken.

Table 4.19 > **Key Performance Indicators of Airport and Aviation Services (Sri Lanka) Limited**

	Unit	2005	2006	2007	2008	2009	2010 (Draft)
Revenue	Rs. Mn	2,619	4,454	5,340	5,832	5,491	6,091
Expenditure	Rs. Mn	1,949	2,334	2,871	4,090	4,050	4,129
Staff Cost	Rs. Mn	1,325	1,576	1,985	2,935	2,663	2,814
Other Cost	Rs. Mn	624	758	886	1,155	1,387	1,315
Operating Profit Before Tax	Rs. Mn	669	2,120	2,469	1,742	1,441	1,962
Profit/(Loss) after Tax	Rs. Mn	423	1,373	1,508	1,169	934	1,309
Total Assets	Rs. Mn	2,609	4,759	6,415	7,993	8,778	9,895
Total Non Current Assets	Rs. Mn	128	477	576	1,054	1,639	2,044
Property Plant and equipment	Rs. Mn	128	109	160	377	939	1,044
Differed Income Tax Assets	Rs. Mn	-	328	416	677	700	700
Long term Investments	Rs. Mn	-	-	-	-	-	300
Total Current Assets	Rs. Mn	2,480	4,282	5,838	6,934	7,139	7,852
Inventories	Rs. Mn	153	148	148	183	233	432
Short Term Investments	Rs. Mn	1,563	2,764	4,069	4,583	4,564	5,543
Cash and Bank Balances	Rs. Mn	121	530	548	416	400	260
Trade and other receivables	Rs. Mn	643	840	1,072	1,765	1,942	1,617
Share Holders Equity	Rs. Mn	1,097	2,772	4,190	5,167	5,901	6,611
Earnings Per Share	Rs.	2,115	6,865	7,542	5,843	4,672	6,547
Return on Assets	Times		50	36	23	16	20
Net Profit Ratio	%	16	31	28	20	17	21

Source: Airport and Aviation Services (Sri Lanka) Ltd

Table 4.20 > **Operational Highlights**

Year	2005	2006	2007	2008	2009	2010
International flights movements (Nos)	33,080	33,189	33,395	31,764	28,624	34,092
Passenger Movements (Nos)	4.3	4.7	4.9	4.6	4.2	5.2
Cargo Movements (MT)	160,122	170,907	163,570	151,952	138,067	167,130

Source: Airport and Aviation Services (Sri Lanka) Ltd

Service Sector

SOEs are engaged in providing key services of the economy such as ground and air transport (SLTB and SLA) energy (CPC), Urban Development (UDA) etc. Many of these SOEs incurred heavy losses due to non reflection of total costs in its pricing.

Ceylon Petroleum Corporation (CPC)

Despite global oil prices increasing on average by almost 28 percent since December 2009, domestic retail prices of petroleum products remained unchanged throughout 2010. In the backdrop of high international prices, the government removed certain taxes applicable on petroleum products with a view to reducing the cost of production. Import duty on Petrol and Diesel was completely removed on the 19th of January 2010 from Rs. 35/l and Rs. 15/l respectively, which resulted in a revenue loss of almost Rs. 20,000 million to the government. Despite this indirect subsidy by the government, CPC incurred a loss of Rs. 26,922 million in 2010 against the loss of Rs. 12,324 million of 2009, a decline in the financial performance of 49 percent. CPC incurred a loss of Rs. 20,074 million through the sale of heavy fuel to the CEB and IPPs[10] at subsidized prices. Implementing government policy to meet the energy needs of the low income segment, Kerosene was sold at the subsidized price of Rs. 53/l incurring a loss of about Rs. 10,236 million.

However the lack of a clear strategy to operate in the market, low productive use of employees, weak financial and operational management and non optimal utilization of resources has contributed significantly to the deterioration of the performance of CPC, negating the effect of government assistance. This is evident as there is only a marginal difference between the cost of fuel produced at the CPC refinery and the cost of refined products imported.

CPC faced liquidity constraints due to the non payment of dues mainly from CEB amounting to Rs.46 billion at the end of 2009.The government has issued guarantees amounting to Rs. 80,500 million facilitating CPC's ability to access funding from external sources.

In 2010 CPC experienced a change in the structural composition of imports. On average of the total imports, crude oil consisted 55 percent and refined products 45 percent. However in 2010 there was a reversal of this composition with refined products consisting 55 percent and crude oil consisting 45 percent of total imports. This is mainly due to the increase in demand for fuel oil from the power sector and the shutdown of the refinery for a period of 2 months for regular repairs and maintenance. CPC has diversified its business by initiating exports of Naphtha and Aviation Fuel during 2010.

CPC, one of the largest SOEs in the country, is also the single largest importer at USD 3019 million constituting almost 6 percent of the GDP and 22 percent of the total imports in 2010. With the economy growing rapidly, it is expected that there will be simultaneous growth in the demand for energy in the country. However if CPC is to meet this challenge successfully it needs to undertake a due diligence exercise on its operations and implement a strategy to facilitate an extensive capital investment plan within the next five years that will increase its capacity and operational efficiencies.

[10] Sale price of Heavy fuel to CEB and IPP -January –August 2010 at Rs.25/l and September to December 2010 at Rs.40/l,while the average cost was between Rs.50-65/l

Table 4.21 > **Pricing Structure of Petroleum Products**

Product	Total (average) sales per month Rs Mn	Maximum calculated retail price Rs./l	Actual retail selling price Rs./l	Monthly estimated loss before the revision of retail prices Rs./l	Monthly estimated loss before the revision Rs. Mn	Incremental change in the revision of prices Rs. /l	Monthly estimated recovery of losses (Savings) Rs. Mn	Loss per month after revision of prices Rs. Mn	Loss per product after price revision Rs./l
Octane 90	51.2	123.15	115	(8.15)	(417.4)	10	512.1	94.7	1.85
Kerosene	17.4	99.94	51	(48.94)	(853.5)	10	174.4	(679.1)	(38.94)
Auto Diesel	139.9	101.38	73	(28.38)	3,971.8	3	419.8	(3,552)	(25.38)
Octane 95	1.8	124.84	133	8.16	14.7	10	18	32.7	18.16
Super Diesel	1.1	101.76	88.3	(13.46)	(14.9)	10	11.1	(3.8)	(3.46)
HFO(Industries)	9.9	78.73	40	(38.73)	(386.8)	10	99.9	(286.9)	(28.73)
HFO.380cc CEB & ASIA	19.2	75.63	40	(35.63)	(686.2)	10	192.6	(493.6)	(25.63)
HFO (HS) IPPS	41.2	78.73	40	(38.73)	(1,599.3)	10	412.9	(1,186.3)	(28.73)
HFO.(LS)	9.4	82.73	52	(30.73)	(290.7)	0	-	(290.7)	(30.73)
Monthly sales	291.5	119.9	Total profit/ (loss) month		(8,206.2)		1,841	(6,365.2)	
Yearly sales	3,498.4								

Source : Ceylon Petroleum Corporation

Table 4.22 > **Key Performance Indicators of Ceylon Petroleum Corporation**

Category		Unit	2006	2007	2008	2009	2010
Quantity Imported							
	Crude Oil	Mt '000	2,146	1,939	1,854	1,931	1,939
	Refined Products	Mt '000	1,926	1,603	1,588	1,525	1,603
Value of Imports (C&F)							
	Crude Oil	Rs. Mn.	107,160	114,320	144,505	102,646	114,320
		USD Mn.	1,028	1,024	1,331	889	1,024
	Refined Products	Rs. Mn	114,822	110,873	157,338	90,949	110,873
		USD Mn.	1,078	996	1,450	787	996
Average Price of Crude Oil (C&F)		Rs./Bbl.	6,748	8,037	6,748	8,037	10,602
		USD /Bbl.	65	72	98	63	72
Quantity of Exports		Mt '000	162	148	95	148	120
Value of Exports		USD Mn.	85	104	75	104	56
Total Revenue							
	Domestic sales	Rs. Mn.	199,869	45,080	345,096	51,095	45,080
	Exports	Rs. Mn.	8,714	8,265	12,906	6,413	8,265
Direct Production Cost		Rs. Mn.	187,231	154,036	108,237	154,036	103,266
Overheads		Rs. Mn.	10,360	5,558	3,641	5,558	4,520
Operational Profit/(Loss)		Rs. Mn.	(466)	(14,735)	3,984	(14,735)	(12,343)
Local Sales							
	Petrol (90 Octane)	Mt '000	454	361	363	399	361
	Petrol (95 Octane)	Mt '000	24	21	20	16	21
	Auto Diesel	Mt '000	1,633	1,450	1,371	1,428	1,450
	Super Diesel	Mt '000	9	5	7	8	5
	Kerosene	Mt '000	206	168	151	151	168
	Furnace Oil	Mt '000	912	985	994	973	985
	Aviation Fuel	Mt '000	255	302	286	229	302
	Naptha	Mt '000	60	97	142	110	97
	Bitumen	Mt '000		67	81	88	67
	Sbp	Mt '000		4	2	1	4
	L.P. Gas	Mt '000	17	17	15	23	17
Local price (End Period)							
	Petrol (90 Octane)	Rs/l	92-95	117	120	15	117
	Petrol (95 Octane)	Rs/l	95	120	133	33	120
	Auto Diesel	Rs/l	60	75	70	3	75
	Super Diesel	Rs/l	65.30	80	85	8	80
	Kerosene	Rs/l	48	68	50	1	68
	Furnace Oil - 1500 Sec	Rs/l	41-46.30	52	32	32	52
Refinery Capacity		Mt '000	2,300	5,847	5,419	5,847	5,574
Storage Capacity		Mt '000	439	447	447	447	448
Refinery Output		Mt '000	2,048	1,774	1,799	1,774	1,892
Value of Production		Rs. Mn.	110,639	159,545	111,807	159,545	107,740

Source: Ceylon Petroleum Corporation

Sri Lankan Airlines Ltd (SLA)

In 2010 SLA showed signs of recovery from financial downturn despite the Airline carrying only 2.6 million passengers in 2009/10, a reduction of 6 percent in comparison to the previous year. Passenger revenue of the SLA also decreased by 15 percent during the year, due to the reduction in capacity. However SLA was able earn a gross profit of Rs. 320 million in 2010 as against the gross loss of Rs. 3,308 million incurred in 2009 due to the rationalization of operating expenditure.

SLA presently flies to 30 destinations in 20 countries across Asia, the Middle East and Europe. SLA continued to modernize and expand its fleet of aircrafts with the introduction of one Airbus A320-200 narrow-body aircraft in July 2009 and one wide-body A320-200 Air craft in the second quarter of 2010. SLA completed the modernization of its narrow-body fleet with the delivery of the narrow-body aircraft during the year. At the end of the year Sri Lankan had a fleet of 12 Aircrafts. The corporate strategy of the airline is to expand the operational fleet with 30 modern aircrafts by 2020 to expand its network to 50 destinations globally.

As per the 5 year business Plan of SLA(2010/11 – 2014/15) strategic business units, Sri Lankan Engineering & Maintenance and Sri Lankan Airport Services will be converted to fully owned subsidiaries of the SLA enabling the two businesses to raise capital and to realize their full potential, while being service partners to the airline. A MOU also will be signed between AASL and SLA in the first quarter of 2011 granting sole and exclusive rights for Ground Handling and Catering at the Bandaranayake International Airport for a period of five years to SLA.

During the second quarter of the year the Government acquired 43.63 percent of Sri Lankan shares from Emirates increasing the government stake at SLA up to 94.6 percent.

Table 4.23 > **Key Performance Indicators of Sri Lankan Airlines Ltd**

	Units	2005/06	2006/07	2007/08	2008/09	2009/10
Revenue	Rs.Mn	61,160	67,964	79,128	73,298	62,364
Total Expenditure	Rs.Mn	61,955	67,280	74,631	76,606	62,044
Gross profit	Rs.Mn	1,173	7,652	7,009	(3,308)	320
Net profit before Tax	Rs.Mn	795	684	4,497	(9,269)	(2,674)
Cost of Employment	Rs.Mn	9,370	7,867	11,425	10,135	9,168
Capital Expenditure	Rs.Mn	5,893	6,305	11,025	7,913	3,977
Non Current Assets	Rs.Mn	16,137	16,509	15,730	19,333	28,532
Current Assets	Rs.Mn	21,867	21,347	32,210	15,008	15,911
Non Current Liabilities	Rs.Mn	1,407	1,801	3,269	3,099	12,444
Current Liabilities	Rs.Mn	25,485	25,006	29,135	25,012	28,400
Equity as at the end of the year	Rs.Mn	11,111	11,108	15,536	6,230	3,598
No of Employees	Nos	5,395	5,272	5,113	4,837	4,614
Employment Cost per employee	Rs.Mn	1.74	1.49	2.23	2.10	1.97

Source: Sri Lankan Airlines Ltd

Mihin Lanka (Pvt) Ltd (MLL)

MLL filled the vacuum in the SriLankan air travel industry by introducing a low cost carrier that offers alternate, safe and affordable commercial air transportation to mass travellers of the region.

MLL expanded its operations to Kuwait, Bodhgaya and Varanasi from an initial route network of Dubai and Trichy, and new destinations of Dhaka, Male and Jakartha have been added.

The government has encouraged MLL to restructure its balance sheet facilitating future expansion and coordinate with SLA to improve profitability of both airlines though SLA concentrating more on global netwroks and Mihin working on the regional routes supplementing low cost travellers.

By 2010 MLL reduced its number of employees from 236 in 2008 to 153 by 2010, reducing its operational costs and improving productivity.

Table 4.24 > **Key Performance Indicators of Mihin Lanka (Pvt) Ltd**

	Units	2005	2006	2007	2008	2009	2010
Revenue	Rs.Mn	Was not in operation		-	2,570	373	1,700
Total Expenditure	Rs.Mn			195	4,970	1,080	2,488
Gross profit/Loss	Rs.Mn			(195)	(2,400)	(707)	(728)
Net profit/Loss before Tax	Rs.Mn			(195)	(3,161)	(1,300)	(1,221)
Cost of Employment	Rs.Mn			15	135	118	107
Capital Expenditure	Rs.Mn			24	29	2	5
Non Current Assets	Rs.Mn			23	39	55	38
Current Assets	Rs.Mn			381	264	386	482
Non Current Liabilities	Rs.Mn			550	304	2,759	3,541
Current Liabilities	Rs.Mn			599	2,805	2,089	(2,606)
Equity as at the end of the year	Rs.Mn			(195)	(2,608)	(4,406)	(5,628)
No of Employees	Nos			72	238	154	151
Employment Cost per employee	Rs.Mn			0.21	0.54	0.79	0.71

Source: Mihin Lanka (Pvt) Ltd

The conversion from wet lease to dry lease also enabled MLL to further cut down its operational costs.

Sri Lanka Transport Board (SLTB)

SLTB provides public transport covering the road network throughout the Island. Its current market share is around 20 percent. Following the strategy of increasing short distance shuttle services between bus and railway stations, SLTB experienced a growth of 1.8 percent in its total operated kilometers in 2010 compared to the previous year, while its waybill increased in the absence of a tariff revision by 9 percent. However number of the buses operated by SLTB in 2010 decreased from 4,482 to 4,441 leading to a reduction in the operated passengers per km per day by 15,537 during the year. With total expenditure at Rs. 22,390 million, recording a 7 percent increase and total revenue at Rs. 21,560 million recording a 4.6 percent increase, SLTB operations resulted in a loss of Rs. 830 million in 2010 as against the loss of Rs. 297 million incurred in 2009. It is noted that SLTB incurred losses despite the government continuing to support

Table 4.25 > **Key Performance Indicators of Sri Lanka Transport Board (SLTB)**

	Unit	2005	2006	2007	2008	2009	2010*
Operated Passenger	Km/Day	663,340	713,753	835,313	857,033	951,476	935,939
Revenue Per Km	Rs/Km	40.37	46.56	45.08	41.47	41.36	42.91
Total Revenue	Rs.Mn	10,007	12,665	15,963	19,651	20,608	21,560
Waybill	Rs.Mn	6,417	7,917	10,695	12,973	13,442	14,658
Season tickets	Rs.Mn	285	199	359	528	536	542
Special hires	Rs.Mn	13	150	233	326	559	403
School Season tickets subsidy	Rs.Mn	226	227	500	600	1,383	1,370
Socially obligatory bus service subsidy	Rs.Mn	175	197	281	358	255	217
Other Income	Rs.Mn	251	422	345	503	904	2,120
Salary subsidy/ uneconomical route subsidy	Rs.Mn	2,512	3,547	3,545	4,362	3,527	2,250
Total Expenditure	Rs.Mn	11,147	13,653	16,287	20,132	20,906	22,390
Fuel cost	Rs.Mn	3,632	4,696	6,228	8,505	7,134	7,177
Cost of Tyres and Tubes	Rs.Mn	1,362	1,576	1,886	1,126	1,333	1,336
Salaries and wages	Rs.Mn	-	-	5,954	6,803	8,807	8,434
Total Government Contribution	Rs.Mn	5,328	8,960	6,157	6,726	4,188	3099
Recurrent	Rs.Mn	3,891	4,976	3,545	4,842	3,527	2,250
Capital	Rs.Mn	1,437	3,984	2,612	1,884	661	849
Net Loss	Rs.Mn	(1,140)	(984)	(325)	(481)	(297)	(830)
Total number of employees	Nos	41,944	38,952	37,149	36,773	35,365	34,524
Employment cost per employee	Rs.	92,312	121,820	160,273	185,000	249,031	244,293
Revenue per employee	Rs.	238,580	325,144	429,702	534,387	582,723	624,493

Source: Sri Lanka Transport Board **Un-audited*

the SLTB through the national budget by providing Rs. 3,620 million for operating in uneconomical routes and provision of SeasonTickets and Rs. 849 million for the purchase of capital goods.
It is however noted that while SLTB's financial performance is a matter for concern, SLTB has been a key partner of the government's reconstruction and rehabilitation efforts of the Northern and Eastern areas of the country.

Despite being key to the country's transportation needs SLTB's strategies does not address the government's expectations adequately. It is noted that SLTB does not have a clear strategy to arrest the management weaknesses that has resulted in low productive use of employees and idling assets.

Sri Lanka Telecom (SLT)

SLT is a listed company of which the government owns 49 percent and other agencies own 51 percent. The year 2010 proved to be a landmark year, as it became the 1st company in the CSE to surpass the Rs. 50 billion annual turnover, recording a year on year growth in revenue of 4.5 percent.

SLT group reported a growth of 327 percent of its profit before tax at Rs. 5.9 billion while its profit after tax grew by 407 percent to Rs. 3.94 billion. Mobitel (Pvt) Ltd, a fully owned subsidiary of SLT performed well with its revenue recording a year on year growth of 985 percent. Other subsidiaries of the group including Sri Lanka Telecom (Services) Limited and SLT Publications (Pvt) Limited too has contributed to the noteworthy performance of SLT group.
SLT's above average performance is reflected in the growth of its market capitalization, making SLT a much sought after investment. SLT declared dividends of Rs. 0.60 per share which is a year on year growth of 140 percent.

SLT, standing by the governments vision to make every citizen ICT empowered has begun to invest in spreading IT into remote villages and while introducing high quality networking solutions. It is envisaged that these investments will enable SLT to not only consolidate its position as the premier telecom

Table 4.26 > **Key Performance Indicators of Sri Lanka Telecom PLC**

2010	Rs. Mn
Total Income	50,250
Operating Cost	33,527
Net Profit before Tax	5,961
Net Profit after Tax	3,943
Shareholders funds	49,849
Total Assets	87,030
Per Share (Rs.)	**2010**
Earnings per Share (EPS)	2.18
Dividends per Share (DPS)	0.60
Market Value	49.00

Ratios	
ROE %	8.20
ROA %	5.91
Operating Margin %	9.86
Dividends cover (Times)	3.64
Interest cover (Times)	6.89
Asst turnover (Times)	0.58
Gearing	1:0.14
Current	1:0.88
Quick	1:0.83

Source: Sri Lanka Telecom Plc

Chart 4.11 > **Marcket Capitalization**

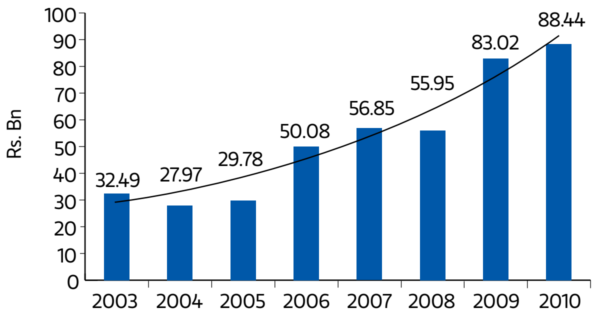


Chart 4.12> **Share Price Movements**

Performance and Issues of Other SOEs

services provider to the nation but also facilitate Sri Lanka's bid to be a regional ICT hub.

Although SOEs constitute a very large segment of the economy, their performance seems to be hampered by

- Lack of clear understanding of the mandate (objectives) of the entity, thereby
  - o engaging in non core activities
  - o engaging in activities that are not in line with government policy
  - o reliance on government budget
- Human resources issues
  - o excess employees
  - o lack of employees with core skills
  - o irrational recruitments and appointments
- Weak balance sheets that continue to erode capital expansion and thereby deteriorate productivity.
- Boards of Directors that do not have the managerial competence and the capacity to manage the organization thereby taking imprudent decisions.
- Boards of Directors and corporate management who disregard best practices in corporate governance and government policy and directions.
- Lack of proper accounts and clear assessment of financial performances in facilitating decision making.

Improved performance of many of the following SOEs would require considerable improvement in corporate governance, appointment of competent CEO's, professionals for procurement, Finance, Human Resource Management and other key managerial positions, adoption of realistic pricing and investment strategies, institutionalizing of performance audit and financial management controls, strict adherence to the annual budgets and commitment controls in expenditure management.

Performance	Issues	Challenges
Tourism		
Sri Lanka Tourism Promotion Bureau (SLTPB)		
• Has recorded a surplus of Rs 14 Mn in 2010.	• Lack of effective promotion strategy to attract tourists. • Undertakes extensive promotional activities in existing markets and has not focused in developing potential new markets. • Lack of coordination with other agencies	• To formulate a marketing strategy in order to achieve Government's target of attracting 2.5 million and 4 million tourists by 2016 and 2020 respectively. • To enhance the coordination with the other activities of the tourism sector • To be amalgamated with the Convention Bureau in order to avoid the duplication of work and expenditure incurred.
Sri Lanka Tourism Development Authority (SLTDA)		
• Recorded surpluses from 2008 at an increasing trend, with a surplus of Rs 65 Mn in 2010 • Hotel projects have been initiated by leasing lands to the private sector, covering one aspect of the targeted objectives, but more important areas of the objective seems neglected.	• Lack of coordination with other activities of the tourism industry, so that no proper contribution towards the overall performance of the sector • Mismatch between the expected outcomes and the present operations	• To position Sri Lanka as a premier tourist destination.

Performance	Issues	Challenges
Sri Lanka Convention Bureau (SLCB)		
• Has recorded surpluses from year 2008 onwards, with Rs 7 Mn in 2010. • Net assets also have increased upto Rs 62 Mn in 2010, which is a 170% increase when compared with the previous year.	• Duplication of marketing and promotional expenses, as the SLTPB also undertakes similar activities. • Lack of coordination with other activities of the tourism industry, so that no proper contribution towards the overall performance of the sector	• Position Sri Lanka as a potential destination for international Meetings, Incentive travel Conferences and Exhibitions (MICE)
Sri Lanka Institute of Tourism and Hotel Management		
• Recorded surpluses since 2008, with Rs 33 Mn surplus in 2010. • However, the surplus was entirely due to the performance of the Institute in Colombo, since all the other regional institutes are running at a loss	• Lack of quality training programmes meeting international standards • Lack of coordination with other activities of the tourism industry, so that no proper contribution towards the overall performance of the sector	• To formulate and implement a proper plan to provide the required training for the people in the tourism industry in order to empower them to achieve the Government's target of attracting 2.5 million and 4 million tourists by 2016 and 2020 respectively
Investment Promotion		
Board of Investment of Sri Lanka (BOI)		
• In 2010, BOI has obtained a surplus of Rs.142.67 Mn – an increase of 759% as against the previous year. This has been mainly triggered by an increase in operating revenue. • However, several industrial zones such as Biyagama, Koggala, Polgahawela, Wathupitiwala, Mirigama and Mirijjawila Industrial Park have incurred continuous losses.	• Lack of understanding of the scope and objectives of BOI by senior management. • Lack of a properly coordinated programme for identifying potential investment opportunities. • Lack of proper programme to identify suitable investors for existing investment opportunities. • Lack of proper programme to make use of the unutilized and under utilized spaces and factories in existing zones. • Inadequate attention given to transform the existing 12 BOI zones into technologically improved model zones.	• Preparation of programmes for attracting the suitable investors and facilitating to speed up investment approval and implementation process. • Revival of the existing zones which are operated at sub-optimal level into productive zones by attracting suitable investors. • Transformation of 12 BOI zones into model zones improving those to the standard with regard to environment, infrastructure, employee relations and technical improvements. • Marketing investment opportunities considering global economic environment.

Performance	Issues	Challenges
Construction		
Central Engineering Consultancy Bureau (CECB)		
• Revenue declined by 33% to Rs. 5,966 Mn in 2010. • Net profit increased by 163% to Rs. 408 Mn in 2010. • CECB has entered the foreign market.	• Undertaking assignments without a proper realistic assessment of the capacity leading to delays and cost escalations. • Heavily Dependent on government construction projects. • Lack of a proper Management Information System to facilitate optimal results from decentralization of the organization. • Lack of debt recovery measures and cost controls. • Delay in preparation of Financial Statements.	• Enhancing the credibility of the organization through management reforms. • Expanding access to the foreign markets.
State Engineering Corporation of Sri Lanka (SEC)		
• Revenue increased by 50% to Rs 5,712 in 2010. Net operating profit increased only by 2.5% due to net operating losses incured by Paliyagoda and Ratmalana workshops. • Took over the assets and liabilities of the National Equipment & Machinery Organization in 2010	• Lack of proper administration of the construction work. • Lack of debt recovery measures and cost controls. • Dilapidated and obsolete machinery. • Heavily dependent on government contracts	• To position as a viable institution in the market. • Broad basing the customer base in a highly competitive market.
State Development and Construction Corporation (SD&CC)		
• Revenue has increased by 8% to Rs 1,581 Mn in 2010 while net profit has decreased by 77%.	• Outdated machinery affects the production capacity. • Ineffective cost accounting and cost control system. • Lack of proper contract administration and debt recovery measures. • Heavily dependent on government contracts. • Limited access to the advanced technologies. • Delays in statuary payments	• Reinstating image of the organization through management reforms. • Infusion of capital to expand.
Urban Development		
Urban Development Authority (UDA)		
• UDA's losses continued in 2010 at Rs 143.34 Mn. • Successfully issued a debenture for Rs 10 bn, which was oversubscribed by six times.	• High operational expenditure • Lack of adequate skilled employees	• Implementation of the township development plan to meet the requirements of an emerging middle income country

Performance	Issues	Challenges
Sri Lanka Land Reclamation and Development Corporation (SLRDC)		
• Turnover has recorded a year on year growth of 18% in 2010. However, gross profit and profit after tax decreased by 12% and 53% respectively. • Sale of sea sand is the main avenue of revenue which accounts 50% of total revenue	• Despite enjoying monopoly status on the sale of sea sand, SLRDC has not been able to earn significant profit or gain a sizable market share in the sand market, as the product has not been promoted effectively.	• Controlling the expenditure to improve the profit margin • Lack of under developed lands for acquisition thereby limiting the SLRDC's scope for increasing revenue
Finance and Insurance		
Employees' Trust Fund Board (ETF)		
• The value of the fund increased by 25% to Rs.125,000 Mn in 2010 • Total Investments has increased by 18% to Rs. 17,866Mn in 2010 • Total contribution from members was 9,800 Mn • Commenced the remittance of ETF contributions using internet banking through Bank of Ceylon and Commercial Bank	• Backlog in updating member accounts	• Use of new technology to service members i.e. availability e-statements, balance query etc. • Identifying investment avenues in the backdrop of a growing fund.
Development Lotteries Board (DLB)/ National Lotteries Board (NLB)		
• Revenue of DLB and NLB increased by 8.6% and 3.3% respectively in 2010 • Total expenditure of DLB and NLB declined to Rs 594 Mn and Rs 1,186Mn respectively in 2010	• Lack of capacity and interest to exploit new markets	• Find innovative mechanisms to enhance the customer base. • Clearly demarcate the different market segments both entities should operate
Sri Lanka Insurance Corporation Ltd (SLIC)		
• Revenue increased by 71% to Rs 35,118 Mn in 2010 • Earnings Per Share (EPS) increased to Rs.17.48 in 2010 from Rs 1.23 in 2009	• Highly dependent on government businesses	• Increasing market share in a highly competitive and regulated environment • Identifying new and innovative products to meet the needs in a growing economy. i.e. Port related activities, construction industries, SME sectors etc.
National Insurance Trust Fund (NITF)		
• 650,000 Agrahara policy holders contributed Rs.595Mn in 2010 while the Treasury contribution was Rs. 443Mn • Total Agrahara claims in 2010 amounted to Rs 1,138 Mn	• Delay in preparing financial statements • Lack of experienced staff • High staff turnover	• Clearly demarcate the different market segments both NITF and SLIC should operate.
Agricultural & Agrarian Insurance Board (AAIB)		
• Contributions to the fund amounted to Rs 264.2 Mn while the expenditure on pension payments and the insurance claims amounted to Rs 287.6 Mn in 2010 • Treasury contribution to the AAIB was Rs 132 Mn in 2010	• Mismatch between the contribution and payments resulting in the deterioration of pension and insurance funds	• Amalgamating the AAIB with a suitable entity to ensure the sustainability of the pension and insurance schemes for the self employed

Performance	Issues	Challenges
Lady Lochore Loan Fund		
• Interest income increased by 25% to Rs 45Mn over in 2010 • Loans and advances increased by 24% to Rs 222 Mn in 2010. • 34,500 loans have been granted	• Weak loan tracking system leading to over or under recovery of loans • Lack of a proper internal control system with poor segregation of duties • Non implementation of the manual on good governance	• Expand and promote the loan schemes covering a wider section of government employees
Agriculture		
Sri Lanka Cashew Corporation		
• Production of the Corporation is about 1% of the total country's production of 8,000 MT • Total Expenditure in 2010 was Rs 124 Mn out of which the Treasury bears about 74% of the total budget of the Corporation	• Low productivity of the cashew lands due to improper land management • Poor management practices - Less focus on developing the cashew lands owned by the corporation - More focus on implementing subsidy schemes for private cashew growers • Inadequate supply to cater to the present market demand • Lack of a realistic business plan	• Identify the role of the Corporation as a grower, buyer or regulator
Palmyrah Development Board (PDB)		
• Revenue increased by 43% to Rs 20.7 Mn in 2010 • Market share is about 30% • PDB continued to be supported by the Treasury - Recurrent grant of Rs 53.5 Mn which is about 60% of the expenditure - Capital grant of Rs 30 Mn	• Lack of toddy tappers in the industry • Poor marketing network due to lack of vertical and horizontal integration • Inadequate supply to cater to the present demand • No proper pricing strategy.	• Producing diversified value added products • Marketing strategy to popularize the products using new technology. i.e. e-marketing
MILCO (Pvt.) Ltd.		
• Revenue decreased by 3.5% to Rs 4,093 Mn in 2010	• Mismatch of skills of the existing labour force and the required skills • Outdated plant and machinery	• Position MILCO to cater to the increasing demand for better nutritional requirements generated with the increasing awareness and income levels in the domestic market
National Livestock Development Board		
• Revenue increased by 24% to Rs 1,100 Mn in 2010 • Net profit increased to Rs 176 Mn in 2010	• Low productivity due to poor management practices • Lack of coordination with the other players in the livestock sector • Poor supply chain management • Weak financial management • Under utilization of existing assets	• Facilitate self sufficiency in milk production • Clearly identify the areas of operations in the dairy industry with MILCO, where NLDB should concentrate more on ensuring a continuous supply of liquid milk rather than engaging in value added production

Performance	Issues	Challenges
Ceylon Fertilizer Company Ltd. (CFC)/Colombo Commercial Fertilizer Company Ltd (CCFC)/Janatha Fertilizer Enterprise Ltd (JFE)		
• Fertilizer subsidy scheme on paddy is handled entirely by Ceylon Fertilizer Co Ltd and Colombo Commercial Fertilizer Company Ltd.	• Lack of proper logistical planning to transport fertilizer • Pilferage of fertilizer • Fund flow issues	• CCFC, CFC and JFE to operate as one unit and implement strict quality control and monitoring processes • Implement efficient and effective logistical arrangements for fertilizer transportation
Regional Plantation Companies (23 RPCs)		
During the period 2006 – 2010 for all RPCs • Cumulative profit was Rs. 10,800 Mn Companies with profit over - Rs. 1,000 Mn – 6 - Rs. 400 Mn –4 - Rs. 20 Mn – 9 Companies with losses over - Rs. 15 Mn - 4 • Lease rental income to the Treasury amounted to Rs. 2,192 Mn • Management fees to the managing companies was Rs 4,990 Mn • Payment of taxes was Rs. 539 Mn • Investment in capital development was Rs. 19,550 Mn • Total turnover is about Rs. 40,000 Mn per annum	• Inadequate investment in replanting and new planting • Lower productivity in Tea production compared to Tea Small Holders • Availability of non-cultivated lands	• Improve land productivity in a sustainable manner • Productive use of uncultivated lands
Kalubowitiyana Tea Factory Ltd		
• Revenue in 2010 was Rs. 498.9 Mn • Company paid Rs 6.26 Mn as dividends in 2009/10	• Continuous drop in production	• Infusion of capital to modernize the factory whereby fetching a better price for the finished product to ensure a continuous supply of green leaves
Chilaw Plantations Ltd		
• Continuous growth in the coconut production in the last 5 years • Turnover increased to Rs. 422 Mn by 35 % compared to 2009 • Declared Rs.75 Mn as dividend in 2010	• Not fully utilized the land for coconut cultivation • Lending to other SOEs which is outside their mandate without investing to expand their own operations	• Cater to the demand in the market • Integration with proper distribution channels
Janatha Estate Development Board		
• Annual tea production is 3 Mn Kg which is 1% of the market share • Incurred an average loss of Rs. 100 Mn per annum during the past five years	• Poor management of existing lands • Mismatch of skills of the existing labour force and the required skills • Weak financial management • Existence of less fertile land with low yields	• Raising capital to modernize factories with new technology • Improve the quality of the products

Performance	Issues	Challenges
Sri Lanka State Plantation Corporation		
• Annual tea production is 2.9 Mn Kg which is 1% of the market share • Net losses continued to decrease from 2008 with losses in 2010 at Rs. 14 Mn	• Non payment of statutory dues (EPF, ETF & Gratuity) • Poor maintenance of existing lands • Outdated machinery and equipments • Ageing labour force	• Exploit existing land for new sources of income such as electricity generation, gem mining, eco tourism etc. • Raising capital to refurbish and modernize factories with new technology
Ceylon Fisheries Corporation		
• Revenue of Rs. 1,923 Mn in 2010 while the market share was 1.3% • Expenditure has increased to Rs. 1,983 Mn in 2010 • Incured a net loss of Rs. 59 Mn in 2010	• Mismanagement of assets such as cold stores, freezer trucks etc. • Lack of proper fish distribution network • Decentralization of the financial function has resulted in high interest costs	• Executing its role as a market stabilizer
Ceylon Fishery Harbour Corporation		
• Net loss of Rs. 212.7 Mn in 2009 decreased to Rs. 161.5 Mn in 2010 • The Treasury grant accounted for about 52% of the overall cost .	• Use of low level of technology in fishery harbours • Revenue leakages due to structural deficiencies • Poor management practices and poor maintenance of existing resources • Suboptimal use of resources for income generation	• To raise funds with a weak balance sheet to build modernized fisheries harbours which is vital for promotion of deep sea and off shore fishing
Industry		
Kahatagaha Graphite Lanka Limited		
• Revenue declined by 67% in 2010 to Rs. 12.5 Mn • Net profit has declined from Rs. 37 Mn in 2009 to Rs. 2.8 Mn in 2010, a decrease of 92% • KGLL has withdrawn the fixed deposits to meet the cash requirements	• High cost of production • Lack of skilled and permanent staff • Lack of technical know-how to increase value addition • Lack of capital for development • Absence of a marketing strategy that proactively seeks lucrative markets	• Explore possibility of marketing the products at the optimal price • Seek avenues of capital infusion to acquire the required technology to add value to the product
Geological Survey and Mines Bureau		
• Increase in royalty income by 19% to Rs. 453.9 Mn in 2010. • Debtors have increased 3 fold to Rs. 2,205 Mn in 2010 from Rs. 735 Mn in 2009	• Lack of resources for follow up and monitoring of illegal and destructive mining activities. • Overlap of legal enactments of various governmental agencies hinder speedy processing and implementation of mineral mining regulations. • The debtors recovery policy of the bureau need to be reassessed	• Advance the knowledge and understanding on countries geology by carrying out systemic geological mapping • Develop a royalty policy to compensate the country's diminishing mineral resources. • Carry out a mineral resources assessment provincial wise to utilize country's mineral deposits.

Performance	Issues	Challenges
National Gem and Jewellery Authority		
• Revenue from regulatory activities has increased by 11% in the year 2010 • Net loss for the year 2010 was Rs. 39 Mn as against the loss of Rs. 14.5 Mn in 2009 • In 2010, 8,686 licenses were issued	• Lack of knowledge on advanced technology and cost effective mining methods • Lack of opportunities for skills development and retaining of trained personnel	• Introduction of new technology to the industry
State Timber Corporation (STC)		
• Turnover increased by 5% in 2010, but gross profit margin has marginally decreased to 41.39% in 2010 • Utilization of assets compared to the turnover to 81.47% in 2010 • Liquidity position has improved • Contributed Rs. 1,814 Mn as stumpage and levys in 2010	• No proper marketing strategies to cater the market requirements • Diminishing timber coverage in the country. • Competition from the timber importers • Funds are not ploughed back for expansion of the corporation	• Strike a balance between environmental concerns and the increasing demand for timber with the boom in the construction industry
Media		
Independent Television Network (ITN)		
• Recorded a profit of Rs 308 Mn in 2010 an increase of 66% over 2009. • Total Asset base of ITN increased by 30% to Rs. 1,751 Mn in 2010, mainly due to the increase in commercial debtors to Rs 765 Mn in 2010 from Rs 555 Mn in 2009.	• Weak debt management leading to liquidity problems	• Infusion of capital for infrastructure development to meet the technological changes and competition
Sri Lanka Broadcasting Corporation (SLBC)		
• Recorded a net profit of Rs. 38.3 Mn in 2009 and Rs. 42.6 Mn in 2010	• Excess staff and high administration expenses • Non existence of a proper costing system • Under utilization of existing assets	• Identifying and responding to new market opportunities
Sri Lanka Rupavahini Corporation (SLRC)		
• Total income increased by 3% to Rs 1,930 Mn in 2010. • Net profit increased to Rs. 42 Mn in 2010 from Rs. 12 Mn in 2009	• Non existence of a proper costing system • Outdated equipment to cater to the modern market	• Infusion of capital for infrastructure development to meet the technological changes and competition • Identifying and responding to new market opportunities
Sri Lanka Printing Corporation (SPC)		
• Revenue increased by 19% to Rs. 979 Mn in 2010	• Non payment of dues from government agencies • Inability to deliver orders in a timely manner due to -Outdated equipments -Improper planning	• Accessing new markets due to intense competition • Diversifying the customer base

Performance	Issues	Challenges
Health		
State Pharmaceuticals Corporation (SPC)		
• Total income has increased marginally during the last 5 years • Recurrent expenditure and total cost of employment have also increased	• Lack of coordination between Medical Supplies Division and SPC in procurement of drugs • Poor liquidity position • Inadequate island wide distribution channel • Lack of proper MIS including stock control system	• Develop a medical drug quality assurance system • Be the key player in implementing national drug policy
State Pharmaceuticals Manufacturing Corporation (SPMC)		
• Recorded an increasing trend in sales income over the last five years, an increase of almost 3 fold over 2006 • Revenue has not increased at the same magnitude compared to the selling and distribution expenses which has been increasing year on year by more than 100%	• Prevailing high unit cost of drugs is a concern • Lack of awareness among the general public on SPMC products	• Capital infusion to introduce new technology to increase the production capacity of SPMC to get economies of scale • Engage in research and development to introduce new drugs and medical equipment • Cater to the foreign markets, competing with other South Asian medical drugs producers
Education and Telecommunication		
Information Communication Technology Agency of Sri Lanka (ICTA)		
• ICTA is the single apex body involved in ICT policy and direction for Sri Lanka • ICTA is involved in implementing e-Sri Lanka programme • The programme includes ICT policy, leaders and institutional development component, ICT human resource and capacity building component and ICT investment and private sector development component • Completed substantial amount of the programme objectives and has applied for the second phase of the project	• Delay in providing access to the public to avail government services through usage of IT facilities • Delay in connecting all the government institutions to share information. • Delay in penetrating the rural market to improve IT knowledge due to non availability of local language keyboards, layouts and other infrastructure facilities	• Promote Sri Lanka as a destination for quality IT-BPO services and earn high export income to the country • Build necessary connectivity infrastructure throughout the country to connect villages and towns to the world. • Introducing a mechanism to ensure quality of IT education
National Institute of Business Management (NIBM)		
• Currently conduct Degree, Diploma and Certificate programmes in the field of Management and MIS and conduct workshops and seminars for the organization • NIBM performance is gradually and systematically increasing and has recorded positive trends in income, net profits and net asset position during the past years	• Scope and scale limitations	• Upgrade the institution towards fee levying government owned private university • Be a part of attracting 50,000 foreign students to the country

Performance	Issues	Challenges
Transport		
Ceylon Shipping Corporation Ltd (CSCL)		
• Revenue declined by 45% to Rs. 485 Mn in 2009/10 • Net loss increased by 64% to 57.1 Mn in 2009/10	• Lack of capital to expand the operations. • Inability to compete since the capacity of the available vessels is inadequate. • Non identification of new market opportunities with the end of the transportation of security cargo	• Positioning CSCL in the new urban development strategy by exploiting ways to provide domestic water base transportation. • Seek avenues for capital infusion to expand fleet and engage in both passenger and cargo transportation.
Restructuring by the Ministry of State Resources and Enterprise Development		
Ceylon Ceramics Corporation		
• Production has dropped significantly over the last 4 years and indicated its lowest total production of units 5,497,880 in the year 2010 which is a reduction of 16% over the year 2009. • Net profit has decreased by 23% during the year 2010 due to increments in cost of raw materials and low production. • Equity has eroded due to continuous losses incurred • Out of the 9 factories only 6 are operating. • Treasury has been assisting the corporation by providing Rs 9 Mn per month to pay the salaries which amounts to 48% of the total expenditure for 2010.	• Under-utilized and idling assets • Excess employees • Lack of raw materials and high cost involvement in the production	• Utilize the assets especially lands in an optimal manner • Implement VRS for excess employees
Lanka Salusala Ltd		
• Financial Statements have not been prepared for the past few years and financial performance could not be measured	• Excess staff and their incompetence. • Unsettled loans and other liabilities. • Less interest in the management in strategic planning, implementation and performance evaluation • No audited financial statements since 2004 • Pending court cases	• Formulation and implementation of a practicable business plan by way of utilizing the excess employees and unutilized and under-utilized assets
Sri Lanka Cement Corporation		
• Operations of the factory at Kankesanthurai were disrupted due to the war situation prevailed in the country and remained closed since 1990 • SLCC is currently engaged in the business of importing and selling cement in the local market • Decreasing trend in the profitability which prevailed in the last five years has reversed in 2010 in which the corporation was able to earn an after tax profit of Rs. 5 Mn	• Non availability of proper marketing plan to face competition. • Lack of capital for expansion purposes. • Lack of capacity to undertake a proper assessment of resources and plants together with a feasibility study as an initial step to recommencement	• Recommencement of the production at Kankesanthurai factory

Performance	Issues	Challenges
Lanka Mineral Sands Ltd		
• Total revenue in 2010 amounted to Rs 1,095 Mn which is an increase of 24% over the previous year. • Gross and net profit increased respectively by 95% and 130% in the year 2010. • Mining area was extended which resulted in increasing the quality of the output and avoided the repeated mining.	• Lack of a proper cost reflective pricing policy • Under-utilization of production capacity which resulted in unabsorbed overheads • Lack of value addition for the products	• Modernize the existing mineral separation plant. • Expansion of the plant complex and acquiring the technology to increase value addition for the products
Lanka Phosphate Limited		
• Total revenue in 2010 amounted to Rs 351 Mn which is an increase of 47% . • Gross profit and net profit ratio of the company in the year 2009/10 has increased respectively by 75% and 459% when compared to the previous year. • There is a significant improvement in the liquidity position in 2009/10.	• Inability to meet total market demand for Rock Phosphate with existing production capacity • Lack of new technology in the production • Lack of value addition and product diversification	• Infusion of capital and acquisition of technology to add value to the product. • Setting up a Single Super Phosphate (SSP) fertilizer manufacturing plant
National Paper Company Limited (NPCL)		
2 Mills • Embilipitiya Paper Mill has ceased operations from 2003 and recommenced its operations in 2008, and again closed down in April 2010 due to incurring continuous losses. Currently Embilipitiya factory is under restructuring • Valachchenai Mill is also running at a loss • Is incurring losses at an increasing level indicating that the company is facing severe financial difficulties • The company seemed to have increased expenditure beyond its capacity without taking into account its real requirements • Treasury is bearing the burden of paying salaries to the employees of Embilipitiya Mill. (Rs. 4.3 Mn per month as per a cabinet decision - up to May 2011)	• Restructuring process of Embilipitiya Paper Mill is still in process and until this has concluded salaries of the employees of Embilipitiya Paper Mill have to be financed • Lack of suitable machinery, the existing machinery is dilapidated and requires replacement or extensive repairs • Large unpaid dues • Lack of working capital • Valachchenai is also in a dire need of restructuring	
Galoya Plantations Ltd (GOPL) (51% GOSL & 49% -LOLC and Browns & Co)		
• Continued to upgrade the machinery and the factory at a cost of about Rs 250 Mn • Most significant expenditure is the finance cost which was Rs.1 94 Mn in 2010 • Net loss for 2010-Rs. 268 Mn accumulated loss Rs. 549 Mn • Yet to commence operations	• Repossession of land to the Co. • Clearing the issues regarding the equity contributions of the shareholders as per the Shareholder agreement signed in 2009 • Undue delay in the transfer of assets of Hingurana Sugar Industries Ltd to GOPL	• Ensuring the continuous supply of sugar cane

Performance	Issues	Challenges
B.C.C. Lanka Ltd		
• Revenue continued its decreasing trend in 2010 to Rs.100 Mn • Administration and finance cost constituted 93% of the total expenditure at Rs.26.4 Mn and Rs. 26.5 Mn respectively • Net loss for 2010–Rs. 32.8 Mn	• Outdated and dilapidated machinery that can not be used productively • Outdated technology • Lack of technical staff with necessary competencies • Under valued assets that has distorted the balance sheet	• Raising adequate funding for capital expansion
Sri Lanka Handicrafts Board (SLHB)		
• SLHB made continuous losses up to 2009 and in 2010 recorded a profit • Sales from exports increased in 2010 • Equity has eroded	• Delay in payments of dues to handicraft suppliers • Governance issues • Idle assets • Lack of marketing strategy	• Positioning to cater to the growing tourism industry

Post Ptrivatization Issues

In July 2007, The Cabinet of Ministers decided to close down the Public Enterprises Reform Commission of Sri Lanka (PERC) by repealing the PERC Act No 1 of 1996. Therefore, the post privatization monitoring of the institutions divested by PERC was vested with the Department of Public Enterprises. (PED)

At the time of PED taking over of post privatization activities from PERC, there were approximately 30 divested enterprises with unresolved issues regarding, the land (outright transfer or lease), court cases, employees matters including 10% share distribution, violation of some clauses in the Share Sales and Purchase Agreements, non-payment of installment payments to the Government etc. Since 2008, PED successfully finalized these outstanding matters and only the issues relating to the following institutions are still to be completed.

Acland Insurance Services Ltd
Ambewela Livestock Company Ltd
Colombo Commercial Company (Engineers) Ltd
Lanka Tractors Ltd
Lanka Canneries Ltd
Mattegama Textile Lanka Ltd
Pattipola Livestock Company Ltd
Thulhiriya Textile Ltd
Lanka Loha Hardware Ltd
Sevanagala Sugar Industries Ltd

05
FOREIGN FINANCING

Overview

The composition and the form of foreign financing have substantially changed over the last few years with the graduation of Sri Lanka to a middle income economy. In parallel to the steady increase of per capita income level, Sri Lanka has gradually disqualified for the concessional external assistance generally available for less developed economies.

With the reduction of concessional financing, steps have been taken to broaden the options for foreign financing for public investment by mobilizing a mix of commercial credit and non concessional funds with concessional funds through the Department of External Resources and the Department of Public Debt to keep the cost of borrowing at affordable level.

A greater focus was made on the needed large investments for the priority sectors such as energy, roads including highways, ports and aviation, irrigation and water supply schemes to increase return on investments to match the change cost status of foreign debt. At the same time, the required resources for the development of lagging regions were provided to ensure balanced regional development with diversity. Under this new financing strategy, China and India have emerged as two lead development partners providing 15-20 years long term funds while ADB, IDA, Japan, and UN agencies continued their support for the country's development efforts including for the rehabilitation and reconstruction in the North and East.

Providing concessional funds, South Korea, Saudi Development Fund, and Kuwait Fund continued their annual development assistance to Sri Lanka while Government of Iran and Russia also extended new development assistance. Such funds are available for 15 year maturity with LIBOR+0.5 percent interest.

The country has taken steps to approach non-concessional window of the World Bank – International Bank for Reconstruction and Development (IBRD) to expand financing options. The borrowings from the Asian Development Bank (ADB)'s non concessional financing portion or Ordinary Capital Resources (OCR) have gradually increased last few years. In addition, Sri Lanka has successfully tapped capital market financing with issuance of long term sovereign bonds commencing from 2007 with advantages of having the stability of the foreign exchange rate of the country, favourable macroeconomic fundamentals and access to low interest structure prevailed in the international capital markets.

The total new commitments made by development partners during 2010 increased by 32 percent reaching USD 3,261 million surpassing the commitments of USD 2,221 million in 2009. Of the total commitments, debt finance accounted for USD 2,119 million, grants finance accounted for USD 124 million and export credit facility accounted for USD 1,018 million. Over 68 percent of the new commitments in 2010 were for the development of economic infrastructure of which nearly 50 percent was for reconstructions of roads and railway lines in the Northern Province. This underscores the Government's strong commitment for development of infrastructure with special attention on the reconstruction and rehabilitation to revive the economy of the northern region.

The total foreign financing disbursement during 2010 was USD 2,121 million. It was 30 percent increase compared to the total disbursement of 1,633 million in 2009. This consisting of 93 percent of project loans and the balance 7 percent of foreign grants.

The planned strategy to raise GDP growth rate to above 8 percent over the next 6 year period is well underway with a target of 6-7 percent of public investment ratio. This investment will be financed through a durable blend of external financing with concessional and other type of financing while ensuring improvement of debt sustainability. The government is making all available options to enhance the foreign financing resource envelop to support the ongoing development programme, exploring the renewed opportunity for accelerating country's overall development after the reunification of the country under one umbrella.

Foreign Financing Commitments

The total commitments made by development partners and lending agencies to Sri Lanka during the period of January to December 2010 was USD 3,261 million which is the highest annual commitments recorded so far. The total commitment consists of project loans of USD 3,137 million and grants of USD 124 million.

The Governments of China, India, Japan, Russia, and multilateral donor agencies – Asian Development Bank and World Bank – were the main donors and they accounted for USD 2,771 million which is 84 percent of the total commitment in 2010. Apart from the grant of USD 7.5 million, Chinese assistance was in the form of export credit and it accounted for 25 percent of the total commitment. Details of the agreements signed from January to December 2010 are given in table 5.2.

Table 5.1 > **Foreign Finance Commitments in 2010 (USD Mn)**

Donor	Loan	Grant	Total
Bilateral	**2,402.5**	**104.6**	**2,507.1**
Japan	396.6	42.3	438.9
China	821.4	7.5	828.9
India	483.8	-	483.8
Australia	105.2	10.5	115.7
France	16.3	-	16.3
Iran	111.2	-	111.2
Russia	300.0	-	300.0
Saudi Fund	46.1	-	46.1
Netherlands	-	0.1	0.1
USA	-	44.2	44.2
Korea	40.0	-	40.0
Other	81.9	-	81.9
Multilateral	**762.3**	**19.0**	**781.3**
ADB	366.7	5.5	372.2
World Bank	347.4	-	347.4
IFAD	24.2	-	24.2
OPEC Fund	24.0	-	24.0
UN Agencies	-	13.5	13.5
Total	**3,136.9**	**123.6**	**3,260.5**

Source: Department of External Resources

Chart 5.1 > **Foreign Finance Commitments by Major Donors in 2010**

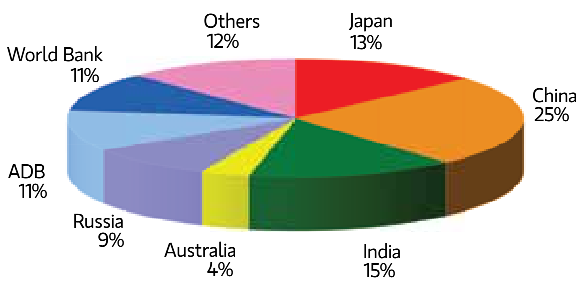


Table 5.2 > **List of Committed Projects During 2010 (USD Mn)**

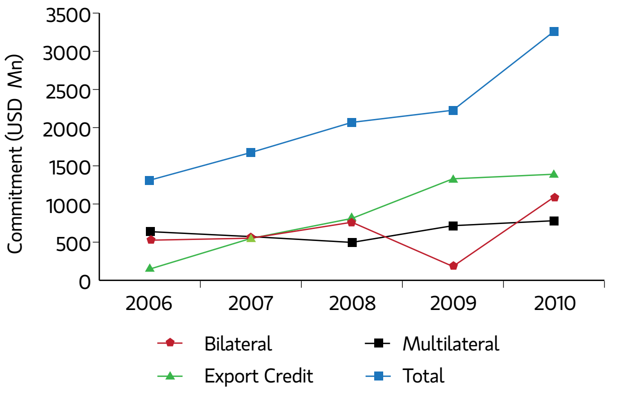
Donor	Project Name	Grant	Loan	Total
ADB	Improving Connectivity to Support Livelihoods and Gender Equality	3.0		3.0
	Fiscal Management Efficiency Project		50.0	50.0
	Post-Conflict Emergency Assistance for IDPs in the North	2.5		2.5
	North - East Community Restoration and Development Project II - Supplementary		12.3	12.3
	Conflict Affected Region Emergency Project		150.0	150.0
	Northern Road Connectivity Project		154.0	154.0
Australia	Integrated Water Supply Scheme for Un-served Areas of Ampara District - Phase III		105.0	105.0
	Emergency Northern Recovery Project		10.5	10.5
Austria	Rehabilitation of Old Laxapana Hydroelectric Power Plant		34.8	34.8
	Rehabilitation of Eastern Railway Line		10.5	10.5
China	Mattala - Hambantota International Airport Project		190.8	190.8
	Supply of 13 Nos. Diesel Multiple Units to Sri Lanka Railway Project		102.7	102.7
	Supply of two MA-60 Aircrafts		41.1	41.1
	Procurement of Material for the Northern Province Power Sector Development Programme		31.7	31.7
	Northern Road Rehabilitation Project - A9 (From Galkuma to 280km Post)		71.0	71.0
	Northern Road Rehabilitation Project - Contract 11A		42.8	42.8
	Northern Road Rehabilitation Project - Contract 11B		42.5	42.5
	Northern Road Rehabilitation Project - (AB20), (AB32), (AB16) and (AB18)		75.4	75.4
	Northern Road Rehabilitation Project - A9 (from 230km to Post to Jaffna)		70.6	70.6
	Economic and Technical Cooperation	7.5		7.5
	Rehabilitation and Improvement of Priority Road Project		152.8	152.8
FAO	Surveillance for Accreditation of Freedom from Rinderpest	0.2		0.2
	Dairy Cattle and Buffalo Improvement Project	0.3		0.3
	Provision of Seed and Other Essential Agricultural Inputs in the North	0.9		0.9
	Improving Post-harvest and Sustainable Market Development for Fisheries	0.1		0.1
	Emergency Agriculture and Food Security Assistance for IDPs	4.3		4.3
	Agro-enterprise Development Project	0.4		0.4

Donor	Project Name	Grant	Loan	Total
	Improvement of Food Security and Livelihoods in Northern Sri Lanka	1.2		1.2
France	Greater Trincomalee Water Supply Project – Supplementary		3.4	3.4
	Provision of Oxygen Concentrators, Operating Theatres and Medical Equipment to Tsunami Affected & Remote Hospital Project		12.9	12.9
Germany	Reconstruction of Water Supply in Galle District		1.6	1.6
India	Upgrading of Railway Line Colombo Matara Phase II		67.4	67.4
	Railway Line Omathai-Pallai, Madhu-Tallaimanar and Medawachchiya		416.4	416.4
IFAD	National Agribusiness Development Programme		24.2	24.2
Iran	Implementation of Rural Electrification Project 8		111.2	111.2
Japan	Provincial/Rural Road Development Project (Central Province and Sabaragamuwa Province)		99.1	99.1
	Provincial/Rural Road Development Project (Eastern Province)		42.9	42.9
	Eastern Province Water Supply Development Project		53.1	53.1
	Kandy City Wastewater Management Project		152.4	152.4
	Upper Kotmale Hydro Power Project II		49.2	49.2
	Reconstruction of 05 Bridges in Eastern Province (Detailed Design)	0.3		0.3
	The Project for the Improvement of Central Function of Jaffna Teaching Hospital	24.9		24.9
	Project for Human Resources Development Scholarships	2.5		2.5
Netherlands	Restoration, Conservation and Publicizing of Dutch Records in National Archives of Sri Lanka	0.1		0.1
Russia	Russian Credit Line		300.0	300.0
Saudi Fund	Kalu-Ganga Development Project		46.0	46.0
UNDP	Contribution to the UNDP Mine Action Project	3.2		3.2
	Capacity Building for South - South Cooperation	0.3		0.3
UNHCR	Assistance to Resettlement of IDPs in Sri Lanka	0.5		0.5
USA	Increased Competitiveness in the Global Market Place - Enhancement	13.7		13.7
	Improved Integration of Targeted Disadvantaged Groups into the Community - Enhancement	0.3		0.3
	Peace, Good Governance & Citizens Rights – Enhancement	0.6		0.6
	Peace Process Supported - Enhancement	12.1		12.1
HSBC Bank Plc UK	Emergency Purchase of Container Handling Equipments - Jaya Terminal		35.0	35.0
World Bank	Provincial Roads Project		103.3	103.3

Donor	Project Name	Grant	Loan	Total
	Additional Financing for Community Livelihoods in Conflict Affected Areas		11.9	11.9
	Emergency Northern Recovery Project		63.9	63.9
	Higher Education for the Twenty-First Century Project		38.8	38.8
	Sustainable Tourism Development Project		18.2	18.2
	North East Local Services Improvement Project		51.9	51.9
	Small and Medium Enterprise Development Facility Project		57.4	57.4
	Total	**123.6**	**3,136.9**	**3,260.5**

Source: Department of External Resources

Chart 5.2 > **Foreign Aid Commitment**



Trends in Foreign Financing

During the previous five years, the annual total foreign financing commitments have gradually increased from USD 1,311 million in 2006 to USD 2,221 million in 2009 and rapidly increased to USD 3,261 million in 2010. This is an increase by 149 percent compared to 2006. The landscape of foreign financing has changed significantly during the last few years owing to the increase of export credit financings. As a percentage of total commitment, the export credit facilities increased from 2 percent in 2005 to 40 percent in 2010.

Committed Undisbursed Balance

The total committed undisbursed balance of foreign financing available for the development programmes as at December 2010 stood at USD 7,522 million of which the funds committed for the Roads and Transport, and the Power and Energy sectors alone accounted for 47 percent. Table 5.3 indicates the sector-wise details of the committed undisbursed balances.

Foreign Financing Disbursements

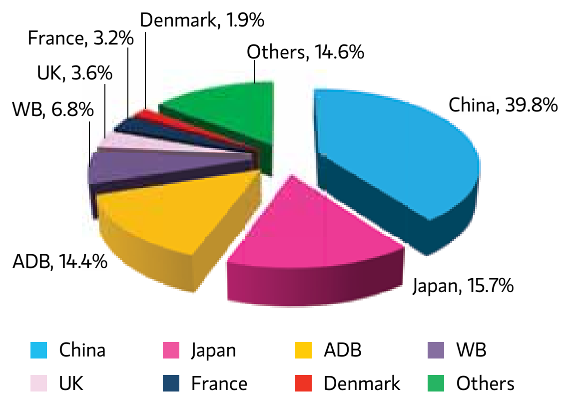
The total foreign financing disbursement during 2010 was USD 2,121 million. Of this amount USD 1,972 million (93 percent) were project loans and the balance USD 149 million (7 percent) were grants. The total disbursement during 2010 has increased by 30 percent compared to the total disbursement of USD 1,633 in the year 2009.

Table 5.3 > **Committed Undisbursed Balance as at 31st December 2010**

Sector	USD Mn	% Share of Total
Roads and Transport	2,451	32.6
Ports and Airport Development	591	7.8
Water Supply and Sanitation	845	11.2
Tsunami Rehabilitation	105	1.4
Conflict Affected Areas Rehabilitation	361	4.8
Health, Education & Vocational Training	233	3.1
Power and Energy	1,114	14.8
Private Sector Development	120	1.6
Agriculture, Fisheries, Irrigation and Land	713	9.5
Rural Development	94	1.2
Environment and Natural Resources	117	1.6
IT, Science and Technology	27	0.4
Housing and Urban Development	29	0.4
Other	722	9.6
Total	**7,522**	**100**

Source: Department of External Resources

Chart 5.3 > **Composition of Foreign Finance Disbursement in 2010**

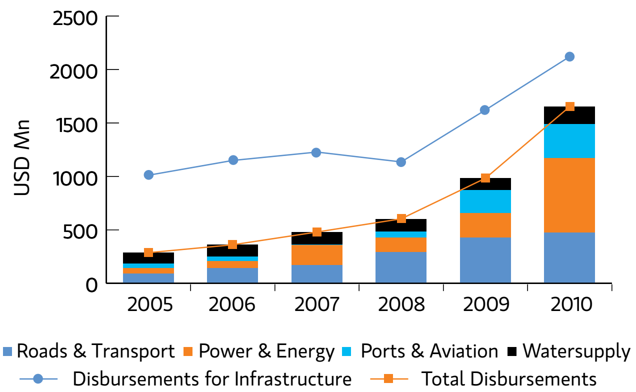


About 70 percent of total disbursement in 2010, were reported through the projects funded by the Government of China, Japan and the Asian Development Bank. Disbursement of USD 845 million from the Government of China was reported mainly for implementation of the Puttalam Coal Power Project (USD 451.5 million), Hambantota Port Development Project (USD 115 million), Mattala International Airport (USD 48.9 million), Colombo-Katunayake Expressway (USD 68.6 million) and Supply of 13 Nos of Diesel Multiple Units to Sri Lanka Railways (USD 30.3 million). The total fund disbursement from the Government of Japan in 2010 was USD 325 million. Of this amount, USD 302 million was disbursed through loans and the balance USD 22.6 million was disbursed through grants.

Water Sector Development Project (USD 52.8 million), Greater Colombo Transport Development Project (USD 52 million), Upper Kotmale Hydro Power Project (USD 58.4 million), Colombo City Electricity Distribution Development Project (USD 24.8 million) and Southern Highway Construction Project (USD 30.4 million) were the main Japanese funded projects that reported higher disbursements in 2010.

Asian Development Bank (ADB) disbursed USD 342 million in 2010. Of this amount, USD 306.3 million was disbursed through loans and USD 35.8 million through grants. Fairly higher disbursements were reported from the Colombo Port Expansion Project (USD 72.3 million), National Highway Sector Project (USD 35.4 million), Conflict Affected Areas Rehabilitation (USD 27.4 million), Tsunami Affected Areas Rehabilitation Project (USD 34.2 million) and Southern Expressway Project (USD 18.7 million).

Chart 5.4 > **Utilization of Foreign Financing by Economic Sectors 2005 - 2010**



Utilization Rate of Foreign Finance

Foreign finance utilization rate (or foreign finance disbursement ratio) indicates the efficiency of utilization of foreign financing committed by donors and other lending agencies. The utilization ratio (total disbursement to total committed undisbursed balance) depends on the average project loan portfolio life. The average project period of the foreign financed portfolio is between 4-5 years and hence the satisfactory level of the overall utilization ratio should be between 20 to 25 percent.

The utilization of foreign financing has increased during the last five years. With the higher level of commitments, the utilization rate in relation to the infrastructure development projects has increased steadily since 2005, contributing to the improvement in the overall aid utilization rate. In 2005, the total utilization ratio in relation to the infrastructure development projects was 28 percent and it has increased to 76 percent by 2010. This reflects acceleration of the implementation of infrastructure projects in line with the targets situated in the Economic Development Policy Framework of the Government: Mahinda Chintana - Vision for the Future.

Table 5.4 > **Foreign Financing Utilization Rates (%)**

Donor	2008	2009	2010
Bilateral	**22.6**	**22.4**	**27.4**
Japan	22.6	19.2	19.9
China	22.9	38.3	46.7
Germany	33.5	15.4	18.2
France	13.6	18.4	42.1
India	0.4	20.6	10.4
Netherlands	0.3	59.3	60.3
Korea	31.0	6.7	23.0
Kuwait	23.7	13.7	10.6
Denmark	32.0	45.1	42.4
Saudi Fund	10.0	31.2	5.09
USA	58.9	11.6	25.1
Other bilateral	6.5	29.5	0.19
Multilateral	**24.9**	**30.4**	**21.8**
Asian Development Bank	21.1	21.2	23.8
World Bank	29.0	40.9	20.3
European Investment Bank	30.5	29.4	15.5
UN Agencies	32.5	67.6	16.4
Other Multilaterals	20.9	13.3	21.3
Export Credit	**11.7**	**26.0**	**46.0**
Overall	**21.1**	**25.9**	**25.7**

Source: Department of External Resources

External Debt Stock

The government external debt stock as at 31st December 2010 stood at USD 16.3 billion. This was increased by 21 percent or USD 2.8 billion compared to the debt stock as at 31st December 2009. Of the total debt stock, 39 percent was owed to the bilateral donors, 37 percent to the multilateral donor agencies and 12 percent to the commercial borrowings. The balance 11 percent was owed to the export credit agencies.

Out of the total debt stock, 52 percent will mature during the 10 year period commencing from 2011 and 35 percent will mature during a 10 year period commencing from 2021. The balance 13 percent will mature after 20 years.

External Debt Service Payment

The total external debt service payment made for foreign financed development projects in 2010 amounted to USD 842 million. This included a principal amount of USD 580 million and USD 262 million of interest payments.

Table 5.5 > **Debt Service Payment Forecast on Existing Portfolio (USD Mn)**

Donor/Creditor	2010	2011	2012	2013	2014
Bilateral	**436.1**	**479.3**	**493.6**	**511**	**513**
Japan	290.8	310.9	318.9	324.8	319.6
Canada	4.2	4.1	4.1	4.1	4.1
Denmark	6	5.8	5.8	5.8	5.7
France	8.4	8.3	8.0	7.9	7.4
India	13.6	14.6	18.3	22.9	36.4
Kuwait	5.2	5.8	6.0	6.4	4.4
Korea	8.8	8.4	10.2	10.7	11.0
Germany	36.8	33.6	29.4	29.3	25.6
China	15.7	42.3	48.7	55.9	54.5
USA	40.4	39.8	39.2	38.0	37.4
Spain	1.8	1.8	1.7	1.7	1.7
Saudi Fund	2.4	2.6	2.8	3.5	4.2
Others	2	1.3	0.5	0	1
Multilateral	**227.9**	**256.9**	**285.3**	**307.3**	**322.4**
ADB	136.8	155.1	176.2	186.9	200.5
World Bank (IDA)	78.2	85.8	89.9	97.1	96.9
IFAD	2.9	3.7	3.8	3.9	3.9
European Investment Bank	6.5	8.7	11.8	15.9	17.9
Nordic Fund	0.7	0.8	0.8	0.8	0.8
OPEC Fund	2.8	2.8	2.8	2.7	2.4
Commercial Banks	**80.9**	**86.9**	**584.7**	**42.1**	**42**
Export Credits	**69.9**	**121.6**	**200.3**	**303.1**	**374.5**
Grand Total	**814.8**	**944.7**	**1563.9**	**1163.5**	**1251.9**

Source: Department of External Resources

Financing for Roads and Highways

The total commitment of foreign financing for the road and transport sector has been raised from USD 10 million in 2005 to USD 1,518 million in 2010. Foreign financing component of the total road investment in 2005 was Rs. 8,600 million and it has increased to Rs. 44,600 million in 2010.

Continuous support has been obtained from the Asian Development Bank (ADB), the World Bank (WB), and Governments of Japan, UK, Korea, Kuwait, and France to improve the conditions of existing road network and to construct new expressways. The Government of China, a new development partner for the road sector contributes in large.

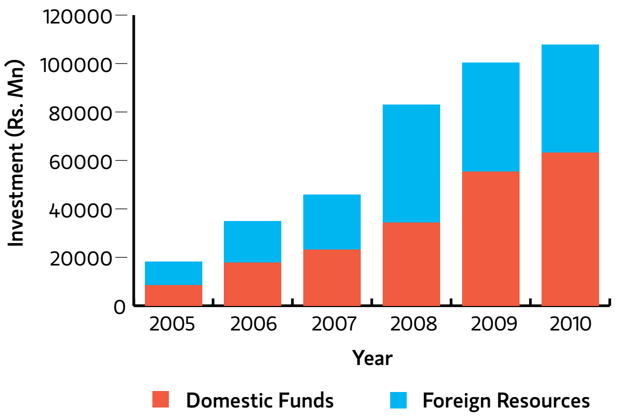
During 2005 – 2010, the total commitment for road network improvement was approximately USD 2,411 million of which 98 percent was foreign loans. Furthermore, around USD 1,500 million is expected for development of road sector in next three years. Around 89 percent of the total commitments have been obtained from China, Japan, ADB and the World Bank for the development of road sector. The total disbursements were USD 1.3 billion of which accounted 82 percent from the four major development partners.
The increased commitments have been invested on construction of expressways and improvement of the existing road network. During the last six year period, approximately 2,360km of national roads have been developed with foreign loans and grants and another 3,260km of national roads will be rehabilitated by 2015. The progress of the development of the national road network is given in map 5.1.

Table 5.6 > **Commitments and Disbursements for Road Sector, 2005 - 2010 (USD Mn)**

	Commitment	Disbursement
China	729	65
Japan	609	430
ADB	519	342
World Bank	297	173
UK	127	122
Other	131	99
Total	**2,411**	**1,231**

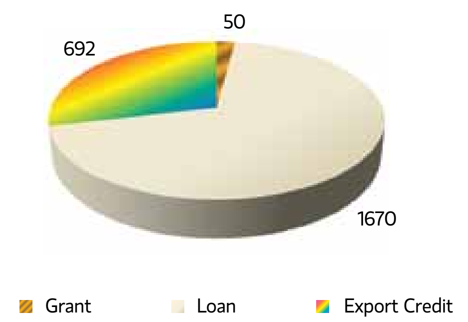
Source: Department of External Resources

Chart 5.5 > **Financing Pattern on Roads 2005 - 2010**



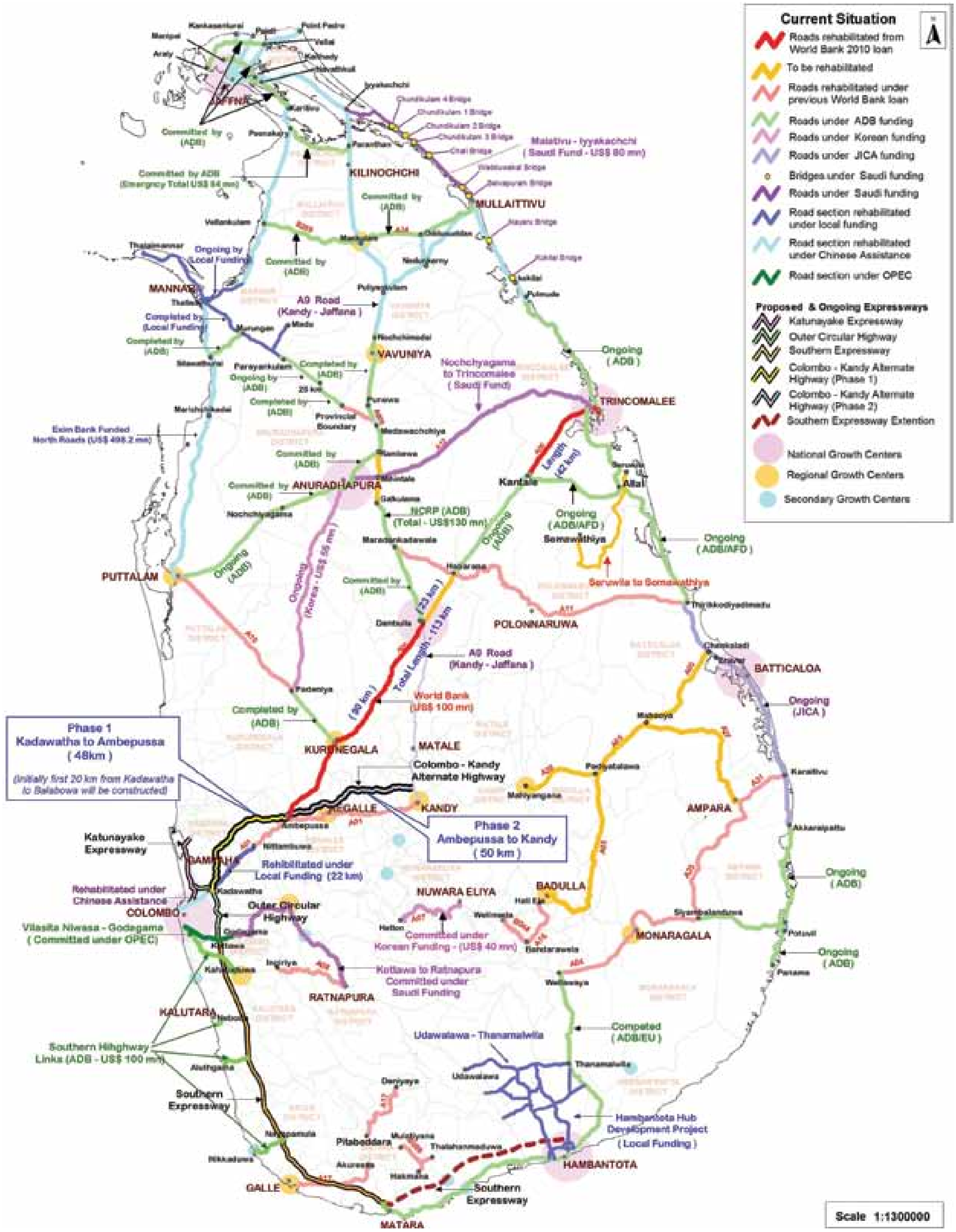
Source: Department of National Budget

Chart 5.6 > **Commitments 2005 - 2010 (USD Mn)**



Source: Department of External Resources

Map 5.1 > **Progress of Development of Road Network**



Source – Road Development Authority

Construction of Expressways

The spending on construction of expressways, which are predominately implemented by foreign resources, has been increased from Rs. 1.4 billion in 2005 to Rs. 19.8 billion in 2010. The total commitment for the Colombo - Katunayake Expressway, Outer Circular Highway and Southern Expressway is USD 1,500 million

Further, foreign financing is expected for the proposed Colombo – Kandy Expressway and the extension of the Southern Expressway projects which will commence during the medium term 2014 - 2016.

Colombo Katunayake Expressway

A designed speed of 100km/hr expressway, connects the Colombo City and the International Airport at Katunayake (26km) is in progress and expected to be completed in 2012. The total cost of the Expressway is USD 292 million of which a loan amount of USD 248.2 million has been obtained from the Government of China through the EXIM Bank of China.

Outer Circular Highway

Construction on this 28km long, four-lane access controlled highway which connects the Southern Expressway and the Katunayake Expressway commenced in 2009 and will be completed in 2015.
The Government of Japan has already provided USD 630 million for the 19km section from Kottawa – Kaduwela - Kadawatha.

Southern Expressway

The first access controlled, 126km length, four-lane, expressway is being built between Colombo and Matara, and is expected to open in August 2011.
A total loan amount of USD 638 million has been obtained from the JICA, ADB and the EXIM Bank of China for the construction of sections from Kottawa - Kurundugahatehme, Kurundugahatehme - Pnneduwa, and Pnneduwa - Matara respectively.

Improvement and Rehabilitation of Roads and Bridges

With an investment of USD 405 million 1,225km of major trunk and arterial roads in the lagging regions have been improved. While rehabilitating roads, many bridges such as Bentota, Katugastota, Hirana, Weralugastotupola, Molkawa, Lakpandura and Kinniya bridges constructed in the colonial period, which are critical links in the road network, have been reconstructed.

During 2005 – 2010, a total amount of USD 272 million has been spent for post Tsunami reconstruction of the 1,136km of roads and 27 bridges along the west to the north coastal area. In addition, with an assistance of the Government of Japan, WB and ADB, 1,706km of provincial roads and 700km of plantation roads have been rehabilitated.

Table 5.7 > **Completed Key Projects, 2005 - 2010**

	Project	USD million
Japan	Pro-Poor Rural Development Project	45
	Road Network Improvement Project	27
	Provincial Road Improvement Project	48
	Sri Lanka Tsunami Affected Area Recovery and Take off (STAART) Project	94
	Construction of Manamptiya Bridge	10
ADB	Third Road Improvement Project	56
	Road Sector Development Project	59
	Road Network Improvement Project	92
	Road Rehabilitation in Conflict Affected Areas	48
WB	Tsunami Emergency Recovery Project	25
Kuwait	Bridge Reconstruction and Rehabilitation	17
Korea	Balangoda - Banadarawela	16
	Construction & Rehabilitation of the Maha-nama Bridge in Matara	7
Austria	Construction of Steel Bridges in Kalutara	14
Saudi	Kinniya Bridge & Batticaloa – Trincomalee Road Improvement Project	11
Total		**569**

Source: Department of External Resources

To meet the growing demand of transport, national as well as provincial roads are being rehabilitated and improved with the foreign loans and grants. The following are the major foreign funded projects which are being implemented at national and provincial levels.

Road Sector Assistance Project
IDA - USD 198 million
Duration – 2005 - 2011

Resurfacing of 620km of national roads: Galle-Deniyaya, Padeniya-Puttalam, Haliella-Bandarwela, Bandarawela-Welimada, Madawachchi-Poonawa, Nittambuwa-Kandy, Maradankadawela-Thirukondaimadu and Wellawaya-Siyambalanduwa-Ampara-Karaitivu.

Pro-poor Eastern Infrastructure Development Project
JICA - USD 50 million
Duration – 2007 - 2011

Rehabilitaion of 100km of Akkaraipattu-Batticaloa-Trikkandimadu Road and 290 meter long bridge at Kallady.

National Highway Sector Project
ADB & OPEC - USD 158 million
Duration – 2007 - 2012

Rehabilitation of Puttalam-Anuradhapura, Habarana-Kantale, Udatenna–Mahiyangana, Nuwara Eliya–Badulla and Vilasitha Nivasa-Homagama of Colomb –Ratnapura Road

Construction of New Mannar Bridge
JICA - USD 16 million
Duration – 2008 - 2010

157 meter length of bridge and 3km long causeways have been reconstructed and opened for public in March 2010.

Trincomalee Integrated Infrastructure Project
AFD – Euro 65 million
Duration – 2006 - 2011

Reconstruction of 98km of A15 road from Thirukkondiamadu to Trincomalee, 41km of Allai–Kantale–Serunuware and 12km of coastal road which joins A15 and construction of five major bridges at Kayankerni, Verugal, Upparu, Gangei and Ralkuli.

Improvement of Padeniya-Anuradhapura Road Project
EDCF - USD 55 million
Duration – 2009 - 2012

The project includes widening and improvement of 80.8km long Padeniya–Anuradhapura road with two lanes, and with four lanes in town areas.

Construction of Bridges and Flyovers
UK – USD 101.8 million
Austria – USD 14.4 million
Spain – USD 29.5 million
Duration – 2006 - 2011

Construction of four flyovers in Colombo and 116 bridges such as Katugastota, Bentota, Sangupiddy and Irakkandy.

In 2010, eight new agreements for USD 900 million were signed for the road network improvement with ADB, WB, EXIM and Development Banks of China, the Government of Korea and Government of Japan.

Hatton – Nuwara Eliya Road Improvement Project Korea – USD 40 million Duration – 2010 - 2013	The project includes widening and improvement of 46.7km long Hatton-Nuwara Eliya road with 2 lanes.
Northern Road Connectivity Project ADB – USD 154.4 million Duration – 2010 – 2015	Rehabilitation of 108km national roads: Anuradhapura – Rambewa, Navatkuli – Keraitivu – Mannar, Kandy – Jaffna, Manipay – Kaithady, Vallai – Tellippalai – Araly, and Mankulam – Mullaitivu Roads and 140km of provincial roads in the Vavuniya and Mannar Districts
Northern Road rehabilitation Project China EXIM Bank – USD 302 million Duration – 2010 – 2014	Rehabilitation of 512km of roads: Mullaitivu – Kokkilai – Pulmodai, Oddusuddan – Nedunkerny and Mullaitivu – Puliyankulam, Navatkuli – Keraitivu – Mannar, Puttalam – Marichchikada – Mannar, Kandy – Jaffna, and Roads in the Jaffna Penisula
Provincial / Rural Road Development Project Japan – USD 152 million Duration – 2010 - 2015	Provincial roads improvement in the Central (168.5km), Sabaragamuwa (181km) and Eastern (332.8km) Provinces
Provincial Road Development Project IDA – USD 103 million Duration – 2010 - 2015	350 km of Provincial roads will be improved in the Uva, Eastern (Ampara) and Northern (Jaffna) Provinces
Rehabilitation and Improvement of Priority Road Project China Development Bank – USD 152.8 million Duration – 2010 – 2014	163km of national roads have been identified in the UVa, Southern, Eastern, Northern and Western Provinces
Reconstruction of Five Bridges in the Eastern Province Japan – USD 15 million Duration – 2010 - 2015	Five new bridges will be constructed across the Baticaloa Lagoon

Financing for Power and Energy

Electricity is an essential requirement for rapid economic and social development of the country. The National Energy Policy and Strategies envisages providing electricity to all households by 2012 while maintaining the electricity tariffs at an affordable level. In line with these targets the focus of the foreign financing has been given to sustainable development of energy resources through development of renewable energy sources and small scales hydro power plants.

External Financing for Power and Energy 2005 to 2010

During the period of 2005-2010, Sri Lanka mobilized USD 1.9 billion from different external financial sources for power sector development. During this period, the highest commitment was made by the government of China while Asian Development Bank (ADB), Iran and the Government of Japan also made a significant commitment. These four donors accounted for about 92 percent of the total commitment made for the power and energy sector during the last six years.

The government effort to improve disbursement has led to increase the foreign finance utilization rate in 2010, and it has reported as the highest rate of disbursement during last six years.

In 2010, two new agreements were signed with the Government of China and the UniCredit Bank Austria to provide materials for Northern Province Power Sector Development Program and Rehabilitation of Old Laxapana Power Station.

Procurement of Material for the Power Sector Development Programme in the Northern Province (Uthuru Wasanthaya)

The Government of China through the Exim Bank of China provided USD 31.66 million to finance the project. The purpose of this project is to provide electricity to 80,000 consumers living in the Northern Province by constructing 400 rural electrification schemes.

Rehabilitation of Old Laxapana Power Station

The Old Laxapana Hydro Power Station is more than 58 years old and already beyond its accounting lifetime. The recommendation was to rehabilitate the power station before it reaches 65 years. Accordingly, it is planned to replace turbines, generators, and other main equipment. This project will enhance hydropower generation in the country and also reduce the cost of power generation. Further, it will also reduce the number of failures due to enhanced efficiency of the new system.

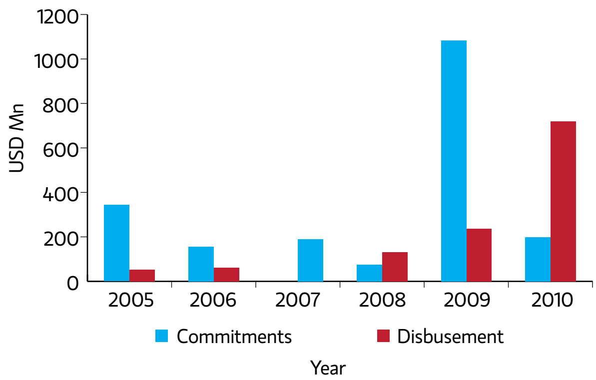
The total cost of this project is USD 37.7 million. Of this total cost, 85 percent covered by the UniCredit Bank Austria AG, by providing a Credit Facility Loan of USD 32.5 million. At present, the project is at design stage and construction work of the project will commence in near future.

Table 5.8 > **Financial Progress of the Power & Energy Sector during 2005 - 2010**

Year	Commitments (USD Million)	Disburse-ments (USD Million)
2005	343.5	51.9
2006	156.9	62.6
2007	-	189.9
2008	74.3	130.4
2009	1,083.6	236.8
2010	199.0	719.1
Total	**1,857.3**	**1390.7**

Source: Department of External Resources

Chart 5.7 > **Commitments and Disbursements in Power & Energy Sector 2005 - 2010**



Upper Kotmale Hydropower Project (UKHP)
The UKHP is a run of river hydropower project with an installed capacity of 150MW (consisting of two 75MW units) and it will produce 409GWh per year. The Government of Japan has provided approximately USD 420 million (Japanese yen 37,817 million) for implementation of the Upper Kotmale Hydropower Project (UKHP).

The project also provides new houses for the displaced people with all utilities i.e. electricity, water, solid waste disposal, internal roads. The Thalawakele area itself is being developed by reconstructing the access roads and constructing other amenities. The main civil works and hydro electro mechanical works are underway. The power plant is expected to be commissioned in the end of 2011.

Clean Energy and Access Improvement Project
The total investment cost of this project is USD 188.2 million. It includes a loan of USD 25 million from the Asian Development Fund (ADF), a loan of USD 135 million from Ordinary Capital Resources, a grant of USD 2.2 million from the Climate Change Fund and a grant of USD 2 million from the Government of Japan. Of the total cost of the project, the Government contribution will be USD 24.0 million.

The loan supports to realize affordable and reliable power supply by improving the coverage and service efficiencies of the Ceylon Electricity Board (CEB) and Lanka Electricity Company (Pvt) Ltd. (LECO) through improving power transmission and distribution network in Sri Lanka.

Rural Electrification Project – 8
The objective of the project is to electrify 1000 rural villages with provision to provide service connections to 180,000 new consumers. In addition, it is aimed at providing electricity to rural areas including the Northern and Eastern Provinces.

The Government of Islamic Republic of Iran has provided financial assistance for implementation of the Rural Electrification Project 8 in Sri Lanka. The total cost of the project is EURO 77.1 million (approximately Rs. 12,757 million) of which EURO 57.8 million (approximately Rs. 9,564 million) has been provided through the Export Development Bank of Iran (EDBI). The project will be completed by end of 2012.

Puttalam Coal Power Station

Construction of Underground Tunnel- Upper Kotmale Hydro Power Project

Puttalam Coal Power Project
The objective of the project is to generate 900MW and provide it to the National Grid. The project was originally planned for three Phases.

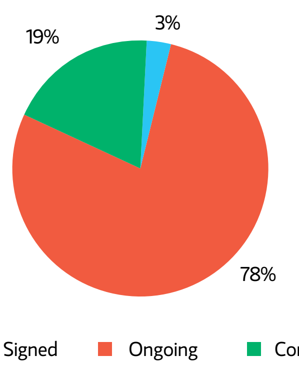
Under Phase I of the Project a 300MW Power Plant together with a jetty for coal handling, a transmission line from Norochcholai to Veyangoda and a substation at Veyangoda will be constructed. In view of the urgency of developing low cost power, Phase II & III will be implemented together as Phase II. Phase I is being implemented under a Preferential Buyer's Credit Facility of USD 300 million and a Buyer's Credit Facility of USD 155 million of the Export – Import (EXIM) Bank of China. The Government of China has extended a loan of USD 891 million under the Preferential Buyer's Credit Facility of the EXIM Bank of China to cover the full cost of the Phase II.

Rehabilitation of Wimalasurendra and New Laxapana Power Stations
The New Laxapana and Wimalasurendra Hydro Power Stations were built in 1974 and 1965 respectively. Most of the power plants are more than 35 years old and mechanical, electrical equipment in these power stations have exceeded their lifetime.

The Government of France provided a credit facility of USD 55.2 million to rehabilitate these two power stations. With the refurbishment, it is expected to increase power generation of the two power stations by 28 percent, and also it will reduce the number of failures and shut down time of the power stations. At present designs are being prepared to effect the refurbishment.

The government effort to improve disbursement has led to the increase of foreign finance utilization rate in 2010, as the highest rate of disbursement during the last six years.

Chart 5.8 > **Power & Energy Sector Projects as in 2010**



Financing for Water Supply and Sanitation

The government has accorded high priority to improve access to safe drinking water and sanitation, as availability of sustainable and efficient water supply and sanitation is vital to keep up the pace of economic development in the country.
While increasing the government contribution to meet the cost of providing safe drinking water to people, it has encouraged the lending agencies to provide sufficient financing to fulfill the increasing demand for water and sanitation facilities.

During the period of 2005-2010 foreign aid commitment for water and sanitation sector was around USD 1,150 million. Of this amount about USD 50 million was received as grants.

The government of Japan has been the major donor in the water supply sector and their commitment over the last five years exceeded USD 396 million. The Asian Development Bank and the government of Korea have also provided a sizeable amount of financial assistance for the water supply sector during the same period.

Although a larger portion of the foreign assistance for the Water Supply and Sanitation sector was received as concessional credit, a significant amount of foreign assistance also came in the form of export credit and mixed credit facilities. This amount accounted for about 38 percent of the total foreign aid received for water supply and sanitation from 2005 to 2010.

The total commitment for the water supply and sanitation sector in 2010 was USD 312 million. This is an increase of 48 percent over the commitment in 2009.

The foreign funding received by the water supply and sanitation sector during the last five years has been utilized to improve urban and rural water supply services in the Jaffna, Trincomalee, Ampara, Kandy, Anuradhapura, Polonnaruwa, Hambantota, Batticaloa, Colombo, Ratnapura and Nuwara Eliya districts. The gradual increase of water sector investment yielded increased number of domestic and industrial water connections. The total number of connections provided through the schemes managed by the NWSDB in 2010 was about 1,350,000 and this will be increased to 1,600,000 in 2015 through the on-going water supply development activities.

The total foreign fund disbursement for the five year period of 2005-2010 was USD 400 million. The total disbursements made by three major donors (Japan, Korea and the ADB) were about USD 157 million, which was 39 percent of the total disbursements.

The highest ever foreign fund disbursement in relation to the water supply and sanitation projects implemented since 2005 was recorded in 2010. The amount disbursed in 2010 was USD 150 million.

Table 5.9 > **Foreign Assistance to the Water Supply and Sanitation sectors 2005 - 2010 (USD Mn)**

Donor	Loan	Grant	Total
Bilateral	**-**	**-**	**559.44**
Japan	396.21	-	396.21
Korea	91.74	3.90	95.64
Denmark	25.25	-	25.25
Netherland	-	31.03	31.03
Finland	-	9.15	9.15
Germany	1.60	-	1.60
USA	-	0.56	0.56
Export Credit	439.83	-	439.83
Multilateral	**154.21**	**-**	**154.21**
ADB	154.21	-	154.21
Total	**1,108.8**	**44.64**	**1153.48**

Source: Department of External Resources

Table 5.10 > **Commitments in 2010 (USD Mn)**

Project	USD mn	Type	Donor
Eastern Province Water Supply Development	53	loan	Gov. of Japan
Kandy City Wastewater Management	152.4	loan	Gov. of Japan
Reconstruction of Water Supply Galle District – Phase II	1.6	loan	Republic of Germany
Integrated Water supply Scheme for the Unserved Areas of Ampara District-Phase III	105	loan	Aus. & New Ze. Investment Bank
Total	**312**		

Table 5.11 > **Safe Drinking Water and Sewerage Coverage 2005-15**

Year	2005	2010	2015 *
Safe Water Coverage (%)	80	81	94
Pipe borne water availability (%)	29	39.20	44
NWSDB Water Connections "000"	907	1353	1600
			*Projections

Source: Department of External Resources

Chart 5.9 > **Commitments and disbursements in water supply and sanitation sector 2005-2010 (USD Mn)**

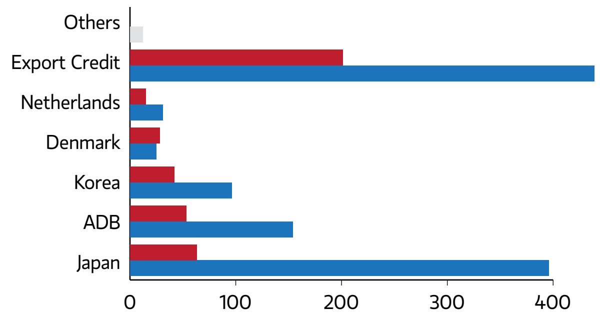


Table 5.12 > **The Major Ongoing Projects in the Water Supply & Sanitation Sector**

Name of the Project	Cost USD Mn
Secondary Towns Rural Community Based Water Supply and Sanitation Project	120.0
Greater Colombo Wastewater Management Project	100.0
Dry Zone Urban Water and Sanitation Project	60.0
Kandy City Wastewater Management Project	152.4
Water Sector Development Project (I)	112.7
Kirindi Oya Water Supply Project	14.8
Water Sector Development Project (II)	78.1
Negombo Water Supply Project	56.9
Kelani Right Bank Water Treatment Plant	82.7
Colombo Sewerage Rehabilitation Project	30.3
Towns South of Kandy Water Supply Project	53.7
Greater Trincomalee Integrated Water Supply Project	13.6
Construction of Storm Water Drainage	3.9
Ruhunupura Water Supply Development Project	76.3
Integrated Water Supply Scheme for Unserved Areas of Ampara District Phase III	105.2
Integrated Water Management System in High- level road	4.3
Total	**1,064.9**

Source: Department of External Resources

Secondary Towns Rural Community Based Water Supply and Sanitation Project

This project aims at providing safe drinking water and sanitation to people in Towns of Batticaloa, Hambantota, Muttur and Polonnaruwa and rural areas of Polonnaruwa, Anuradhapura and Batticaloa Districts. The Project will also augment existing water schemes and invest in new water schemes in rural and urban areas.

Total Estimated Cost of the project is USD 175.20 million. The Asian Development Bank (ADB) provides USD 120 million while Government investment is USD 55 million. The project is expected to be completed by June 2012.

Greater Colombo Waste Water Management Project

This project will assist the Government to improve the living conditions of the urban population in Greater Colombo, and to minimize the negative environmental impacts of increasing levels of domestic waste. The Project comprises three major interrelated areas of intervention upgrading sewerage infrastructure by rehabilitating the main sewerage system in Greater Colombo, strengthening institutional and operational capacity and project Management and Implementation support and comprehensive capacity building of the wastewater service provider.

Total Estimated Cost of the project is USD 117 million. The Asian Development Bank provides USD 100 mn while the Government of Sri Lanka will invest USD 17 million. The project is expected to be completed by December 2014.

Table 5.13 > **Key Projects to be implemented in 2011**

Name of the Project	Loan Amount (USD mn)
Jaffna & Kilinochchi Water Supply & Sanitation Project	158.0
Eastern Water Supply Development Project	53.05
Kandy City Water Management Project I	52.39
Greater Trincomalee Water Supply Project (Enhancement)	3.385
Mutur Water Supply Scheme	17.6
Reconstruction of Water Supply - Galle District Project - Phase II	1.60
Energy Conservation Project at Ambathale Water Treatment Plant	36.0
Ratnapura Water Supply Project	38.0
Mahiyangana Water Supply Project	15.0
Total	**375.0**

Source: Department of External Resources

Dry Zone Urban Water and Sanitation Project

The project supports the rehabilitation, expansion and development of water and sanitation infrastructure in the major towns of Vavuniya, Mannar, Puttalam, and Chilaw in the dry zone. It covers the urban and peri-urban water supply and septage management and sanitation of these areas.

Total Estimated Cost of this project is USD 113 million. The contribution from the Asian Development Bank (ADB) is made up of a Grant of USD 25 million and a loan of USD 59.8 million. The Government investment for the project is USD 28.3 million. The project is expected to be completed by June 2014.

Negombo Water Supply Project

The project objective is to improve water supply in the Negombo Municipal Council area, Kochchikade and Duwapitipana area. The project is expected to construct a 12,000 cubic meter per day water treatment plant, two ground reservoirs with the capacity of 3,000 and 1,500 cubic meters, laying of 15.5km long transmission mains, new distribution system to Kochchikade and Duwapitipana and to improve the existing distribution system, with supply and installation of pumps and equipment. The total cost of this project is USD 56.9 million. Of this, USD 31.0 million was in grants under the ORET Programme of the Netherlands Government and USD 25.9 million was in an export credit facility. Construction work of the project was commenced in 2008 and is expected to be completed in December 2011.

Kelani Right Bank Water Supply Project

The Government of Denmark provided an interest free loan of USD 82.7 million for the construction of the Kelani Right Bank Water Treatment Plant under the Danish Mixed Credit programme. The objective of the project is to improve the water supply to Colombo City and the towns north of Colombo City. Furthermore, it is envisaged to develop head works of the 40 MGD Water Treatment Plant in Gampaha District and serve a 350,000 population with existing connections presently experiencing inadequate water supply. The total number of beneficiaries in year 2020 is estimated to be around 1,000,000. Construction work of the Project commenced in October 2008.

Integrated Water Supply Scheme for Unserved Areas of Ampara District Phase III

The objective of the project is to provide sufficient and reliable water supply to about 88,200 people living in Semi urban and rural areas of the Ampara District. The Australia & New Zealand Banking Group Limited (ANZ) and the Export Finance and Economic Cooperation (EFIC) of Australia have provided a loan in a sum of USD 105.19 million for this purpose. The total cost of the project is USD 118.2 million. The balance USD 13.3 million will be borne by the Government of Sri Lanka.

Key Projects to be Implemented in 2011

Jaffna & Kilinochchi Water Supply & Sanitation Project

The objective of the project is to improve water supply in the Jaffna and Kilinochchi Districts, provide sanitation infrastructure for residents living in the Jaffna Municipal Council area and strengthen water resources management in the Jaffna Peninsula. The project will supply 60,000 new water connections (300,000 people) in the Jaffna and Kilinochchi Districts and connect 20,000 households (80,000 persons) in the Jaffna Municipal council area to the sewer network.

The total estimated cost of the project is USD 184.04 million. The contribution of the Asian Development Bank is USD 90 million. The Agence Francaise de Development of France has agreed to provide a loan of USD 48 million to partly finance the water supply subcomponent of the project. In addition, the International Fund for Agricultural Development (IFAD) will provide USD 20 million for the down stream development of the Iranamadu Tank. The Government's contribution for this project is USD 26.04 million. The project is expected to be completed in 2017.

Muttur Water Supply Scheme

This project will be implemented as a supplementary to the Secondary Towns Rural Community Based Water Supply and Sanitation Project. The objective of the project is to build the Muttur Water Treatment Plant. The total estimated cost of the project is USD 19.6 million. The Asian Development Bank will contribute USD 17.6 million and the Government of Sri Lanka will contribute USD 2.0 million.

Financing for Ports and Aviation

Current Developments

The ports and aviation sector has been identified as a key sector for economic development of Sri Lanka and therefore development of ports and aviation infrastructure has been assigned high priority during the period between 2005 and 2010. The total commitment during this period for ports and aviation sector was USD 1,125 million. China, Asian Development Bank (ADB), Japan and Denmark were the major donors who made this commitment for development of ports and aviation infrastructure in Sri Lanka. Of this total China made the highest commitment of USD 306.7 million for the construction of Magampura Port – Phase I in 2007. The following were the key projects which were implemented in 2010.

Magampura Port Development Project – Phase I

The Magampura Port Development project is a flagship project in the development programme of the country. The project includes two Phases. Phase I of the project commenced in 2008 and the filling of the harbour basin was completed in 2010. Phase I of the project consists of construction of east breakwater (315m in length) and west breakwater (950m in length), two berths with the total length of 600m, a marine structure to accommodate 100,000DWT container vessels and a 1km length approach channel, 210m in width and 16m in depth. 90 percent of the project work was completed by the end of 2010. The total cost of Phase I was estimated at around USD 360.8 million of which USD 306.7 million has been provided by the EXIM Bank of China and the balance USD 54.1 million has been financed by the Sri Lanka Ports Authority.

The total estimated cost of the Phase II of the project is USD 806 million and negotiations with the EXIM Bank of China are currently underway for financing Phase II.

Bunkering Facility and Tank Farm in Magampura Port

Bunkering Facility and Tank Farm are also established at the Magampura Port as an integral part of the Port Development under this project. This will provide facilities to supply and store marine fuel, aviation fuel and LP gas and bunkering services for the vessels passing by Sri Lanka. The main components of the project are construction of a bulk storage tank farm with a capacity of 80,000 cubic meters with mixing facilities of fuel oil, connection of pipe lines from tank farm to the oil terminal, loading/unloading facilities and other service connections. At the end of 2010, project works including 100 percent of back filling, 86 percent of piling, 80 percent of base concrete and 38 percent of tank erection were completed. The overall progress of the project in 2010 was 60 percent. The project is to be completed by October 2011.

The total cost of the project is USD 76.58 million and 85 percent of the cost is financed with a loan of USD 65.1 million from the EXIM Bank of China.

Colombo Port Expansion Project

The proposed Colombo South Harbour will be located west of the present south west breakwater in an area of approximately 600 hectares. The proposed harbour will have four terminals of over 1,200m in length each to accommodate three berths alongside depths of 18m and provision to deepen to 23m to accommodate deeper draft vessels in the future. The channel width of the harbour is to be 560m and depth of 20m, with harbour basin depth of 18m and a 600m turning circle.

The ADB has provided a loan amounting to USD 300 million for the implementation of this project. These funds have been utilized for dredging the approach channel and inner harbour west of the existing harbour, constructing a breakwater to the west of the existing harbour, relocating the existing submarine oil pipe line near the entrance to the new terminal, establishing a new marine operations centre providing navigational aid, and constructing shore utilities. At the end of 2010, 95 percent of submarine pipeline and 48 percent of breakwater were completed.

The development of Phase I of the Colombo South Harbour is to be carried out in two stages. The first stage of development of infrastructure is with public funds using an ADB loan of USD 300 million and stage two is the construction of terminal facilities with private sector participation.

In addition, construction of the Oluvil Port and Galle Tourist Port Development Project are in progress. Further, HSBC UK provided USD 35 million for emergency purchase of Container Handling Equipment for Jaya Terminal in 2010. Total disbursement from foreign loans for ports development in 2010 was USD 268.1 million. Out of the total disbursement, USD 114.97 million was made by China for Magampura Port Development Project in 2010.

Mattala Hambantota International Airport

The construction of a new International Airport at Mattala commenced in 2010 with financial assistance from the Government of China. The Government of China committed a concessional loan of USD 190 million for the construction of an International Airport at Mattala in March 2010. The main objective of construction of the International Airport is to develop an alternative international airport for the Bandaranaike International Airport. The project includes construction of a 4km long runway, parking apron, a taxiway connecting the runway and the apron, terminal building, cargo storage, fuel farm and fire service building.

At the end of 2010, conceptual and preliminary designs were completed and detailed design is in progress. 90 percent of the earthwork for runway is completed. In 2010, USD 48.85 million was disbursed for the construction of Mattala Hambantota International Airport project. The International Airport at Mattala is expected to commission by mid 2012.

Table 5.14 > **Disbursements of Ongoing Ports and Aviation Development Projects**

Projects	Donor	Loan Amount (USD Million)	Total Disbursements as at 31/12/2010 (USD Mn)	Disbursements in the year 2010 (USD Mn)
Ports Development				
Magampura Port Development	China	306.7	269.0	114.97
Oluvil Port	Denmark	63.0	33.8	19.0
Colombo Port Expansion Project	ADB	300.0	164.2	72.3
Bunkering Facilities and Tank Farm in Magampura Port	China	65.0	26.8	26.8
Emergency purchase of Container Handling equipment – Jaya Terminal	HSBC (UK)	35.0	35.0	35.0
Galle Port Development Project I	Japan	124.1	3.6	0
Aviation Development				
Mattala Hambantota International Airport project	China	190	**48.85**	**48.85**
Total		**1,083.8**	**581.25**	**316.92**

Source: Department of External Resources

Financing for Railways

The railway network consists of 1,640km, but the railway service operates only on 1,200km of railway line due to the closure of several sections in the Northern Province during the past three decades. After the end of the war in May 2009 it has become important to operate the railway service throughout the entire railway network including the Northern Province in order to provide a satisfactory transport service to the people of our country. Therefore restoration of the destroyed railway lines in the Northern Province was assigned high priority in 2010. The Government has increased investment during the last four years on railways, especially for rehabilitation of the existing tracks and signalling system, extension of tracks, procurement of Diesel Multiple Units (DMUs), locomotives and passenger carriages. The total commitment for the railway sector during the last five years was around USD 800 million of which USD 497 million or more than 60 percent was made in 2010. Of the total commitment in 2010, USD 416 million was committed by the Government of India for restoration of the railway lines in the Northern Province.

Table 5.15 > **Projects committed for the last five years (USD Mn)**

Projects	2007	2008	2009	2010
15 Nos. of DMU's – China	38			
100 Nos. of Rail Passenger carriages – China	27			
15 Nos. of Tank Wagon – Pakistan	02			
Up-gradation of Southern Railway Phase I – India		100		
13 Nos of DMU's – China			101	
Restoration of Southern Railway Phase II – India				67
Restoration of Northern Railway Line – India				416
Rehabilitation of Eastern Railway Line – Austria				14
Total	**68**	**100**	**101**	**497**

Source: Department of External Resources

Ongoing Projects

Upgrading of Southern Railway from Colombo to Matara

The total cost of the project was estimated at USD 212.4 million of which USD 167.4 million was expected to be funded through the EXIM Bank of India. Initially, the Government of India provided USD 100 million in 2008 for this project. The balance of USD 67.4 million was committed by the Indian Government in 2010.

The objective of the project is to upgrade the railway track from Colombo to Matara to the standard levels allowing a maximum speed of 100kmph. It will increase the average operating speed from 40kmph at present to 80kmph allowing a passenger express train to cover the Colombo – Galle distance within approximately two hours. The project commenced in 2008 and is scheduled to be completed by the end of 2012.

Restoration of Northern Railway Services

The Government of India committed USD 416.4 million in 2010 for the implementation of this project. The Northern Province railway network was completely destroyed due to the conflict prevailing in the area during the last 25 years and as a result, the train service on the Northern Province was limited to Vavunia for the last 20 years. The objective of this project is to revive the economic activities of the community in the Northern Province by restoring the Northern Railway Service.

The main components of the project are reconstruction of the railway line from Omanthai to Pallai covering a distance of 90km and

Maddawachchiya to Thalaimannar covering a distance of 110km. The project is scheduled to be completed in 2012.

Supply of 13 Numbers of Diesel Multiple Units for Sri Lanka Railways

The Government of the People's Republic of China, through the EXIM Bank of China committed RMBY 700 million (approximately USD 102.5 million) in 2010 for the procurement of 13 Diesel Multiple Units (DMUs) for Sri Lanka Railways.

This procurement will strengthen the passenger service of Sri Lanka Railways by adding 13 DMUs to its present fleet of rolling stock. These units are specially designed for specific service sectors of Sri Lanka Railways. It is proposed to deploy seven units for the main line, four units for the Kelani Valley line and the balance two units for tourist transportation. It is scheduled to procure 13 DMUs in four batches by September 2012.

Table 5.16 > **Disbursements of Development Partners for the Railway Sector Projects During the Year 2010**

Donor	Project Name	Amount USD Mn	Disbursements USD Mn
India	Upgrading of Southern Railway from Colombo to Matara Phase I	100.00	17.70
	Upgrading of Southern Railway from Colombo to Matara Phase II	67.40	9.04
	Track laying of Omanthai - Pallai Railway Line	185.35	-
	Track laying of Madhu - Thalaimannar Railway Line	149.70	-
	Track laying of Madawachchiya to Madhu	81.30	-
China	Supply of 13 Diesel Multiple Units	102.50	30.29
	Matara – Katharagama New Rail Road Extension	278.00	-

Source: Department of External Resources

Financing for Agriculture and Irrigation

The agriculture and irrigation sectors which depend on each other are playing an important role in the development of Sri Lanka's economy. These two sectors have been accorded with high priority in the Mahinda Chinthana-Vision for the future development framework, with the aim of improving living standards of the farming community through sustainable development of agriculture and irrigation sectors, and building partnerships between the rural poor and the private sector by the implementation of the agri-business development programmes.

The Government of Sri Lanka has provided adequate financial resources with the assistance of donor agencies to develop the agricultural production and multipurpose irrigation schemes. For this purpose, Sri Lanka has received significant financial assistance from Development Partners such as the Government of Japan, Government of Kuwait, the International Development Association, Saudhi Fund for Arab Economic Development, OPEC Fund for International Development, Food and Agriculture Organization and the International Fund for Agricultural Development (IFAD). The total commitments both as loans and grants made by these Development Partners during the period of 2005 to 2010 were USD 479.02 million. The total disbursements made by those Development Partners through loans and grants during the same period were USD 700.42 million.
The total commitments made by development partners for the agriculture and Irrigation sector development in 2010 were USD 97.94 million. Of this amount, around 84.5 percent was committed as loans and 45.11 percent was made by Saudi Fund for Arab Economic Development.

Out of total disbursements made to the development of agriculture and irrigation sectors in 2010, 34.49 percent of the contribution was made by the Government of Japan. The agriculture and irrigation sectors have received about USD 128.43 million in 2010. Of this amount around 103.52 has been received for the development of agriculture sector, the balance was spent for the development of irrigation sector.

Main Projects

Pro-Poor Economic Advancement and Community Empowered (PEACE) Project

The Government of Japan has entered in to an Agreement between the Government of Sri Lanka to provide a loan for a sum of 6010 million Japanese Yen to achieve sustainable development of regional agriculture, improve family income of the rural community, improve socio-economic

Chart 5.10 > **Commitment (USD Mn)**

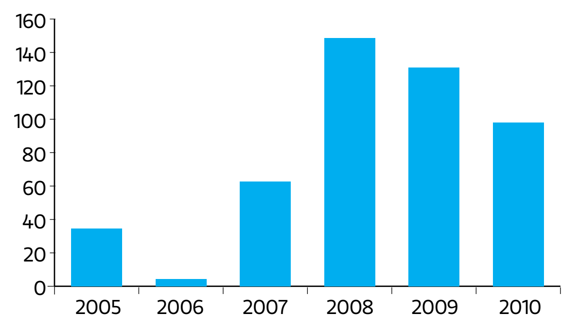
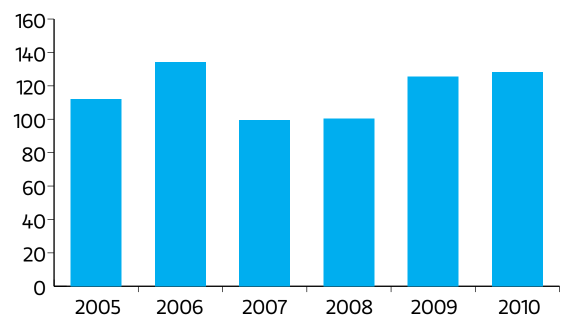


Chart 5.11 > **Disbursement (USD Mn)**



Morawewa Irrigation Scheme

Parachute Method of Paddy Cultivation

Rehabilitation Works in Progress - Kandalama Tank

status of the farming community, enable stable irrigation water supply, and provide assistance for the agricultural development and other income generating activities.

The areas covered by the project are Anuradhapura, Kurunegala, Killinochchi, Mullaitivu, Vavuniya, Mannar, Ampara, Batticaloa and Trincomalee districts. There are eight major irrigation schemes, 12 medium irrigation schemes and 80 minor irrigation schemes which cover 18,186ha and 25,300 beneficiary farmer families are being rehabilitated in Kurunegala and Anuradhapura districts. Of these irrigation schemes, 60 percent of the major irrigation schemes, 70 percent of the medium irrigation schemes and 96 percent of the minor irrigation schemes have been completed.

Further, 10 major and medium irrigation schemes covering an irrigable area of 8,726ha and 7,322 beneficiary farmer families in the Northern and Eastern Provinces are being rehabilitated under this project. Thenniyankulam, Nampankulam, Mamaduwa, Thadchamaruthamadhu Kulam, Akkarayankulam, Borapola, Pulugunavi, Morawewa, Akathimurippu and Kurangupanchan Kulam are the 10 irrigation schemes. Under the improvement of these irrigation schemes, 65 percent of activities have been completed. The project is expected to be completed in 2013.

Dam Safety and Water Resources Planning Project

Government of Sri Lanka (GOSL) and International Development Association (IDA) of the World Bank signed the Financing Agreement for the Dam Safety and Water Resources Planning Project in May 2008. The loan amount provided for the project is USD 65.33 million. The components of the project are Improvement of Dam safety and operational efficiency (USD 53.14 million), improvement of Hydro-meteorological information system (USD 14.04 million), Multi – sectoral Water Resources Planning (USD 6.49 million), Project management, and monitoring and evaluation component (USD 3.05 million). The project was effective from 26th June 2008 and is scheduled to be completed by 30th June 2012.

Under this project, selected 32 high risk large dams are rehabilitated and basic safety and operational facilities are provided for 80 large dams. In addition, Water Resources Development Plans are formulated at national level and selected two river basins and it is expected to develop a national hydro meteorological information system. Rehabilitation works of Dambuluoya, Kandalama tank, Parakramasamuddraya and Kantale tank, Nachchaduwa, Kawdulla, Minneriya, Nalanda, Ridiyagama, Nuwarawewa, Giritale, Vendrasan, Tissawewa, Huruluwewa, Rajangane, Kalawewa, and Maduruoya are in progress. Provision for basic facilities for 48 large dams will be rehabilitated under the Dam Safety and Water Resources Project. Generators, boats, safety jackets, back-hole loaders, grass cutters, digital cameras and vehicles have been distributed for the selected large dams, and 50 hydro-metrological stations have been upgraded.

Uma Oya Hydro Electric and Irrigation Project

The mega hydro electric and irrigation scheme is estimated at USD 529 million, and the government of Iran has extended USD 450 million through the Export Development Bank of Iran (EDBI) as a loan while the balance USD 79 million is provided by the Sri Lankan Government. The project will involve the construction of two reservoirs on the tributaries of the Uma Oya River and a 23km tunnel to divert water to an underground powerhouse of 120MW further downstream. The water accumulated in these reservoirs will be diverted in to the Southern Province. The project implementation has already been commenced and it is scheduled to be complete by 2014.

Uma Oya is the biggest multipurpose project in the Uva Province. People in Badulla, Moneragala and Hambantota districts will be benefited by this project. A large dam stretching to 390m with a height of 92m will be constructed at Puhulpola. It will only be second to the Victoria and Randenigala dams. The water will be gathered in a reservoir, which will have a capacity of 125 acres. The second dam will come up across the Maha Thotilla Oya, which is a subsidiary of Uma Oya. Its reservoir, which will span 6.5 acres, will retain the water. The water from these two reservoirs will be diverted to the underground hydropower plant to be built near the Rawana Ella through a 19-kilometre long tunnel with a diameter of 3.5 metres.

The project will generate 300GWh energy, use diverted water to meet the future domestic and industrial water needs in the Uva Province and Hambantota District, and develop about 5,000 acres of new irrigated land in Hambantota and Monaragala districts and about 3,000 acres of new lands in the Kuda Oya catchment area.

Moragahakanda Kaluganga Development Project

The Kaluganga Development project which is part of the Mahaweli Development program has been interlinked with the implementation of the Moragahakanda Development project. The main objectives of the project are to increase the availability of irrigation and drinking water, expand the existing irrigable areas in Kaluganga basin and thereby increase food production and improve the standard of living in Matale, Anuradhapura, Polonnaruwa and Trincomalee Districts.

The main components of the project are the construction of a 67m high dam across Kalu Ganga River at Pallegamuwa, a 13 km long transfer canal including a 3km tunnel to transfer water from the proposed Kalu Ganga reservoir to proposed Moragahakanda reservoir and a 7km long tunnel from the Bowatenna reservoir to Lenadora, upgrading of the existing 33km long Huruluwewa canal and the extension of Yan Oya canal with a total length of 4.4km and Eru wewa with a total length of 7km.

The project includes three phases. The total estimated cost of phase I of the project is USD 167 million. The estimated cost of the Kalu Ganga Dam, which is the main construction component of the project erected at pallegama with a height of 67m and length of 546m and two saddle dams is USD 102.2 million. Of this amount USD 37 million is provided by the Kuwait fund for

Resettlement Works in Progress - Laggala Pallegama

Arab Economic Development. Of the balance, USD 46 million and USD 19.0 million will be provided by the Saudi Fund for Development and the OPEC fund for International development respectively. The project is scheduled to be completed by 2014.

The main dam, Moragahakanda, is expected to be constructed across the Amban-ganga, which is a major tributary of the Mahaweli river. The JICA financing is expected for the implementation of the Moragahakanda component which will be the main component, and involves the construction of a much larger dam and a power house of 20MW, resettlement area development, social and irrigation infrastructure development etc.

JICA has agreed to provide around USD 80 million in year 2011 to undertake the detailed designs for the head works, irrigation and resettlement area development activities. After completion of the detailed designs, JICA will provide financial assistance for the construction of the main dam, saddle dam, hydropower station and transmission line. Under this project, a provision of water to an extent of 80,000ha is to be ensured in Matale, Anuradhapura, Polonnaruwa and Trincomalee Districts which includes new lands of 13,000ha for cultivation.

Smallholder Plantations Entrepreneurship Development Programme

An agreement was signed between the Government of Sri Lanka and International Fund for Agricultural Development (IFAD) on 8th May 2007, to provide financial assistance of USD 22.5 million for the Smallholder Plantation Entrepreneurship Development Programme to:

(a) improve the land tenure status of smallholder tea and rubber growers; (b) increase producer's profits through improved post-harvest handling, storage processing and marketing of their products; (c) develop and expand rural finance and credit services; (d) improve the living conditions of women and reduce their poverty; and (e) strengthen the beneficiaries' institutional capacity and negotiation skills.

The components of this project are tea development in the mid country region (Kandy, Kegalle and Nuwara-Eliya Districts) and the rubber development in the Moneragala District. Under the Mid-country sub programme, re-planting has been commenced in 99.7 ha in Kandy and Kegalle Districts with 680 beneficiaries and of which 23.05 has been planted with VP Tea. Infilling of 175 ha has also been started; subsidies are being distributed among beneficiaries for the last three years for replanting programme of tea; 40 loans worth of Rs 4.5 million have been issued to farmers and community based organizations to carryout income generating activities; 50 Goat units (200 goats) and 18 mushroom units have been established. Under the intercropping programmes, 18,552 (84 ha) of Pepper plants for 530 beneficiaries, 12,445 (56ha) of Coffee plants for 298 beneficiaries, 3,581 (63 ha) of coconut plants for 629 beneficiaries, 6,109 Mandarine plants for 955 beneficiaries have been provided.

Under the Moneragala sub programme, a new rubber plantation programme has been established in 3,130 ha with 6,019 beneficiaries in the Monaragala District. The balance target of 1,870 ha has been planned for the cultivation of rubber and intercrops in 2011. During the last three years, Introduction of intercrops and Income Generating Activities (IGAs) for 3,326 beneficiary families, distribution of fertilizer and subsidies for the rubber cultivations 72 cattle untis and 15 mushroom units and 74 loans worth of Rs.7.37 million has been provided for IGA activities.

The agriculture and irrigation sectors have received about USD 128.43 million in 2010. Of this amount around 103.52 has been received for the development of agriculture sector, the balance was spent for the development of irrigation sector.

Northern Province Development

After the successful defeat of terrorism in may 2009, special emphasis was placed to mobilize required foreign financing resources for development projects, including rehabilitation and restoration activities in the North. Accordingly, the Government has accorded very high priority to rebuild required infrastructure including access roads, electricity, drinking and irrigation water, market facilities, public parks, sewerage and waste disposal systems to boost economic opportunities in the conflict affected areas. Therefore, foreign financing has been secured for infrastructure development that would provide connectivity and service delivery to lagging regions and by supporting nationally important projects that will be of strategic importance in maintaining high level of growth in the long run.

The foreign financing commitments for the redevelopment of the Northern Province in 2010 was USD 2,127.8 million. These funding programmes have helped to resettle internally displaced people within a short period of time and restabilise civil administration and public infrastructure by replacing damaged roads, schools, hospitals and administrative buildings. Some of the key projects are listed below. These projects would help to meet the basic, immediate needs and the medium term requirements of the people in the North. These will also create sustainable employment opportunities for the affected people in their respective areas.

Table 5.17 > **List of Committed Projects During 2010 (USD Mn.)**

Donor	Project Name	Grant	Loan	Total
ADB	Post-Conflict Emergency Assistance for IDPs in the North	2.5		2.5
	North - East Community Restoration and Development Project II - Supplementary		12.3	12.3
	Conflict Affected Region Emergency Project		150.0	150.0
	Northern Road Connectivity Project		154.0	154.0
ADB **AFD FRANCE**	Jaffna Killinochchi water supply and Sanitation Project		90.0 45.0	135.0
IFAD	Down Stream Development of Iranamaduwa Tank under the Iranamadu Small Holder Irrigation and Livelyhood Development Project		20.0	20.0
Australia	Emergency Northern Recovery Project		10.5	10.5
	Resettlement Grants for IDPs	20.0		20.0
China	Procurement of Material for the Northern Province Power Sector Development Programme		31.7	31.7
	Northern Road Rehabilitation Project - A9 (From Galkuma to 280km Post)		71.0	71.0
	Northern Road Rehabilitation Project - Contract 11A		42.8	42.8
	Northern Road Rehabilitation Project - Contract 11B		42.5	42.5
	Northern Road Rehabilitation Project -(AB20), (AB32), (AB16) and (AB18)		75.4	75.4
	Procurement of Material for the Power Sector Development Programme – Northern Province			31.7
	Northern Road Rehabilitation Project -A9 (from 230km to Post to Jaffna)		70.6	70.6
	Development of Surgical and Medical Units, Operation Theatre and Eye ward at the Jaffna Teaching Hospital	0.8		0.8

India	Reconstruction of Duraiyappa Stadium	2.0		2.0
	Construction of a Cultural Centre in Jaffna	7.2		7.2
	Assistance for Health Care facilities in Kilinochchi and Mullaitivu Districts	0.9		0.9
	Reestablishment of the Research Institute of Palmyrah Development Board – Kaithady in Jaffna	0.6		0.6
	Atchchuvely Industrial Zone Development in Jaffna	1.6		1.6
	Project Proposal for Fishing Equipment for IDPs, Mannar District	0.8		0.8
	Supply of Agriculture Tools (50.000 packs) for resettled IDPs in the Northern Province	1.0		1.0
	Supply of 55 buses to educational/social Institutions	0.8		0.8
	Supply of Tractors and Agricultural Implements	5.4		5.4
	Supply of GI Sheets for resettled IDPs in Northern Province	5.5		5.5
	Supply of 20,000 Mt of Cement for resettled IDPs in Northern Province	1.7		1.7
	Reconstruction of Northern Railway Line from Omanthai to Pallai		185.4	185.4
	Reconstruction of Northern Railway Line from Madu to Talaimannar		149.7	149.7
	Reconstruction of Northern Railway Line from Madawachchiya to Madu		81.3	81.3
World Bank	North East Local Services Improvement Project		51.9	51.9
	North East Housing Reconstruction Project - Allocation for North		42.4	42.4
Japan	Improvement of Central Function of Jaffna Teaching Hospital		25.0	25.0
	Vavuniya Killinochchi Transmission Line		13.4	13.4
	Pro-Poor Economic Advancement and Community Empowered (PEACE) Project	7.0		7.0
USA	US Assistance for the resettlement of the Nothern Province	4.0		4.0
	Public Private Partnership (PPP) Project under the Programme of Connecting Regional Economies	9.0		9.0
	Total	**70.8**	**1,564.7**	**1,635.5**

Source: Department of External Resources

On-going Projects

Some of the major projects which are being implemented in the North are summarised below:

Emergency Northern Recovery Project

Emergency Northern Recovery Project supports the effort of the Government of Sri Lanka for the re-establishment of the livelihoods of Internally Displaced Persons (IDPs) in the Northern Province by restoring their social and economic life. While the World Bank provided a loan of USD 65 million for the project, the Government of Australia provided a USD 10.5 million grant for the Cash for Work component.

The Emergency Northern Recovery Project will re-establish inter-village connectivity and provide access to schools, clinics, markets and safe drinking water, as well as the essential public and technical services from the government's civil administrations. The project is expected to restore irrigation for 12,000ha of land, rehabilitate 600km of rural roads and rehabilitate 260 government institutions damaged by the conflict. In addition, the project supports rehabilitation of the selected damaged irrigation schemes, canals, and ponds to provide the returnee farmers with reliable supply of irrigation water for their crop production. About 30 minor and 25 medium irrigation schemes and 10 small ponds and canals will be rehabilitated. It also targets the restoration of nine selected key water supply schemes at Nedunkerny, Adampan, Vidathalthivu, Tevanpiddy, Ottusudan, Mallavi, Pandiyankulam, Maruthankerny and Valvatithurai. The project which was started in January, 2010 is scheduled to be completed by December 2012.

Figure -Rehabilitation of rice mills in Nedunkerny

Table 5.18 > **Rehabilitation of Public Buildings and Facilities Under the Emergency Northern Recovery Project**

Category	Number of Buildings	Total estimated Cost (Rs million)
Multipurpose Cooperative Society Buildings	43	204.73
Food & Paddy Store Buildings	14	66.91
Fertilizer Store Buildings	24	74.58
Agrarian Buildings	15	89.16
School Buildings	72	113.36
Other office (District Secretariat, Pradeshiya Sabha Office, Post Office, Training Centre, Vetinerary office)	90	1122.7
Total	**258**	**1671.44**

Source: Department of External Resources

North East Housing Reconstruction Project

North East Housing Reconstruction Project (NEHRP) is part of an important programme in Sri Lanka intended to rebuild conflict-damaged houses in Northern and Eastern Provinces. In line with the Government's desire to reconstruct houses, the World Bank provided USD 118 million for the project while the Government contributed USD 2 million. An allocation of USD 42.4 million has been made to the Northern Province for the reconstruction of 26,976 houses, and out of which, 13,350 houses have already been completed.

Housing reconstruction programme is essentially a Cash Grant scheme; owners will be provided with either Rs.325,000 for a fully damaged house or Rs.70,000 for a partly damaged house as progress payments in reconstruction work. This project is scheduled to be completed by the end of 2011.

Provincial Road Project - Northern Province Component

100km of Provincial Roads in Jaffna District will be rehabilitated under the World Bank funded Provincial Road project. Roads which have been identified for rehabilitation are shown in Table 5.19.

North East Local Services Improvement Project (NELSIP)

North East Local Services Improvement Project (NELSIP) is carried out by the Government with financial assistance from the World Bank. Under the project USD 86 million will be invested in a three year period from 2010 to 2012. It will improve the delivery of local infrastructure services by the Local Authorities in the Northern and Eastern Provinces, in an accountable and responsive manner. The project covers 65

Pradeshiya Sabhas, 12 Urban Councils, 3 Municipal Councils (Jaffna, Kalmunai and Batticaloa) in the Northern and Eastern Provinces.

Anticipated best achievements would be upgrading concrete or tar roads of 998kms (USD 46 million), construction of sewerage drainage of 245kms (USD 5.5 million), supply of equipment to 439 rural water schemes (USD 5 million), extension of 187kms rural electrification (USD 3.5 million) and developing 405 small townships (USD 16 million).

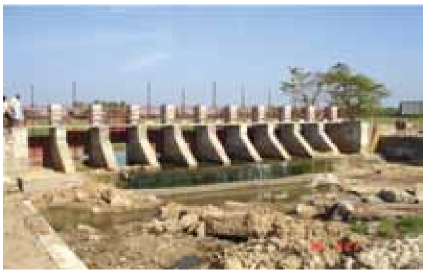
Table 5.19 > **Roads to be Rehabilitated in the Jaffna District**

Name of the Road	Length (km)
Kalvinayakadu-Kokuvil Road	3.22
Kondavil-Irupalai Road	5.80
Manipai-Inuvil-Annakai Road	4.70
Thirunelweli-Kopai Road	1.80
Thirunelweli-Puttur Road	3.88
Thirunelweli-Puttur Road	6.09
Atchuvely-Navakairi road	3.83
Puliankinathady-Punnalaikadduwan Road	3.33
Mallakam-Punnalaikadduwan Road	6.98
Uduvil–Sandilipay Road	3.74
Mavali-Periyathuaral Road	
East Coast Road	3.22
Eruvellai road	3.22
Vallai Road	4.83
Sivan Kovil Road	3.22
Velanai-Suruvil Fisheries Road	2.90
Mandathiv Road	6.25
Nelliady-Karavanai Road	2.73
Udupiddy Melisanthay Alavi Road	8.45
Puloly Hospital-Vallipuram Road	2.22
Meesalai-Varany Road	5.89
Manalkadu-Karaiyoor fisheries Road	3.14
Mirusuvil-Government Road	3.22
Total	**99.89**

Source: Department of External Resources

Community Livelihoods in Conflict Affected Areas Project – "Re-awakening Project".

The Government has launched the "Re-awakening Project" (Maru Eluchchi Thittum-in Thamil) in Conflict Affected Areas to bring back a new life for the people. The World Bank provided USD 64.70 million and the Government of Sri Lanka contributed USD 13.72 million in addition to the community contribution of USD 2.72 million. 295 GN Divisions in Northern Province, Eastern Province and adjoining



districts are being benefited from the project.

At present works are swiftly on-going for 213 infrastructure subprojects out of 330, benefiting 297,295 people.

The project has allocated USD 21.6 million for the Northern districts. Out of this, USD 5.2 million has been invested on rehabilitation of a Giant Tank in the Mannar district, USD 2.7 million for the rehabilitation of Valukkaiaru Drainage scheme, and USD 1 million for the rehabilitation of Pavatkulam tank in the Jaffna district.

A further 426km of rural roads, 60 minor Irrigation schemes, 262 wells / overhead water tanks, 154 multipurpose buildings / training centers / marketing centres are being developed under the project and 92,800 people are benefitted from this village rehabilitation and economic infrastructure construction.

Improvement of Central Functions of Jaffna Teaching Hospital

The Government of Japan has provided a grant of USD 20.5 million (JY 2,298 million) to develop the Jaffna Teaching Hospital which is the main and only referral hospital in the northern region. It is expected to improve the central functions of the hospital under this project by constructing a new four-storied building with an area of 6,870 square meters to house a new Operation Theatre Complex including Incentive Care Units (ICUs) and Central Supply

Table 5.20 > **Development Activities in Northern Province Under the "Re-awakening" Project**

Activities	District	Cost (Rs. Mn)	Quantity
Original Financing			
Rehabilitation of Minor Irrigation schemes	Mannar	61.51	12 Nos
	Jaffna	21.05	8 Nos
	Vavuniya	24.03	4 Nos
	Killinochchi	21.18	13 Nos
	Mullaitivu	84.10	23 Nos
Rehabilitation of Giants Tank	Mannar	585.00	1 No
Rehabilitation of the Valukkaiaru Drainage scheme	Jaffna	300.00	1 No
Rehabilitation of the Pavatkulam Tank	Vavuniya	110.00	1 No
Rehabilitation of Rural Roads	Mannar	95.00	77.25 Km
	Jaffna	99.69	91.92 Km
	Vavuniya	72.92	128.8 Km
	Killinochchi	54.46	56.6 km
	Mullaitivu	57.08	71.9 Km
Construction of wells / overhead water tanks	Mannar	16.19	46 Nos
	Jaffna	4.24	49 Nos
	Vavuniya	18.32	79 Nos
	Killinochchi	11.16	40 Nos
	Mullaitivu	12.16	48 Nos
Construction of water supply scheme	Mannar	10.00	1 No
Construction of a Multipurpose building / Training centre / Marketing centre	Mannar	69.22	50 Nos
	Jaffna	40.98	48 Nos
	Vavuniya	45.57	31 Nos
	Killinochchi	24.16	25 Nos
	Mullaitivu	25.80	25 Nos
MPCS building	Mannar	17.44	9 Nos
Additional Financing			
Village rehabilitation and construction of Economic Infrastructures	Mannar	95.00	20 GN*
	Jaffna	58.00	11 GN*
	Vavuniya	83.00	18 GN*
	Killinochchi	140.00	16 GN*
	Mullaitivu	180.00	40 GN*
Total		**2,437.26**	

**GN – Grama Niladari Wasam*

Source: Department of External Resources

and Sterilizing Department (CSSD), a new Laboratory Complex, Radiological Diagnosis Department, Neurology Unit, Cardiology Unit, and required equipment for them. The project will be completed at the end of 2012.

Perspective View of the New Building of Jaffna Teaching Hospital

Jaffna and Kilinochchi Water Supply & Sanitation Project

The Jaffna and Kilinochchi Water Supply and Sanitation Project has been proposed with the objective of improving water supply and sanitation infrastructure for residents in targeted urban areas and protection and management of water resources in the Jaffna Peninsula. The project area covers the Jaffna Peninsula and Poonerin in the Kilinochchi District. The project will provide new distribution systems for the Jaffna Municipality and Chavakachcheri Urban Council including access to household connections and a leak detection programme for rehabilitation and strengthening of existing distribution networks.

In addition, the project will improve a sewerage collection system in the most densely populated area in Jaffna municipal limits and construct a new sewerage treatment plant while providing low cost sanitation programmes for poor communities.

There will be about 300,000 beneficiaries of the water system, which is estimated to be two-thirds of the residents in the coverage area. And the sewerage system will cover the most densely populated areas of Jaffna Municipal Council benefiting 80,000 persons.

Down Stream Development of Iranamaduwa Tank Under the Iranamadu Small Holder Irrigation and Livelihood Development Project

This project is implemented in conjunction with the Jaffna Water Supply and Sanitation Project in order to ensure provision of adequate quantity of irrigated water for farmers living in the down stream of Iranamadu Tank from which raw water is drawn for the Jaffna and Kilinochchi Water Supply Scheme.

The project target is to cover 9000 farmer families under the scheme in Kilinochchi District, and the International Fund for Agricultural Development (IFAD) agreed to finance the project by providing USD 20 million. The implementation of the project is scheduled to commence in 2011.

Northern Road Connectivity Project

The objective of this project is to restore accessibility to essential social services for rural people in the Northern Province and to improve its nation wide connectivity which facilitates economic growth and contribute to reducing disparities within the provinces in Sri Lanka.

The project will rehabilitate about 108km of National Highways in the Northern Province (Navatkuli-Keraitivu Road, Manipai-Kaithady Road, Vallai-Thellipalai-Araly Road and Mankulam-Mullaittivu Road), about 140km of provincial roads and rehabilitate or replace of selected bridges in the Northern Province. The national link roads in the Northern Province will receive new surfacing and required widening which will reduce travel time and cost, helping to revitalize travel from the North to the other parts of the country. The improved road access within the north and connectivity to other provinces of the country will stimulate new economic opportunities while expanding agricultural, fishing, and commercial activities and other related services.

The Asian Development Bank has provided USD 154.4 million for the implementation of the Northern Road Connectivity Project during a five year period from the year 2010-2015.

Northern Road Rehabilitation Programme

Northern road rehabilitation programme has been proposed to be implemented under 13 packages. Of these packages, the Government of China through the EXIM Bank of China has agreed to finance the following five packages which include rehabilitation and improvement of 512km of the major national roads in the Northern Province. The total amount of the funds provided by the Government of China is USD 423.9 million.

The benefits derived from this programme will be multi-fold as the communities served by this programme would benefit from improved, lower-cost and faster transport services thereby improving their access to economic opportunities and social services.

Conflict Affected Region Emergency (CARE) Project

The CARE Project is a multi-sectoral project which consists of rehabilitation of roads, power, water, irrigation, vocational training and construction of buildings, administration and judiciary. The project is funded by the ADB with a loan of USD 150 million.

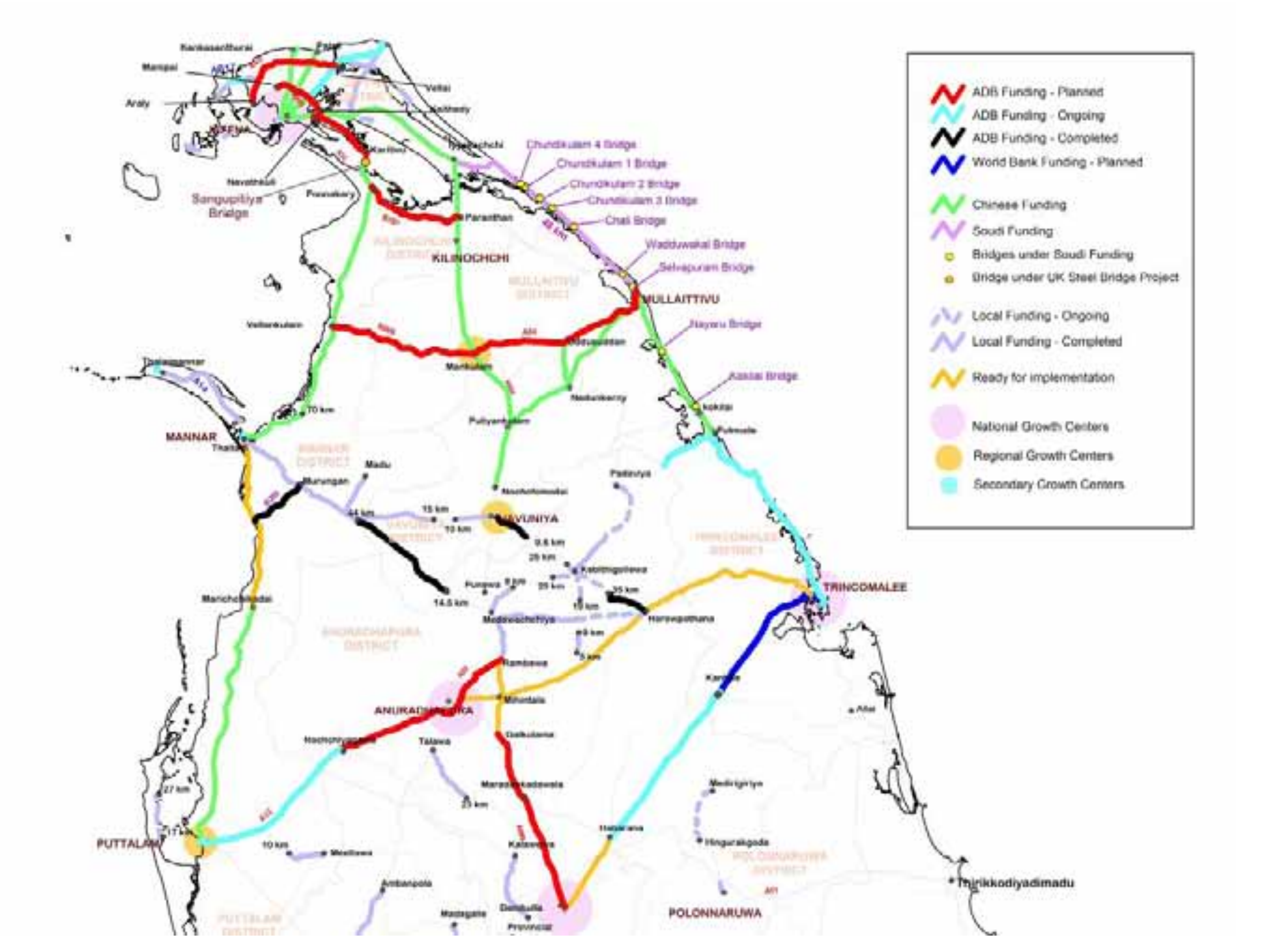
- Rehabilitation of 65km of National Roads; (Poonarin – Paranthan Road - 25.3km & Mankulam – Vellankulam Road - 38km), 100km of provincial roads in Mannar, Vavuniya, Mullaitivu and Killinochchi districts and 70km of municipal/urban council roads in the Northern Province. The cost is USD 75.21 million.
- Reconstruction of the Chunnakum grid station and the Killinochchi –

Table 5.21 > **Northern Roads Packages Financed by China**

Package	Amount (USD million)
Rehabilitation & Improvement of 67km length of Navatkuli- Kerativu- Mannar Road (A32)	48.36
Rehabilitation & Improvement of 113km length of Puttalam- Marichchikade- Mannar Road(B-379, B403)	73.18
Rehabilitation & Improvement of 153km length of Kandy- Jaffna Road(A09)	141.61
Rehabilitation & Improvement of 84km length of Jaffna- Point Pedro Road (AB20); Puttur- Meesalai Road (AB32); Jaffna- Kankasanthurai Road (AB 16); Jaffna- Palaly Road (AB18)	75.42
Rehabilitation & Improvement of 42.4 km length of Mulativu- Kokilai- Pulmudai Road (B297) and 52.6km length of Oddusuddan- Nedunkerny Road (B334); Mulativu- Puliyankulam Road (B296).	85.29
Total	**423.9**

Source: Department of External Resources

Map 5.2 > **Road Network Improvements in the Northern Sri Lanka**



Source – Roads Development Authority

Chunnakum transmission line The cost is USD 32.81 million.

- Restoration of 10 medium and small irrigation schemes at the cost of USD 18.94 million
- Rebuilding of 10 administrative offices and court houses. The cost is USD 19.4 million.
- Improvement of the water supply scheme at Point Pedro in the Jaffna District with the financing of USD 4.36 million.

North East Community Restoration & Development Project II –Supplementary Loan

This Project (Supplementary Loan) commenced its operation in 2010 with the financial assistance of USD 12.77 million from ADB to improve the living conditions of people in the conflict affected areas by restoring basic social infrastructure, community and public services and livelihoods.

The activities funded under this project include rehabilitation of hospitals, schools, agriculture related services, rural electrification, institutional infrastructure, rural roads and irrigation infrastructure.

Restoration of Northern Railway Lines

Construction of a Northern Railway Line Between Vavuniya and Omanthai

The Government of India has agreed to provide a Line of Credit of USD 416.4 million to construct railway lines

- from Omanthai to Pallai - 90km
- from Madawachchiya to Thalaimannar - 110km

and provide credit facility of USD 86.5 million to install the railway signalling and telecommunication network of Northern and Talaimannar line.

In addition the Indian Government has agreed to finance the reconstruction of 56km stretch of railway track between Pallai and Kankasanturai.

Housing Construction Project for Internally Displaced Persons

The Government of Switzerland has provided USD 1.40 million for Housing Construction Project for displaced persons in the District of Jaffna. This project is implemented by the Swiss Development Cooperation.

This housing scheme is constructed in the Maravanpulo village of Thenmarachchi Divisional Secretariat Division. So far, construction of 300 houses, school buildings, wells and sanitary facilities for 300 families have been completed.

Housing Scheme in the Maravanpulo Village

US Assistance for the Resettlement of the Northern Province

The United States of America has provided grant assistance of Rs. 423 million (USD 4 million) under its food aid programme to provide agricultural and fisheries equipment for the Internally Displaced Persons (IDP's) resettled in their villages in the North. The funds for the programme were allocated from the counterpart funds generated from the food aid provided by the United States of America.

The fishing communities were provided with boats, nets, fishing gear and two ice plants were established in Jaffna under this project.

Public Private Partnership (PPP) Project Under the Programme of Connecting Regional Economies - USAID

In addition to the counterpart fund assistance USAID has extended a grant facility of USD 9 million to implement a PPP Project in the Northern Province under the programme of Connecting Regional Economies. The Purpose of the PPP Projects is to help conflict affected communities return to normalcy by creating sustainable employment through increased business opportunities. This USAID assistance partnered with Sri Lankan Companies contributes to accelerated economic growth in the Northern Sri Lanka and fosters stability.

Pro - Poor Economic Advancement and Community Empowered (PEACE) Project

Mamaduwa Irrigation Scheme

Akathimurippu Irrigation Scheme

Under the PEACE Project, funded by the Government of Japan approximately USD 7 million (Japanese Yen 800 million) has been allocated for the rehabilitation of Akkarayankulam, Tenniyankulam, Nampankulam, Akathimurippu, Thadchchnamaruthamadu, and Mamaduwa irrigation schemes in the Northern Province.

These major and medium irrigation schemes will cover an irrigable area of 4,788ha and 3,688 beneficiary farmer families. In average, 51 percent of the activities have been completed. The project is expected to be complete in 2013.

Vavuniya - Killinochchi Transmission Line

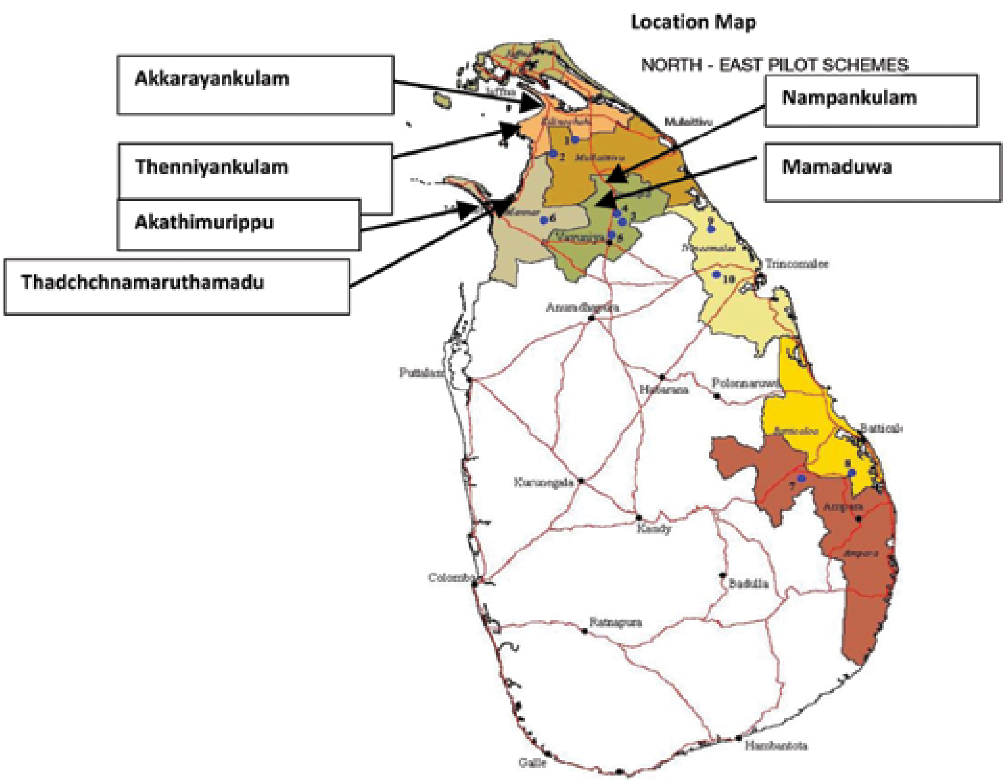
Following the end of the conflict, the Government has launched a massive initiative with a view to providing electricity to the northern region within a short period. As part of this initiative the Government of Japan has provided USD 13.4 million (Japanese yen 1,208 million) to construct a 132km transmission line from Vavuniya to Kilinochchi and a Grid Substation at Kilinochchi. The Government of Japan is expected to provide an additional loan of USD 15 million to cover the additional financial requirements of the project in 2011. The construction works of the transmission line and the grid substation are in progress and scheduled to be completed in July 2012.

The transmission line from Killinochchi to Chunnakam and the Substation at Chunnakam will be funded by ADB under the CARE project. After the rehabilitation, the entire Northern region will be connected to the National Grid.

Procurement of Materials for the Power Sector Development Programme - Northern Province

The Government of China through the Export – Import Bank of China provided a loan of USD 31,659,391.82 for the procurement of material for the Northern Province Power Sector Development Programme. The proceeds of the credit facility will be used to provide electricity to 80,000 consumers living in Northern Province by constructing 400 rural electrification schemes.

Map 5.3 > **Irrigation Schemes Rehabilitated in the Northern Province under PEACE Project**



Mobilizing Resources for a Caring Society

A caring society is a fundamental principle on which the social policies of the Government have been formulated. In this regard, government has mobilized significant amount of foreign finance to improve living standards of vulnerable segments of the population such as children, disadvantaged women, elders, and disabled in 2010, the year that is being reviewed. A significant amount of foreign financing received for social welfare activities in 2010 has also been provided to restore the livelihood and social services including the social infrastructure of displaced people and peace building in the Northern Province.

The new foreign financing commitments for social security and welfare activities in 2010 was USD 634 million. With regards to disbursements in the social sector by main development partners, 25 percent of disbursement reported from the ADB funded projects followed by World Bank funded projects (15 percent) and Japanese funded projects (15 percent). The disbursements relating to the projects funded by the UN Agencies represented approximately 5 percent of total foreign funding disbursements in the social sector.

Table 5.22 > **Foreign Finance for Caring Society during 2010 (USD Mn).**

Donor	Name of the Project	Grant	Loan	Total
World Bank	Nutrition Intervention for the Northern Province	2.7		2.7
	Additional Financing for Community Livelihoods in Conflict Affected Areas		11.9	11.9
	North East Housing Reconstruction Programme		118.0	118.0
	Puttalam Housing (Infrastructure and Housing Development)		32.0	32.0
	Emergency Northern Recovery Project	10.3	65.0	75.3
	North East Local Service Improvement		50.0	50.0
ADB	Improving Connectivity to Support Livelihoods and Gender Equality	3.0		3.0
	Fiscal Management Efficiency Project		50.0	50.0
	Post-Conflict Emergency Assistance for IDPs in North	2.5		2.5
	North - East Community Restoration and Development Project II - Supplementary		12.3	12,3
	Conflict Affected Region Emergency Project		150.0	150.0
FAO	Dairy Cattle and Buffalo Improvement	0.3		0.3
	Provision of Seed and other Essential Agricultural Inputs for Livelihoods Recovery in the North	0.9		0.9
	Strengthening the Agricultural Extension System through Agro-enterprise Development	0.4		0.4
	Emergency agriculture and food Security Assistancefor Returnees, IDPs, Host Families in Northern sri Lanka	4.3		4.3
	Improvement of Food Security and Livelihood in Northern Sri Lanka (Phase 1)	1.2		1.2
	Improving Post Harvest Practices and Sustainable Market Development for Long -Line Fisheries	0.1		0.1
UNHCR	Assistance to Resettlement of IDPs in Sri Lanka	2.3		2.3
IFAD	National Agribusiness Development Programme		24.2	24.2
Australia	Integrated Water Supply Scheme for Un-served Areas of Ampara District - Phase III		105.0	105.0
USA	Improved Integration of Targeted Disadvantaged Groups into the Community - Enhancement	0.3		0.3
Total		**28.3**	**618.4**	**634.4**

Source: Department of External Resources

Financing for Education and Health

The Government has mobilized a significant support from the donor community for the development of its education and health sectors during the period 2005-2010. The new commitment made for the education and health sectors from 2005 to 2010 was USD 465 million. Of this total commitment 53 percent or USD 249 million was pledged as grant assistance.

The total amount of funds disbursed for the education sector development between 2005 and 2010 was around USD 241 million, of which 39 percent were grants. The total commitment made by development partners for education sector development in 2010 was USD 46.34 million.

The World Bank (WB) and the Asian Development Bank (ADB) have been the key contributors to education sector development over the past five years and they jointly account for about 80 percent of foreign assistance for education. The other contributors include the Governments of Kuwait, China, Sweden and Korea.

The health sector has received about USD 224 million over the last five years. Of this amount around 68 percent was received as grants.

Table 5.23 > **Foreign Assistance for Education and Health Sectors 2005-2010 (USD million)**

Donor	Loan	Grant	Total
Bilateral	**42.79**	**96.56**	**139.35**
Japan	-	48.30	48.30
Kuwait	6.92	-	6.92
Saudi Fund	22.97	-	22.97
France	12.90	-	12.90
USA	-	17.81	17.81
India	-	9.19	9.19
China	-	7.54	7.54
Germany	-	3.03	3.03
Netherland	-	5.30	5.30
Sweden	-	2.79	2.79
Korea	-	1.20	1.20
FAO	-	1.40	1.40
Export Credit	**35.60**	**-**	**35.60**
Multilateral	**141.22**	**148.99**	**290.21**
ADB	67.49	16.10	83.59
IDA	73.73	60.50	134.23
UN Agencies	-	72.39	72.39
Total	**219.61**	**245.55**	**465.16**

Source: Department of External Resources

The total foreign aid commitment for the health sector in 2010 was USD 47 million which is a 57 percent increase over 2009.

The government of Japan, International Development Association of World Bank, UN agencies, Saudi Fund and the government of the United States of America accounts for about 83 percent of total foreign funds received by the health sector during the same period. The other key contributors to the health sector include several other lending and donor agencies such as the governments of France, India, Federal Republic of Germany and the Export Credit Bank of Austria.

The disbursement of foreign financing in the health and education sectors has been increasing since 2005 contributing to the improvement in aid utilization rate. The total amount disbursed in 2009 and 2010 exceeded USD 159 million.

The total commitment received for education and health sectors in 2010 was USD 93.44 million.

Increased financing has resulted in improving the educational and health facilities provided at both national and provincial levels over the last five years.

The number of schools with computer labs has been increased from 1,147 in 2005 to 2,033 in 2010 showing an increase of 77 percent. Also, the number of schools with libraries and sanitation facilities as a share of total number of schools has been increased from 78 and 53 percent in 2007 to 96 and 63 percents respectively in 2010.

Main Projects

Higher Education for the Twenty-First Century

The project aims to support national level developments in the higher education sector through improving the quality of educational programmes and the employability of graduates, supporting the development of the alternative higher education sector, and human resource development. The International Development Association (IDA) of the World Bank provided USD 40 million for this Project. The Project is organized into four components. The first component supports national level developments in the higher education sector. The second component assists development of Universities, with a special emphasis on improving the employability of graduates and the quality of programmes. The third component supports to develop the alternative higher education sector, which provides employment-oriented programmes in the field of economic development. The final component focuses on human resources development, monitoring and evaluation, and studies. In general, the project will help to produce a knowledgeable and skilled workforce meeting emerging job market requirements. Thus, it will help to further reduce the rate of unemployment in the country.

Education for Knowledge Society Project (EKSP)

The EKSP commenced with the ADB financial assistance of USD 80 million comprising USD 67 million loan and USD 15 million grant, and the project period is from 2008 to 2013. Up to the end of 2010, 23 percent of the loan funds has been disbursed.

This project will support Government's strategies to upgrade 1,000 secondary schools to fully fledged schools. All necessary infrastructure including laboratory, ICT, multimedia, home science, sports, water supply, sanitation facilities and human resources will be provided to the selected schools. This will minimize the high demand for national schools located in urban areas. About 36,000 scholarships are to be awarded under the EKSP Scholarship Programme for students studying in grade 10-13 in the school system and for those who have obtained the scholarships under Secondary Education and Modernization Project (SEMP) II but have not been qualified to proceed for higher education.

The project has provided the assistance to strengthen the Sri Lanka Institute of Advanced Technology for Education by revising SLIATE's academic programmes, upgrading workshops and facilities on Information & Communication Technology (ICT), developing Management Information System for

Chart 5.12 > **Foreign Assistance for Education and Health Sectors 2005-2010 by type of providers (USD Mn)**

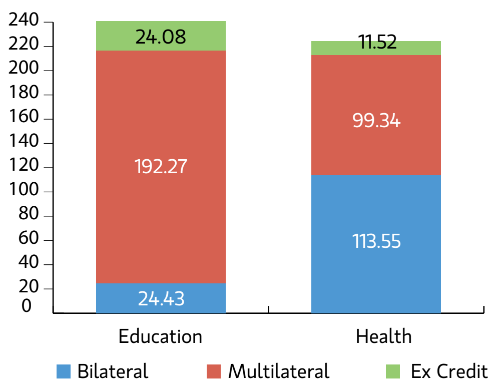
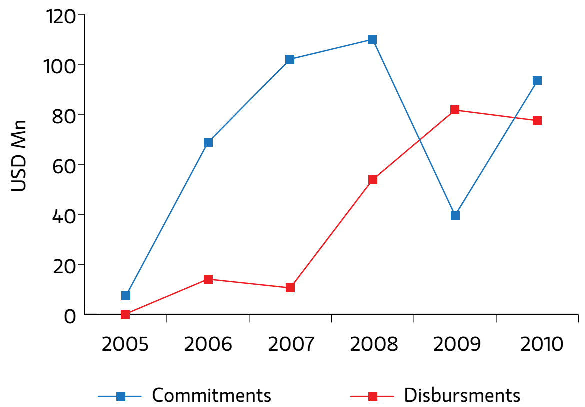


Chart 5.13 > **New Commitments and disbursements 2005 - 2010 (USD Mn)**



SLIATE and implementing Professional Development Programmes for SLIATE staff.

Further, the EKSP has undertaken the upgrading of the Centre of Excellence in English Education in Peradeniya from Teacher Training College status to National College of Education to enhance English language teacher training.

South Eastern University of Sri Lanka

The project aims to bring relevant tertiary education to the Eastern Province and acts as a driver for regional development in line with the ten year horizon development framework of the government. The South Eastern University was founded in 1995 with minimal infrastructure and other facilities. Therefore, an attractive new campus, suitable for expanding the university in the modern world is being built. The objectives of the project are to relocate and rebuild the university to cater to the present demand for tertiary education in the region. The project is expected to increase the student population from 3,000 to 5,000 (Regular and External Studies) within the project period. The project includes two Phases. The Kuwait Fund for Arab Economic Development has provided USD 7.06 million (Kuwait Dinars (KD) 2 million) for Phase I A of the project. The Phase I A commenced in 2008 and is scheduled to be completed in 2011.The Kuwait Fund has agreed to provide USD 10.6 million (KD 3 million) for Phase I B.

Strengthening of Tertiary Education and Administrative Infrastructure in Tsunami Affected Areas

The objective of the project which was completed in 2010 was to strengthen tertiary education in Universities and Advanced Technical Institutions and Civil Administration system at district, divisional and village levels in the tsunami affected areas. The main components of the project included construction work and provision of necessary equipment for Advanced Technical Institutions of Jaffna, Galle, Labuduwa, Ampara and Trincomalee. It also provided student housing facilities at the Jaffna University and the Galle Campus of the Ruhuna University. The Kuwait Fund for Arab Economic Development has provided USD 20 million (Kuwait Dinars 6 million) to finance this project.

Improvement of Curative Healthcare Services at the Anuradhapura Teaching Hospital

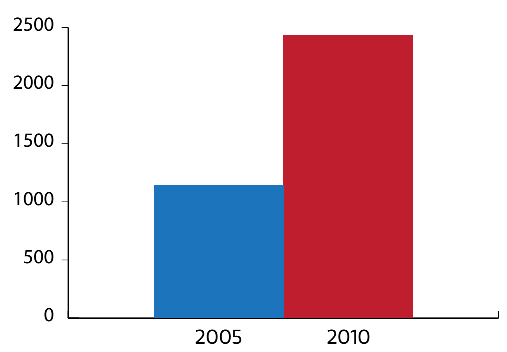
A new three storied building with a floor area of around 7,500 square meters to house the Obstetric Gynaecology Operation Theatre, Paediatric Unit (Intensive Care Unit) and Outdoor Patients Department (OPD) with all necessary equipment

Table 5.24 > **Commitments in 2010 (USD mn)**

Education			
Higher Education for the Twenty First Century Project	38.84	loan	IDA
Economic and Technical Cooperation 2010	7.49	grant	Gov. of China
Health			
Provision of Operating Theaters & Medical Equip to Tsunami Affected & Remote Hospitals	12.90	loan	Gov. of France
Improvement of Central Functions of Jaffna Teaching Hospital	24.86	loan	Gov. of Japan
Improved Integration of Tar-geted Disadvantaged groups into the Community	9.35	grant	U.S.A
Total	93.44		

Source: Department of External Resources

Chart 5.14 > **No of Schools with Computer Labs**



No of Schools with Computer Labs

was built using a grant of USD 20.5 million (Japanese yen 2,297 million) provided by the Government of Japan. Improved facilities at the Anuradhapura Teaching Hospital now provide better access to specialized healthcare services to minimize difficulties faced by patients who travel long distances to obtain such services from other tertiary healthcare institutions. Over 1.3 million people who are residing in the Anuradhapura District and adjoining districts of Vavuniya, Mannar, Trincomalee and Puttalam, where the healthcare facilities are comparatively insufficient, have been benefited from this project.

Neuro-trauma unit at the Colombo National Hospital

The 10 storied Neuro Trauma Centre at the National Hospital Colombo equipped with modern facilities built at a cost of Rs.3000 million and funded by the Saudi Fund for Development was declared open this year (2011). The project, fulfils an urgent need with regard to inadequate neuro-trauma facilities at the Colombo National Hospital. The facility houses 6 ultra-modern operation theatres, a 66-bed Intensive Care Unit (ICU), a 43-bed High Dependency Unit (HDU), a Spinal Injury Unit, a Neuro Surgical Unit and a ward complex for 150 patients.

Epilepsy Unit in the Colombo National Hospital

The Saudi Fund for Development (SFD) has provided Saudi Riyal 75 million (approximately USD 20 million) for the establishment of an epilepsy unit with a capacity of 242 beds and required facilities within the premises of the Colombo National Hospital. The unit will consist of operation theaters, Intensive Care Units (ICU), a High Dependency Unit (HDU), a male ward, a female ward, and provision and installation of medical equipment including MRI, CT Scanners and X-Ray machines. The project commenced in 2008 and is scheduled to be completed by mid 2013.

06
DEVELOPMENT FINANCE

Overview

The Government having recognized the importance of the Small and Medium Enterprises (SME) and Microfinance sectors in achieving a balanced economic growth, equitable regional distribution and increasing employment and productivity levels, has adopted policies and strategies and introduced projects and programmes to promote these sectors.

SMEs scattered in agriculture, plantation, construction, manufacturing, trade and other service sectors, contribute to 40 percent of the total Gross Domestic Product (GDP). Microfinance has also been identified as one of the key tools to promote self employment and small enterprise backyard economy. The absence of a cohesive regulatory and supervisory system for the microfinance sector has been one of the constraints to the growth of the sector. The Microfinance Act has therefore, been drafted to ensure the smooth functioning of this sector.

SME Sector

The development policy framework of the Government identifies SMEs as the catalyst of the economic growth. SMEs account for 70 percent of the total number of enterprises in Sri Lanka and have gained wide recognition as a major source of employment, value addition and income generation, poverty reduction and regional development. It is also revealed that about 26 percent of the total employment in the Island is accounted for the SME sector[1] . The opening of economic opportunities in the North and East region has expanded the scope of the SME sector by number and market share. However, the SME sector has to recover from the adverse impact from the slowdown in the global economy in 2008/2009, achieve a growth rate of 10-20 percent on the SME sector, and fulfill the desired economic growth of more than 8 percent. For this purpose, the following two projects are being implemented by the Department of Development Finance through long term funding arrangements with the World Bank and Asian Development Bank (ADB).

Box 6.1
SME Policy Initiatives For High Growth

Short/Long Term Recovery and Access to Finance
- Create space for new capital injections by rescheduling of repayments of SME loans.
- Amend the Recovery of Loans by Banks (Special Provisions) (Amendment) Act. No. 4 of 1990 to provide flexible solutions for small loans.
- Improve access to finance for SMEs affected by the global financial crisis.
- Develop a Credit Guarantee Scheme under the Small and Medium Enterprise Development Facility Project (SMEDeF).
- Implement the budget proposal of 2011 to have investment account from the tax reductions in respect of Value Added Tax (VAT) and income tax.
- Promote long-tem funding for SME and other enterprises.

Technology
- Remove all taxes applicable to machinery and technologies while introducing programmes for skill development under the budget proposals 2011.
- Provide funding for new machinery and technology through SMEDeF project and specific investment portfolio by the development banks.
- Prepare a strategic plan by the development banks to facilitate the SME sector to increase the investment by 30-40 percent during the next four years.

Small and Medium Enterprise Development Facility Project (SMEDeF)

Small and Medium Enterprise Development Facility Project (SMEDeF) is a three year project, through the credit facility of the World Bank (International Development Association - IDA) commencing from 2010. The objective of SMEDeF is to improve access to finance (including term finance) for SMEs in Sri Lanka affected by the global financial crisis. The total value of the project is Rs. 6,314 million (USD 57.4 million) and the Loan Agreement between the Government and the IDA has been completed in November 2010. The project will be entirely functioned from 2011 onwards.

The project consists of two components namely,

1. Financing and risk sharing facility,
2. Policy and capacity enhancement for SME banking.

Financing and risk sharing facility includes line of credit to refinance short and long term loans for SMEs nationwide and risk sharing facility

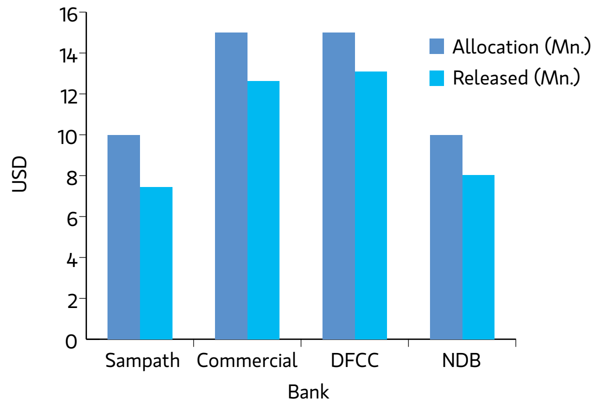
[1] *Department of Census and Statistics, 2008*

to reduce the risk of lending to SMEs. Policy and capacity enhancement for SME banking comprises capacity enhancement to support SMEs and SME banking, support to strengthen the enabling environment for SME banking and implementation support and monitoring.

Small and Medium Enterprise Regional Development Project (SMERDP)

The Loan Agreement for the implementation of the Small and Medium Enterprise Regional Development Project (SMERDP), at a total value of USD 50 million was signed on 18th December 2007, between the Government and ADB. This project is aimed at accelerating the development of SMEs outside the Western Province by improving their access to credit, business development services, and by catalyzing the development of SME value chain clusters for providing linkages to information, technology and markets. The total cost of the project is estimated at USD 88.89 million of which 56.25 percent is provided by ADB and 18.75 percent and 25 percent are contributed by Private Commercial Banks (PCBs) and SMEs respectively. The ADB loan facility is re-lent by the Government to the Private Commercial Banks namely; DFCC Bank, Commercial Bank, Sampath Bank and National Development Bank Ltd. The PCBs will on-lend funds as sub-loans to eligible SMEs and SME value clusters. At the initial stage, the project specially focused on providing medium to long term credit facility to start-up new SMEs or expansion or modernization of existing SMEs which are in a SME value chain cluster. The project is scheduled to be completed by 30th June 2011. The details of the provision of medium to long term credit facility by banks are given in Table 6.1 and Chart 6.1.

Chart 6.1 > **Utilization of Funds by Bank out of Total Allocation up to end of 31st December 2010**



Progress for the Year 2010

A total of USD 27 million of ADB funds has been released by all four banks

Table 6.1 > **Utilization of ADB Funds by Bank Out of Total Allocation up to end of 31st December 2010**

Bank	ADB Funds								%
	Allocation (Mn)		Released (Mn)		Commitments to be released (Mn)		Total (Mn)		
	USD	Rs.	USD	Rs.	USD	Rs.	USD	Rs.	
Sampath	10	1,070	4.07	455.17	3.37	377.50	7.44	832.67	77.82
Commercial	15	1,605	7.42	831.19	5.22	585.00	12.64	1,416.19	84.27
DFCC	15	1,605	9.94	1,119.95	3.16	354.00	13.10	1,473.95	87.33
NDB	10	1,070	5.18	580.33	2.85	318.37	8.03	898.70	80.30
Total	**50**	**5,350**	**26.61**	**2,986.64**	**14.60**	**1,634.87**	**41.21**	**4,621.51**	**82.42**

Source: DFCC, NDB, Commercial Bank, Sampath Bank during the year 2010 and almost 82.42 percent of allocated funds have been utilized as at 31st December 2010. Except NDB, all other banks have utilized funds other than the released amount by utilizing their own funds, and the withdrawal applications for this excess amount have already been replenished by ADB. The accumulative achievements during 2010 are as follows;

- 597 loans amounting to Rs. 2,780 million have been approved and 331 loans amounting to Rs. 1,245 million have already been released to SMEs utilizing ADB funds.

- Out of the four participatory banks, the highest loan disbursement has been achieved by NDB, granting 115 loans amounting to Rs. 366 million.

- In terms of the amount disbursed, on geographical coverage Kurunagala District accounts for Rs. 288 million where as Matara and Kandy Districts contributed Rs. 291 million and Rs. 302 million respectively. This is shown in Chart 6.2.

- Food processing and beverage sector, and services sector have amounted to 58 percent of the total disbursement, which consist of 31 percent by service sector, and 27 percent by the food processing and beverage sector as shown in Chart 6.3.

Chart 6.3 shows the progress by sectors on number of projects implemented for the year 2010.

Employment Generation

The reduction of national unemployment to 4.9 percent in 2010 has contributed slightly by generating employment opportunity to the youth. Table 6.2 shows the direct and indirect employment opportunities created under the project by sectors within the year 2010 outside the Western Province.

Table 6.2 > **No of Employment Opportunities Created by Sectors for the Year 2010**

Sector	Employment Opportunities	
	Direct	Indirect
Agricultural Sector	1,748	1,830
Plantation Sector	109	0
Industrial Sector	491	823
Fisheries	491	111
Service Sector	1,454	1,472
Total	4,293	4,236

Source: DFCC, NDB, Commercial Bank, Sampath Bank

Chart 6.2 > **Progress by Districts on Number of Projects for the Year 2010**

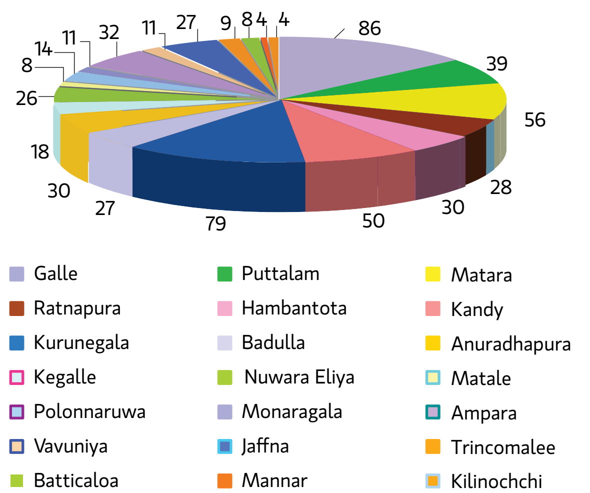
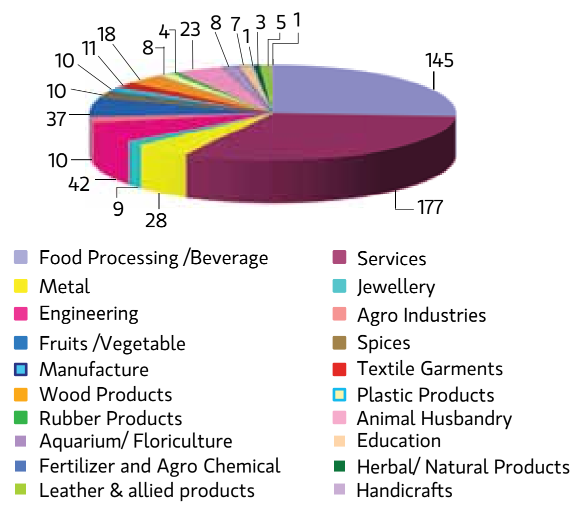


Chart 6.3 > **Progress by Sectors on Number of Projects for the Year 2010**



- A total of 4,293 and 4,236 direct and indirect employment opportunities, respectively, have been created during the year by utilizing the loans granted under the SMERDP.

- The food processing/beverage sector led by generating a total number of 2,287 employment opportunities during the year 2010.

- In terms of the creation of direct employment opportunities, Kandy District leads by generating 670 employment opportunities, followed by Galle, Matara and Nuwara Eliya Districts creating 647, 450 and 335 job opportunities respectively, the reason being that the bulk of the loans have been distributed to the tea sector SMEs located in these Districts.

Microfinance Sector

"Microfinance" has been identified as an effective instrument for the reduction of poverty of rural community due to its contribution to the growth of rural sector and improvement of the quality of life. According to the "Mahinda Chintana"- Ten Year Horizon Development Framework, around 65 percent of Microcredit is provided through the Government. The Samurdhi Development Programme, which was introduced in 1995, is the largest of these initiatives. It satisfies the financial needs of the low-income people who do not have direct access to formal banking systems and Financial Institutions. A large number of Microfinance Institutions (MFIs) are operating in the country, providing finance for small-scale enterprises,

low-income rural population and low-income category of urban segments. At present, these MFIs are scattered in the neighbourhoods of the low-income population throughout the country.

The microfinance sector in Sri Lanka consists of a variety of institutions that are different in institutional structures, activities, size, operating mechanisms, and operating areas and in the manner of funding their activities. Table 6.3 shows that the Samurdhi Bank Societies and SANASA Co-operative Societies accounted for more than 50 percent of the microfinance operations.

The depositors base of the microfinance amounts to 20.8 million, which is equal to the population of the country because some of the depositors are having deposits in several microfinance institutions.

Table 6.3 > **Microfinance Institutions**

Type of Institutions	No. of Outlets	Percentage
Samurdhi Bank Societies	1,040	10.57
CRBs & Women's Development Co-operatives	1,905	19.37
SANASA/TCCSs (active societies)	4,071	41.39
Other MFIs (NGOs/Limited Liability Companies/Companies Limited by Guarantee)	2,500	25.42
Branches of Licensed Specialized Banks (Regional Development Bank, Sanasa Development Bank)	318	3.23
Total	**9,834**	**100.00**

Source: Microfinance Industry Report 2010

Table 6.4 > **Progress of Microfinance Institutions**

Microfinance Institution	No of Depositors	No of Borrowers	Total Capital (Rs. Mn)	Total Deposits (Rs. Mn)	Total Borrowings (Rs. Mn)	Total Assets (Rs. Mn)	Total Investment (Rs. Mn)	Loan Advances (Rs. Mn)
Regional Development Bank	3,149,310	986,069	1,112	32,786	3,078	41,948	7,085	32,886
Samurdhi Authority	9,250,112	3,907,686	4,265	41,131	43	47,323	42,767	54,250
Department of Co-operative Development *	7,753,670	247,673	-	46,539	26,041	-	11,645	21,837
Department of Agrarian Development	142,161	374,445	448	193	44	1042	363	3,199
SEEDS	-	150,768	322	319	1,252	5,540	859	3,394
Gemidiriya Foundation	170,566	119,264	1,711	309	No Borrowings	1,654	Not Allowed	2,709
SANASA Development	334,629	159,434	2,203	-	950	16,445	2,828	38,672
NDTF	N/A	242,578	798	N/A	1,988	3	1,308	7,782
Total	20,800,448	6,187,917	10,863	124,152	33,396	113,966	66,856	164,730

*** Except the loan amount and deposit figures are up to 2008**

Source: Survey of Department of Development Finance

It was found that the total deposit of microfinance is Rs. 124 billion of which more than 90 percent are held by the Government Institutions. Major microfinance institutions utilize around Rs. 164 billion for lending purposes. Different authorities are however, responsible for the supervision of the different types of microfinance institutions: the Samurdhi Bank Societies (SBSs) are regulated by the Samurdhi Authority of Sri Lanka, the Co-operative Rural Banks (CRBs) and SANASA Thrift and Credit Cooperative Societies (TCCSs) are regulated by the Department of Cooperative Development; the Regional Development Bank (RDB), as well as Commercial Banks and finance companies fall under the supervision of the Central Bank of Sri Lanka; Insurance companies come under the scrutiny of the Insurance Board of Sri Lanka. But, there are large number of microfinance institutions that are operating in the country which are not subject to any supervisory and regulatory controls. According to the Consultative Group to Assist the Poorest (CGAP), microfinance in Sri Lanka has achieved impressive outreach; with more than 15 million deposit accounts and 2 million outstanding micro loans from a population of 20 million. The need for regulation is therefore, more pronounced when the industry is mature and significant in size, in order to ensure stability in the financial system. Considering the reduction in poverty level from 15.2 percent in 2007 to 7.6 percent in 2010 and the increase in per capita income of the country to USD 2,399 in 2010, the need of legalizing microfinance sector is expressed.

A Regulatory and Supervisory Mechanism for Microfinance

In this endeavour, the Cabinet has taken a decision on 08th June 2006 to prepare a draft legislation to introduce regulatory and supervisory arrangements for MFIs. The approval was granted to present the Microfinance Bill to the Parliament by the Cabinet, at its meeting on 23rd May 2007. Accordingly, the entire responsibility of regulation and supervision of MFIs was to be vested in the Central Bank of Sri Lanka.

However, due to the complexity in the institutional set-up and operations of MFIs, it was felt that a separate independent authority would be a more appropriate arrangement for regulation and supervision of MFIs.

Therefore, the Cabinet of Ministers has taken a decision on 07th July 2010 to draft the Microfinance Act to set up an authority in the name of "Microfinance Regulatory and Supervisory Authority" to license/register, regulate and supervise institutions that carry on microfinance business. The Monetary Board of the Central Bank of Sri Lanka is empowered to set up principles and standards to the regulators of MFIs including the Samurdhi Authority of Sri Lanka to ensure that the microfinance business is carried on in a transparent, professional and prudent manner. Funding needs for the first two years of the proposed Microfinance Regulatory and Supervisory Authority is approximately Rs. 400 million.

Objectives of the Microfinance Regulatory and Supervisory Authority

The objectives of the proposed Microfinance Authority are as follows;

a) License, register, regulate and supervise companies, Non-Governmental Organizations, cooperative societies and societies carrying out microfinance business

b) Strengthen and develop those institutions by enhancing their viability and accountability

c) Ensure that microfinance business is carried on with integrity and in a transparent, professional and prudent manner with a view of safeguarding the interests of the depositors and the customers

d) Maintain the confidence of the depositors and the customers

e) Minimize risk of losses to the depositors by establishing and enforcing effective standards of governance, accounting and disclosure

Foreign Assistance to Microfinance

In line with the technical cooperation between the Government of Sri Lanka and the Government of the

Federal Republic of Germany, the Implementation Agreement for the provision of grant of Euro 4.0 million was signed between the two Governments on 26th March 2007 for the implementation of the Promotion of the Microfinance Project.

Promotion of Microfinance Project (ProMis) – GIZ

The objective of this project is to enhance and improve the services offered by selected MFIs to the poorer section of the society and micro and small enterprises in an appropriate manner. The project is being implemented by the German International Cooperation (GIZ) under the purview of the Department of Development Finance. Phase I of this project was completed in 2009 and the Government of the Federal Republic of Germany has agreed to provide Euro

3.25 million to implement Phase II of the project for the period 2010 – 2012. Total disbursement for 2010 is Euro 1.0 million.

The project has three components:

1. Develop the capacity of microfinance institutions
2. Support the development of the microfinance sector
3. Assist the development of a framework for microfinance policy and legislation

Main Activities Completed for the Year 2010

- Group formation for entrepreneurship, marketing and business development programmes
- Livelihood support programme in Jaffna
- Technical trainings for specific entrepreneur groups
- Training and Institutional strengthening of MFI partners
- Eight events on 'Enabling Dialogue/ Knowledge sharing' were held in Colombo, Jaffna, Vavuniya, Batticaloa and Ampara Districts with the participation of local authorities, NGOs engaged in microfinance and livelihood development activities, MFIs, Commercial Banks, Finance and Leasing Companies.
- 149 resettled families were supported for income generating activities
- Financial Literacy Needs Assessment was conducted in all Districts where ProMiS partners operate.

Box 6.2
Microfinance Meets Regional Demand for Investment

Regional and Sectoral Distribution of Microfinance Outlets

Chart 6.4 > **Microfinance Outlets by Province**

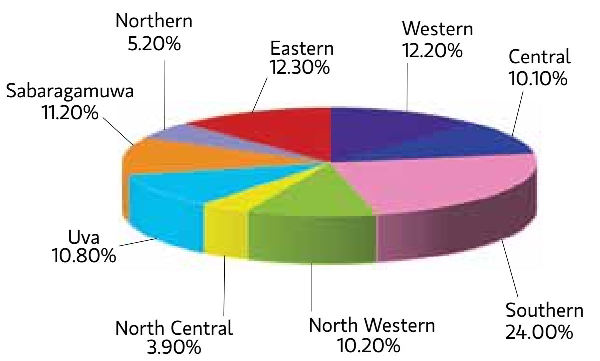
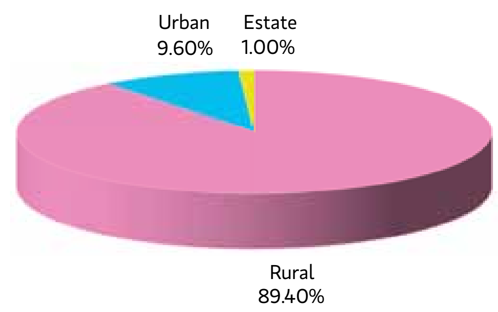


Chart 6.5 > **Microfinance Outlets by Sector**



Regional and sectoral distribution of Microfinance outlets is shown in figure above based on the MFI survey. There is a strong presence of MFIs in the Southern Province with nearly a quarter of the outlets located there. North Central province is relatively underserved accounting for 3.9 percent of the outlets and Northern Province accounts for 5.2 percent of the outlets based on the information of the survey.

According to the above figure almost 90 percent of the Microfinance outlets in Sri Lanka are clearly concentrated in rural areas while less than 10 percent of the outlets are located in urban areas and only 1 percent in the estate sector. This fact pointed out that there is a vacuum in the microfinance services in the estate sector.

Table 6.5 > **Microfinance Loan Disbursement**

	Loan Amount			
	Less than Rs. 2 Mn	Rs. 2 Mn - Rs. 5 Mn	Rs. 5 Mn - Rs. 10 Mn	More than Rs. 10 Mn
Bank of Ceylon	32,149.00	2,601.00	0.00	0.00
Peoples Bank	4,601.39	162.90	18.40	119.34
Regional Development Bank	4,023.00	0.00	0.00	0.00
HNB	7,613.00	2,017.00	1,356.00	1,829.00
SANASA Development Bank	12,256.00	0.00	0.00	0.00
Other Banks	572.26	70.85	100.28	671.59

Source: All Commercial Banks

According to the data gathered by the Department of Development Finance in 2010, State Banks specially Bank of Ceylon and SANASA Development Bank have a particularly high level of loan disbursements of less than Rs. 2 million and have disbursed few loans, which are more than Rs. 2 million. When compared to State banks HNB is more outstanding in microfinance activities and have offered significant loans to the microfinance sector in all range of loan amounts. The microfinance sector need the regulatory framework to be effective in their role.

- Financial and technical support were provided to the Lanka Microfinance Practitioner's Association (LMFPA) to carry out profiling and data collection of its member Institutions and supported the publication of the same

- Sinhala and Tamil translations of the Microfinance Handbook, an internationally recognized publication on microfinance, completed and published

- Island-wide impact study of ProMiS Phase I was completed

Special Activities to be Implemented During Year 2011

- As a request made by the Government, GIZ has agreed to revise the scope and include a component on SME Development for Phase II of the project
- Provision of micro credit facilities to 1,000 resettled families in Jaffna through the cooperative societies in consultation with the Divisional Secretaries

Agriculture Sector Financing

"Mahinda Chintana Vision for the Future", Government's policy framework aims to achieve multiple goals in agriculture sector such as achieving food security, ensuring higher and sustainable income to farmers, fair and remunerative price for agriculture products, expanding the area under cultivation, using high yield seeds, reducing post harvest losses and introducing efficient farm management. Agriculture sector financing has been vital in achieving these set goals.

The areas facilitated under agriculture sector financing cover fertilizer subsidy programmes, purchasing programmes and financial assistance schemes.

Fertilizer Subsidy Programmes

Paddy

Sri Lanka has a widespread agricultural base with a contribution of 12 percent to GDP. Paddy plays a vital role in the economy since rice is the staple food of the country. In 2010, an extent of 1.06 million Ha was under paddy cultivation producing 4,300,620 Mt which is an increase of 17.8 percent compared to 2009.

The consumption of rice has been increased during the last decade which implies that the country depends more on locally produced rice rather than imported food items particularly wheat flour.

Fertilizer is the key input in paddy cultivation thus the fertilizer subsidy has made a greater impact on yields of farmers. Around one million farmers who are involved in the paddy cultivation benefit from the fertilizer subsidy scheme. Compared to the market price, the subsidy granted by the Government for 50kg bag of

Chart 6.6 > **Fertilizer Subsidy on Paddy - 2010 For 50 Kg. Bag**

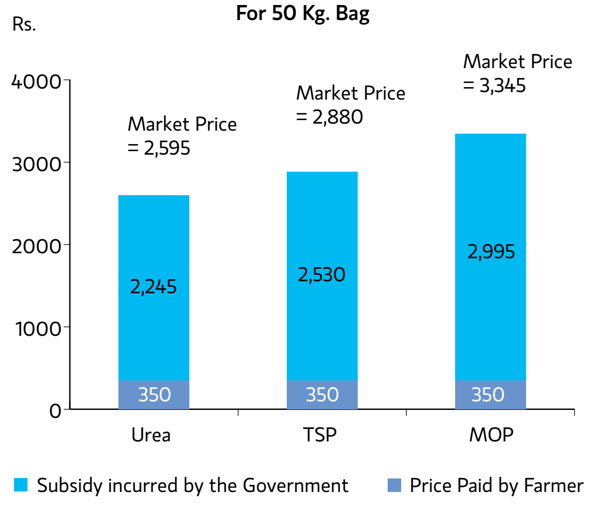
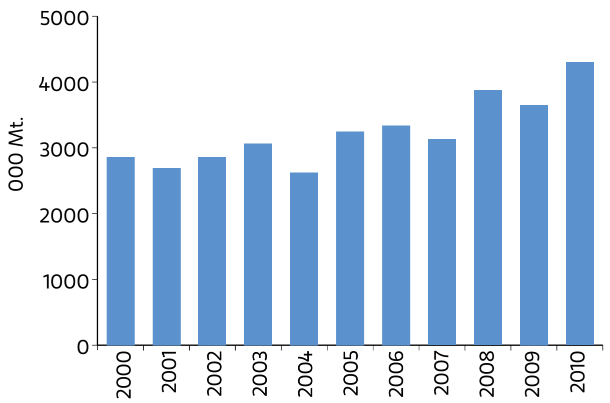


Chart 6.7 > **Paddy Production 2000-2010**



fertilizer is more than 80 percent of the market price (Table 6.7).

The Government expenditure on fertilizer subsidy of paddy amounts to Rs. 23,050 million, and the per capita subsidy for a farmer engaged in paddy cultivation is approximately Rs. 21,414 in 2010.

Table 6.6 > **Annual Total Consumption of Rice and Wheat Flour 2002 - 2009/10 (Mt)**

Year	Rice	Wheat Flour
2002	1,936,320	183,601
2005	2,051,541	179,860
2006/07	2,143,257	139,151
2009/10	2,223,815	168,590

Source: Estimated from Household Income and Expenditure Surveys, Department of Census and Statistics

Table 6.7 > **Comparison of Subsidized Price and Market Price of Fertilizer 2009 Yala – 2010/11 Maha**

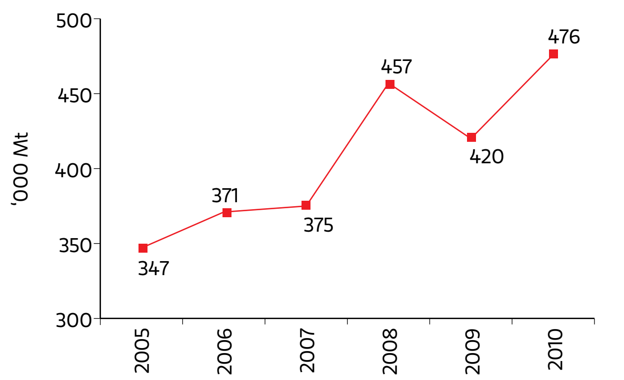
Season	Fertilizer Variety	Average Market Price/ 50kg bag (Rs.)	Subsidized price of 50kg bag (Rs.)	Subsidy for 50kg bag (Rs.)	Subsidy as a % of Market Price
2009 Yala	Urea	5,350	350	5,000	93
	TSP	7,709	350	7,359	95
	MOP	6,612	350	6,262	95
2009/10 Maha	Urea	2,225	350	1,875	84
	TSP	1,901	350	1,551	82
	MOP	4,458	350	4,108	92
2010 Yala	Urea	2,708	350	2,358	87
	TSP	2,969	350	2,619	88
	MOP	3,392	350	3,042	90
2010/11 Maha	Urea	2,481	350	2,131	86
	TSP	2,790	350	2,440	87
	MOP	3,298	350	2,948	89

Source: National Fertilizer Secretariat

Box 6.3
Fertilizer Subsidy Boosts Paddy Harvest

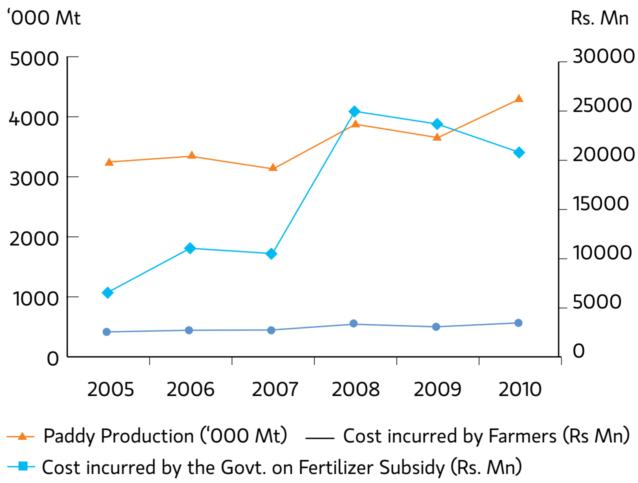
The paddy sector is vital in the economy and measures are taken to ensure the food security by maintaining a buffer stock of paddy, protecting the farmer by providing necessary facilities, improving the productivity and increasing production of paddy. Being an essential input in paddy cultivation, fertilizer plays a prominent role. However, high price of fertilizer is a major impediment to paddy cultivation. Given such situation the Government declared in 2005, to make available all varieties of fertilizer (Urea, TSP, and MOP) at Rs. 350 per 50 kg bag for paddy cultivation. From 2005 onwards, expenditure on fertilizer subsidy, fertilizer usage in paddy and paddy production have been increased.

Chart 6.8 > **Fertilizer Usage 2005-2010**



The extent sown in 2008 is 1,053,000 Ha and 977,000 Ha in 2009

Chart 6.9 > **Paddy Production and Expenditure for Fertilizer Subsidy, 2005-2010**



Fertilizer subsidy has resulted in favourable effects to the paddy farmers. Due to fertilizer subsidy the cost of fertilizer became low and the farmers were able to spend such savings for other purposes which resulted low borrowings. A study[1] has revealed that issues such as committing suicide for high cost of production, no reasonable price for their production/no mechanism to sell their production were answered by the fertilizer subsidy scheme and the paddy purchasing programme (This will be discussed separately). Further, due to high cost of production, some farmers abandoned the paddy cultivation and such lands were used for other cultivation or construction purposes after filling those plots of land. However, with the introduction of the fertilizer subsidy, there has been a significant increase in paddy production.

However, from the recent past the Government has promoted the use of organic fertilizer, and in 2010 Rs. 350 million was allocated for this purpose. Overuse of chemical fertilizer long term results in adverse environmental impacts such as ground water pollution and change in structure of soil. Further, the increasing annual expenditure for fertilizer subsidy is also a burden to the Government.

[1] *The Impact of Fertilizer Subsidy in Poverty Alleviation of Farmers (A Case Study of Galgamuwa Divisional Secretariat), K.P.L. Nishantha Patambedi, S.A.A.D. Samarasinghe, D.M. Karunadasa. 'Peace, Prosperity and Development: Expectations and Challenges in the 21st Century',(2010) A Felicitation Volume for Professor Dayananda Somasundara, Edited by H. Sunil Shantha and Herath Madena Bandara. Published by S. Godage & Brothers.*

Tea

Tea is the third largest foreign exchange earner of the country contributing around 16.5 percent to the total exports. Further, tea sector accounts for 1-1.5 percent to the GDP. In 2010, foreign exchange earned by the tea sector is USD 1,371 million. However, from the latter part of 2008, the global economic recession had adversely affected the export sector including tea, which led the Government to introduce an incentive scheme "Economic Stimulus Package" in 2009 to strengthen the export sector. Under this package, a 50 kg bag of mixed fertilizer was supplied at a subsidized price of Rs. 1,000 for the tea small holding sector and it was continued in 2010 as well.

Tea small holding sector, which includes plots of land less than 50 acres, plays a vital role in the tea sector contributing over 75 percent to the total tea production. Compared to 2009, the total tea production was increased to 329.4 million kg, by 13.1 percent in 2010 due to recovery in tea production and favourable weather conditions during the period of January to September. Out of the total production, 251.5 million kg was from the tea small holding sector in 2010 and it was 221.3 million kg in 2009. Table 6.8 shows the gradual increase in the share of the tea small holding sector in total production. There are about 370,000 small holders while 118,000 Ha are under the tea small holding sector.

Under the tea fertilizer subsidy scheme, only Urea was subsidized and provided 50kg bag at a cost of Rs. 1,200 between 2006 and 2008. From 2009 onwards a 50kg bag of mixed fertilizer is provided at a cost of Rs. 1,000 for the tea small holding sector. In 2010, 113,975.45 Mt of mixed fertilizer, of which market value is Rs. 6,257.2 million was provided at subsidized rates by incurring Rs. 3,977.7 million by the Government. The share of the subsidy granted by the Government is 63.6 percent of the market value.

Table 6.8 > **Performance of Tea Small Holding Sector, 2005 - 2010**

Year	Total Tea Production (kg Mn)	Share of Tea Small Holding Sector	
		kg Mn	Percentage
2005	317.19	205.8	64.9
2006	310.82	229.7	73.9
2007	304.61	224.8	73.8
2008	318.44	235.7	74.0
2009	291.13	221.3	76.0
2010	329.38	251.5	76.4

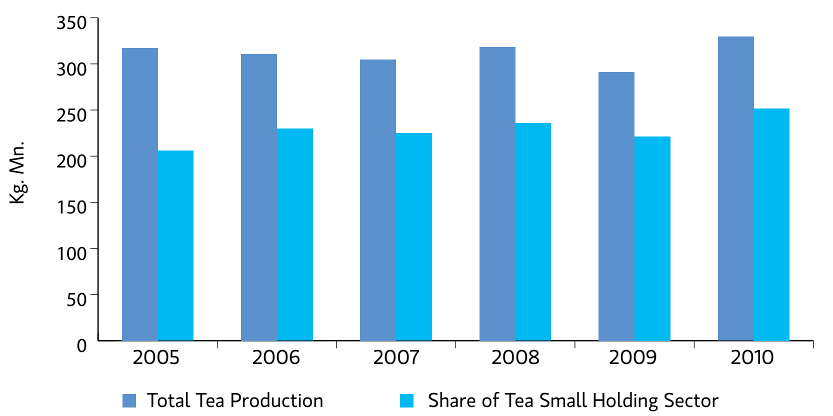
Source: Tea Small Holdings Development Authority

Table 6.9 > **Expenditure on Mixed Fertilizer Subsidy for Tea Smallholders**

Year	Average Market Price/ 50kg bag (Rs.)	Subsidized Price/ 50kg bag (Rs.)	Quantity Distributed (Mt)	Expenditure incurred for Subsidy (Rs. Mn)
2009	3,186	1,000	134,600.0	3,817.2
2010	2,745	1,000	113,975.5	2,000.0

Source: National Fertilizer Secretariat

Chart 6.10 > **Performance of Tea Small Holdings Sector 2005-2010**



Coconut

The lowest coconut production during the last decade, 2,317 million nuts, was recorded in 2010, which is 16.1 percent reduction from the production of 2,762 million nuts compared to 2009. The annual requirement of the country for consumption, exports and industries is around 3,000 million nuts but the coconut industry is not able to meet this requirement under present conditions. This situation became worse in 2010, which resulted in soaring prices of coconut in the domestic market. Land fragmentation, Weligama coconut leaf wilt & rot disease, low fertilizer application, availability of older coconut trees with low productivity, unavailability of high yielding and productive coconut plants, and weather condition have made negative impacts on coconut production. This position led the Government to take appropriate intervention to recover the coconut production. In order to mitigate the complex effect on the economy and the political and social life due to high prices in coconut, particularly the living standard of the people, the Cabinet of Ministers, in December 2010 approved the proposal to provide unmixed fertilizer, Urea and MOP 50 kg bag each, at a subsidized price of Rs. 1,000/-.

Table 6.10 > **Annual Coconut Production 2005 - 2010**

Year	Annual Production (Mn nuts)
2005	2,515
2006	2,684
2007	2,805
2008	2,909
2009	2,762
2010	2,317

Source: Coconut Development Authority, Coconut Research Institute

Purchasing Programmes

Paddy

Sri Lanka is now reaching self sufficiency in paddy production as expected for decades. Therefore, it is the responsibility of the Government to ensure the opportunity price of paddy for farmers during the harvesting time through a comprehensive programme in order to provide an appropriate price to the farmers while avoiding the sudden drop of purchase price of paddy in the market.

The ultimate objective of this programme was to maintain a buffer stock of 200,000 Mt of paddy which is assumed to be sufficient for national consumption of three weeks. This is in addition to the stocks with the co-operative societies. During Maha 2009/10 and Yala 2010, the Paddy Marketing Board was able to store 182,000 Mt of paddy in total which is a 91 percent achievement of the set target. In order to achieve this target the Paddy Marketing Board increased the number of collection centers up to 250. The Treasury in collaboration with the state financial institutions incurred Rs. 5,580 million on purchasing paddy

In 2010, the annual paddy production was recorded to be 4,300,620 Mt and the Government launched a new programme to purchase paddy through the Paddy Marketing Board with the assistance of the State Banks and the respective District Secretaries.

at a Government certified rate of Rs. 28/- per kilogram of Nadu and Rs. 30/- per kilogram of Samba. As a result of this programme, the market price of rice was stabilized at less than Rs. 70/- per kilogram during 2010.

Sri Lanka is now reaching self sufficiency in paddy production as expected for decades. Therefore, it is the responsibility of the Government to ensure the opportunity price of paddy for farmers during the harvesting time through a comprehensive programme...

In order to manage the buffer stock and market for paddy, the following steps were also taken;

- A sustainable plan was implemented for managing the buffer stock of paddy and regulating the purchase, storage and transportation of paddy and distribution of rice among the consumers.

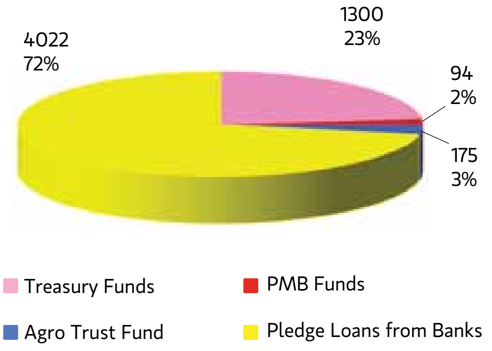
- Steps were taken to increase the area under Samba cultivation by 20 percent to cater the rising demand with the increase of per capita consumption of Samba rice, especially in the Western Province.

- Under a production plan prepared by the Ministry of Agriculture, the paddy cultivation was encouraged at District level by providing necessary seed material and other inputs aiming at catering the domestic demand for rice.

- Storage facilities were developed at District level by identifying and renovating the potential storages. In order to facilitate this, the ownership of such properties was entrusted to District Secretaries. Steps were taken to make available a provision of Rs. 350 million for the improvement of storage and milling capacity, in annual budget estimates for 2011.

- With the aim of entrusting the strategy to control the supply of paddy to the market by the farmers themselves, the state banks were encouraged to provide farmers with Rs. 50,000 each, enabling them to store paddy in their own stores (similar to "Vee Bissa"[1]) for a certain period of time while meeting their essential expenses at the time of harvesting.

Chart 6.11 > **Financing the Paddy Purchasing Programme (Rs. Mn.)**



- Transport facilities for paddy were arranged through Sri Lanka Railway while lorries were arranged by the Ministry of Co-operatives and Internal Trade and by the Sri Lanka Army as well. Paddy was stored in Weyangoda and Walpita stores to be distributed in the Western Province when a need arises.

Soya Beans

According to the Government policy framework on agriculture, production target of 14,600 Mt of soya bean is to be achieved by 2015 while imports would be made almost zero.

The Mahinda Chintana - Vision for the Future gives priority to increase the production of other field crops, which can be grown locally. Accordingly, research and development initiatives have been directed towards the development of high yield varieties of soya beans.

Due to sound weather conditions prevailed in the country and the encouragement of the farmers in the Huruluwewa area, the production of soya beans was considerably increased in Yala 2010. The annual production of 6,050 Mt in 2009 was increased by 24 percent up to 7,521 Mt in 2010. The Government intervened with the Regional Development Bank and the Paddy Marketing Board in purchasing the harvest while assuring a fair price of Rs. 85/- per kilogram for farmers. Accordingly, with the financial assistance of Rs. 132 million received from the Regional Development Bank, the Paddy Marketing Board purchased 1,557 Mt of soya beans directly from farmers with a maximum of 2,000 kg of soya beans from each farmer. Further, the purchase of soya beans by the private sector was also harmonized.

Requirement of Soya Bean for Thriposha Production was 7,150 Mt in 2010 and half of the requirement was from imported Soya Beans. During the year 2010, it was decided to purchase Soya directly from farmers at Rs. 85/- per kilogram by the Paddy Marketing Board and to be supplied to the Thriposha Institute at Rs. 95/- per kilogram. As a result, the farmers received a considerable income and prevented collectors who gave the farmer a lower price. Thriposha programme was expanded in order

[1]The traditional concept used by the farmers to store their paddy

to provide Thriposha to all deserving mothers who are 1.1 million of population according to the budget proposal of 2011. The allocation for Thriposha Programme was increased from Rs. 1,100 million to Rs. 1,500 million by the Budget 2011.

Furthermore, soya bean is used to produce poultry feed in the form of Soya Bean Meal. At the moment this meal is imported incurring a considerable cost. Therefore, if this meal can be developed internally the demand for soya beans can be improved while developing the Soya bean meal production locally.

Other Programmes Facilitated

Maize

The annual requirement of maize is 228,000 Mt of which 200,000 Mt is consumed by the livestock sector while 28,000 Mt is used for human consumption. A greater share of human consumption is utilized for "Thriposha" production. Since the "Thriposha" programme was expanded to cater all the deserving mothers, the demand for maize is rising. Import of maize is 27,200 Mt for 2009 and 9,571 Mt for 2010 showing a decreasing trend. By 2015 it is targeted to reach the production level of 270,320 Mt while decreasing imports gradually.

Poultry Industry

Special attention was given to boost the poultry industry and regulate the price of poultry products in order to maintain the supply of chicken and eggs without any shortage while making available whole chicken at a price of Rs. 320/- per kilogram during the festive seasons of December, 2010 and April, 2011. Production and requirement of poultry products in 2009 and 2010 illustrate the shortage (Table 6.11) where Government intervened stabilizing the market. At present the industry has grown to meet the local demand entirely with a little surplus.

Table 6.11 > **Production and Requirement of Chicken and Eggs 2009 - 2010**

Item/ Product	Year	Quantity Produced	Requirement
Chicken (Mt '000)	2009	99.28	111.38
	2010	104.50	112.00
Eggs (Mn)	2009	1,091.00	1,042.00
	2010	1,200.00	1,550.00

Source: Department of Animal Production and Health.

The Government was able to increase the production of chicken during 2010 up to 104,500 Mt which was 99,280 Mt in 2009. Egg production was increased up to 1,200 million in 2010, which was 1,091 million in 2009. The price of chicken and eggs were stabilized during the festive season of December 2010 by closely managing the supply and market price fluctuations. Poultry industry was included under Agro Livestock Development Loan Scheme from which the poultry industrialists receive financial assistance in expanding their industry.

Financial Assistance Schemes

Agro Livestock Development Loan Scheme (ALDL)

Ensuring self-sufficiency in milk by 2020 and retaining the foreign exchange outflow used for imports of milk powder within the country is a prominent area identified by the "Mahinda Chintana" policy framework. In line with this policy, it was announced in the 2008 budget proposals, the development of dairy industry by providing credit facilities at concessionary interest rates for the establishment of small and medium milk processing centers, importation of milking cows and development of animal husbandry, which pave the way for the implementation of Agro Livestock Development Loan Scheme (ALDL) from 2008. Small farmer borrowers engaged in dairy and agro

products, with 6 percent interest subsidy, and the private investors who purchase liquid milk directly from the small farmers, with 2 percent interest subsidy, are eligible to the loan scheme. The scope of the scheme was broadened by including the activities of establishment of cooling facilities and block ice manufacturing plants in 2009 and activities related to poultry farming in 2010.

The bulk of the benefits has been gained by the small farmers under this loan scheme. About 3,418 small farmers obtained loans to the value of Rs. 417 million during 2010 increasing the total number of small farmer borrowers to 8,851 which is 97 percent of the total borrowers. The loan disbursement under small farmer borrowers is Rs. 933 million which is 67 percent of total loan disbursement by December 2010. An amount of Rs. 63 million has been released to Participatory Financial Institutions as interest subsidy by the Government by December 2010 under this programme. Dairy farmers of the milk producing provinces were able to gain more benefits compared to other provinces as shown in Table 6.12.

Table 6.12 > **Performance of Agro Livestock Development Loan Scheme, 2008 - 2010**

Province	Small Farmer Borrowers				Investors in Private Sector			
	No. of Loans Granted		Amount Released (Rs. Mn)		No. of Loans Granted		Amount Released (Rs. Mn)	
	2010	Total up to Dec. 2010	2010	Total up to Dec. 2010	2010	Total up to Dec. 2010	2010	Total up to Dec. 2010
Western	351	745	40.79	92.44	3	15	12.5	374.94
Central	1,216	2136	150.87	221.64	2	28	1.05	34.9
Eastern	213	728	33.01	95.67	8	71	6.65	14.28
North Central	190	806	24.44	83.76	1	14	3.5	5.12
North Western	894	2,613	84.57	233.19	0	73	0	9.37
Northern	67	405	12.4	44.09	0	1	0	10
Sabaragamuwa	114	323	13.46	38.69	0	16	0	3.11
Southern	151	395	27.6	57.07	1	9	0.55	5.28
Uva	222	700	30.1	66.79	1	24	0.4	2.86
Total	**3,418**	**8,851**	**417.24**	**933.34**	**16**	**251**	**24.65**	**459.86**

Source: Department of Regional Development, Central Bank of Sri Lanka

New Comprehensive Rural Credit Scheme (NCRCS)

In order to enhance the agriculture production and to uplift cultivation, New Comprehensive Rural Credit Scheme (NCRCS - Sarusara), was continued in 2010 in collaboration with the Central Bank of Sri Lanka by providing an interest subsidy, for the farmers to cultivate paddy and other subsidiary crops. Production of seeds and planting material on a commercial scale and purchase of agricultural produce by private traders and companies under Forward Sales Contract (FSC) system are the other eligible activities under this scheme.

During 2010, the Treasury granted Rs. 516.8 million of interest subsidy to Participatory Financial Institutions (PFIs) for loans advanced by them out of their own funds under this scheme. The Government provided the interest subsidy at 6 percent per annum for cultivation loans and 2 percent per annum for purchasing loans to the PFIs.

The maximum limit for the cultivation loans granted under NCRCS for different crops varies from Rs. 8,000/- to Rs. 140,000/- per acre, where as the loans are granted for land areas ranging from 0.125 to 10.0 acres. The maximum loan amount for seed farming, nurseries and planting materials is Rs. 5 million. A maximum loan amount of Rs. 50 million is provided for the purchase of agricultural commodities under FSCs. However, the maximum loan limit for buyers with good track records extends up to Rs. 300 million under purchasing loans.

Under post war conditions, the awakening of the agriculture sector has made a direct impact on this scheme with high demand for cultivation loans. When compared with 2009, the total amount released under cultivation loans in 2010 has increased by 22.7 percent. Subsequently, the total cultivated land area and total number of beneficiaries have increased by 18.2 percent and 15.5 percent, respectively (Table 6.13).

During 2010, Rs. 3,584 million was disbursed among 72,014 farmers under cultivation loans and Rs. 7,238 million was disbursed among 1,031 paddy collectors under purchasing loans. 64,412 farmers were benefited through FSCs under purchasing loans granted in this year. The highest number, i.e. 15,921 of cultivation loans has been granted in Polonnaruwa District followed by Anuradhapura and Hambantota Districts providing 15,904 and 10,321 loans respectively. In terms of the amount disbursed under cultivation loans, Polonnaruwa District leads providing Rs. 728 million followed by Anuradhapura and Jaffna Districts providing Rs. 686 million and Rs. 586 million respectively. The highest number i.e. 302 of purchasing loans have been disbursed in Hambantota District, which amounts to Rs. 1,200 million (Map 6.1).

In terms of crop distribution, the paddy sector dominates with a total land extent of 161,553 acres and a total disbursement of Rs. 2,239 million followed by onions and maize with a total land extent of 13,516 acres and 11,821 acres, respectively (Chart 6.12).

Since the market has been settled and interest rates have fallen from 14 percent to a range of 10 to 12 percent, as a result of the prudent monitory policy of the Government, the 2 percent interest subsidy provided for purchasing loans under NCRCS was withdrawn with effect from 20th September 2010. However, the present policy framework aims at further raising production to a sustainable level over the next decade. Therefore, the Government continued the interest subsidy provided under NCRCS for cultivation loans. It was found to be that the annual total amount released for cultivation loans under this scheme represents less than 5 precent of the total agricultural sector loans provided by the main Government Banking Institutions (i.e. People's Bank, Bank of Ceylon and Regional Development Bank) of Sri Lanka.

Krushi Navodaya Loan Scheme

The Government announced the "Krushi Navodaya" programme by a budget proposal of 2007 in view of encouraging local agricultural production by empowering the small farmers through providing access to agricultural inputs at an affordable cost. The PFIs provide loans for the farming community ranging from Rs. 10,000 to Rs. 100,000 using their own capital on cost sharing basis at 8 percent interest rate per annum while the Government bears the remaining part of the cost of funding at 6 percent interest rate per annum. The scheme was terminated on 30th April 2010 disbursing a total amount of Rs. 2,329 million among 32,698 small-scale farmers (Table 6.14).

Table 6.13 > **Progress of Cultivation Loans under NCRCS, 2009 - 2010**

Loan Details	2009	2010	% Increase
Total Amount of Loans Released (Rs. Mn)	2,919.53	3,583.57	22.7
Extent of Land Cultivated (Acres)	169,819.3	200,807.9	18.2
Total Number of Beneficiaries	62,359	72,014	15.5

Source: Department of Regional Development, Central Bank of Sri Lanka

Chart 6.12 > **Cultivated Land Extent by Crop under NCRCS - 2010 (Acres)**

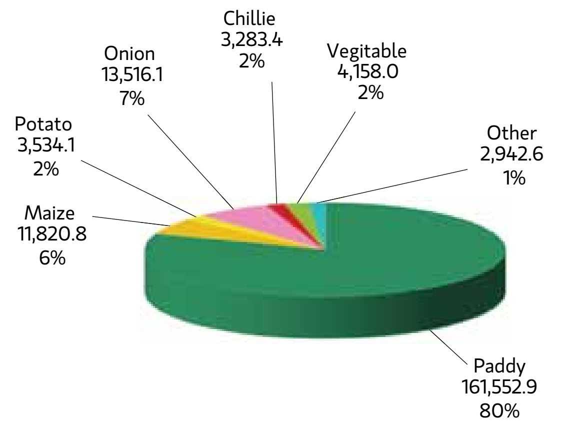
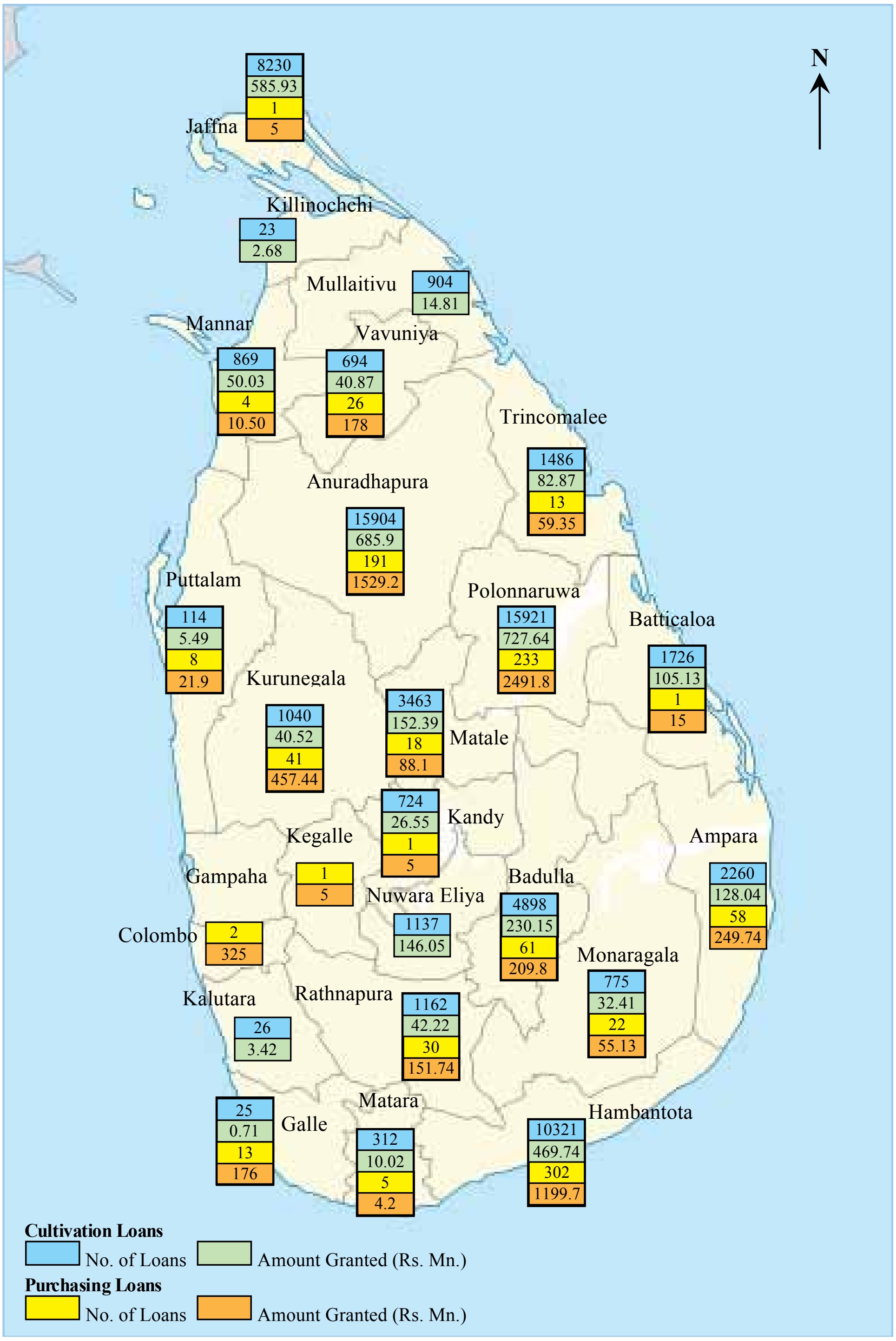


Table 6.14 > **Progress of Krushi Navodaya Loan Scheme**

Participatory Financial Institution (PFI)	2007 - 2010	
	No. of Loans	Amount Granted (Rs. Mn)
Bank of Ceylon	13,572	814.81
People's Bank	8,221	655.98
Commercial Bank	1,615	119.84
Hatton National Bank	424	39.01
Sampath Bank	11	0.35
Sanasa Development Bank	2,363	171.92
Regional Development Bank	4,504	363.34
Lankaputhra Development Bank	1,988	164.09
Total	32,698	2,329.34

Source: Lankaputhra Development Bank

Map 6.1 > **Progress of Cultivation and Purchasing Loans by Districts under NCRCS - 2010**



Source: Department of Regional Development, Central Bank of Sri Lanka

07

FINANCIAL STATEMENTS

Financial Statements 2010

Financial Statements of the Government of the Democratic Socialist Republic of Sri Lanka for the year ended 31st December 2010 which mainly comprises of statements of Financial Performance and Cash Flows for the year 2010, Financial Position as at 31st December 2010, an analysis of total expenditure in the financial performance along with the report of the Auditor General, are presented in this document.

These Statements have constantly adopted the reporting formats introduced with the Financial Statements prepared for the year 2005 aiming at shifting to accrual accounting and prepared in full compliance with generally accepted accounting principles and practices, guided by the Sri Lanka Accounting Standards (SLAS) and International Public Sector Accounting Standards (IPSAS). This demonstrates the commitment of the Government in transition towards preparing and presenting its Financial Statements on the basis of accrual accounting as against the legacy practice of cash based accounting. The report formats enable an advanced presentation of the Financial Performance in consistent with the classification and presentation of the Annual Budget that has been approved by the Parliament while facilitating easy comparison.

Since 2004, the Government has been making a concerted effort to implement an accrual accounting regime. Accordingly, documenting process of information to be disclosed outside the accounting system pertaining to asset management, commitments and liabilities was designed. The relevant information on movable assets acquired after 01-01-2004 are disclosed in Financial Statements until accrual accounting principles are fully adopted.

Year 2010 is a special fiscal year for the Government Budget due to implementation of budgetary provision in three stages. During the first four months, approval was granted on a Vote-on-Account approved by the Parliament. For the next three months, provisions were approved under the article 150 (3) of the Constitution. Finally, the complete budget was approved by the Parliament in July to cover the entire fiscal year 2010.

These financial statements encompass the financial operations of twenty special spending units, forty five Government Ministries, ninety two Government Departments and twenty five District Secretariats/ Kachcheris in their performance utilizing the financial resources allocated during the year 2010. Moreover, basic information pertaining to the financial resources allocated by the Central Government in the year 2010 to nine Provincial Councils and Public Enterprises which comprise thirty three Commercial Public Corporations and Statutory Boards involved in activities in regulatory, manpower development, infrastructure development etc., has also been disclosed in these statements.

In line with the vision of the Department of State Accounts to be the Centre for Excellence in Government Financial Information and in discharging its reporting responsibility of the public financial accountability by presenting the Annual Financial Statements of the Government to the Parliament, it has warranted the Department to assure the high quality of information generated and furnished. For this purpose, the Department has implemented a computerized information system and well designed process with all the necessary internal controls, checks and balances and required level of supervision in all stages of data compilation, processing, reporting and storage to maintain the integrity, accuracy and completeness of the data collected and information produced.

Statement of Financial Performance

for the year ended 31st December, 2010

Budget Estimates 2010 Rs.		Note	Actual 2010 Rs.	Actual 2009 Rs.
	REVENUE			
720,040,500,000	**Tax Revenue**		**724,806,231,416**	**619,182,257,022**
135,040,000,000	Income Tax	1	135,622,983,118	139,558,048,787
426,758,000,000	Taxes on Domestic Goods & Services	2	430,353,138,756	315,176,519,284
158,242,500,000	Taxes on International Trade	3	158,830,109,542	164,447,688,951
100,681,930,000	**Non Tax Revenue & Others**	4	**100,882,174,529**	**89,198,750,630**
820,722,430,000	**TOTAL REVENUE (a)**		**825,688,405,945**	**708,381,007,652**
	Less : EXPENDITURE			
238,184,444,820	Wages, Salaries and Other Employment Benefits	5	236,861,066,207	212,401,334,398
98,164,981,797	Other Goods & Services	6	95,893,296,489	99,934,733,129
280,162,827,870	Subsidies, Grants and Transfers	7	271,043,548,728	266,423,308,391
359,530,214,517	Interest Payments	8	347,688,371,746	303,177,076,179
8,084,000	Other Recurrent Expenditure	9	7,672,709	-
976,050,553,004	**Total Recurrent Expenditure (b)**		**951,493,955,879**	**881,936,452,097**
155,328,123,004	**REVENUE DEFICIT (a) - (b)**		**125,805,549,934**	**173,555,444,445**
392,323,914,180	**Public Investments**	10	**347,006,678,875**	**365,753,851,581**
547,652,037,184	**BUDGET DEFICIT**		**472,812,228,809**	**539,309,296,026**
	FINANCING THE BUDGET DEFICIT			
148,584,059,000	Foreign Borrowings	11	261,700,749,179	207,766,413,179
(69,713,100,000)	Foreign Debt Repayments		(69,112,362,273)	(112,692,197,885)
78,870,959,000	**NET FOREIGN BORROWINGS**		**192,588,386,906**	**95,074,215,294**
19,000,000,000	Foreign Grants	12	16,950,005,976	25,922,244,108
97,870,959,000	**TOTAL FOREIGN FINANCING**		**209,538,392,882**	**120,996,459,402**
752,583,969,000	Domestic Non-Bank Borrowings	13	639,569,547,809	785,592,460,484
(393,567,200,000)	Domestic Debt Repayments	14	(383,499,478,976)	(386,681,743,536)
359,016,769,000	**NET DOMESTIC BORROWINGS**		**256,070,068,833**	**398,910,716,948**
15,144,000,000	Recoveries from On-lending	15	15,534,545,002	11,978,194,623
250,000,000	Sale of Capital assets		240,455,985	77,904,264
-	Net Change in Deposit Accounts and Liabilities		(1,779,741,874)	(2,846,381,415)
-	(Increase)/ Decrease in Cash & Cash Equivalents		(6,791,492,020)	10,192,402,204
472,281,728,000	**TOTAL FINANCING**		**472,812,228,809**	**539,309,296,026**

Statement of Cash Flows

for the year ended 31st December, 2010

	Actual	
	2010 Rs.	2009 Rs.
Cash Flows from Operating Activities		
Total Tax Receipts	724,806,231,416	619,182,257,022
Interest	8,017,400,768	9,043,238,531
Dividends	4,970,556,572	2,213,115,342
Fees, Fines, Penalties and Licenses	11,748,410,617	7,511,870,548
Profit	41,330,730,782	29,768,496,292
Other Receipts	34,815,075,790	40,662,029,917
Total Cash provided from Operations (a)	**825,688,405,945**	**708,381,007,652**
Less - Cash was disbursed to:		
Personal Emoluments & Operating Payments	332,754,362,687	312,336,067,527
Subsidies & Transfer Payments	271,043,548,724	266,423,308,391
Finance Costs	347,696,044,468	303,177,076,179
Total Cash disbursed to Operations (b)	**951,493,955,879**	**881,936,452,097**
NET CASH FLOWS FROM OPERATING ACTIVITIES (c) = (a) - (b)	**(125,805,549,934)**	**(173,555,444,445)**
Cash Flows from Investing Activities		
Divestiture Proceeds & Sale of Physical Assets	240,455,985	77,904,264
Recoveries from On Lending	15,534,545,002	11,978,194,623
Total Cash provided from Investing Activities (d)	**15,775,000,987**	**12,056,098,887**
Less - Cash was disbursed to:		
Purchase or Construction of Physical Assets & Acquisition of Other Investment	347,006,678,875	365,753,851,581
Total Cash disbursed to Investing Activities (e)	**347,006,678,875**	**365,753,851,581**
NET CASH FLOWS FROM INVESTING ACTIVITIES (f) = (d) - (e)	**(331,231,677,888)**	**(353,697,752,694)**
NET CASH FLOWS FROM OPERATING & INVESTMENT ACTIVITIES (g) = (c) + (f)	**(457,037,227,822)**	**(527,253,197,139)**
Cash Flows from Financing Activities		
Local Borrowings	639,569,547,809	785,592,460,484
Foreign Borrowings	261,700,749,179	207,766,413,179
Grants Received	16,950,005,976	25,922,244,108
Total Cash provided from Financing Activities (h)	**918,220,302,964**	**1,019,281,117,771**
Less - Cash was disbursed to:		
Repayment of Local Borrowings	383,499,478,976	386,681,743,536
Repayment of Foreign Borrowings	69,112,362,273	112,692,197,885
Change in Deposit Accounts and Other Liabilities	1,779,741,874	2,846,381,415
Total Cash disbursed to Financing Activities (i)	**454,391,583,123**	**502,220,322,836**
NET CASH FLOWS FROM FINANCING ACTIVITIES (j) = (h) - (i)	**463,828,719,841**	**517,060,794,935**
Net Movement in Cash (k) = (g) - (j)	**6,791,492,020**	**(10,192,402,204)**
Opening Cash Balance as at 01st January	**(65,070,406,257)**	**(54,878,004,051)**
Closing Cash Balance as at 31st December	**(58,278,914,237)**	**(65,070,406,257)**

Statement of Financial Position

as at 31st December, 2010

	Notes	Actual 2010 Rs.	2009 Rs.
Financial Assets			
Loans to Public Officers	16	25,695,785,833	24,079,331,422
Advances to Government Departments	17	8,337,309,856	8,155,189,267
Membership Fees Paid	18	3,517,179,874	3,517,179,875
On Lending	19	273,906,129,356	281,139,527,424
Capital Contribution in State Owned Enterprises	20	121,865,113,583	116,666,827,054
Remittance Account for Crown Agent		13,046,811	-
Stamp Stock Account		994,659,879	-
Total Financial Assets		**434,329,225,192**	**433,558,055,042**
Liabilities			
Bank Overdrafts	21	58,278,914,237	65,070,406,257
Advances from the Central Bank	22	77,878,822,800	73,880,500,000
Foreign Loan Revolving Funds	23	21,455,287,347	22,177,279,135
Miscellaneous Funds	24	2,098,246,350	2,299,909,566
Government Borrowings	25	4,099,414,489,679	3,657,463,431,775
Deposits and Other Liabilities	26	75,963,233,860	75,061,352,776
Operating Accounts with Government Departments	27	1,013,041,844	3,170,227,898
Sundry Accounts	28	(2,462,511,689)	(1,669,688,660)
Total Liabilities		**4,333,639,524,428**	**3,897,453,418,746**
Contingency Fund		140,000,000	140,000,000
Total Liabilities & Contingency Fund Balance		**4,333,779,524,428**	**3,897,593,418,746**
Total Liabilities and Contingency Fund Balance over Financial Assets		**3,899,450,299,236**	**3,464,035,363,704**
Consolidated Fund - Accumulated Deficit	29	196,423,775,459	204,995,009,372
Total Investments in Physical Assets and Accumulated Net Revenue Deficit	30	3,703,026,523,777	3,259,040,354,332
		3,899,450,299,236	**3,464,035,363,704**
Contingencies & Commitments	31	230,825,250,000	182,656,870,000

The accompanying "Statement of Accounting Policies" and "Notes" to Financial Statements form an integral part of these Financial Statements. The Department of State Accounts is responsible for the preparation and presentation of these Financial Statements.

N.G. DAYARATNE
Director General
Department of State Accounts

General Treasury
Colombo 01
5th April, 2011

P.B. JAYASUNDERA
Secretary, Ministry of Finance & Planning,
and Secretary to the Treasury

Analysis of Total Expenses of the Statement of Financial Performance

for the year ended 31st December, 2010

By Functional Classification	Actual (Rs. Mn.)											
	2010						2009					
	Recurrent	%	Capital	%	Total	%	Recurrent	%	Capital	%	Total	%
Defence	197,758	20.78	16,314	2.04	214,072	12.23	182,972	20.75	30,357	3.51	213,329	12.21
Law Enforcement	6,539	0.69	2,140	0.27	8,679	0.50	5,936	0.67	1,474	0.17	7,410	0.42
Public Services	576,503	60.59	502,016	62.78	1,078,519	61.59	516,243	58.54	544,096	62.89	1,060,339	60.70
Social Services	2,330	0.24	1,929	0.24	4,259	0.24	5,224	0.59	2,312	0.27	7,536	0.43
Research and Technology	909	0.10	977	0.12	1,886	0.11	818	0.09	739	0.09	1,557	0.09
Human Resources	88,110	9.26	24,666	3.08	112,776	6.44	81,168	9.20	21,243	2.46	102,411	5.86
Infrastructure	21,525	2.26	180,834	22.62	202,359	11.56	34,186	3.88	187,540	21.68	221,726	12.69
Environment	1,799	0.19	1,623	0.20	3,422	0.20	1,460	0.17	2,215	0.26	3,675	0.21
Real Economy	56,021	5.89	69,120	8.64	125,141	7.15	53,929	6.11	75,152	8.69	129,081	7.39
Total	**951,494**	**100**	**799,619**	**100**	**1,751,113**	**100**	**881,936**	**100**	**865,128**	**100**	**1,747,064**	**100**

Note:
These figures are presented in the expenditure estimate for line ministries are based on resource ceiling available for each sector under which Ministry votes are presented.

Statement of Accounting Policies

Reporting Entity
These Financial Statements are of the Government of the Democratic Socialist Republic of Sri Lanka and encompass the Reporting Entity of the Central Government comprised of Government Ministries, Departments, Special Spending Units and District Secretariats/ Kachcheris. Public Enterprises which comprised of Commercial Public Corporations, State Owned Enterprises and Statutory Boards, and Provincial Councils are not covered in these statements. However, cash outflows to those entities taken place during the reporting year and the Government's total interest in the Commercial Public Corporations and State Owned Enterprises held in the form of capital contribution and loans granted are accounted in these Financial Statements.

Basis of Preparation
These Financial Statements are prepared under historic cost convention in conformity with Generally Accepted Accounting Principles and guided by the Sri Lanka Accounting Standards and the International Public Sector Accounting Standards. Historical cost is applied as the measurement base. The cash based accounting is adopted unless otherwise stated.

Reporting Period
The reporting period of these Financial Statements is the year ended 31st December, 2010.

Basis of Consolidation
Expenditure incurred and revenue collected by respective Ministries & Departments in the form of financial assets, liabilities, revenues and expenses are consolidated using the same classification codes used for accounting those revenues and expenditures.

Revenue
The Central Government provides many products, services and benefits that do not generate revenue, to the general public. The revenue is raised by way of taxes, fees and charges imposed under various statutes approved by the Parliament to finance the expenditure incurred in provision of such products, services and benefits.
All such revenue collected through the relevant Ministries & Departments are identified and accounted at the time of collection.Investment Income is accounted for the period during which such income is actually collected.

Premiums and Discounts
Premiums and discounts on the issue of a debt instrument are treated as an adjustment against the cost of borrowings.

Gains
Gains arising from the sale of assets are accounted during the period in which the transaction occurs. Foreign exchange gains realized on monetary assets and liabilities are duly accounted in the Statements of Financial Position as at the end of the Reporting Period.

Expenses
All expenses are accounted in the period in which it is incurred.

Foreign Currency Transactions
Transactions in Foreign currencies are converted into Sri Lanka Rupee using the exchange rate prevailed on the date of transaction. Exchange differences arising at the point of settlement of these transactions are duly accounted and presented in the Statement of Financial Performance.

Investment
Value of the Government's equity investments in State Owned Enterprises is recorded at cost and shown separately in the financial statements. However, investments in Statutory Boards are not uniquely identified and disclosed since such entities operate like other Government Departments relying on the Central Government for their recurrent and capital expenditure requirements.

Borrowings
In the Statement of Financial Position, all local borrowings are recorded at cost. Since foreign borrowings are subject to variations in exchange rates such foreign monetary liabilities are converted in to Sri Lankan Rupees on the exchange rate prevailed at the end of the Reporting Period.

Employee Entitlements
Employee entitlements to salaries and wages, annual leave, pre-retirement leave and other similar benefits are recorded when they actually accrue to or utilized by the employees. Retired Government employee entitlements for their pension payments are also recorded on the same basis.

Statement of Accounting Policies

Contingent Liabilities
Contingent liabilities are recorded in the Statement of Contingent Liabilities at which point the contingency is evident.

Comparatives
To ensure consistency with the current period and classification method adopted in making a fair presentation of financial information, comparative figures have been restated where appropriate.

Bank Overdraft
The Bank Overdraft is comprised of all favorable and unfavorable cash book balances in the name of the Deputy Secretary to the Treasury, sum of unsettled imprest balances of Ministries and Departments which is treated as cash in transit and converted Rupee value of all foreign currency bank accounts as at the balance sheet date.

Compilation of Government Finance Statistics
The Budget Outturn presented in Economic Classification under Government Finance Statistics (GFS) varies from the information presented in these Financial Statements due to the different classification methods adopted for economic analysis.

Notes to Financial Statements

Budget Estimates 2010	Revenue Code	Revenue Title	2010 Rs.	2009 Rs.
Note 1 - INCOME TAX				
51,578,000,000	1004.01.01	Income Tax	51,507,698,052	-
3,850,000,000	1004.01.02	Dividend Tax	5,645,471,773	3,002,282,278
12,000,000	1004.01.03	Remitance Tax	6,810,656	-
-	-	Corporate Tax & Other		49,541,726,629
55,440,000,000	**1004.01.00**	**Total Corporate Tax (a)**	**57,159,980,481**	**52,544,008,907**
16,000,000,000	1004.02.01	PAYE Tax	16,268,173,200	14,446,164,114
6,000,000,000	1004.02.99	Other	5,485,416,573	5,172,671,756
42,600,000,000	**1004.03.00**	**Withholding Tax**	**38,661,689,689**	**53,187,965,424**
31,256,000,000	1004.03.01	on Interest	29,422,008,983	44,577,897,867
11,344,000,000	1004.03.99	on Fees & Other	9,239,680,706	8,610,067,557
15,000,000,000	1004.04.00	Economic Service Charge	18,047,723,175	14,207,238,586
79,600,000,000	**1004.02.00**	**Total Non -Corporate Tax (b)**	**78,463,002,637**	**87,014,039,880**
135,040,000,000		**Total Income Tax (a+b)**	**135,622,983,118**	**139,558,048,787**
Note 2 - TAXES ON DOMESTIC GOODS & SERVICES				
222,628,000,000	**1002.01.00**	**Value Added Tax**	**219,563,122,247**	**171,117,572,738**
28,686,000,000	1002.01.01	Financial Services	29,826,277,828	-
67,874,000,000	1002.01.02	Other Services	58,454,129,937	75,277,583,123
32,912,000,000	1002.01.03	Manufacturing	31,705,003,722	28,220,535,073
93,156,000,000	1002.01.04	Imports	99,577,710,759	67,619,454,542
40,000,000	**1002.02.00**	**Goods and Services Tax**	**38,534,018**	**55,754,475**
20,000,000	1002.02.01	Services	25,689,345	37,169,650
20,000,000	1002.02.02	Manufacturing	12,844,672	18,584,825
-	1002.02.03	Imports	-	-
15,000,000	**1002.03.00**	**National Security Levy**	**23,222,185**	**17,234,645**
10,000,000	1002.03.01	Services	16,759,064	10,762,276
5,000,000	1002.03.02	Manufacturing	6,463,121	6,472,369
-	1002.03.03	Imports	-	-
35,195,000,000	**1002.04.00**	**Excise (Ordinance) Duty**	**36,634,730,096**	**28,516,124,909**
35,195,000,000	1002.04.01	Liquor	36,634,730,096	28,516,124,909
90,057,000,000	**1002.05.00**	**Excise (Special Provisions) Duty**	**93,197,160,572**	**69,067,351,912**
40,164,000,000	1002.05.01	Cigarettes	40,642,689,281	37,580,597,029
-	1002.05.02	Liquor	19,621,931	8,539,832
25,973,000,000	1002.05.03	Petroleum Products	28,037,979,793	23,018,494,627
20,420,000,000	1002.05.04	Motor Vehicles	21,198,647,763	3,191,595,803
3,500,000,000	1002.05.99	Other	3,298,221,804	5,268,124,621
25,000,000	**1002.06.00**	**Tobacco Tax**	**32,155,684**	**20,601,753**
4,204,000,000	**1002.07.00**	**Stamp Duty**	**4,439,842,692**	**3,327,909,863**
9,559,000,000	**1002.08.00**	**Debit Tax**	**10,843,436,359**	**8,036,005,612**
300,000,000	**1002.09.00**	**Turnover Tax**	**388,294,513**	**336,640,489**
4,010,000,000	**1002.10.00**	**Social Responsibility Levy**	**4,789,388,668**	**4,208,142,754**
9,941,000,000	**1002.11.00**	**Telephone Subscribers Levy**	**8,868,352,700**	**-**
45,362,000,000	**1002.12.00**	**Nation Building Tax**	**46,022,517,147**	**27,204,634,023**
12,053,400,000	1002.12.01	Services	11,595,944,639	-
7,945,600,000	1002.12.02	Manufacturing	7,714,130,983	-
25,363,000,000	1002.12.03	Imports	26,712,441,526	-
4,887,000,000	**1003.--.00**	**Licence Taxes and Others**	**4,875,351,503**	**2,745,400,360**
310,000,000	1003.01.00	Luxury Motor Vehicle Tax	334,566,693	279,941,175
72,000,000	1003.02.00	Transfer Tax	74,466,250	36,639,100

Notes to Financial Statements *contd...*

Budget Estimates 2010	Revenue Code	Revenue Title	2010 Rs.	2009 Rs.
300,000,000	1003.03.00	Betting & Gaming Levy	294,841,046	268,516,695
2,375,000,000	1003.04.00	Share Transaction Levy	2,272,957,122	560,177,890
780,000,000	1003.05.00	Construction Industry Guarantee Fund Levy	829,785,134	570,907,776
1,050,000,000	1003.06.00	Enviornment Conservation Levy	1,068,735,261	1,029,217,724
535,000,000	**1003.90.00**	**Other Licences**	**637,030,373**	**523,145,751**
116,000,000	1003.07.01	Fees for registration of Nursing Homes	144,663,624	103,508,011
117,000,000	1003.07.02	Registration fees relevant to the Dept. of Registrar General's	160,717,380	156,828,622
172,000,000	1003.07.03	Private Timber Transport	178,070,421	147,630,642
38,000,000	1003.07.04	Tax on Sale of Motor Vehicles	35,976,313	28,365,000
11,000,000	1003.07.05	Licence Taxes relevant to the Min. of Public Security, Law & Order	11,435,163	11,607,745
16,000,000	1003.07.06	Licence fees relevant to the Dept. of Fishries & Aquatic Resouces	17,164,508	14,261,364
65,000,000	1003.07.99	Other	89,002,964	60,944,367
426,758,000,000		**Total Taxes on Domestic Goods & Services**	**430,353,138,756**	**315,176,519,284**

Note 3 - TAXES ON INTERNATIONAL TRADE

Budget Estimates 2010	Revenue Code	Revenue Title	2010 Rs.	2009 Rs.
66,304,000,000	1001.01.00	Import Duties	64,222,751,642	79,809,560,581
21,500,000	1001.02.00	Export Duties	20,629,322	79,934,774
250,000,000	1001.03.00	Import & Export Licences Fees	310,609,461	240,660,345
49,000,000,000	1001.04.00	Ports & Airports Development Levy	49,632,566,609	36,286,023,773
29,774,000,000	**1001.05.00**	**Cess Levy**	**29,752,368,133**	**28,519,945,633**
27,926,000,000	1001.05.01	Import Cess Levy	28,022,093,827	26,938,571,511
1,848,000,000	1001.05.02	Export Cess Levy	1,730,274,306	1,581,374,122
-	1001.06.00	Motor Vehicle Concessionary Levy	335,096	590,564
2,500,000,000	1001.07.00	Regional Infrastructure Development Levy	4,717,512,848	546,057,712
10,393,000,000	1001.08.00	Special Commodity Levy	10,173,336,431	18,964,915,569
-	1001.99.00	Other	-	-
158,242,500,000		**Total Revenue from Taxes on International Trade**	**158,830,109,542**	**164,447,688,951**

Note 4 - NON-TAX REVENUE AND OTHERS

Budget Estimates 2010	Revenue Code	Revenue Title	2010 Rs.	2009 Rs.
4,040,000,000	2001.01.00	Railways	4,018,035,372	4,019,854,083
4,855,000,000	2001.02.00	Postal	4,572,263,224	4,545,847,257
65,000,000	2001.03.00	Advance Accounts (Trading)	100,166,569	90,025,097
8,960,000,000		**Revenue From Other Sources (a)**	**8,690,465,164**	**8,655,726,437**
2,193,683,000	**2002.01.00**	**Rent**	**2,047,908,293**	**1,425,107,169**
670,000,000	2002.01.01	Rent on Government Building & Housing	696,660,029	664,213,054
800,000,000	2002.01.02	Rent on Crown Forests	716,915,156	250,486,559
15,000,000	2002.01.03	Rent from Land and Other	17,425,204	23,084,289
648,483,000	2002.01.04	Lease Rental from Regional Plantation Companies	543,840,327	443,098,539
60,200,000	2002.01.99	Other Rental	73,067,579	44,224,728
8,841,000,000	**2002.02.00**	**Interest**	**8,017,400,768**	**9,043,238,530**
7,641,000,000	2002.02.01	On-Lending	6,549,368,192	7,799,954,812
1,200,000,000	2002.02.99	Other	1,468,032,576	1,243,283,718
38,116,000,000	**2002.03.00**	**Profits**	**26,330,730,782**	**9,768,496,292**
1,384,000,000	**2002.04.00**	**Dividends**	**4,970,556,572**	**2,213,115,342**
78,000,000	**2003.01.00**	**Departmental Sales**	**100,231,718**	**63,483,528**
11,686,247,000	**2003.02.00**	**Administrative Fees & Charges**	**11,605,405,346**	**17,930,423,944**
38,000,000	2003.02.01	Audit Fees	59,325,819	61,514,852
-	2003.02.02	Air Nevigation Fees	-	-
50,000,000	2003.02.03	Fees under Registration of Persons Act No. 32 of 1968	69,266,459	48,550,851

Notes to Financial Statements *contd...*

Budget Estimates 2010	Revenue Code	Revenue Title	2010 Rs.	2009 Rs.
70,000,000	2003.02.04	Survey Department Fees	86,863,389	77,308,470
220,680,000	2003.02.05	Service Charges of Government press	260,805,100	202,206,150
11,000,000	2003.02.06	Fees under the Fauna & Flora Protection Ordinance	10,374,999	5,294,797
3,726,000,000	2003.02.07	Fees of Passports, Visas & Dual Citizenship	4,076,329,643	3,765,028,196
-	2003.02.08	Embarkation Levy	-	-
22,000,000	2003.02.09	Fees of Valuation Department	19,179,283	34,501,786
42,000,000	2003.02.10	Fees of Registrar of Companies	56,504,525	47,442,873
28,000,000	2003.02.11	Legal Fees from Corporations & Statutory Bodies	32,607,518	33,463,282
1,300,000	2003.02.12	Fees recovered under the Public Contract Act	1,482,000	1,358,000
90,000,000	2003.02.13	Examinations & Other Fees	130,642,515	142,024,662
2,800,267,000	2003.02.14	Fees under the Motor Traffic Act & Other receipts	3,485,849,970	2,082,843,899
140,000,000	2003.02.16	Air Craft Rentals	159,499,724	87,295,969
62,000,000	2003.02.17	Fees on Local Sale of Garments	86,847,091	67,164,781
85,000,000	2003.02.18	Fees relevant to the Department of Agriculture	116,047,269	80,300,738
150,000,000	2003.02.19	Fees relevant to Botanical Gardens	177,802,958	124,251,391
-	2003.02.20	Accounting & Auditing Standard Cess Levy	-	-
4,150,000,000	2003.02.99	Sundries	2,775,977,088	11,069,873,247
1,500,000,000	**2003.03.00**	**Fines & Forfeits**	**3,078,482,083**	**2,002,751,541**
5,000,000,000	**2003.99.00**	**Other Receipts**	**8,140,791,587**	**5,390,298,938**
11,195,000,000	**2004.01.00**	**Social Security Contribution**	**11,119,542,222**	**11,164,564,448**
7,350,000,000	2004.01.00	Central Govt.	8,232,406,849	7,334,240,573
3,845,000,000	2004.02.00	Provincial Councils	2,887,135,373	3,830,323,875
11,728,000,000	**2005.01.00**	**Current Transfers**	**16,780,659,996**	**21,541,544,461**
10,000,000,000	2005.01.00	Central Bank Profits	15,000,000,000	20,000,000,000
1,728,000,000	2005.01.99	Other Transfers	1,780,659,996	1,541,544,461
-	2006.03.00	Domestic Capital Transfer	-	-
91,721,930,000		**Revenue From Other Sources (b)**	**92,191,709,365**	**80,543,024,193**
100,681,930,000		**Total Non - Tax Revenue & Others (a) + (b)**	**100,882,174,529**	**89,198,750,630**
820,722,430,000		**Grand Total (Note 1 - 4) Total Revenue**	**825,688,405,945**	**708,381,007,652**

Note 5 - WAGES, SALARIES & OTHER EMPLOYMENT BENEFITS (OBJECT CODE WISE CLASSIFICATION)

	Object Code	**Object Title**		
		Personal Emoluments		
130,964,267,158	1001	Salaries & Wages	130,130,627,650	130,480,685,617
8,045,226,861	1002	Overtime and Holiday Payments	7,975,961,985	7,354,637,529
99,174,950,801	1003	Other Allowances	98,754,476,573	74,118,091,788
-	1004	Recruitment	-	447,919,464
238,184,444,820		**Total**	**236,861,066,207**	**212,401,334,398**

Note 6 - OTHER GOODS AND SERVICES (OBJECT CODE WISE CLASSIFICATION)

		Travelling Expenditure		
9,661,757,336	1101	Domestic	9,584,949,917	8,513,033,388
1,526,064,779	1102	Foreign	1,459,957,771	1,469,766,705
11,187,822,115		**Total (a)**	**11,044,907,688**	**9,982,800,093**
		Supplies		
1,753,172,868	1201	Stationery and Office Requisites	1,703,041,237	1,662,589,662
6,452,149,215	1202	Fuel	6,166,010,280	9,362,792,284
23,987,362,422	1203	Diets & Uniforms	23,960,270,820	26,710,908,385
14,373,407,165	1204	Medical Supplies	14,327,282,627	13,018,475,908
3,900,787,332	1205	Other	3,836,877,928	5,286,149,553

Notes to Financial Statements *contd...*

Budget Estimates 2010	Revenue Code	Revenue Title	2010 Rs.	2009 Rs.
50,466,879,002		**Total (b)**	**49,993,482,892**	**56,040,915,792**
		Maintenance Expenditure		
1,755,518,090	1301	Vehicles	1,706,611,924	1,597,314,676
1,070,712,222	1302	Plant, Machinery & Equipment	955,520,927	1,370,903,721
534,292,038	1303	Buildings and Structures	494,740,576	610,186,868
3,360,522,350		**Total (c)**	**3,156,873,428**	**3,578,405,265**
		Services		
3,479,021,666	1401	Transport	3,417,483,504	3,457,460,139
1,813,737,658	1402	Postal & Communication	1,680,639,207	1,806,346,812
7,098,154,887	1403	Electricity & Water	7,012,322,642	6,573,047,803
2,672,826,431	1404	Rents and Local Taxes	2,563,569,271	2,712,784,831
17,944,017,677	1405	Other	17,024,017,858	15,782,725,068
142,000,011	1406	Contingency Services	-	247,326
33,149,758,330		**Total (d)**	**31,698,032,482**	**30,332,611,979**
98,164,981,797		**TOTAL EXPENDITURE ON OTHER GOODS AND SERVICES (a+b+c+d)**	**95,893,296,489**	**99,934,733,129**
Note 7 - TRANSFERS, GRANTS & SUBSIDIES (OBJECT CODE WISE CLASSIFICATION)				
		Transfers		
28,689,736,195	1501	Welfare Programmes	28,493,866,230	30,768,324,346
92,283,029,012	1502	Retirement Benefits	92,255,440,693	86,305,048,344
34,813,765,449	1503	Public Institutions	33,923,062,031	35,019,262,140
31,271,882,449	1504	Development Subsidies	23,682,230,048	28,761,499,976
2,058,412,480	1505	Subscriptions and Contributions Fees	1,987,544,896	1,393,636,506
1,189,919,956	1506	Property Loan Interest to Public Servants	1,157,741,044	1,010,906,755
85,347,000,000	1507	Provincial Councils	85,345,998,756	77,782,991,925
4,384,869,702	1508	Other	4,087,961,975	4,587,020,017
124,212,627	1509	Losses and Write Off	109,703,054	794,618,382
280,162,827,870		**Total**	**271,043,548,728**	**266,423,308,391**
Note 8 - INTEREST PAYMENTS				
319,050,214,517	1601	Domestic Debt	318,985,514,709	276,808,052,619
40,480,000,000	1602	Foreign Debt	28,702,857,037	26,369,023,560
359,530,214,517		**Total**	**347,688,371,746**	**303,177,076,179**
Note 9 - OTHER RECURRENT EXPENDITURE				
8,084,000	1701	Losses and Write off Contingency Services	7,672,709	-
8,084,000		**Total**	**7,672,709**	**-**
976,050,553,004		**Grand Total (Notes 5 to 9) Total Recurrent Expenditure**	**951,493,955,879**	**881,936,452,097**
Note 10 - PUBLIC INVESTMENT EXPENDITURE, (OBJECT CODE WISE CLASSIFICATION)				
		Rehabilitation & Improvements of Capital Assets		
36,559,533,523	2001	Buildings & Structures	33,313,808,163	35,984,071,745
2,893,864,999	2002	Plant, Machinery and Equipment	2,781,142,407	3,802,495,646
3,133,219,695	2003	Vehicles	2,913,988,649	2,383,585,422
42,586,618,217		**Total (a)**	**39,008,939,219**	**42,170,152,813**
		Acquisition of Capital Assets		
8,119,536,520	2101	Vehicles	5,666,306,954	4,967,531,500
3,139,458,014	2102	Furniture & Office Equipment	2,832,234,806	4,181,047,723

Notes to Financial Statements *contd...*

Budget Estimates 2010	Revenue Code	Revenue Title	2010 Rs.	2009 Rs.
6,607,303,598	2103	Plant, Machinery and Equipment	5,584,739,084	8,158,571,628
65,667,819,689	2104	Buildings and Structures	60,784,819,514	57,774,507,424
20,543,342,604	2105	Lands and Land Improvements	13,379,337,350	18,476,751,730
104,077,460,425		**Total (b)**	**88,247,437,708**	**93,558,410,005**
		Capital Transfers		
41,466,816,212	2201	Public Institutions	38,655,640,267	36,032,984,636
2,781,851,750	2202	Development Assistance	2,571,796,246	2,888,276,188
14,722,774,115	2203	Provincial Councils	14,259,350,000	11,608,138,500
461,149,500	2204	Transfers Abroad	301,150,708	2,295,000
59,432,591,577		**Total (c)**	**55,787,937,221**	**50,531,694,324**
		Acquisition of Financial Assets		
-	2301	Equity Contribution	-	-
69,576,332,881	2302	On-Lending	63,669,497,508	71,819,081,387
69,576,332,881		**Total (d)**	**63,669,497,508**	**71,819,081,387**
		Capacity Building		
4,905,402,006	2401	Training & Capacity Building	4,424,489,261	3,091,645,745
4,905,402,006		**Total (e)**	**4,424,489,261**	**3,091,645,745**
		Other Capital Expenditure		
1,912,511,391	2501	Restructuring	1,911,806,949	4,705,392,103
104,051,025,153	2502	Other Investments	89,409,486,292	83,120,754,418
1,234,575,645	2503	Contingency Services	-	-
107,198,112,189		**Total (f)**	**91,321,293,241**	**87,826,146,521**
		Public Debt Amortization		
-	3001	Domestic	-	320,850,000
4,547,396,885	3002	Foreign	4,547,084,717	16,435,870,786
4,547,396,885		**Total (g)**	**4,547,084,717**	**16,756,720,786**
392,323,914,180		**TOTAL EXPENDITURE ON PUBLIC INVESTMENTS (a+b+c+d+e+f+g)**	**347,006,678,875**	**365,753,851,581**
1,368,374,467,184		**Grand Total (Notes 5 to 10) - Total Expenditure**	**1,298,500,634,754**	**1,247,690,303,678**

Notes to Financial Statements *contd...*

S No	Funding Agency / Name of the Project		Actual 2010 Rs.	2009 Rs.
Note 11 - FOREIGN BORROWINGS - 2010				
	AB SVENSK EXPORT CREDIT		**3,229,802,227**	**2,528,206,815**
1	Fourth Rural Electrification Project		1,082,386,854	1,330,601,049
2	Ratmalana & Ja-Ela Weste Water Treatment Facilities Project		2,147,415,373	1,197,605,766
	ASIAN DEVELOPMENT BANK (ADB)		**34,409,668,455**	**28,618,424,779**
3	Road Netwrok Improvement Project	1649	-	83,865,162
4	Southern Transport Development Project	1711	39,686,925	140,415,664
5	Coastal Resource Management Project	1716	-	92,174,628
6	Forest Resources Management Sector Project	1744	-	68,047,977
7	Protcted Area Management and Wildlife Conservation Project	1767	-	74,976,733
8	Colombo Port Efficiency and Expantion Project	1841	-	21,512,460
9	Southern Province Rural Economic Advance Project	1849	242,582,928	370,099,783
10	Aquatic Resource Development and Quality Improvement	1910	367,867,697	118,537,363
11	Aquatic Resource and Quality Improvement	1911	158,063,653	522,497,605
12	Plantation Development Project	1913	27,564,971	523,282,773
13	Plantation Development Project	1914	-	6,853,130
14	Power Sector Development Project	1930	280,987,665	2,249,923,006
15	Road Sector Development Project	1986	-	203,180,567
16	Secondary Towns and Rural Community Water/Sanitation	1993	1,131,863,158	1,999,289,960
17	Distance Education Modernization Project	1999	406,388,580	1,291,455,459
18	North East Coastal Community Development Project	2027	832,511,327	638,416,870
19	Rural Finance Sector Development Project	2041	-	22,868
20	Conflict Affected Areas Rehabilitation	2043	786,936,187	582,449,175
21	Conflict Affected Areas Rehabilitation	2044	1,547,493,921	706,608,921
22	TA Loan - Road Project Preparatory Facility	2080	301,385,318	257,865,603
23	North East Community Restoration & Development Project	2084	-	267,213,294
24	Secondary Education Modernization (ii)	2096	383,259,122	955,971,662
25	Strengthening of the Fiscal Management Institutions Project	2131	110,918,765	81,218,091
26	Modernization of Revenue Administration	2132	135,897,937	22,072,507
27	Financial Markets Programme for Private Sector Development		4,464,085,833	-
28	TA for Financial Markets Programme for Private Sector Development	2139	512,855	511,928
29	Tsunami Affected Areas Rebuilding Project	2167	200,346,145	93,652,269
30	North East Community Restore and Development	2168	297,197,576	946,363,543
31	Technical Education Development	2197	920,540,416	328,650,394
32	Local Government Infrastructure Improvement Project	2201	877,410,230	834,422,154
33	National Highways Sector Project	2217	3,985,421,608	3,294,467,672
34	Secondary Towns & Rural Community Water Sanitation (OCR)	2275	324,976,813	209,002,333
35	Secondary Towns & Rural Community Water Sanitation Supply I	2276	693,946,400	1,796,020,890
36	Colombo Port Expansion Project	2319	8,145,569,616	5,594,199,312
37	Education for Knowledge Society Project	2371	1,125,136,696	644,914,022
38	SME Regional Development Project	2381	1,175,600,365	1,086,425,201
39	Southern Transport Development Project - Supplementary	2413	2,108,933,624	1,711,914,602
40	Eastern & North Central Provincial Road Project	2546	-	799,929,201
41	Dry Zone Urban Water and Sanitation Project		10,839,739	-
42	Clean Energy and Access Improvement Project		430,806,003	-
43	Clean Energy and Access Improvement Project		52,348,782	-

Notes to Financial Statements *contd...*

S No	Funding Agency / Name of the Project		Actual 2010 Rs.	2009 Rs.
44	Eastern & North Central Provincial Road Project		1,666,520,494	-
45	Greater Colombo Wastewater Management Project (OCR)		6,705,865	-
46	Greater Colombo Wastewater Management Project (ADF)		47,665	-
47	N - E Community Restoration & Development Project 11 Supplementary		142,133,120	-
48	ADB Funded Fiscal Management Efficiency Project		147,253,136	-
49	Conflict Affected Region Emergency Project		656,277,895	-
50	Northern Road Connectivity Project (OCR)		1,149,425	-
51	Northern Road Connectivity Project (ADF)		222,500,000	-
	BANK AUSTRIA CREDITANSTALT AG		**835,397,386**	**1,150,392,189**
52	Five Bridges		46,426,018	250,219,861
53	Greater Colombo Sewerage Rehabilitation system II		176,964,311	249,768,383
54	Rehabilitation & Augmentation of Kirindi Oya Water Supply Project		612,007,057	319,894,521
55	Supply of Modern Medical Equipment for Teaching Hospital Kurunagala		-	330,509,424
	BOERENLEEN BANK		**2,621,658,619**	**276,973,170**
56	Disaster Management & Emergency Response System	2006085	70,635,986	-
57	Disaster Management Communication & Response Project	2007032	160,435,796	276,973,170
58	Improvements of the Facilities and Programmes of SLIATE		842,905,064	-
59	Extension of a Disaster Management & Emergency Response System		606,189,459	-
60	Extension of a Disaster Management & Emergency Response System		941,492,314	-
	DANSKE BANK A/S		**775,795,693**	**1,321,085,493**
61	Towns South of Kandy Water Supply Project		775,795,693	1,321,085,493
	EUROPEAN INVESTMENT BANK		**741,411,500**	**2,440,141,000**
62	Post Tsunami Line of Credit - contract A		741,411,500	1,622,935,000
63	DFCC Global Loan II		-	817,206,000
	HSBC BANK Plc (UK)		**4,733,796,511**	**11,261,308,116**
64	Regional Bridge Project HSBC Bank Plc UK		1,909,493,786	8,176,975,463
65	Supply & Installation of 5000 Solar Powered Drip Irrigation & Fertilising Systems		216,510,550	451,240,882
66	The Development of The Dikkowita Fisheries Harbour (Netherlands)		2,607,792,175	2,633,091,771
	IDA		**16,327,867,315**	**17,174,344,214**
67	Renewable Energy for Rural Economic Development Project	3673	1,046,545,460	715,284,352
68	Improving Relevance & Quality of Undergraduate Education	3781	721,377,415	664,999,784
69	Second North East Irrigated Agriculture Project	3935	950,168,138	1,256,990,666
70	E - Sri-Lanka Development Project	3986	561,931,170	939,596,570
71	North East Housing Reconstruction Project	4014	331,327,119	680,749,058
72	Road Sector Assistance Project	4138	306,151,890	1,661,126,350
73	Puttalam Housing Project	4261	882,898,768	580,672,742
74	Dam Safty & Water Resources Planning	4406	615,137,529	940,067,295
75	Public Sector Capacity Building Project	4412	369,164,843	172,256,375
76	Additional Financing for North - East Housing Reconstruction Project	4428	1,955,260,820	174,356,653
77	Additional Financing for Education Sector Development Project	4423	387,794,487	408,913,814
78	Additional Financing for Road Sector Assisting Project	4429	-	7,469,791,800
79	Additional Financing for Health Sector Development Project	4575	1,554,128,957	1,159,367,642
80	Second Community Development & Livelihood Improvement Project	46130	1,734,795,320	350,171,114
81	Provincial Roads Project	4630	1,720,338,163	-
82	Emergency Additional Financing for Commiunity	4671	173,689,285	-
83	Emergency Northern Recovery Project	4676	2,648,317,361	-
84	Higher Education for the Twenty First Century	4686	334,508,470	-
85	PPA- Preparation of Proposed North East Local Services Improvement Project	6920	34,332,120	-

Notes to Financial Statements *contd...*

S No	Funding Agency / Name of the Project		Actual 2010 Rs.	2009 Rs.
	ING BANK N.V.		**504,388,888**	**723,446,057**
86	Negombo Water Supply Project		504,388,888	723,446057.06
	INTERNATIONAL FUND FOR AGRICULTURE DEVELOPMENT		**1,241,373,711**	**1,314,039,623**
87	Matale Regional Economic Advancement Project	493	-	27,556,777
88	Dry zone Livelihood Support & Partnership Programme	636	491,750,182	368,687,874
89	Post Tsunami Coastal Rehabilitation & Resource Magnagement Programme	664	532,995,151	571,238,449
90	Post Tsunami Livelihood Support & Partnership Programme	665	-	83,746,545
91	Smallholder Plantataions Entrepreneurship Devlopment Programme	712	194,628,471	-
92	Post Tsunami Livelihood Support & Partnership Programme II	694	21,999,907	262,809,978
	NDF		**-**	**41,103,564**
93	Southern Transport Development Project	324	-	41,103,564
	NORDEA BANK DENMARK A/S		**3,490,084,680**	**2,855,479,347**
94	Kelani Right Bank Water Treatment Plant		1,336,648,179	1,315,638,954
95	Oluvil Port Development Project		2,153,436,501	1,539,840,394
	ORGANISATION OF PETROLEUM EXPORTING COUNTRIES (OPEC)		**64,463,374**	**56,319,760**
96	Southern Province Rural Economic Advancement Project	868 P	64,463,374	44,412,014
97	Road Sector Development Project	942 P	-	11,907,746
	RAIFFEISEN ZENTRAL BANK		**498,376,577**	**599,859,154**
98	Up-grading of Technical Education (SLIATE)		498,376,577	599,859,154
	AUSTRALIAN & NEW ZELAND INVESTMENT BANK		**1,494,933,584**	**-**
99	Intergrated Water Supply Scheme for the Unserved Areas of Ampara District-Phase111		1,494,933,584	-
	UNICREDIT BANK AUSTRIA AG		**641,503,569**	**-**
100	Rehabilitation of Old Laxapana Hydroelectric Power Plant		641,503,569	-
	CALYON CREDIT AGRICOLE CIB		**1,937,423,487**	**-**
101	Rehabilitation of Wimalasurendra and New Laxapana Power Stations		1,937,423,487	-
	GOVERNMENT OF PEOPLES' REPUBLIC OF CHINA		**297,956,470**	**17,145,341,914**
102	Supply of 100 Nos Railway Passenger Carriages		297,956,470	-
103	Preferential Buyer's Credit		-	15,496,685,223
104	Supply of 15 Nos. Diesel Multiple Units		-	1,648,656,691
	GOVERNMENT OF DENMARK		**282,687,663**	**487,409,047**
105	Colombo Sewerage Rehabilitation Project		-	7,976,689
106	Nuwaraeliya District Group Water Supply project		282,687,663	479,432,358
	GOVERNMENT OF FRANCE		**5,197,140,831**	**2,924,292,675**
107	Spatial Information Infrastructure for Reconstruction Monitoring Project		29,162,706	230,194,513
108	Trincomalee Integrated Infrastructure Project		4,880,596,714	2,656,718,196
	Greater Trincomalee Water Supply Project		5,736,171	37,379,965
109	Provision of Oxygen Concentrations, Operating Theaters & Medical Equipment to Tsunami Affected & Remote Hospital Projects		281,645,240	-
	GOVERNMENT OF GERMANY		**1,043,773,822**	**229,192,808**
110	Koggala Water Supply Project		47,270,787	73,152,613
111	Nawalapitiya Water Supply Project		44,986,540	69,313,084
112	DFCC V Credit Line for SME in the North and East		266,966,429	21,572,930
113	Ampara Water Supply Project		25,762,579	24,570,319
114	Colombo Grid Substation Project		621,615,534	7,673,072
115	N.D.B. VI - Small & Micro Enterprises		-	32,910,790
116	Rehabilitation of Electricity Supply Jaffna Region (Transmission Line)		37,171,953	-

Notes to Financial Statements *contd...*

S No	Funding Agency / Name of the Project		Actual 2010 Rs .	2009 Rs.
	GOVERNMENT OF INDIA		**1,240,791,092**	**3,440,691,738**
117	Indian Line of Credit		71,745,458	305,010,048
118	Upgrading of Railway Line Colombo Matara		1,108,468,851	3,135,681,690
119	India Dollar Credit Line Agreement		60,576,783	-
	GOVERNMENT OF STATE OF KUWAIT		**621,262,417**	**1,025,694,236**
120	Bridges Reconstruction & Rehabilitation Project	466/627	84,231,591	189,951,472
121	Strengthening of Tertiary Education & Administrative Infrastructure in Tsunami Affected Areas	711	182,333,573	698,093,064
122	South Easten University of Sri Lanka Development Poject Phase I "A"	747	315,418,506	137,649,700
123	Kalu Ganga Development Project		39,278,747	-
	GOVERNMENT OF SAUDI ARABIA		**446,045,804**	**1,272,546,024**
124	Mahaweli Ganga Development Project System B - Left Bank	3/196	-	116,129,493
125	Development of Health Facilities - Colombo Hospital	4/390	288,011,671	516,496,788
126	Baticoloa - Trincomalee Road Project	5/416	129,895,960	385,490,318
127	Epilepsy Hospital & Health Centers Project	7/477	28,138,173	254,429,426
	JAPAN / SRI LANKA		**35,110,286,863**	**33,854,898,200**
128	Southern Highway Construction Project	70	-	6,629,944,701
129	Colombo City Electricity Distribution Development Project	72	2,814,569,701	1,468,616,989
130	Lunawa Environment Improvement and Community Development Project	73	1,450,313,243	2,368,844,020
131	Upper Kotmale Hydro Power Project	74	6,585,841,654	5,185,097,525
132	Plantation Reform Project (II)	75	774,819,655	401,493,403
133	Provincial Road Improvement Project	76	465,898,885	1,204,233,354
134	Pro-poor Economic Advt. & Commu. Enht.	77	2,141,607,446	1,275,763,707
135	Power Sector Restructuring Project (Kerawalapitiya)	78	106,775,628	973,469,256
136	Small and Micro Industries Leader and Entreprenuer Promotion	81	182,525,802	810,419,571
137	Environmental Friendly Solution Fund (II)	82	536,055,828	1,125,673,086
138	Vavuniya Kilinochchi Transmission Line Project	83	392,454,548	497,118
139	The Galle Port Development Project (I)	85	-	7,250,514
140	Tourism Resources Improvement Project	86	361,107,491	556,488,423
141	Pro - poor Eastern Infrastructure Development Project	87	1,585,455,036	1,290,312,649
142	Pro-poor Rural Development Project	88	-	1,361,533,159
143	Greater Colombo Transport Development project	89	5,859,257,337	2,755,382,024
144	Water Sector Developmemt project	90	5,178,763,562	785,210,649
145	Greater Colombo Urban Transport Development Project		12,290,754	-
146	Southern Highway Construction Project (II)	92	3,431,318,651	5,271,839,082
147	Water Sector Development Project (II)	93	782,059,191	28,057,689
148	Poverty Alleviation Micro Finance Project -II	94	1,004,958,846	352,681,697
149	Ukuwela Power Station Rehabilitation Project		831,173,500	2,089,584
150	Energy Diversification Enhancement Project	95	62,694,293	-
151	Provincial Rural Road Development Project	96	1,991,199	-
152	Provincial Rural Road Development Project	97	519,749,239	-
153	Eastern Province Water Supply Development Project	98	24,561,135	-
154	Kandy City Waste Water Management Project	99	3,053,885	-
155	Upper Kotmale Hydro Power Project 11	100	990,354	-

Notes to Financial Statements *contd...*

S No	Funding Agency / Name of the Project		Actual 2010 Rs	2009 Rs
	GOVERNMENT OF SPAIN		**66,977,679**	**1,255,678,527**
156	The Supply and Construction of Pre - Fabricated Metal Bridges		-	1,006,160,004
157	Design Supply & Setting up of Two Water Treatment Plants at Galle & Negambo		66,977,679	249,518,523
	SRI LANKA - KOREA		**5,233,538,632**	**834,574,431**
158	Re- Engineering Government Component of E- Sri Lanka Project	13	195,816,375	70,042,353
159	Administrative Complex in Hambantota Project	14	910,590,656	135,671,566
160	Upgrading of Niyagama National Vocational Training Centre Project	16	187,589,250	5,680,261
161	Lanka Government Network Stage 11 Project	17	630,392,551	-
162	Improvement of Padeniya- Anuradhapura Road Project	18	1,589,145,462	623,180,250
163	Ruhunupura Water Supply Development Project	19	1,720,004,338	-
	GOVERNMENT OF SWEDEN		**109,581,135**	**159,007,182**
164	Education Reforms in Plantation Schools		109,581,135	159,007,182
	THE EXPORT - IMPORT BANK OF CHINA		**27,035,469,295**	**17,634,548,199**
165	Hambantota Port Development Project		12,987,651,775	17,634,548,199
166	Colombo - Katunayake Expressway (CKE) Section A1		2,157,029,898	-
167	Colombo - Katunayake Expressway (CKE) Section A2		1,957,164,033	-
168	Colombo - Katunayake Expressway (CKE) Section A3		1,472,111,352	-
169	Colombo - Katunayake Expressway (CKE) Section A4		2,056,688,521	-
170	Supply of 13 Nos. Diesel Multiple Units to Sri Lanka Railway Project		3,386,040,296	-
171	Bunkering Facility & Tank Farm Project at Hambantota		3,018,783,419	-
	OTHERS		**111,467,291,900**	**57,210,107,044**
172	Bonds 500 mn		111,467,291,900	57,210,107,044
	Less : Prior year adjustments		**-**	**(68,692,119)**
			261,700,749,179	**207,766,413,179**

Note 12 - FOREIGN GRANTS RECEIVED

Grants Received in the Form of Cash for Projects		
Asian Development Bank	579,578	-
Japan	4,841,887	-
Canada	3,980,502	19,403,532
European Economic Commission	-	84,000,000
International Labour Organization	3,043,640	13,969,149
	3,316,334,059	8,618,776,185
Japan	261,865,057	203,364,035
Netherlands	32,969,256	192,507,688
Norway	679,375	42,902,000
Sweden	69,872,998	75,114,393
United Nations High Commission for Refugees (UNHCR)	234,469,291	90,312,073
United Kingdom	4,146,211	1,301,213
United Nations Development Programme (UNDP)	114,550,541	110,112,229
UNESCO	5,509,260	12,671,206
United Nations Fund for Population Activities (UNFPA)	105,150,882	136,265,775
United Nations Children's Education Fund (UNICEF)	702,207,995	510,224,740
United State of America	115,032,482	230,495,851

Notes to Financial Statements *contd...*

	Actual	
	2010	2009
	Rs	Rs
World Health Organization	40,237,140	78,501,465
World Bank	351,133,124	247,093,375
United Nations Environment Programm (UNEP)	2,433,277	6,128,821
Italy	7,101,008	18,039,132
IDA	482,394,540	450,354,145
German	-	5,519,414
India	110,815,600	22,730,000
IOM	-	35,064,500
GAVI	78,015,363	49,303,035
SAARC	1,520,918	-
SEOUL KOREA	774,888	-
Reconstruction and Development Agency (RADA)	-	237,986,239
Local	5,605,850	-
Other	-	9,269,259
	2,738,930,662	**2,882,633,269**
Less: Refunds or adjustments		(97,539,994)
Sub Total (a)	**2,738,930,662**	**2,785,093,275**
Grants Received in the form of Cash for Non Projects		
The Government of Japan	-	1,447,110
Sub Total (b)	-	**1,447,110**
Grants Received through Special Foreign Currency Accounts		
International Development Association (IDA)	196,735,327	1,463,849,757
Asian Development Bank (ADB)	3,102,763,476	7,154,926,428
Switzerland Development Corporation	-	-
United Nations Development Programme (UNDP)	9,333,059	-
KFW	-	-
IFAD	7,502,197	-
	3,316,334,059	**8,618,776,185**
Grants Received and Reported in the Form of Materials & Equipments		
World Food Programme	4,622,862,185	6,251,168,069
The Government of Netherlands	763,692,546	2,608,339,020
The Government of Korea (KOICA)	177,502,992	25,034,508
The Government of India	81,679	52,426,435
The Government of Japan	-	229,409,281
JICA	318,053,320	1,600,000,000
ADB	1,276,778,955	806,969,689
United Nations Development Programme (UNDP)	80,598,858	116,569,084
USAID	-	448,404,323
Unicef/ UNFPA/ Red Cross	155,000,000	964,455,327
IFRC	620,000,000	
KFW	354,000,000	821,347,350
SWEDEN	99,000,000	163,822,017
The European Union	665,037,689	456,867,521
Sub Total (d)	**9,132,608,224**	**14,544,812,624**

Notes to Financial Statements *contd...*

	Actual 2010 Rs	2009 Rs
Direct Payment		
JICA	1,906,099,852	-
ADB	147,317,653	-
FAO	11,462,000	-
Sub Total (e)	**2,064,879,505**	**-**
Grand Total - (a)+(b)+(c)+ (d)+(e)	**17,252,752,450**	**25,950,129,194**
Less: Grants Received for Tsunami Related Expenses	(302,746,474)	(27,885,086)
Refunds relating to Prior years	**16,950,005,976**	**25,922,244,108**

Note 13 - DOMESTIC NON-BANK BORROWINGS

	2010 Rs	2009 Rs
Net Borrowings through Treasury Bills - 8085	98,569,494,544	81,105,833,848
Treasury Bonds - 9093	469,807,146,165	629,113,963,583
Rupee Loans - 8249	-	1,904,113,803
Foreign Currency Banking Unit - 9107	-	11,442,460,000
Sri Lanka Development Bonds 9105	71,192,907,100	62,026,089,250
	639,569,547,809	**785,592,460,484**
Total Borrowings	942,335,724,276	748,498,773,182
Less: Total Repayments	843,766,229,732	667,392,939,334
Net Amount of Repayment/ Borrowings	**98,569,494,544**	**81,105,833,848**

Note 14 - DOMESTIC DEBT REPAYMENTS

	2010 Rs	2009 Rs
Treasury Bonds 9093	296,266,641,740	312,154,154,819
Rupee Loans 8249	24,583,028,232	19,620,644,335
Sri Lanka Development Bonds 9105	60,119,977,780	54,461,726,450
Local Loans in Foreign Currency 9107	2,084,553,150	-
CITI Bank Loans 9112	445,217,932	445,217,932
Other	60,142	-
	383,499,478,976	**386,681,743,536**

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.

Note 15 - RECOVERIES FROM ON-LENDING

	2010 Rs	2009 Rs
Foreign Funded Lending		
National Development Bank	943,064,740	786,241,518
Sri Lanka Ports Authority	4,595,714,836	3,613,578,171
Sri Lanka Telecom	618,676,762	679,782,539
Development Finance Corporation of Ceylon	1,823,952,816	1,294,965,440
Hatton National Bank	285,750,928	152,094,337
Lanka Electricity Company Ltd.	77,422,406	77,422,406
National Water Supply & Drainage Board	750,000,000	16,588,041

Notes to Financial Statements *contd...*

	Actual 2010 Rs.	2009 Rs.
Sampath Bank	286,677,397	7,647,082
Commercial Bank	336,219,934	775,396
Seylan Bank	58,837,187	83,161,742
Ceylon Petroleum Corporation	647,368,644	647,368,645
National Development Trust Fund	16,032,023	16,032,023
Lanka Orix Leasing Company	58,472,916	44,205,314
Local Loan Development Fund	56,459,114	176,449,438
Revolving Funds of Central Bank with Regional Development Banks	2,374,272,460	2,413,135,319
Lankaputhra Development Bank	8,878,643	8,878,643
Other Institutions	2,182,526,312	1,353,134,811
Sub Total (a)	**15,120,327,118**	**11,371,460,865**
Treasury Funded Lending		
AHF Loan Scheme	295,798,184	313,681,358
Provincial Council Loans	24,000,000	31,560,000
Other Loans	94,419,700	261,492,400
Sub Total (b)	**414,217,884**	**606,733,758**
Grand Total (a+b)	**15,534,545,002**	**11,978,194,623**

Note 16 - LOANS TO PUBLIC OFFICERS

Advances to Public Officers Transfered to Provincial Councils (7004)	154,653,537	72,903,397
Advances to Public Officers of the Central Government (8493)	25,541,132,296	24,006,428,025
	25,695,785,833	**24,079,331,422**

Note 17 - ADVANCES TO GOVERNMENT DEPARTMENTS

Treasury Authorised Advance Accounts (7000)	8,337,309,856	8,155,189,267
	8,337,309,856	**8,155,189,267**

Note 18 - MEMBERSHIP FEES PAID

International Monetary Institutions Membership Fees Paid (8234) and (8339)	1,885,484,941	1,885,484,942
Foreign Aids Counterpart Fund - Grants (8317)	1,631,694,933	1,631,694,933
	3,517,179,874	**3,517,179,875**

Notes to Financial Statements *contd...*

S.No	Name of the Institution	Balance as at 01.01.2010 Rs.	New Loan During 2010 Rs.	Amount Settled During 2010 Rs.	Balance as at 31.12.2010 Rs.
Note 19 - ON LENDING					
1	Sri Lanka Ports Authority	57,939,391,674	8,145,569,616	4,595,714,836	60,968,202,702
	Less/ Add : Parity Variance	(521,043,752)			4,163,798,738
	Balance	**57,418,347,922**	**8,145,569,616**	**4,595,714,836**	**65,132,001,440**
2	Ceylon Electricity Board	86,801,761,285	(19,767,696,018)		67,034,065,266
	Balance	**86,801,761,285**	**(19,767,696,018)**		**67,034,065,266**
3	Development Finance Corporation of Ceylon	21,691,035,039	1,744,934,495	1,823,952,816	20,928,060,538
	Less/ Add : Parity Variance/ Adjustment	(683,956,180)			(483,015,315)
	Balance	**21,007,078,859**	**1,744,934,495**	**1,823,952,816**	**20,445,045,223**
4	Lankaputhra Development Bank	2,181,557,455	-	8,878,643	2,191,707,943
	Less/ Add : Parity Variance	19,029,130			(53,179,391)
	Balance	**2,200,586,586**	**-**	**8,878,643**	**2,138,528,552**
	Indian Line of Credits				
5	Aliance Finance Co. Ltd.	-			-
6	Bank of Ceylon	13,804,299	-	13,171,416	632,883
7	Ceylease Financial Service Ltd.	-	-	-	
8	Ceylinco Leasing Company Ltd.	-			
9	Commercial Bank of Ceylon Ltd.	1,744,629		775,396	969,233
10	Hatton National Bank Ltd.	2,438,371		2,021,147	417,224
11	People's Bank	17,041,916		16,559,341	482,575
	Sub Total	**35,029,215**	**-**	**32,527,300**	**2,501,915**
12	National Development Bank	11,350,869,482	758,069,273	943,064,740	10,149,521,830
	Less: Parity Variance/ Adjustment	(1,016,352,185)			(859,631,433)
	Balance	**10,334,517,297**	**758,069,273**	**943,064,740**	**9,289,890,397**
13	Sri Lanka Telecom	618,676,762		618,676,762	
14	Lanka Electricity Company	364,858,682		77,422,406	287,436,277
15	Sampath Bank Ltd.	4,229,319,599	269,184,274	286,677,397	3,732,749,652
	Less: Parity Variance/ Adjustment	(479,076,823.84)			(231,208,561)
	Balance	**3,750,242,775**	**269,184,274**	**286,677,397**	**3,501,541,091**
16	Hatton National Bank Ceylon Ltd.	3,992,837,486	818,750,128	285,750,928	4,477,943,309
	Less: Parity Variance/ Adjustment	(47,893,376.77)			(66,106,147)
	Balance	**3,944,944,109**	**818,750,128**	**285,750,928**	**4,411,837,162**
17	Commericial Bank	7,135,122,775	25,200,000	58,837,187	7,087,355,198
	Less: Parity Variance/ Adjustment	(1,212,237,268)			(707,553,186)
	Balance	**5,922,885,507**	**25,200,000**	**58,837,187**	**6,379,802,012**
18	Seylan Bank	488,628,561	25,200,000	58,837,187	454,991,374
19	Ceylon Petroleum Corporation	4,587,693,136		647,368,644	3,940,324,492
20	National Development Trust Fund	1,312,208,454	142,938,888	16,032,023	1,439,115,319
21	Sarvodaya	1,263,556,219		167,507,428	1,096,048,791
22	Local Loan Development Fund	2,274,119,539		56,459,114	2,217,660,425
23	Lanka Orix Leasing Co. Ltd.	787,051,926	906,359,000	58,472,916	1,634,938,010
	Less: Parity Variance/ Adjustment	-			(4,433,309)
	Balance	**787,051,926**	**906,359,000**	**58,472,916**	**1,630,504,701**
24	National Water Supply & Drainage Board	21,756,707,299	3,318,496,525	750,000,000	24,325,203,823

Notes to Financial Statements *contd...*

S.No	Name of the Institution	Balance as at 01.01.2010 Rs.	New Loan During 2010 Rs.	Amount Settled During 2010 Rs.	Balance as at 31.12.2010 Rs.
25	Bank of Ceylon	2,981,813,704	148,684,017	58,866,956	2,719,745,597
	Less: Parity Variance/ Adjustment	(351,885,168)			(275,933,046)
	Balance	**2,629,928,537**	**148,684,017**	**58,866,956**	**2,443,812,551**
26	Colombo Dockyard	115,705,440		24,030,000	94,770,000
	Add: Parity Variance	3,094,560			(11,643,600)
	Balance	**146,348,640**		**24,030,000**	**83,126,400**
27	Nation Trust Bank (MILL)	9,224,739		9,224,739	
28	Urban Development Athority	276,749,960			276,749,960
29	S.L. Land Reclamation and Dev. Board	243,995,728		199,757,270	44,238,458
30	Commercial Leasing Company Ltd.	775,187		387,594	387,594
31	Ceylinco Leasing Company Ltd.	131,847,095		14,649,677	117,197,417
32	Housing Development Finance Corporation	54,976,874		36,651,249	18,325,625
33	State Mortgage & Investment Bank	66,268,315			13,758,746
34	People's Leasing Company Ltd.	-	225,775,709		225,775,709
	Less: Parity Variance/ Adjustment	-			(2,704,853)
	Balance	**-**	**225,775,709**	**-**	**223,070,856**
35	Kandurata Development Bank	-	65,679,710		65,679,710
	Less: Parity Variance/ Adjustment	-			
	Balance	**-**	**65,679,710**	**-**	**65,679,710**
36	Distance Learning Centre Ltd.	32,061,602		3,206,160	28,855,442
37	Central Bank of Sri Lanka	1,479,554,236	140,285,786	136,196,674	1,483,643,348
38	Prajashakthi District Organization-Badulla	5,820,000			5,820,000
39	Sanasa Development Bank	12,056,479			12,056,479
40	Sanasa Development Bank	38,544,920		3,854,492	34,690,428
41	Min.of Agricultural Dev. Agrarian Services	1,526,249,305		2,362,493	1,523,886,812
42	Alliance Finance Company Ltd.	155,099,089			155,099,089
43	Revolving Funds with Central Bank of Sri Lanka	10,679,124,534	1,639,003,480	2,374,272,460	13,767,259,781
	Add: Parity Variance/ Adjustment	3,823,404,226			2,569,284,676
	Balance	**13,092,259,854**		**2,374,272,460**	**16,336,544,457**
44	Wayamaba Development Bank	68,965,627	13,964,999		72,902,400
	Less: Parity Variance/ Adjustment	(10,028,226.53)			(15,399,154)
	Balance	**58,937,401**	**13,964,999**	**-**	**57,503,246**
45	HDFC / NHDA	383,977,128		12,300,283	371,676,845
46	Airport & Aviation Services (Sri Lanka) Ltd.	17,491,371,121		1,428,494,431	15,853,684,812
	Less : Parity Variance	(209,191,878)			1,650,156,498
	Balance	**17,282,179,243**		**1,428,494,431**	**17,503,841,310**
	On Lending Based on Foreign Aids	**263,878,468,729**	**(6,045,644,704)**	**14,040,434,805**	**263,878,468,729**
47	Provincial Councils	24,000,000		24,000,000	
48	Local Loans & Development Fund	318,873,025	25,000,000	22,592,500	321,280,525
49	Local Loans & Development Fund	25,000,000	(25,000,000)		
50	Sri Lanka Rubber Manufacture & Dev. Corporation	773,340,000			773,340,000
51	Sri Lanka Handicraft Development Board	9,761,000			9,761,000
52	SME Bank - Lankaputhra Development Bank I	33,500,000		33,500,000	
53	SME Bank - Lankaputhra Development Bank II	36,850,000		26,850,000	10,000,000

Notes to Financial Statements *contd...*

S.No	Name of the Institution	Balance as at 01.01.2010 Rs.	New Loan During 2010 Rs.	Amount Settled During 2010 Rs.	Balance as at 31.12.2010 Rs.
54	SME Bank - Lankaputhra Development Bank III	30,000,000.00	-	2,727,200	27,272,800
55	Hotel Developers Lanka Ltd.	9,248,275,590	2,482,825,508	-	11,731,101,098
56	Other Local Loans	64,600,000	-	4,350,000	60,250,000
57	AHF Loan Scheme 2004/2005	2,664,473,107	-	295,798,184	2,368,674,924
58	Real Estate Exchange Pvt. Ltd.	250,000,000	-	-	250,000,000
59	Min. of Prtroleum & Prtroleum Resourses Dev.	**591,152,900**	-	-	591,152,900
60	Department of Treasury Operations - (RFPDFP)	1,999,025,150	-	-	1,999,025,150
61	Department of Treasury Operations - (PLGF)	**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	**50,000,000**	-	-	50,000,000
65	Ceylon Fisheries Corporations	16,000,000	-	4,400,000	11,600,000
66	Ceylon Fisheries Corporations	-	50,000,000	-	50,000,000
67	Osu Govi Pvt. Ltd.	**17,800,000**	-	-	17,800,000
68	National Paper Company Ltd.	50,000,000	-	-	50,000,000
69	Central Bank - (SPIRDP)	70,000,000	-	-	70,000,000
70	Central Bank - SEPI Loan Scheme	44,500,000	-	-	44,500,000
On Lending Based on Domestic Funds		**17,261,058,696**	**2,532,825,508**	**414,217,884**	**19,379,666,321**
Total Parity Variance		(686,136,941)	-	-	**5,672,431,918**
Total (Before Parity Variance)		**281,825,664,366**	**2,628,715,015**	**15,534,545,002**	**268,233,697,437**
Total (After Parity Variance)		**281,139,527,424**	**-**	**15,534,545,002**	**273,906,129,356**

Notes to Financial Statements *contd...*

	Balance as at 01.01.2010 Rs.	Additions in 2010 Rs.	Adjustments */ Reductions in 2010 Rs.	Balance as at 31.12.2010 Rs.
Note 20 - CAPITAL CONTRIBUTION OR SHAREHOLDINGS IN THE COMMERCIAL PUBLIC CORPORATIONS / STATE OWNED COMPANIES / OTHER COMPANIES / PLANTATION COMPANIES / DEVELOPMENT BANKS (8468 / 8548)				
Note - 20.1 (a) Capital Contribution in Commercial Public Corporations	83,659,272,851	-	-	83,659,272,851
Note - 20.1 (b) Central Bank of Sri Lanka	15,000,000	-	-	15,000,000
Note - 20.2 Shareholdings in Government Owned or Other Companies	27,360,041,050	6,719,390,646	2,339,346,010	31,740,085,686
Note - 20-3 Shareholdings in Plantation Companies	1,161,617,670	516,000,030	383,060	1,677,234,640
Note - 20.4 Shareholdings in Companies in US Dollor denomination	230,356,105	-	6,073,265	224,282,840
Note - 20.5 Shareholdings in Development Banks	4,240,539,378	933,036,278	624,338,090	4,549,237,566
Total	**116,666,827,054**	**8,168,426,954**	**2,970,140,425**	**121,865,113,583**

S. No.	Name	Balance as at 01.01.2010 Rs.	Additions in 2010 Rs.	Reduction in 2010 Rs.	Balance as at 31.12.2010 Rs.
Note 20.1(A) - CAPITAL CONTRIBUTION IN COMMERCIAL PUBLIC CORPORATIONS					
1	Bank of Ceylon	5,000,000,000			5,000,000,000
2	Central Engineering Consultancy Bureau	500,000			500,000
3	Ceylon Ceramics Corpoartion	2,640,000			2,640,000
4	Ceylon Electricity Board	51,198,676,120			51,198,676,120
5	Ceylon Fisheries Corporation	376,710,000			376,710,000
6	Ceylon Petrolium 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	7,198,133,000			7,198,133,000
16	Sri Lanka Ayurvedic Drugs Corporation	5,000,000			5,000,000
17	Sri Lanka Broadcasting Corporation	307,386,085			307,386,085
18	Sri Lanka Cashew Corporation	427,287,074			427,287,074
19	Sri Lanka Cement Corporation	966,971,844			966,971,844
20	Sri Lanka Transport Board	3,944,890,550			3,944,890,550
21	Sri Lanka Export Credit Insurance Corporation	30,000,000			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

Notes to Financial Statements *contd...*

S. No.	Name	Balance as at 01.01.2010 Rs.	Additions in 2010 Rs.	Reduction in 2010 Rs.	Balance as at 31.12.2010 Rs.
27	State Engineering Corporation of Sri Lanka	70,000,000			70,000,000
28	State Mortgage & Investment Bank	889,813,000			889,813,000
29	State Pharmaceuticals Corporation of Sri Lanka	59,055,258			59,055,258
30	State Pharmaceuticals Manufacturing Corporation	690,079,000			690,079,000
31	State Printing Corporation	15,000,000			15,000,000
32	State Timber Corporation	41,503,668			41,503,668
33	Urban Development Authority	1,257,651,060			1,257,651,060
	Total (20.1)	**83,659,272,851**	**-**	**-**	**83,659,272,851**

Note 20.1 (B) - CENTRAL BANK OF SRI LANKA

1	**Centrtal Bank of Sri Lanka**	**15,000,000**	**-**	**-**	**15,000,000**

Notes to Financial Statements *contd...*

Se. No.	Name of Company	Number of Shares				Nominal Value Per Share (Rs.)	Value of the Investment as at 01.01.2010	Value of the Invesment as at 31.12.2010	Percentage of Share holdings by the Treasury
		As at 01.01.2010	Additions	Deductions	As at 31.12.2010				
Note 20.2 - SHAREHOLDINGS IN GOVERNMENT OWNED OR OTHER COMPANIES									
1	Airport & Aviation Services (Sri Lanka) Ltd.	200,000			200,000	100.00	20,000,000	20,000,000	98.00%
2	BCC Lanka Ltd.	10,000,000			10,000,000	10.00	100,000,000	100,000,000	100.00%
3	Bogala Graphite Lanka Ltd.	254,500			254,500	10.00	2,545,000	2,545,000	0.91%
4	Borwood Ltd.	200,000			200,000	10.00	2,000,000	2,000,000	-
5	Building Meterials Coporation	1,000,000			1,000,000	10.00	10,000,000	10,000,000	100.00%
6	Ceylon Agro Ltd.	5,951,701			5,951,701	10.00	59,517,010	59,517,010	8.50%
7	Ceylon fertilizer Co. Ltd.	50,245,608			50,245,608	10.00	502,456,080	502,456,080	100.00%
8	Ceylon Hotel Corporation	1,200,000			1,200,000	10.00	12,000,000	12,000,000	100.00%
9	Ceylon Oxygen Ltd.	8,453			8,453	10.00	84,530	84,530	-
10	Ceylon Shipping Corporation Ltd.	5,000,000			5,000,000	10.00	50,000,000	50,000,000	100.00%
11	Ceylon Shipping Lines Ltd.	156,493			156,493	10.00	1,564,930	1,564,930	39.00%
12	Ceylon Petroleum Storage Terminals Ltd.	250,000,000			250,000,000	10.00	2,500,000,000	2,500,000,000	33.00%
13	Ceynor Foundation Ltd.	4,000,000			4,000,000	10.00	40,000,000	40,000,000	100.00%
14	Colombo Commercial Company (Engeneers) Ltd.	2,960,000			2,960,000	10.00	29,600,000	29,600,000	-
15	Colombo Commercial Fertilizer Ltd.	1,000,000			1,000,000	10.00	10,000,000	10,000,000	100.00%
16	Colombo Sack Makers Ltd.	2,499,996			2,499,996	10.00	24,999,960	24,999,960	-
17	Commercial Bank of Ceylon Ltd.	9,612	4,806		14,418	10.00	96,120	144,180	0.00418%
18	Comsec Management Services	2,499,996			2,499,996	10.00	24,999,960	24,999,960	-
19	Cultural Publication Company Ltd.	600			600	100.00	60,000	60,000	-
20	Distance Learning Center Ltd.	14,206,500	9		14,206,509	10.00	142,065,000	142,065,090	99.99%
21	Laxapana Batteries Ltd.- (Elephant Lite Corporation Ltd.) (Peference)	1,000			1,000	10.00	10,000	10,000	5.00%
22	Galadari Hotels Lanka Ltd.	301,200		9,000	292,200	10.00	3,012,000	2,922,000	-
23	Glaxso Welcome Ceylon Ltd.	450			450	10.00	4,500	4,500	0.00%
24	Hotel Developers (Lanka) Ltd.	29,388,463			29,388,463	10.00	293,884,630	293,884,630	64.98%
25	Hotel Services Ltd.	2,263			2,263	10.00	22,630	22,630	0.0128%
26	Hunas Falls Ltd.	1			1	10.00	10	10	-
27	Independent Television Network Ltd.	9,500,000			9,500,000	10.00	95,000,000	95,000,000	100.00%
28	Kahatagaha Grafite Lanka Ltd.	130,000			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 Suger Industries Ltd.	268,993			268,993	100.00	26,899,300	26,899,300	100.00%
31	Lafarge Mahaweli Cement Pvt. Ltd.	480,000			480,000	10.00	4,800,000	4,800,000	10.00%
32	Lanka Canneries Ltd.	40,002			40,002	100.00	4,000,200	4,000,200	9.17%
33	Lanka Cement Ltd.	22,246,000			22,246,000	10.00	222,460,000	222,460,000	13.00%
34	Lanka Coal Company Pvt. Ltd.	200,000	200,000		400,000	10.00	2,000,000	4,000,000	-
35	Lanka Electricity Company Pvt. Ltd.	49,880,000			49,880,000	10.00	498,800,000	498,800,000	43.56%
36	Lanka Fabrics Ltd.	210,000			210,000	10.00	2,100,000	2,100,000	93.30%
37	Lanka Hydraulic Institute Ltd.	50,000			50,000	10.00	500,000	500,000	4.53%
38	Lanka Industrial Estates Ltd.	7,800,000			7,800,000	10.00	78,000,000	78,000,000	48.84%
39	Lanka Layland Ltd.	2,149,900		2,149,900	-	10.00	21,499,000	-	100.00%

Notes to Financial Statements *contd...*

Se. No.	Name of Company	Number of Shares				Nominal Value Per Share (Rs.)	Value of the Investment as at 01.01.2010	Value of the Invesment as at 31.12.2010	Percentage of Share holdings by the Treasury
		As at 01.01.2010	Additions	Deductions	As at 31.12.2010				
40	Lanka Layland Ltd.	-	1,289,900		1,289,900	6.94	-	8,951,906	-
41	Lanka Layland Ltd.	-	430,000		430,000	0.01	-	4,300	
42	Lanka Machine Leasers Pvt. Ltd.	588,884			588,884	100.00	58,888,400	58,888,400	
43	Lanka Mineral Sands Ltd.	80,000,000			80,000,000	10.00	800,000,000	800,000,000	100.00%
44	Lanka Phosphate Ltd.	7,251,000			7,251,000	10.00	72,510,000	72,510,000	100.00%
45	Lanka STC General Trading Co. Ltd.	10,000,000			10,000,000	10.00	100,000,000	100,000,000	100.00%
46	Lanka Synthetic Fiber Company	956,256			956,256	10.00	9,562,560	9,562,560	
47	Lanka Textile Mills Emporium Ltd.	700,000			700,000	10.00	7,000,000	7,000,000	
48	Lanka Tractors Ltd.	5,250,000			5,250,000	10.00	52,500,000	52,500,000	30.00%
49	Mantai Salt Ltd.	300,000			300,000	100.00	30,000,000	30,000,000	100.00%
50	Mattegoda Textile Mills Ltd.	900,000		900,000	-	10.00	9,000,000	-	
51	Mihin Lanka (Private) Ltd.	2,500,004	27,541,138		30,041,142	100.00	250,000,400	3,004,114,200	
52	MILCO Pvt. Ltd. - Kiriya Milk Industries	31,945,403			31,945,403	10.00	319,454,030	319,454,030	99.99%
53	National Development Bank	265,950			265,950	10.00	2,659,500	2,659,500	0.32%
54	National Paper Company Ltd.	32,300,000			32,300,000	10.00	323,000,000	323,000,000	100.00%
55	National Savings Bank	150,000,000			150,000,000	10.00	1,500,000,000	1,500,000,000	
56	National Insurance Corporation Ltd.	6,848			6,848	10.00	68,480	68,480	
57	Orient Lanka Ltd.	1,048			1,048	10.00	10,480	10,480	0.035%
58	Paranthan Chemicals Company Ltd.	4,000,000			4,000,000	10.00	40,000,000	40,000,000	100.00%
59	Rajarata Food Grain Ltd.	350,000	36,249		386,249	10.00	3,500,000	3,862,490	
60	Puttalam Cement Company Ltd.	97,071			97,071	10.00	970,710	970,710	
61	Ruhunu Cement Co. Ltd.	10,175,000			10,175,000	10.00	101,750,000	101,750,000	
62	Shell Gas Lanka Ltd.	17,616,853			17,616,853	10.00	176,168,530	176,168,530	48.90%
63	Skills Development Fund Ltd.	10,200,012	140		10,200,152	10.00	102,000,120	102,001,520	98.00%
64	SME Bank	-				10.00	-		
65	Sri Lanaka Export Credit Insurance Corporation	1,000,000			1,000,000	10.00	10,000,000	10,000,000	100.00%
66	Sri Lanka Rubber Manufacturing & Export Corporation Ltd.	7,798,000			7,798,000	10.00	77,980,000	77,980,000	100.00%
67	Sri Lanka Telecom Ltd.	893,405,709			893,405,709	10.00	8,934,057,090	8,934,057,090	49.50%
68	Sri Lanka Telecom (Servicers)	1		1	-	10.00	10	-	
69	Sri Lankan Airlines Ltd.	26,275,436	22,451,516		48,726,952	100.00	2,627,543,600	4,872,695,200	51.05%
70	Statcon Rubber Company Ltd.	74,830			74,830	10.00	748,300	748,300	9.00%
71	Tea Smallholder Factories Ltd.	49,000,000			49,000,000	10.00	490,000,000	490,000,000	100.00%
72	The Selinsing Company Ltd.	615			615	10.00	6,150	6,150	1.00%
73	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%
74	United Motors Lanka Ltd.	13			13	10.00	130	130	
75	Vayangoda Textile Ltd.	7,500,000			7,500,000	10.00	75,000,000	75,000,000	
76	Wakers & Greig Ltd.	2,850			2,850	2.00	5,700	5,700	
77	Wakers & Greig Ltd.	100			100	10.00	1,000	1,000	
78	West Coast Pwer Pvt. Ltd. (Ordinary)	35,750,000	14,000,000		49,750,000	100.00	3,575,000,000	4,975,000,000	55.73%
79	West Coast Pwer Pvt. Ltd. (Preference)	27,500,000	3,087,570	23,087,570	7,500,000	100.00	2,750,000,000	750,000,000	
	Total	**1,895,191,114**	**69,041,328**	**26,146,471**	**1,938,085,971**		**27,360,041,050**	**31,740,085,686**	

Notes to Financial Statements *contd...*

Se. No.	Name of Company	Number of Shares As at 01.01.2010	Additions	Deductions	As at 31.12.2010	Nominal Value per Share (Rs.)	Value of the Investment at cost as at 01.01.2010	Value of the Investment at cost as at 31.12.2010	Percentage of Share holdings by the Treasury
		Nos.	Nos.	Nos.	Nos.	Rs.	Rs.	Rs.	
Note 20.3 - SHAREHOLDING IN PLANTATION COMPANIES									
1	Agaraptana Plantation Ltd.	23,284,644			23,284,644	10.00	232,846,440	232,846,440	30.39%
2	Agalawatta Plantation Ltd.	741			741	10.00	7,410	7,410	0.0029%
3	Bagawantalawa Plantation Ltd.	14,443			14,443	10.00	144,430	144,430	0.0.28%
4	Balangoda Plantation Ltd.	4,760			4,760	10.00	47,600	47,600	0.20%
5	Chilaw Plantation Ltd.	20,000,000	1		20,000,000	10.00	200,000,000	200,000,000	100.00%
6	Elkaduwa Plantation Ltd.	18,000,010		9	18,000,010	10.00	180,000,100	180,000,100	100.00%
7	Elpitiya Plantation Ltd.	7,806,546			7,806,546	10.00	78,065,460	78,065,460	39.00%
8	Gal Oya Plantation Ltd.		51,600,000		51,600,000	10.00	-	516,000,000	-
9	Hapugastenne Plantation Ltd.	1			1	10.00	10	10	-
10	Horana Plantation Ltd.	5,889			5,889	10.00	58,890	58,890	0.024%
11	Kahawatte Plantation Ltd.	1			1	10.00	10	10	-
12	Kegalle Plantation Ltd.	4,387			4,387	10.00	43,870	43,870	-
13	Kelani Valley Plantation Ltd.	1			1	10.00	10	10	-
14	Kotagala Plantation Ltd.	3,800,557			3,800,557	10.00	38,005,570	38,005,570	11.88%
15	Kurunegala Plantation Ltd.	20,000,001			20,000,001	10.00	200,000,010	200,000,010	100.00%
16	Madulsima Plantation Ltd.	3,805,652	1		3,805,652	10.00	38,056,520	38,056,520	13.12%
17	Malwatta Valley Plantation Ltd.	1			1	10.00	10	10	-
18	Maskeliya Plantation Ltd.	9,007			9,007	10.00	90,070	90,070	-
19	Maturata Plantation Ltd.	7,806,020	1		7,806,020	10.00	78,060,200	78,060,200	39.00%
20	Namunukula Plantation Ltd.	3,801,598		38,297	3,801,598	10.00	38,015,980	38,015,980	16.00%
21	Pussellawa Plantation Ltd.	7,817,123			7,817,123	10.00	78,171,230	78,171,230	32.70%
22	Talawakelle Plantations Ltd.	368			368	10.00	3,680	3,680	0.0015%
23	Udapussellawa Plantation Ltd.	1			1	10.00	10	10	-
24	Watawala Plantation Ltd.	16			16	10.00	160	160	-
	Total	**116,161,767**	**51,600,003**	**38,306**	**167,723,464**		**1,161,617,670**	**1,677,234,640**	

Note 20.4 - SHAREHOLDINGS IN COMPANIES IN US DOLLOR DENOMINATION

1	Asian Reinsurance Corporation	980			980	US$ 1000	112,847,000	109,779,600	
2	Ceylon Shipping Agency	24,500			24,500	1 (Singapore)	2,013,655	2,147,180	99.00%
3	International Finance Corporation	1,003			1,003	US$ 1000	115,495,450	112,356,060	
	Total	**26,483**			**26,483**		**230,356,105**	**224,282,840**	

Exchange Rate as at 01.01.2010/31.12.2010

Currency	01.01.2010 Rate	31.12.2010 Rate
US Dollar	115.15	112.02
Singapore Dollar	82.19	87.64

Notes to Financial Statements *contd...*

Se. No.	Name of Company	Number of Shares As at 01.01.2010 Nos.	Additions Nos.	Deductions Nos.	As at 31.12.2010 Nos.	Nominal Value per Share (Rs.) Rs.	Value of the Investment at cost as at 01.01.2010 Rs.	Value of the Investment at cost as at 31.12.2010 Rs.	Percent-age of Share holdings by the Treasury
Note 20.5 - SHAREHOLDINGS IN DEVELOPMENT BANKS									
1	Kandurata Development Bank	11,400,000		11,400,000	-	10.00	114,000,000	-	76.00%
2	Rajarata Development Bank	9,293,809		9,293,809	-	10.00	92,938,090	-	52.00%
3	Ruhunu Development Bank	11,400,000		11,400,000	-	10.00	114,000,000	-	68.00%
4	Sabaragamuwa Development Bank	11,400,000		11,400,000	-	10.00	114,000,000	-	76.00%
5	Uva Development Bank	6,400,000		6,400,000	-	10.00	64,000,000	-	52.00%
6	Wayamba Development Bank	12,540,000		12,540,000	-	10.00	125,400,000	-	76.28%
7	Pradeshiya Sanvardhana Bank	-	87,744,671		87,744,671	10.00	-	877,446,710	
8	Lankaputhra Development Bank	15,000,000			15,000,000	100.00	1,500,000,000	1,500,000,000	
9	Lankaputhra Development Bank	20,531,690	539,338		21,071,028	103.07	2,116,201,288	2,171,790,856	
	Total	**97,965,499**	**88,284,009**	**62,433,809**	**123,815,699**		**4,240,539,378**	**4,549,237,566**	

Summary — **31.12.2010**

Se. No.	Company Name	Numbers of Shares	Nominal Value of Shares (Rs.)
1	General	1,938,085,971	31,740,085,686
2	Plantation	167,723,464	1,677,234,640
3	Shares in Dollar Value	26,483	224,282,840
4	Development Banks	123,815,699	4,549,237,566
	Number of Shares	**2,229,651,617**	**38,190,840,732**

Notes to Financial Statements *contd...*

	2010 Face Value	2010 Rs.	2009 Rs.
Note 21 - BANK OVERDRAFTS			
Treasury Authorised Imprest Account (7002)		17,504,441,191	5,891,138,960
Treasury Authorised Imprest Account - (RFA) (7003)		103,979,252	117,656,490
DST Cash Account (8020)		(76,527,923,075)	(75,814,349,097)
Crown Agent Current Account (8030)		(1,473,987)	24,544,830
Temporary Employed Balances of CBSL (8192)		(13,154,696,259)	(12,174,691,402)
Central Bank of Sri Lanka - IDA Special Dollar Accounts (8813)		6,041,924,363	7,425,602,057
ADB Loan SLCB Special Dollar Account (8918)		3,325,223,435	3,473,765,891
International Fund for Agri Deve Special Dollar Account (8973)		177,599,233	236,095,432
CB Special Yen Account (9094)		19,286,310,929	19,812,696,965
CBSL Special Deutsche Mark Account (9101)		187,937,603	5,605,268
Central Bank Nordic Special Account (9110)		2,168,712	2,235,783
Special Rupee Account (9114)		(15,735,820,472)	(15,735,820,464)
Special Foreign Exchange Account (Euro Italy) (9119)		-	1,298,764,782
Special Foreign Currency French Development Agency Account (9125)		511,414,839	366,348,249
		(58,278,914,237)	**(65,070,406,257)**
Note 22 - ADVANCES FROM CENTRAL BANK OF SRI LANKA			
Advance From CBSL - Monetary Law Act (8176)		77,878,822,800	73,880,500,000
		77,878,822,800	**73,880,500,000**
Note 23 - FOREIGN LOAN REVOLVING FUNDS			
Reimbursable Foreign Aid Revolving Fund (8760)		2,139,140,093	2,396,940,389
IDA Revolving Fund (8814)		11,119,010,612	11,128,028,557
ADB Special Dollar Revolving Fund Account (8919)		1,753,475,928	2,434,243,328
CBSL Special Dollar Account (International Fund for Agr. Dev.Revolving Fund) (8974)		844,558,731	860,052,406
IBRD Revolving Fund Account (8982)		1,570,884,205	1,570,884,206
CBSL Revolving Fund Account (Yen) - (9095)		1,312,268,954	1,235,253,903
CBSL Special Deutsche Mark Revolving Fund Account (9102)		128,568,930	132,595,171
Central Bank Special Nordic Revolving Fund (9111)		101,195,744	101,262,816
Special Rupee Revolving Fund Account (9120)		(476,985)	(476,985)
Special Foreign Currency Revolving Fund Account (Euro Italy) (9121)		1,868,496,395	1,719,727,889
Special Rupee Revolving Fund Account (9122)		498,950,000	498,950,000
Special Foreign Currency Revolving Fund Account (9126)		119,214,740	99,817,455
		21,455,287,347	**22,177,279,135**
Note 24 - MISCELLANEOUS FUNDS			
Public Service Provident Fund Account (8098)		1,798,990,924	2,043,771,928
Teachers, Widows & Orphans Pension Fund (8186)		299,255,426	256,137,638
Technical Development Fund (IDB) (8365)		–	–
		2,098,246,350	**2,299,909,566**
Note 25 - GOVERNMENT BORROWINGS	**2010 Face Value**		
Treasury Bills (8085)	571,758,650,000	533,460,527,314	434,891,032,770
Treasury Bonds (9093)	1,827,424,530,000	1,564,673,878,432	1,391,133,374,008
Sub Total	**2,399,183,180,000**	**2,098,134,405,746**	**1,826,024,406,778**
Rupee Loans (8249)		87,709,026,032	112,292,054,265
Sri Lanka Development Bonds (9105)		173,062,440,199	157,508,304,614
Local Loans in Foreign Currency (9107)		17,267,559,500	19,284,261,500
CITI Bank loan (9112)		-	445,217,932
Sri Lanka Nations Building Bonds (9128)		493,972,070	493,972,071
Total Borrowings - Domestic		**2,376,667,403,547**	**2,116,048,217,160**
Foreign Loans (8343) - (Adverse Parity Variance recognised in 2010)		1,722,747,086,132	1,541,415,214,615
		4,099,414,489,679	**3,657,463,431,775**

Notes to Financial Statements *contd...*

		Actual 2010 Rs.	2009 Rs.
Note 26 - DEPOSITS & OTHER LIABILITIES			
	Treasury General Deposit Account (6000)	72,594,406,416	71,364,402,500
	Treasury Deposit Account for District Secretaries (6003)	3,054,226,921	3,383,274,996
	Public Service Mutual Guarantee Association (8013)	14,600,523	13,675,280
	Director General Of Customs - Cess Recovery Account (8105)	300,000,000	300,000,000
		75,963,233,860	**75,061,352,776**
Note 27 - OPERATING ACCOUNTS WITH GOVERNMENT DEPARTMENTS [DR./ (CR.)]			
	General Manager - Railway Department (8003)	748,305,042	765,226,121
	Director General - Dept. of Customs (8005)	(65,918,516)	(65,918,516)
	Post Master General - Department Of Posts (8037)	(6,602,794)	(6,602,794)
	Treasury Operations Department (8233) and (8583)	(1,671,979,482)	(3,835,060,427)
	Treasury Operations Department (9092)	(80,434,832)	(87,899,876)
	Provincial Councils (8657)	4,922,714	1,361,569
	Collection Of GST (9098)	38,940,419	38,940,420
	GST Refund Account (9099)	(986,855)	(986,855)
	Non Operating Accounts (9100)	20,712,460	20,712,460
		(1,013,041,844)	**(3,170,227,898)**
Note 28 - SUNDRY ACCOUNTS [DR./(CR).]			
	Cheque Returned Account (8315)	5,939,215	5,937,736
	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)	(21,127,850)	(24,475,767)
	Foreign Aid Expenditure Account (8301)	2,476,416,124	1,686,942,491
	Foreign Aid Grant Account (8314)	1,284,200	
	Investment Account for National Housing Bonds (8859)	-	1,284,200
		2,462,511,689	**1,669,688,660**
Note 29 - STATEMENT OF CHANGE IN EQUITY			
	Opening Balance of the Consolidated Fund as at 1st January	**(204,995,009,372)**	**(197,648,988,582)**
Add	**Receipts to the Consolidated Fund**		
	Total Cash Provided from Operations	825,688,405,945	708,381,007,652
	Total Cash Provided from Investing Activities	15,775,000,987	12,056,098,887
	Total Cash Provided from Financing Activities	918,220,302,964	1,019,281,117,771
	Total Cash Receipts (a)	**1,759,683,709,896**	**1,739,718,224,310**
Less	**Total Payments of the Consolidated Fund**		
	Total Cash Disbursement to Operations	(951,493,955,879)	(881,936,452,098)
	Total Cash Disbursement to Investing Activities	(347,006,678,875)	(365,753,851,580)
	Total Cash Disbursement to Repayment of Debt	(452,611,841,249)	(499,373,941,422)
	Total Cash Payments (b)	**(1,751,112,476,003)**	**(1,747,064,245,100)**
	Net Cash Receipts (a) - (b)	**8,571,233,893**	**(7,346,020,790)**
	Closing Balance of the Consolidated Fund as at 31st December (Dr.)	**(196,423,775,459)**	**(204,995,009,372)**
Note 30 - TOTAL INVESTMENT IN PHYSICAL ASSETS AND ACCUMULATED NET REVENUE DEFICIT			
	Accumulated Revenue Deficit (2005-2010)	576,447,243,247	450,641,693,316
	Total Accumulated Value of Physical Assets at cost, with Accumulated Net Revenue Deficit Prior to 2004	3,126,579,280,530	2,808,398,661,016
		3,703,026,523,777	**3,259,040,354,332**

Notes to Financial Statements *contd...*

2101-Vehicles

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Note 30.1 - MOVABLE ASSETS ACQUIRED SINCE 01.01.2004																
H.E.the President	....	**30,910**	1,290,899	-	**1,321,809**	11095		**1,332,904**	903,943	-	**2,236,847**	73,499	-	**2,410,346**	202,089	**2,612,435**
Office of the Prime Minister	**335**	**17,172**	39,443	-	**56,615**	-		**56,615**	4,000	-	**60,615**	2,303	-	**62,918**	26,184	**89,102**
Office of the Cabinet of Ministers	....	**4,764**	3,490	-	**8,254**	-		**8,254**	6,259	-	**14,513**	-	-	**14,513**	4,140	**18,653**
Parliament	**6,800**	**27,735**	-	-	**27,735**	-		**27,735**	34,035	-	**61,770**	7,100	-	**68,870**	7,500	**76,370**
Office of the Leader of the House of Parliament	**78**	**78**	7,458	-	**7,536**	5500		**13,036**	-	-	**13,036**	2,268	-	**15,304**	-	**15,304**
Office of the Chief Government Whip of Parliament	....	**7,150**	263	-	**7,413**	5500		**12,913**	-	-	**12,913**	-	-	**12,913**	2,922	**15,835**
Office of the Leader of the Opposition of Parliment	**80**	**7,512**	-	-	**7,512**	500		**8,012**	-	-	**8,012**	255	-	**8,267**	7,942	**16,209**
Office of the Former President(Hon D.B.Wijethunge)	....	**....**	-	-	**....**	12,000		**12,000**	-	-	**12,000**			**12,000**	-	**12,000**
Public Service Commission	....	**....**	8,990	-	**8,990**	-		**8,990**	7,170	-	**16,160**	2,772	-	**18,932**	-	**18,932**
Judicial Service Commission	....	**100**	-	-	**100**	1,368	380	**1,088**	7,791	-	**8,879**	-	-	**8,879**	-	**8,879**
National Police Commission	....	**....**	249	-	**249**	5,311		**5,560**	557	-	**6,117**	-	-	**6,117**	-	**6,117**
Commission to Investigate Allegation of Bribery or Corruption	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,319	**3,319**
Department of Elections	....	**....**	-	-	-	19,741	4026	**15,715**	9,911	-	**25,626**	-	-	**25,626**	4,846	**30,472**
Auditor General	....	**2,151**	-	-	**2,151**	392	-	**2,543**	-	-	**2,543**	3,955	-	**6,498**	-	**6,498**
Office of the Parliamentary Commissioner for Administration	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,000	**4,000**
Office of the Finance Commission	....	**4,850**	-	-	**4,850**	2,850	-	**7,700**	-	-	**7,700**	95	-	**7,795**	5,040	**12,835**
National Education Commission	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Human Rights Commission of Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,071	**8,071**
Ministry of Buddha Sasana and Religious Affairs	-	**....**	5,500	-	**5,500**	19,045	-	**24,545**	-	-	**24,545**	-	-	**24,545**	8,172	**32,717**
Ministry of Finance & Planning	**4,100**	**42,251**	11,966	-	**54,217**	59,598	-	**113,815**	15,107	-	**128,922**	4,662	3,815	**129,769**	14,500	**144,269**
Ministry of Defence	**495**	**10,152**	47,905	150	**57,907**	401,212	-	**459,119**	2,086,793	-	**2,545,912**	17,827	-	**2,563,739**	41	**,563,780**
Ministry of Plan Implementation & Monitoring	....	**....**	48,815	-	**48,815**	11,500	9335	**50,980**	-	13,650	**37,330**	4,229	2,485	**39,074**	-	**39,074**
Ministry of Economic Development	....	**....**	-	-	**....**	47,035	-	**47,035**	-	-	**47,035**	4,318	-	**51,353**	106,323	**157,676**
Ministry of Disaster Management	....	**....**	18,595	-	**18,595**	1,577	-	**20,172**	-	-	**20,172**	-	-	**20,172**	6,000	**26,172**
Ministry of Tourism	**1,545**	**4,495**	9,956	-	**14,451**	40,597	1,600	**53,448**	89	-	**53,537**	-	450	**53,087**	-	**53,087**
Ministry of Posts & Telecommunications	....	**5,800**	14,025	-	**19,825**	32,900	-	**52,725**	-	-	**52,725**	-	-	**52,725**	24,266	**76,991**
Ministry of Justice	**16,717**	**16,717**	16,748	-	**33,465**	1,198	-	**34,663**	23,651	-	**58,314**	1,167	-	**59,481**	1,167	**60,648**
Ministry of Health	....	**....**	-	-	**....**	18,296	-	**18,296**	-	-	**18,296**	33,417	-	**51,713**	37,429	**89,142**
Ministry of External Affairs	....	**25,986**	125,205	-	**151,191**	126,519	3753	**273,957**	74,271	2,681	**345,547**	41,779	630	**386,696**	18,978	**405,674**
Ministry of Ports & Aviation	....	**....**	9,446	-	**9,446**	-	-	**9,446**	12,813	-	**22,259**	3,850	-	**26,109**	12,700	**38,809**
Ministry of Transport	-		4,500	-	**4,500**	15,713	-	**20,213**	17,000	-	**37,213**	-	-	**37,213**	5,040	**42,253**
Ministry of Petroleum Industries	-	**....**	10,553	-	**10,553**	12,750	-	**23,303**	10,877	-	**34,180**	-	-	**34,180**	9,289	**43,469**
Ministry of Co-operatives & Internal Trade	....	**8,450**	8,961	-	**17,411**	12,940	-	**30,351**	-	-	**30,351**	-	-	**30,351**	19,487	**49,838**

Notes to Financial Statements *contd...*

2101-Vehicles

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Highways		-	5,432	-	5,432	61,655	-	67,087	16,700	-	83,787	-	-	83,787	41,627	125,414
Ministry of Agriculture	15,047	18,274	22,600	3,778	37,096	86,576	-	123,672	1,417	-	125,089	67,621	-	192,710	35,352	228,062
Ministry of Power & Energy	1,682	16,727	-	-	16,727	-	-	16,727			16,727	-	-	16,727	4,597	21,324
Ministry of Child Development & Women's Empowerment	....	3,475	12,850	-	16,325	9,850	-	26,175	-	-	26,175	-	-	26,175	18,453	44,628
Ministry of Public Administration & Home Affairs	7,923	569,755	461,632	-	1,031,387	-	-	1,031,387	4,110	-	1,035,497	11,925	-	1,047,422	27,977	1,075,399
Ministry of Mass Media & information	....	3,428	10,279	-	13,707	38,955	-	52,662	4556	-	57,218	4,710	-	61,928	1,907	63,835
Ministry of Urban Development & Water Supply	....	....	-	-	....	24,333	-	24,333	-	-	24,333	-	-	24,333	-	24,333
Ministry of Social Service	....	....	28,149	-	28,149	4,891	-	33,040	-	-	33,040	-	-	33,040	12,200	45,240
Ministry of Housing and Common Amenities	....	174,206	-	-	174,206	18,990	-	193,196	8000	7805	193,391	-	-	193,391	-	193,391
Ministry of Education	4,386	94,114	16,540	-	110,654	66,943	-	177,597	-	-	177,597	3,132	-	180,729	10,086	190,815
Ministry of Labour Relations & Manpower	....	19,050	11,360	-	30,410	16,680	-	47,090	-	-	47,090	686	-	47,776	-	47,776
Ministry of Rural Industries & Self Employment Promotion	....	....	-	-	....	26,036	-	26,036	10,749	-	36,785	2,264	-	39,049	-	39,049
Ministry of Vocational & Technical Training	241	241	7,490	-	7,731	31,700	-	39,431	-	7,400	32,031	-	-	32,031	-	32,031
Ministry of Local Government & Provincial Councils	....	....	8,131	-	8,131		-	8,131	72,905	-	81,036	76,904	267,019	(109,079)	44,025	(65,054)
Ministry of Enterprise Development & Investment Promotion	....	....	-	-	....	25,700	-	25,700	-	-	25,700	-	-	25,700	-	25,700
Ministry of Technology and Research	-	....	5,500	-	5,500	29,206	-	34,706	-	2,874	31,832	-	-	31,832	11,500	43,332
Ministry of National Languages & Social Integration	....	9,000	-	-	9,000	33,434	-	42,434	-	-	42,434	-	-	42,434	11,072	53,506
Ministry of Plantation Industries	....	....	35,579	-	35,579	79,572	-	115,151	-	-	115,151	19,523	-	134,674	12,276	146,950
Ministry of Sports			-	-		-	-	-	4,350	-	4,350	14,478	-	18,828	3,850	22,678
Ministry of Indigenous Medicine	....	9,242	10,975	-	20,217	15,000	-	35,217	-	-	35,217	-	-	35,217	-	35,217
Ministry of Fisheries & Aquatic Resources Development	2,625	2,625	8,151	-	10,776	11,088	-	21,864	26,361	-	48,225	93,122	2,785	138,562	26,002	164,564
Ministry of Livestock & Rural Community Development	....	....	3,390	-	3,390	42,770	-	46,160	12,061	-	58,221	9,823	-	68,044	8,611	76,655
Ministry of National Heritage & Cultural Affairs	....	20,795	12,824	-	33,619	25,416	-	59,035	9000	-	68,035	15,000	-	83,035	-	83,035
Ministry of Parliamentary Affairs	13,425	13,425	-	-	13,425	17,502	-	30,927	-	-	30,927	-	-	30,927	4,904	35,831
Ministry of Re-Settlement	....	....	16,638	-	16,638	22,725	-	39,363	9,500	-	48,863	7,885	680	56,068	-	56,068
Ministry of Industry and Commerce	2,667	2,667	12,871	-	15,538	29,700	7,900	37,338	13,590	-	50,928	14,399	-	65,327	6,300	71,627
Ministry of Foreign Employment Promotion & welfare	....		14,515	-	14,515	-	-	14,515	5375	-	19,890	-	-	19,890	-	19,890
Ministry of Irrigation & Water Resources Management	4,758	4,758	-	-	4,758	7,535	-	12,293	-	-	12,293	5,500	-	17,793	7,302	25,095
Ministry of Irrigation & Water Resources Management	4,758	4,758	-	-	4,758	7,535	-	12,293	-	-	12,293	5,500	-	17,793	7,302	25,095

Notes to Financial Statements *contd...*

2101-Vehicles Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Lands and Land Development			-	-		-	-	-	72,094	-	**72,094**	-	-	**72,094**	15,500	**87,594**
Ministry of Youth Affairs	....	**1,912**	12,990	-	**14,902**	7,500	-	**22,402**	-	1,541	**20,861**	-	-	**20,861**	51,931	**72,792**
Ministry of Environment	**6,550**	**24,226**	7,500	-	**31,726**	20,000	41	**51,685**	-	5	**51,680**	3,708	2,245	**53,143**	13,250	**66,393**
Ministry of Youth Empowerment & Socio Economic Development	....	....	-	-	....	3,231	3,180	**51**	3,129	-	**3,180**	2,253	-	**5,433**	-	**5,433**
Ministry of Community Development & Social inequity Eradication	....	....	-	-	....	13,950	-	**13,950**	-	-	**13,950**	-	-	**13,950**	-	**13,950**
Ministry of Water Supply & Drainage	....	....	-	-	....	29,130	3,144	**25,986**	-	-	**25,986**	8,230	-	**34,216**	16,000	**50,216**
Ministry of export Development and International Trade			-	-		-	-	-	67	-	**67**	-	-	**67**	-	**67**
Ministry of Counstruction & Engineering Services	-	....	-	-	....	13,300	-	**13,300**	9,500	-	**22,800**	-	500	**22,300**	-	**54,415**
Min: of Construction & Engineering Services, Housing & Common Amenities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	32,115	**32,115**
Ministry of Higher Education	-	....	-	-	....	14,795	-	**14,795**	-	-	**14,795**	-	-	**14,795**	17,062	**31,857**
Ministry of Rehabilitation and Prison Reforms	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34,623	**34,623**
Department of Buddhist Affairs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,176	**1,176**
Department of Muslim Religious & Cultural Affairs	....	**2,775**	89	-	**2,864**	-	-	**2,864**	-	-	**2,864**	-	-	**2,864**	-	**2,864**
Department of Christian Religious Affairs	-	-	-	-	-	-	-	-	595	-	**595**	-	-	**595**	-	**595**
Department of Public Trustee	-	-	-	-	-	-	-	-	-	-	....	2,016	-	**2,016**	5,040	**7,056**
Department of Archaeolgy	**5,573**	**5,573**	4,200	-	**9,773**	765	-	**10,538**	-	-	**10,538**	4,264	-	**14,802**	-	**14,802**
Department of National Museums	....	**3,475**	-	-	**3,475**	-	-	**3,475**	-	-	**3,475**	-	-	**3,475**	-	**3,475**
Department of National Archives	**2,275**	**2,275**	-	-	**2,275**	-	-	**2,275**	-	-	**2,275**	-	-	**2,275**	337	**2,612**
Department of Information	....	....	79	-	**79**	9,300	-	**9,379**	-	-	**9,379**	-	-	**9,379**	-	**9,379**
Department of Government Printer	....	....	-	-	....	20,518	-	**20,518**	-	-	**20,518**	-	-	**20,518**	-	**20,518**
Department of Examinations	....	**2,875**	-	-	**2,875**	5,922	-	**8,797**	-	-	**8,797**	-	-	**8,797**	-	**8,797**
Department of Technical Education &Training	....	....	75,205	-	**75,205**	3,500	-	**78,705**	-	-	**78,705**	-	-	**78,705**	-	**78,705**
Department of Social Services											....	345	-	**345**	-	**345**
Department of Probation & Child Care Services	....	....	-	-	....	3,877	-	**3,877**	-	-	**3,877**	-	-	**3,877**	-	**3,877**
Department of Sports development			-	-			-	-	3,098	-	**3,098**	-	-	**3,098**	-	**3,098**
Department of Ayurveda	....	....	789	-	**789**	5,795	-	**6,584**	-	-	**6,584**	-	-	**6,584**	-	**6,584**
Department of Labour	....	**48**	-	-	**48**	20,740	-	**20,788**	-	-	**20,788**	-	-	**20,788**	-	**20,788**
Sri Lanka Army	....	**409,651**	563,473	-	**973,124**	495,072	-	**1,468,196**	1,032,730	47,181	**2,453,745**	1,308,382	9,729	**3,752,398**	249,822	**4,002,220**
Sri Lanka Navy	**38,152**	**38,152**	214,800	1,100	**251,852**	509,200	-	**761,052**	508,780	3,230	**1,266,602**	06,610	6,982	**1,466,230**	157,342	**1,623,572**
Sri Lanka Air Force	....	**201,940**	199,655	-	**401,595**	121,911	-	**523,506**	163,174	-	**686,680**	100,495	6,503	**780,672**	22,612	**803,284**
Department of Police	....	....	479,644	-	**479,644**	212,675	12,235	**680,084**	1,567,037	54,495	**2,192,626**	73,211	-	**2,365,837**	156,919	**2,522,756**

Notes to Financial Statements *contd...*

2101-Vehicles

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Department of Immigration & Emigration	....	....	**10,410**	-	**10,410**	-	-	**10,410**	-	-	**10,410**	-	-	**10,410**	-	**10,410**
Department of Registration of Persons	**123**	**123**	**12,100**	-	**12,223**	1,935	-	**14,158**	10,000	-	**24,158**	-	-	**24,158**	-	**24,158**
Courts Administration	....	....	1,321	-	**1,321**	15,855	-	**17,176**	169,620	-	**186,796**	15,441	-	**202,237**	15,441	**217,678**
Department of Attorney General	....	....	-	-	....	90,400	-	**90,400**	124,726	-	**215,126**	4,095	-	**219,221**	7,490	**226,711**
Department of Legal Draftsman	....	**13,770**	-	-	**13,770**	13,850	-	**27,620**	-	-	**27,620**	-	-	**27,620**	-	**27,620**
Department of Prisons	**17,813**	**19,905**	25,592	-	**45,497**	13,307	-	**58,804**	21,122	-	**79,926**	4,975	-	**84,901**	23,069	**107,970**
Department of Government Analyst	....	....	3,441	-	**3,441**	9,696	-	**13,137**	-	-	**13,137**	5,040	-	**18,177**	-	**18,177**
Registrar of Supreme Court	....	....	18,475	-	**18,475**	201,432	-	**219,907**	-	-	**219,907**	-	-	**219,907**	4,914	**224,821**
Department of Law Communication	....		1,575	-	**1,575**	1,124	-	**2,699**	6,048	-	**8,747**	1,280	-	**10,027**	389	**10,416**
Department of National Planning	....	**2,506**	-	-	**2,506**	5,350	-	**7,856**	-	-	**7,856**	2,225	-	**10,081**	-	**10,081**
Department of Fiscal Policy	....	....	-	-	....	11,400	-	**11,400**	-	-	**11,400**	2,268	-	**13,668**	-	**13,668**
Department of External Resources	....	....	7,973	-	**7,973**	-	-	**7,973**			**7,973**	2,268	-	**10,241**	4,914	**15,155**
Depatment of National Budget	....	....	3,475	-	**3,475**	3,625	-	**7,100**	-	-	**7,100**	-	-	**7,100**	-	**7,100**
Department of Public Enterprise	....	....	-	-	....	12,200	-	**12,200**	-	-	**12,200**	-	-	**12,200**	-	**12,200**
Department of Management Services	....	....	-	-	....	2,600	-	**2,600**	-	-	**2,600**	-	-	**2,600**	-	**2,600**
Department of Development Finance	....	....	-	-	....	2,800	-	**2,800**	-	-	**2,800**	-	-	**2,800**	-	**2,800**
Department of Trade Tariff & Investment Policy	....	....	-	-	....	8,400	-	**8,400**	-	-	**8,400**	-	-	**8,400**	-	**8,400**
Department of Public Finance	....	....	3,500	-	**3,500**	-	-	**3,500**	5,865	-	**9,365**	-	-	**9,365**	-	**9,365**
Department of Inland Revenue	**4,999**	**50,608**	9,900	-	**60,508**	30,167	-	**90,675**	-	-	**90,675**	-	-	**90,675**	-	**90,675**
Department of Customs	....	**18,562**	-	-	**18,562**	3,904,780	-	**3,923,342**	-	-	**3,923,342**	6,426	-	**3,929,768**	14,931	**3,944,699**
Department of Excise	....	....	14,407	-	**14,407**	17,337	-	**31,744**	-	-	**31,744**	2,554	-	**34,298**	-	**34,298**
Department of Treasury Operations	....	....	-	-	....	12,818	-	**12,818**	-	-	**12,818**	-	-	**12,818**	-	**12,818**
Department of State Accounts	....	....	-	-	....	6,500	-	**6,500**	-	-	**6,500**	-	-	**6,500**	-	**6,500**
Department of Valuation	**-**	**-**	-	-	....	7,955	-	**7,955**	-	-	**7,955**	-	350	**7,605**	-	**7,605**
Department of Census & Statistics	**3,446**	**6,874**	23,284	1,026	**29,132**	19,511	-	**48,643**	-	-	**48,643**	-	-	**48,643**	28,858	**77,501**
Department of Pensions	....	....	3,360	-	**3,360**	10,845	-	**14,205**	-	-	**14,205**	-	-	**14,205**	-	**14,205**
District Secretariat-Colombo	**6**	**6**	-	-	**6**	-	-	**6**	-	-	**6**	75	-	**81**	-	**81**
District Secretariat-Gampaha									-	1,932	**(1,932)**	-	-	**(1,932)**	-	**(1,932)**
District Secretariat-Matara	....	**17,070**	-	-	**17,070**	-	-	**17,070**	-	-	**17,070**	-	-	**17,070**	-	**17,070**
District Secretariat-Jaffna	....	**5,390**	-	-	**5,390**	-	-	**5,390**	-	-	**5,390**	-	-	**5,390**	-	**5,390**
District Secretariat-Trincomalee	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	**-**

Notes to Financial Statements *contd...*

2101-Vehicles

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Department of Agrarian Development	....	**6,500**	-	-	**6,500**	-	-	**6,500**	533	-	**7,033**	-	-	**7,033**	-	**7,033**
Department of Irrigation	**494**	**494**	180,749	-	**181,243**	68,207	-	**249,450**	122,729	-	**372,179**	109,891	8	**482,062**	27,608	**509,670**
Department of Forests	**3,350**	**3,350**	-	-	**3,350**	-	-	**3,350**	-	-	**3,350**	11,270	-	**14,620**	-	**14,620**
Department of Wildlife Conservation	....	....	-	-	....	2,643	-	**2,643**	20,865	-	**23,508**	-	-	**23,508**	-	**23,508**
Department of Agriculture	....	....	-	-	....	18,850	-	**18,850**	-	-	**18,850**	-	-	**18,850**	-	**18,850**
Department of Land Commissioner	....	**7,150**	-	-	**7,150**		-	**7,150**	-	-	**7,150**	-	-	**7,150**	-	**7,150**
Department of Survey	....	....	-	-	....	11,400	-	**11,400**	-	-	**11,400**	-	-	**11,400**	-	**11,400**
Department of Fisheries and Aquatic Resources	....	....	-	-	....	1,521	-	**1,521**	10,096	-	**11,617**	-	-	**11,617**	282	**11,899**
Department of Coast Conservation	**181**	**181**	11,873	-	**12,054**	-	-	**12,054**	-	-	**12,054**	-	-	**12,054**	11,900	**23,954**
Department of Animal Production & Health	....	....	7,500	-	**7,500**	-	-	**7,500**	-	-	**7,500**	3,023	3	**10,520**	-	**10,520**
Department of Rubber Development	....	....	-	-	....	2,364	1,098	**1,266**	-	-	**1,266**	4,075	-	**5,341**	14,814	**20,155**
Department of National Zoological Garden	....	**359**	-	-	**359**	6,295	-	**6,654**	8,225	-	**14,879**	10,696	-	**25,575**	-	**25,575**
Department of Commerce	....	....	-	-	....	3,410	-	**3,410**	-	-	**3,410**	-	-	**3,410**	-	**3,410**
Department of Import and Export Control	....	....	89	-	**89**	4,600	-	**4,689**	3,895	-	**8,584**	-	-	**8,584**	-	**8,584**
Department of Measurement Units, Standards & Services	....	**2,256**	-	-	**2,256**	-	-	**2,256**	-	-	**2,256**	-	-	**2,256**	-	**2,256**
Department of Food Commissioner			-	-		-	-	**-**	2760	-	**2,760**	-	-	**2,760**	-	**2,760**
Co-operative Employees Commission	....	**7**	2,495	-	**2,502**	-	-	**2,502**	-	-	**2,502**	-	-	**2,502**	-	**2,502**
Department of Meteorology	....	**3,970**	-	-	**3,970**	-	-	**3,970**	-	-	**3,970**	-	-	**3,970**	-	**3,970**
Department of Sri Lanka Railways	....	**5,285**	-	-	**5,285**	3,619,360	-	**3,624,645**	4,949,139	-	**8,573,784**	1,952,386	-	**10,526,170**	3,886,488	**4,412,658**
Department of Motor Traffic	....	**3,227**	2,000	-	**5,227**	302	-	**5,529**	-	-	**5,529**	-	-	**5,529**	-	**5,529**
Department of Posts	**2,095**	**33,225**	89,987	-	**123,212**	62	-	**123,274**	28,538	-	**151,812**	26,606	-	**178,418**	23,997	**202,415**
Department of Buildings	....	**4,950**	350	-	**5,300**	-	-	**5,300**	-	-	**5,300**	3,708	-	**9,008**	-	**9,008**
Government Factory	....	....	4,000	-	**4,000**	-	-	**4,000**	-	-	**4,000**	-	-	**4,000**	-	**4,000**
Department of National Physical Planning	....	....	3,630	-	**3,630**	-	-	**3,630**	5,000	-	**8,630**	-	-	**8,630**	-	**8,630**
Central Provincial Council	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**....**	-	-	**-**	-	**-**
Southern Provincial Council	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**....**	-	-	**-**	-	**-**
Sabaragamuwa Provincial Council	....	....	-	-	....	7,500	-	**7,500**	-	-	**7,500**	-	-	**7,500**	-	**7,500**
Department of Civil Security	....	....	-	-	....	34,065	-	**34,065**	47,895	-	**81,960**	5,126	-	**87,086**	-	**87,086**
Department of National Botanical Gardens			-	-			-	**-**	3700	-	**3,700**			**3,700**	-	**3,700**
Department of Legal Affairs	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**....**	2,520	-	**2,520**	-	**2,520**
Coast Guard Department of Sri Lanka	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**....**	8,872	-	**8,872**	-	**8,872**
Ministry of Reconstruction & Development	....	....	22,500	-	**22,500**	-	-	**22,500**	-	-	**22,500**	-	-	**22,500**	-	**22,500**
Ministry of Mahaweli & River Basin Development & Rajarata Development	....	9,998	-	-	**9,998**	-	-	**9,998**	-	-	**9,998**	-	-	**9,998**	-	**9,998**

Notes to Financial Statements *contd...*

2101-Vehicles

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Eastern Development & Muslim Religious Affairs	3,275	3,275	-	-	3,275	-	-	3,275	-	-	3,275	-	-	3,275	-	3,275
Ministry of Home Affairs Provincial Councils & Local Government	....	3,107	-	-	3,107	-	-	3,107	-	-	3,107	-	-	3,107	-	3,107
Ministry of Interior	226	226	-	-	226	-	-	226	-	-	226	-	-	226	-	226
Ministry of Regional Development	....	706	-	-	706	7,900	-	8,606	-	-	8,606	-	-	8,606	-	8,606
Ministry of Coconut Development	....	....	12,975	-	12,975	4,750	-	17,725	-	-	17,725	-	-	17,725	-	17,725
Ministry of Small & Rural Industries	....	4,753	3,099	-	7,852	-	-	7,852	-	-	7,852	-	-	7,852	-	7,852
Ministry of Rural Economic Development	....	....	18,368	-	18,368	-	-	18,368	-	-	18,368	-	-	18,368	-	18,368
Ministry of New Railroad Development	....	....	10,900	-	10,900	549	-	11,449	-	-	11,449	-	-	11,449	-	11,449
Ministry of Skills Development & Public Enterprise Reforms	-	....	17,590	-	17,590	-	-	17,590	-	-	17,590	-	-	17,590	-	17,590
Ministry of Relief, Rehabilitation & Reconcilation	24,675	146,769	-	-	146,769	-	-	146,769	-	-	146,769	-	-	146,769	-	146,769
Ministry of Promotion of Botanical & Zoological Gardens	....	....	16,592	-	16,592	3,492	-	20,084	-	-	20,084	-	-	20,084	-	20,084
Ministry of Textile Industrial Development	....	....	7,487	-	7,487	-	-	7,487	-	-	7,487	-	-	7,487	-	7,487
Total	196,137	2,245,559	4,497,294	6,054	6,736,799	11,303,732	46,692	17,993,839	12,313,901	142,794	30,164,946	4,644,802	304,184	34,505,564	5,666,310	40,171,874

Notes to Financial Statements *contd...*

2102-Office Equipment Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Note 30.1 - MOVABLE ASSETS ACQUIRED SINCE 01.01.2004																
H.E.the President	**1,723**	**10,526**	127,985	-	**138,511**	1,189,607	-	**1,328,118**	97,917	-	**1,426,035**	55,417	-	**1,481,452**	29,978	**1,511,430**
Office of the Prime Minister	**1,807**	**6,850**	939	39	**7,750**	4,947	127	**12,570**	4,924	-	**17,494**	5,108	-	**22,602**	5,772	**28,374**
Office of the Cabinet of Ministers	**45**	**77**	230	-	**307**	477	-	**784**	4,480	-	**5,264**	7,817	-	**13,081**	1,164	**14,245**
Parliament	**3,313**	**6,831**	4,995	-	**11,826**	5,738	-	**17,564**	9,826	-	**27,390**	7,313	-	**34,703**	8,808	**43,511**
Office of the Leader of the House of Parliament	**117**	**316**	200	-	**516**	107	-	**623**	124	-	**747**	324	-	**1,071**	335	**1,406**
Office of the Chief Government whip of Parliament	**234**	**625**	113	-	**738**	360	-	**1,098**	-	-	**1,098**	257	-	**1,355**	748	**2,103**
Office of the Leader of the Opposition of Parliament	**....**	**392**	100	-	**492**	80	-	**572**	55	-	**627**	62	-	**689**	200	**889**
Office of the Former President(Hon D.B.Wijethunge)	**98,976**	**99,014**	30	49	**98,995**	-	-	**98,995**	-	-	**98,995**			**98,995**	-	**98,995**
Office of the Former Prime Minister (Hon.C.B.Kumaratunge)	**....**	**....**	1,400	-	**1,400**	48	-	**1,448**	-	-	**1,448**			**1,448**	-	**1,448**
The Constitutional Council	**42**	**42**	479	-	**521**	48	-	**569**	17	-	**586**	83	29	**640**	3	**643**
Public Service Commission	**11,394**	**11,988**	414	-	**12,402**	460	-	**12,862**	1,905	-	**14,767**	722	-	**15,489**	31	**15,520**
Judicial Service Commission	**476**	**578**	873	-	**1,451**	336	-	**1,787**	23	-	**1,810**	28	-	**1,838**	18	**1,856**
National Police Commission	**500**	**3,968**	949	-	**4,917**	2,082	-	**6,999**	1,393	2	**8,390**	184	0.5	**8,574**	-	**8,574**
Administrative Appeals Tribunal	**144**	**144**	61	-	**205**	45	-	**250**	47	2	**295**	40	-	**335**	12	**347**
Commission to Investigate Allegations of Bribery or Corruption	**497**	**1,196**	696	-	**1,892**	494		**2,386**	186	-	**2,572**	883	-	**3,455**	874	**4,329**
Department of Elections	**....**	**....**	985	-	**985**	2,030	313	**2,702**	1,881	-	**4,583**	3,682	-	**8,265**	2,990	**11,255**
Auditor General	**1,966**	**5,352**	2,489	-	**7,841**	1,194	-	**9,035**	4,642	-	**13,677**	2741	-	**16,418**	6,225	**22,643**
Office of the Parliamentary Commissioner for Administration	**87**	**160**	-	-	**160**	68	1	**227**	122	-	**349**	152	-	**501**	514	**1,015**
Office of the Finance Commission	**194**	**759**	55	-	**814**	180	-	**994**	3	19	**978**	15	-	**993**	1,661	**2,654**
National Education Commission	**424**	**875**	486	-	**1,361**	71	-	**1,432**	313	-	**1,745**	788	-	**2,533**	472	**3,005**
Human Rights Commission of Sri Lanka												905	-	**905**	1,305	**2,210**
Ministry of Buddha Sasana & Religious Affairs	**50**	**220**	2,394	-	**2,614**	964	-	**3,578**	600	-	**4,178**	1134	-	**5,312**	752	**6,064**
Ministry of Finance & Planning	**2,225**	**7,366**	18,804	10,082	**16,088**	4,984	-	**21,072**	5,139	1,492	**24,719**	4,264	-	**28,983**	5,050	**34,033**
Ministry of Defence	**1,876**	**13,307**	25,902	36	**39,173**	36,913	-	**76,086**	74,647	-	**150,733**	23,947	-	**174,680**	56,023	**230,703**
Ministry of Plan Implementation & Monitoring	**....**	**....**	9,056	-	**9,056**	2,605	-	**11,661**	2,242	832	**13,071**	618	1,264	**12,425**	-	**12,425**
Ministry of Economic Development	**....**	**....**	-	-	**....**	424	-	**424**	2,369	-	**2,793**	2,607	-	**5,400**	2,740	**8,140**
Ministry of Disaster Management	**....**	**....**	7,628	-	**7,628**	1,341	-	**8,969**	1,299	-	**10,268**	657	21	**10,904**	1,798	**12,702**
Ministry of Tourism	**271**	**929**	497	58	**1,368**	1,358	65	**2,661**	596	-	**3,257**	425	366	**3,316**	-	**3,316**
Ministry of Post & Telecommunications	**....**	**754**	1,083	-	**1,837**	1,904	-	**3,741**	3,392	-	**7,133**	1,919	-	**9,052**	2,507	**11,559**
Ministry of Justice	**4,937**	**125,085**	196,326	-	**321,411**	70,746	-	**392,157**	3,265	-	**395,422**	8,736	-	**404,158**	7,683	**411,841**

Notes to Financial Statements *contd...*

2102-Office Equipment

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Health	-	....	-	-	....	68,310	380	67,930	-	-	67,930	162,354	15,039	215,245	138,364	353,609
Ministry of External Affairs	1,921	14,645	63,114	294	77,465	76,591	23	154,033	66,336	591	219,778	48,860	225	268,413	73,517	341,930
Ministry of Ports & Aviation	1,627	3,767	1,533	-	5,300	439	-	5,739	1,419	-	7,158	904	-	8,062	826	8,888
Ministry of Transport	23,001	23,001	1,497	-	24,498	877	-	25,375	1,336	-	26,711	588	-	27,299	817	28,116
Ministry of Petroleum Industries	....	....	3,012	-	3,012	3,585	-	6,597	2,044	-	8,641	913	-	9,554	1,130	10,684
Ministry of Co-operative and Internal Trade	161	432	1,849	-	2,281	444	-	2,725	777	-	3,502	1,251	-	4,753	2,096	6,849
Ministry of Highways	690	1,840	2,424	-	4,264	719	-	4,983	2,124	63	7,044	1,412	-	8,456	8,539	16,995
Ministry Agricultural	2,466	8,616	6,928	-	15,544	5,019	-	20,563	2,621	-	23,184	1,741	263	24,662	4,002	28,664
Ministry of Power & Energy	227	355	1,936	-	2,291	2,203	-	4,494			4,494	1,854	-	6,348	1,551	7,899
Ministry of Child Development & Women's Empowerment	62	5,318	4,156	-	9,474	5,994	-	15,468	50	-	15,518	1,235	-	16,753	2,846	19,599
Ministry of Public Administration & Home Affairs	3,659	16,823	7,319	-	24,142	12,259	-	36,401	5,382	-	41,783	3,556	-	45,339	16,194	61,533
Ministry of Mass Media & Information	....	1,783	3,000	-	4,783	1,982	-	6,765	543	-	7,308	2,189	-	9,497	1,020	10,517
Ministry of Construction,Engineering Services, Housing & Common Amenities	279	1,050	1,535		2,585	857		3,442	887	105	4,224	621	54	4,791	1,959	6,750
Ministry of Social Services	....	....	3,414	-	3,414	1,727	-	5,141	671	-	5,812	850	-	6,662	1,647	8,309
Ministry of Housing & Common Amenities	1,177	5,587	633	-	6,220	2,211	-	8,431	1,703	-	10,134	405	-	10,539	-	10,539
Ministry of Education	20,709	1,505,227	1,402,286	-	2,907,513	1,435,051	-	4,342,564	23,603	43	4,366,124	47,463	408	4,413,179	1,192,490	5,605,669
Ministry of Labour Relations & Productivity Improvement	....	3,069	4,149	183	7,035	2,733	150	9,618	1,755	-	11,373	2,046	-	13,419	1,315	14,734
Ministry of Traditional Industries & Small Enterprises Development	....	....	-	-	....	765	-	765	830	-	1,595	566	-	2,161	1,033	3,194
Ministry of Vocational & Technical Training	5,057	354,300	300	-	354,600	1,617	-	356,217	663	-	356,880	3,251	-	360,131	-	360,131
Ministry of Local Government & Provincial Councils	357	357	1,777	-	2,134	2,085	-	4,219	2,029	-	6,248	1,526	-	7,774	2,588	10,362
Ministry of Enterprise Development & Investment Promotion	....	2,276	5,361	-	7,637	2,965	-	10,602	-	-	10,602	-	-	10,602	-	10,602
Ministry of Technology and Research	3,265	7,530	6,216	-	13,746	11,626	-	25,372	11,125	-	36,497	13,986	15	50,468	20,159	70,627
Ministry of National Languages & Social Integration	724	1,478	64	-	1,542	6,646	-	8,188	1,188	-	9,376	7,175	-	16,551	1,474	18,025
Ministry of Plantation Industries	2,455	4,126	1,495	-	5,621	1,955	-	7,576	6,803	-	14,379	3,295	5	17,669	3,180	20,849
Ministry of Sports			-	-		-	-	-	2,375	-	2,375	1,191	-	3,566	3,442	7,008
Ministry of Indigenous Medicine	....	719	571	-	1,290	1,586	-	2,876	958	-	3,834	1206	-	5,040	6,258	11,298
Ministry of Fisheries & Aquatic Resources Development	1,523	7,206	5,567	-	12,773	45,230	-	58,003	28,193	1,051	85,145	4,823	-	89,968	5,492	95,460
Ministry of Livestock & Rural Community Development	....	....	1,016	-	1,016	2,182	-	3,198	872	-	4,070	180	19	4,231	1,179	5,410

Notes to Financial Statements *contd...*

2102-Office Equipment

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of National Heritage and Cultural Affairs	....	**19,745**	20,721	-	**40,466**	1,998	-	**42,464**	20,352	-	**62,816**	21,892	-	**84,708**	20,735	**105,443**
Ministry of Parliamentary Affairs	**532**	**532**	175	-	**707**	1,127	-	**1,834**	394	-	**2,228**	763	-	**2,991**	934	**3,925**
Ministry of Re-Settlement	....	....	2,217	-	**2,217**	3,550	-	**5,767**	1,444	-	**7,211**	1,850	-	**9,061**	1,590	**10,651**
Ministry of Industry and Commerce	**446**	**446**	1,668	63	**2,051**	1,949	-	**4,000**	2,302	-	**6,302**	1,009	-	**7,311**	1,602	**8,913**
Ministry of Foreign Employment Promotion & Welfare	....	....	2,076	-	**2,076**	552	-	**2,628**	1,890	-	**4,518**	442	-	**4,960**		**4,960**
Ministry of Irrigation & Water Resources Management	....	....	3,652	-	**3,652**	1,560	-	**5,212**	1,441	-	**6,653**	543	-	**7,196**	3,408	**10,604**
Ministry of Lands & Land Development	**1,943**	**1,943**	-	-	**1,943**	-	-	**1,943**	3,539	-	**5,482**	3,161	13	**8,630**	3,312	**11,942**
Ministry of Youth Affairs	....	**2,525**	1,395	-	**3,920**	4,800	-	**8,720**	877	-	**9,597**	63	-	**9,660**	4,856	**14,516**
Ministry of Environment	**146**	**11,320**	947	-	**12,267**	4,334	21	**16,580**	1,780	103	**18,257**	966	54	**19,169**	1,090	**20,259**
Ministry of Internal Administration	**-**	....	-	-	....	524	-	**524**	379	-	**903**	432	-	**1,335**	-	**1,335**
Ministry of Youth Empowerment & Socio Economic Development	**-**	....	-	-	....	5,159	410	**4,749**	1,000	-	**5,749**	4,591	-	**10,340**	-	**10,340**
Ministry of Community Development & Social Inequity Eradication	**675**	**675**	-	-	**675**	3,521	-	**4,196**	455	-	**4,651**	204	15	**4,840**	-	**4,840**
Ministry of Nation Heritage	**-**	....	-	-	....	2,941	-	**2,941**	558	-	**3,499**			**3,499**	-	**3,499**
Ministry of Water Supply & Drainage	**-**	**-**	-	-	....	3,277	-	**3,277**	1,537	-	**4,814**	1,498	-	**6,312**	702	**7,014**
Ministry of Export Development & International Trade	**-**	**-**	-	-	....	1,236	-	**1,236**	166	-	**1,402**	156	-	**1,558**	-	**1,558**
Ministry of Public Estate Management & Development	**-**	**-**	-	-	....	6,922	-	**6,922**	1,223	32	**8,113**	1205	-	**9,318**	-	**9,318**
Ministry of Construction & Engineering Services	**-**	**-**	-	-	....	12,282	-	**12,282**	2,175	132	**14,325**	1494	-	**15,819**	-	**15,819**
Ministry of Special Projects	**-**	**-**	-	-	....	4,070	-	**4,070**	108	4,178	**-**			**-**	-	**-**
Ministry of Higher Education	**-**	**-**	-	-	....	1,252	-	**1,252**	1,935	-	**3,187**	258	-	**3,445**	153,965	**157,410**
Ministry of Public Management Reforms													-	**-**	5,148	**5,148**
Ministry of Rehabilitation and Prison Reforms													-	**-**	2,610	**2,610**
Ministry of State Resources & Enterprise Development	**-**	**-**	-	-	....	8,654	-	**8,654**	1,246	-	**9,900**	1,047	-	**10,947**	649	**11,596**
Department of Buddhist Affairs	**3,795**	**7,344**	964	-	**8,308**	980	-	**9,288**	704	-	**9,992**	236	-	**10,228**	457	**10,685**
Department of Muslim Religious & Cultural Affairs	**616**	**635**	248	-	**883**	528	-	**1,411**	94	-	**1,505**	41	-	**1,546**	150	**1,696**
Department of Christian Religious Affairs	....	**-**	-	-	....	173	-	**173**	254	-	**427**	819	-	**1,246**	286	**1,532**
Department of Hindu Religious & Cultural Affairs	**739**	**781**	753	-	**1,534**	1,171	-	**2,705**	1,028	-	**3,733**	293	-	**4,026**	490	**4,516**
Department of Public Trustee	....	**515**	78	-	**593**	662	-	**1,255**	248	-	**1,503**	211	-	**1,714**	326	**2,040**
Department of Cultural Affairs	....	**3,059**	1,606	-	**4,665**	1,318	-	**5,983**	1,913	-	**7,896**	759	-	**8,655**	906	**9,561**
Department of Archaeology	**1,279**	**3,196**	1,404	-	**4,600**	5,662	-	**10,262**	5,100	-	**15,362**	2,817	-	**18,179**	2,945	**21,124**
Department of National Museums	**500**	**5,217**	4,461	-	**9,678**	1,548	-	**11,226**	4,360	-	**15,586**	1,710	-	**17,296**	2,429	**19,725**
Department of National Archives	**3,281**	**6,445**	3,554	-	**9,999**	7,513	-	**17,512**	1,905	-	**19,417**	1,066	-	**20,483**	1,870	**22,353**

Notes to Financial Statements *contd...*

2102-Office Equipment

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Department of Information	....	**785**	2,392	-	**3,177**	645	-	**3,822**	5,399	-	**9,221**	2,602	-	**11,823**	1,305	**13,128**
Department of Government Printer	....	**1,684**	3,780	-	**5,464**	2,808	-	**8,272**	1,583	-	**9,855**	1,552	-	**11,407**	1,664	**13,071**
Department of Examinations	....	**499**	1,493	-	**1,992**	1,028	-	**3,020**	780	-	**3,800**	914	-	**4,714**	94,273	**98,987**
Department of Educational Publications	**349**	**693**	-	-	**693**	642	-	**1,335**	468	-	**1,803**	594	-	**2,397**	926	**3,323**
Department of Technical Education & Training	**7,444**	**14,940**	10,000	-	**24,940**	12,047	-	**36,987**	2,856	-	**39,843**	3,111	-	**42,954**	6,988	**49,942**
Department of Social Services	**1,257**	**5,650**	3,554	-	**9,204**	7,746	-	**16,950**	992	-	**17,942**	552	-	**18,494**	2,873	**21,367**
Department of Probation & Child Care	**300**	**1,154**	1,155	-	**2,309**	839	-	**3,148**	524	300	**3,372**	310	-	**3,682**	324	**4,006**
Department of Commissioner General of Samurdhi	....	**703**	1,782	-	**2,485**	1,047	-	**3,532**	180	-	**3,712**	285	-	**3,997**	2,402	**6,399**
Department of Ayurveda	**3,316**	**5,879**	3,932	-	**9,811**	4,216	-	**14,027**	5,277	-	**19,304**	3,170	-	**22,474**	6,769	**29,243**
Department of Labour	**10,682**	**63,348**	12,818	-	**76,166**	2,911	-	**79,077**	1,128	-	**80,205**	830	-	**81,035**	707	**81,742**
Sri Lanka Army	....	**32,916**	72,081	-	**104,997**	67,007	-	**172,004**	129,295	-	**301,299**	87,997	-	**389,296**	109,982	**499,278**
Sri Lanka Navy	**34,298**	**34,298**	-	-	**34,298**	35,272	-	**69,570**	-	-	**69,570**	-	-	**69,570**	29,560	**99,130**
Sri Lanka Air Force	**2,810**	**32,689**	20,021	2,021	**50,689**	26,985	8,583	**69,091**	9,276	825	**77,542**	99,667	5,721	**171,488**	38,295	**209,783**
Department of Police	....	**....**	-	-	**....**	146,389	-	**146,389**	-	-	**146,389**	-	-	**146,389**	120,313	**266,702**
Department of Immigration & Emigration	**573**	**28,520**	8,293	-	**36,813**	2,570	-	**39,383**	1,924	-	**41,307**	420	-	**41,727**	1,554	**43,281**
Department of Registration of Persons	**1,312**	**2,034**	1,006	-	**3,040**	844	-	**3,884**	659	-	**4,543**	1,611	-	**6,154**	864	**7,018**
Courts Administration	**17,204**	**33,866**	25,620	-	**59,486**	35,272	-	**94,758**	40,032	-	**134,790**	51,404	-	**186,194**	29,973	**216,167**
Department of Attorney General	**3,615**	**6,362**	2,532	-	**8,894**	5,436	-	**14,330**	2,709	-	**17,039**	4,884	-	**21,923**	9,229	**31,152**
Department of Legal Draftsman	**501**	**1,212**	553	-	**1,765**	486	-	**2,251**	4,095	-	**6,346**	10,477	75	**16,748**	15,945	**32,693**
Department of Debt Conciliation Board	....	**-**	-	-	**-**	231	-	**231**	87	-	**318**	98	-	**416**	99	**515**
Department of Prisons	**1,463**	**3,721**	2,824	-	**6,545**	13,001	-	**19,546**	9,534	-	**29,080**	15,533	-	**44,613**	11,814	**56,427**
Department of Government Analyst	**995**	**2,456**	996	-	**3,452**	17,997	-	**21,449**	17,577	5	**39,021**	20,819	-	**59,840**	49,981	**109,821**
Registrar of Supreme Court	**2,415**	**2,574**	2,736	-	**5,310**	2,993	-	**8,303**	3,008	-	**11,311**	7,572	-	**18,883**	682	**19,565**
Department of Law Commission	**352**	**352**	600	-	**952**	1,230	-	**2,182**	930	-	**3,112**	970	-	**4,082**	659	**4,741**
Department of Official Languages	**15**	**115**	277	-	**392**	256	-	**648**	-	-	**648**	178	-	**826**	61	**887**
Department of National Planning	**1,151**	**6,196**	232	-	**6,428**	3,610	-	**10,038**	3,220	-	**13,258**	1,527	-	**14,785**	567	**15,352**
Department of Fiscal Policy	....	**4,163**	334	-	**4,497**	-	-	**4,497**	65	-	**4,562**	97	18	**4,641**	818	**5,459**
Department of External Resources	**1,192**	**10,433**	5,976	-	**16,409**	10,888	-	**27,297**			**27,297**	578	-	**27,875**	1,918	**29,793**
Depatment of National Budget	**138**	**646**	83	-	**729**	228	-	**957**	250	-	**1,207**	4,676	-	**5,883**	25	**5,908**
Department of Public Enterprise	**782**	**1,305**	175	-	**1,480**	1,129	-	**2,609**	1,677	-	**4,286**	4,095	2,560	**5,821**	505	**6,326**
Department of Management Services	**1,945**	**3,161**	1,321	-	**4,482**	1,412	-	**5,894**	16	-	**5,910**	457	5	**6,362**	548	**6,910**
Department of Development Finance	....	**187**	172	-	**359**	143	-	**502**	-	-	**502**	46	-	**548**	72	**620**
Department of Trade Tariff & Investment Policy	....	**-**	-	-	**....**	736	-	**736**	720	10	**1,446**	18	20	**1,444**	20	**1,464**
Department of Public Finance	**1,518**	**1,772**	557	-	**2,329**	3,032	-	**5,361**	-	-	**5,361**	28	-	**5,389**	289	**5,678**
Department of Inland Revenue	**986**	**8,245**	32,672	-	**40,917**	8,166	-	**49,083**	5,323	-	**54,406**	9,749	-	**64,155**	9,228	**73,383**
Department of Customs	....	**722**	-	-	**722**	17,756	-	**18,478**	-	-	**18,478**	25,919	-	**44,397**	100,000	**144,397**

Notes to Financial Statements *contd...*

2102-Office Equipment

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Department of Excise	697	1,744	6,902	-	8,646	5,346	-	13,992	3,614	-	17,606	4,062	-	21,668	4,130	25,798
Department of Treasury Operations	....	....	277	-	277	140	-	417	114	-	531	1,581	-	2,112	900	3,012
Department of State Accounts	846	1,703	374	-	2,077	1,095	-	3,172	-	-	3,172	685	-	3,857	932	4,789
Department of Valuation	396	984	794	-	1,778	1,833	-	3,611	4,775	-	8,386	1699	-	10,085	10,000	20,085
Department of Census & Statistics	1,016	3,010	1,629	-	4,639	1,587	98	6,128	1,431	-	7,559	4,836	156	12,239	26,499	38,738
Department of Pensions	767	4,542	3,659	-	8,201	3,228	-	11,429	2,883	-	14,312	2,503	-	16,815	4,741	21,556
Department of Registrar General	....	2,812	3,240	-	6,052	12,174	-	18,226	9,431	-	27,657	1,832	-	29,489	8,033	37,522
District Secretariat - Colombo	3,131	14,978	2,447	-	17,425	33,888	-	51,313	3,718	26	55,005	12,582	8	67,579	15,220	82,799
District Secretariat - Gampaha	1,499	2,178	1,948	-	4,126	15,976	-	20,102	2,765	-	22,867	1,895	-	24,762	1,947	26,709
District Secretariat - Kalutara	920	2,418	2,961	-	5,379	22,582	-	27,961	5,983	36	33,908	1,088	-	34,996	6,647	41,643
District Secretariat- Kandy	746	2,242	2,551	-	4,793	39,824	-	44,617	6,810	-	51,427	4,226	-	55,653	7,436	63,089
District Secretariat - Matale	1,691	3,688	1,850	-	5,538	19,502	-	25,040	3,364	1	28,403	4,126	53	32,476	3,489	35,965
District Secretariat- Nuwara Eliya	475	2,468	1,458	-	3,926	15,267	-	19,193	6,884	-	26,077	5,094	-	31,171	5,490	36,661
District Secretariat - Galle	3,918	7,177	1,984	-	9,161	29,992	-	39,153	7,412	-	46,565	5,942	75	52,432	6,999	59,431
District Secretariat -Matara	1,375	10,146	2,549	-	12,695	20,827	-	33,522	4,631	-	38,153	6,371	-	44,524	11,984	56,508
District Secretariat -Hambantota	2,135	4,403	3,000	-	7,403	14,981	-	22,384	3,718	-	26,102	4,946	-	31,048	6,449	37,497
District Secretariat -Jaffna	....	3,797	3,696	-	7,493	19,994	-	27,487	3,719	-	31,206	8,200	-	39,406	5,749	45,155
District Seretariat-Mannar	....	499	2,748	-	3,247	5,414	-	8,661	4,566	-	13,227	4,979	-	18,206	5,949	24,155
District Seretariat-Vavuniya	....	899	1,240	-	2,139	5,874	-	8,013	3,255	-	11,268	997	-	12,265	3,956	16,221
District Seretariat-Mulativu	500	894	2,479	-	3,373	4,419	-	7,792			7,792	2,113	-	9,905	2,969	12,874
District Seretariat-Kilinochchi	365	1,365	1,499	-	2,864	8,985	-	11,849	2,150	-	13,999	7,999	-	21,998	8,495	30,493
District Seretariat-Batticaloa	998	6,194	1,698	-	7,892	11,584	-	19,476	4,330	-	23,806	4,977	-	28,783	4,496	33,279
District Seretariat-Ampara	850	2,321	1,458	-	3,779	17,191	-	20,970	2,361	-	23,331	6,179	-	29,510	20,073	49,583
District Seretariat-Trincomalee	2,993	3,992	2,938	-	6,930	7,801	-	14,731	1,098	-	15,829	2,683	-	18,512	3,842	22,354
District Seretariat-Kurunegala	4,583	7,730	2,803	-	10,533	51,421	-	61,954	4,845	-	66,799			66,799	4,830	71,629
District Seretariat-Puttalam	999	2,729	2,499	-	5,228	14,999	-	20,227	4,394	-	24,621	3,850	-	28,471	2,794	31,265
District Seretariat-Anuradhapura	1,186	2,983	2,752	-	5,735	19,560	-	25,295	3,711	-	29,006	4,403	-	33,409	4,791	38,200
District Seretariat-Polonnaruwa		2,000	1,991	-	3,991	6,972	-	10,963	5,424	-	16,387	5,065	-	21,452	7,153	28,605
District Seretariat-Badulla	988	3,584	2,987	-	6,571	22,206	-	28,777	6,163	-	34,940	1,972	8	36,904	2,464	39,368
District Seretariat-Monaragala	989	2,994	2,117	-	5,111	7,870	-	12,981	2,323	-	15,304	3,497	-	18,801	5,992	24,793
District Seretariat-Ratnapura	1,009	2,928	2,226	-	5,154	2,764	-	7,918	2,871	-	10,789	8,394	-	19,183	7,634	26,817
District Seretariat-Kegalle	782	3,274	2,477	-	5,751	20,011	-	25,762	3,988	-	29,750	2736	-	32,486	3,982	36,468
Department of Foreign Aid & Budget Monitoring	....	1,840	2,559	-	4,399	598	-	4,997	397	598	4,796	228	-	5,024	-	5,024
Department of Agrarian Development		3,470	4,678	-	8,148	9,252	-	17,400	4,696	-	22,096	9,040	-	31,136	21,819	52,955
Department of Irrigation	15,177	29,400	22,105	-	51,505	18,986	-	70,491	15,075	13	85,553	23,718	17	109,254	6,524	115,778
Department of Forests	490	988	542	-	1,530	4,958	-	6,488	5,232	-	11,720	3,857	-	15,577	3,998	19,575
Department of Wildlife Conservation	63	2,030	989	-	3,019	1,122	-	4,141	36,412	-	40,553	2,763	-	43,316	18,839	62,155

Notes to Financial Statements *contd...*

2102-Office Equipment

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Department of Agriculture	**10,921**	**15,778**	3,956	-	**19,734**	11,521	-	**31,255**	13,040	67	**44,228**	12,096	-	**56,324**	13,211	**69,535**
Department of Land Commissioner	**1,798**	**3,796**	2,988	-	**6,784**	2,494	-	**9,278**	1,838	-	**11,116**	1,400	-	**12,516**	2,000	**14,516**
Department of Land Settlement	**198**	**1,571**	1,277	-	**2,848**	503	-	**3,351**	800	-	**4,151**	1,429	-	**5,580**	1,274	**6,854**
Department of Surveyor General	**3,386**	**125,364**	2,175	46	**127,493**	4,817	-	**132,310**	1,412	266	**133,456**	148	282	**133,322**	1,591	**134,913**
Department of Export Agriculture	**2,929**	**2,929**	-	-	**2,929**	32	-	**2,961**	2,296	-	**5,257**	2,431	40	**7,648**	2,890	**10,538**
Department of Fisheries and Aquatic Resources	**298**	**2,093**	1,313	-	**3,406**	1,530	-	**4,936**	2,873	-	**7,809**	1,364	231	**8,942**	1,492	**10,434**
Department of Coast Conservation	**692**	**2,586**	696	-	**3,282**	736	-	**4,018**	298	-	**4,316**	68	-	**4,384**	193	**4,577**
Department of Animal Production and Health	**2,296**	**2,296**	5,145	-	**7,441**	4,785	-	**12,226**	7,129	37	**19,318**	2,633	159	**21,792**	5,066	**26,858**
Department of Rubber Development	**....**	**759**	187	-	**946**	3,078	16	**4,008**	1,104	-	**5,112**	2,464	-	**7,576**	982	**8,558**
Department of National Zoological Garden	**211**	**511**	384	-	**895**	642	-	**1,537**	499	-	**2,036**	701	-	**2,737**	352	**3,089**
Department of Commerce	**....**	**1,681**	636	-	**2,317**	789	-	**3,106**	69	-	**3,175**	499	-	**3,674**	436	**4,110**
Department of Import and Export Control	**327**	**506**	716	389	**833**	1,265	-	**2,098**	412	684	**1,826**	987	-	**2,813**	95	**2,908**
Department of the Registrar of Companies	**2**	**215**	-	-	**215**	-	-	**215**	-	-	**215**	-	-	**215**	-	**215**
Department of Measurement Units, Standards & Services	**301**	**630**	375	-	**1,005**	902	-	**1,907**	463	-	**2,370**	-	-	**2,370**	489	**2,859**
National Intellectual property Office of Sri Lanka	**44**	**44**	-	-	**44**	-	-	**44**	-	-	**44**	-	-	**44**	-	**44**
Department of Food Commissioner	**44**	**89**	561	-	**650**	850	-	**1,500**	415	-	**1,915**	213	-	**2,128**	1,368	**3,496**
Department of Co-operative Development	**....**	**629**	1,180	-	**1,809**	493	-	**2,302**	89	-	**2,391**	76	-	**2,467**	100	**2,567**
Co-operative Employees Commission	**....**	**295**	1,080	6	**1,369**	174	3	**1,540**	5	10	**1,535**	61	-	**1,596**	66	**1,662**
Department of Textile Industries	**494**	**919**	198	-	**1,117**	591	-	**1,708**	61	-	**1,769**	144	-	**1,913**	490	**2,403**
Department of Meteorology	**2,218**	**7,019**	660	-	**7,679**	1,942	-	**9,621**	1,105	-	**10,726**	1,193	-	**11,919**	1,090	**13,009**
Department of Upcountry Peasantry Rehabilitation	**49**	**298**	443	-	**741**	-	-	**741**	348	-	**1,089**	255	-	**1,344**	200	**1,544**
Department of Sri Lanka Railways	**....**	**5,839**	3,912	-	**9,751**	434	-	**10,185**	12,122	-	**22,307**	4,643	-	**26,950**	4,874	**31,824**
Department of Motor Traffic	**....**	**1,998**	5,735	75	**7,658**	4,659	-	**12,317**	6,569	-	**18,886**	3,253	-	**22,139**	3,542	**25,681**
Department of Posts	**26,557**	**45,544**	7,200	-	**52,744**	2,356	-	**55,100**	34,612	-	**89,712**	8,758	-	**98,470**	9,816	**108,286**
Department of Buildings	**....**	**1,244**	2,791	-	**4,035**	9,181	-	**13,216**	9281	47	**22,450**	5,622	-	**28,072**	2,907	**30,979**
Government Factory	**240**	**1,010**	862	-	**1,872**	971	-	**2,843**	462	-	**3,305**	637	-	**3,942**	497	**4,439**
Department of National Physical Planning	**1,524**	**2,398**	1,217	-	**3,615**	1,473	-	**5,088**	900	-	**5,988**	105	-	**6,093**	101	**6,194**
Department of Civil Security	**....**	**....**	-	-	**....**	26,075	-	**26,075**	18,576	-	**44,651**	18,459	-	**63,110**	7,484	**70,594**
Department of National Botanical Garden			-	-		-	-	**-**	462	-	**462**			**462**	297	**759**
Department of Legal Affairs	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**-**	225	-	**225**	460	**685**
Department of Management Audit	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**-**	179	-	**179**	131	**310**
Coast Guard Department of Sri Lanka	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**-**	875	-	**875**	5,210	**6,085**
Department of Community Base Corection	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**-**	-	-	**-**	3,433	**3,433**
Ministry of Reconstruction & Development	**....**	**....**	25,238	-	**25,238**	-	-	**25,238**	-	-	**25,238**	-	-	**25,238**	-	**25,238**

Notes to Financial Statements *contd...*

2102-Office Equipment Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Office of the Fomer Prime Minister (Hon.R.Wickramanayake)	10	10	-	-	10	-	-	10	-	-	10	-	-	10	-	10
Ministry of Policy Development & Implementation	....	....	-	-	....	555	-	555	-	-	555	-	-	555	-	555
Ministry of Infrastructure Development in the Eastern Province	....	1,954	-	-	1,954	-	-	1,954	-	-	1,954	-	-	1,954	-	1,954
Ministry of Mahaweli & River Basin Development & Rajarata Development	....	2,445	-	-	2,445	-	-	2,445	-	-	2,445	-	-	2,445	-	2,445
Ministry of Eastern Development & Muslim Religious Affairs	996	996	-	-	996	-	-	996	-	-	996	-	-	996	-	996
Ministry of Home Affairs Provincial Councils & Local Government	1,467	3,374	-	-	3,374	-	-	3,374	-	-	3,374	-	-	3,374	-	3,374
Ministry of Interior	1,130	1,130	-	-	1,130	-	-	1,130	-	-	1,130	-	-	1,130	-	1,130
Ministry of Regional Development	....	2,000	2,397	-	4,397	1,093	-	5,490	-	-	5,490	-	-	5,490	-	5,490
Ministry of Infrastructure Development & Fisheries Housing	....	....	548	-	548		-	548	-	-	548	-	-	548	-	548
Ministry of Coconut Development	....	....	3,790	-	3,790	276	-	4,066	-	-	4,066	-	-	4,066	-	4,066
Ministry of Small & Rural Industries	....	1,496	963	-	2,459	-	-	2,459	-	-	2,459	-	-	2,459	-	2,459
Ministry of Small Holder Development	298	298	-	-	298	-	-	298	-	-	298	-	-	298	-	298
Ministry of Southern Region Development	4,262	4,262	-	-	4,262	-	-	4,262	-	-	4,262	-	-	4,262	-	4,262
Ministry of Western Region Development	458	458	-	-	458	-	-	458	-	-	458	-	-	458	-	458
Ministry of Central Region Development	1,013	1,013	-	-	1,013	-	-	1,013	-	-	1,013	-	-	1,013	-	1,013
Ministry of Rural Economic & Development	1,217	1,217	1,702	-	2,919	287	-	3,206	-	-	3,206	-	-	3,206	-	3,206
Ministry of Samurdhi & Poverty Alleviation	....	....	-	-	....	899	-	899	-	-	899	-	-	899	-	899
Ministry of Skills Development & Public Enterprise Reforms	....	....	4,669	-	4,669	720	-	5,389	-	-	5,389	-	-	5,389	-	5,389
Ministry of New Railroad Development	....	....	1,415	-	1,415	64	-	1,479	-	-	1,479	-	-	1,479	-	1,479
Ministry of Christian & Parliamentary Affairs	....	155	-	-	155	-	-	155	-	-	155	-	-	155	-	155
Ministry of North West Region Development	1,080	1,080	-	-	1,080	-	-	1,080	-	-	1,080	-	-	1,080	-	1,080
Ministry of Relief, Rehabilitation & Reconcilation	1,203	10,616	-	-	10,616	-	-	10,616	-	-	10,616	-	-	10,616	-	10,616
Ministry of Assisting Vanni Rehabilitation	398	398	-	-	398	-	-	398	-	-	398	-	-	398	-	398
Ministry of Promotion of Botanical & Zoological Gardens	....	....	4,031	-	4,031	1,317	-	5,348	-	-	5,348	-	-	5,348	-	5,348
Ministry of Textile Industry Development	....	....	947	-	947	37	-	984	-	-	984	-	-	984	-	984
Ministry of Rural Livelihood Development	....	....	6,721	-	6,721	740	-	7,461	-	-	7,461	-	-	7,461	-	7,461
Total	2,616,091	5,243,858	2,407,640	13,341	7,638,157	4,142,974	10,190	1,770,941	1,000,267	11,570	12,759,638	1,100,791	27,219	3,833,211	2,832,232	16,665,443

Notes to Financial Statements *contd...*

2103-Machinery

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Note 30.1 - MOVABLE ASSETS ACQUIRED SINCE 01.01.2004																
H.E.the President	**3,000**	**9,582**	411,293	-	**420,875**	32,103	-	**452,978**	63,477	-	**516,455**	150,949	-	**667,404**	199,876	**867,280**
Office of the Prime Minister	**2,880**	**59,564**	4,338	-	**63,902**	5,049	2	**68,949**	8,685	-	**77,634**	2,999	-	**80,633**	1,243	**81,876**
Office of the Cabinet of Ministers	**2,084**	**2,517**	1,121	-	**3,638**	709	-	**4,347**	-	-	**4,347**	-	-	**4,347**	947	**5,294**
Parliament	**6,900**	**7,425**	2,067	-	**9,492**	1,500	-	**10,992**	10,407	-	**21,399**	7,273	-	**28,672**	51,237	**79,909**
Office of the Leader of the Opposition of Parliment	**-**	**-**	-	-	**-**	-	-	**-**	461	-	**461**	670	-	**1,131**	-	**1,131**
The Constitutional Council	**25**	**133**	-	-	**133**	-	-	**133**	0	-	**133**	-	-	**133**	-	**133**
Public Service Commission	**400**	**981**	637	-	**1,618**	451	-	**2,069**	139	-	**2,208**	722	-	**2,930**	363	**3,293**
Judicial Service Commission	**....**	**....**	98	-	**98**	36	-	**134**	43	-	**177**	432	-	**609**	183	**792**
National Police Commission	**152**	**1,006**	528	-	**1,534**	-	-	**1,534**	23	-	**1,557**	39	-	**1,596**	25	**1,621**
Administration Appeals Tribunal	**165**	**165**	-	-	**165**	-	-	**165**	-	-	**165**	-	-	**165**	-	**165**
Commission to Investigate Allegations of Bribery or Corruption	**1,656**	**2,521**	1,480	-	**4,001**	544	-	**4,545**	148	-	**4,693**	-	-	**4,693**	-	**4,693**
Department of Elections	**....**		5,006	-	**5,006**	46,192	-	**51,198**	7,174	317	**58,055**	6,744	1,460	**63,339**	6,141	**69,480**
Office of the Finance Commission	**69**	**177**	220	-	**397**	80	-	**477**	31	2	**506**	-	-	**506**	696	**1,202**
National Education Commission	**....**	**....**	25	-	**25**	4	-	**29**	9	-	**38**	495	-	**533**	-	**533**
Human Rights Commission of Sri Lanka	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**-**	421	-	**421**	18	**439**
Ministry of Buddha Sasana & Religious Affairs	**3,673**	**4,970**	462	-	**5,432**	2,198	-	**7,630**	574	-	**8,204**	469	-	**8,673**	619	**9,292**
Ministry of Finance & Planning	**14**	**312**	250	-	**562**	4,056	-	**4,618**	457	-	**5,075**	49	-	**5,124**	4,232	**9,356**
Ministry of Defence	**5,311**	**14,579**	4,911	14	**19,476**	99,608	-	**119,084**	545,384	-	**664,468**	10,090	-	**674,558**	15,375	**689,933**
Ministry of Plan Implementation			-	-		-	-	**-**	1,626	-	**1,626**	-	-	**1,626**	-	**1,626**
Ministry of Economic Development	**....**	**....**	-	-	**....**	1,216	-	**1,216**	1,102	-	**2,318**	1,168	-	**3,486**	1,795	**5,281**
Ministry of Disaster Management	**....**	**....**	2,431	-	**2,431**	16,677	-	**19,108**	1,294	-	**20,402**	532	-	**20,934**	1,170	**22,104**
Ministry of Tourism	**624**	**1,113**	696	-	**1,809**	492	-	**2,301**	666	-	**2,967**	1,861	105	**4,723**	-	**4,723**
Ministry of Posts & Telecommunications	**....**	**1,234**	3,934	-	**5,168**	165	-	**5,333**	0	-	**5,333**	-	-	**5,333**	1,107	**6,440**
Ministry of Justice	**....**	**75**	236	-	**311**	480	-	**791**	221	-	**1,012**	-	-	**1,012**	-	**1,012**
Ministry of Health	**....**	**....**	-	-	**....**	321,358	9,585	**311,773**	0	-	**311,773**	666,862	13,469	**965,166**	1,598,499	**2,563,665**
Ministry of External Affairs	**....**	**5,242**	8,506	5	**13,743**	3,708	144	**17,307**	10,954	-	**28,261**	11,758	-	**40,019**	20,671	**60,690**
Ministry of Port & Aviation	**1,583**	**1,583**	1,050	-	**2,633**	2,258	-	**4,891**	1,578	-	**6,469**	1,880	-	**8,349**	1,085	**9,434**
Ministry of Transport	**78,900**	**78,900**	1,978	-	**80,878**	2,058	-	**82,936**	1,909	-	**84,845**	1,330	-	**86,175**	1,189	**87,364**
Ministry of Petroleum Industries	**....**	**....**	1,606	-	**1,606**	1,952	-	**3,558**	1,111	-	**4,669**	207	-	**4,876**	61	**4,937**
Ministry of Co-operative and Internal Trade	**....**	**1,160**	2,219	-	**3,379**	830	-	**4,209**	2,128	-	**6,337**	1,434	-	**7,771**	5,103	**12,874**
Ministry of Highways	**543**	**1,597**	2,083	-	**3,680**	41,600	-	**45,280**	1,073	-	**46,353**	1,759	-	**48,112**	35,290	**83,402**
Ministry of Agriculture	**38**	**1,217**	1,072	-	**2,289**	73,783	-	**76,072**	945,560	-	**1,021,632**	641,776	-	**1,663,408**	307,246	**1,970,654**
Ministry of Power & Energy	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**-**	135	-	**135**	1,690	**1,825**
Ministry of Child Development & Women's Empowerment	**57**	**2,429**	70	-	**2,499**	903	-	**3,402**	385	-	**3,787**	246	-	**4,033**	889	**4,922**

Notes to Financial Statements *contd...*

2103-Machinery Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Public Administration & Home Affairs	**270**	**1,685**	2,668	-	**4,353**	6,853	-	**11,206**	6,883	-	**18,089**	989	-	**19,078**	4,757	**23,835**
Ministry of Mass Media & Information	**....**	**3,186**	2,200	-	**5,386**	5,614	-	**11,000**	2,302	-	**13,302**	1,939	-	**15,241**	1,886	**17,127**
Ministry of Construction Engineering Services, Housing & Common Amenities	**214**	**654**	999	-	**1,653**	1,103	-	**2,756**	1,364	-	**4,120**	1,077	7	**5,190**	1,250	**6,440**
Ministry of Social Service	**....**	**....**	5,517	-	**5,517**	4,387	-	**9,904**	279	-	**10,183**	249	-	**10,432**	1,933	**12,365**
Ministry of Housing and Common amenities	**1,553**	**1,981**	395	-	**2,376**	1,012	-	**3,388**	786	-	**4,174**	266	-	**4,440**	-	**4,440**
Ministry of Education	**9,837**	**45,340**	44,711	-	**90,051**	56,489	-	**146,540**	8,762	89	**155,213**	5,903	6	**161,110**	13,924	**175,034**
Ministry of Labour Relations & Productivity Improvement	**....**	**5,707**	8,700	-	**14,407**	15,981	-	**30,388**	2,318	-	**32,706**	3,943	-	**36,649**	3,538	**40,187**
Ministry of Traditionall Industries & Small Enterprise Development	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**-**	3,010	-	**3,010**	983	**3,993**
Ministry of Vocational & Technical Training	**2,663**	**26,408**	200	-	**26,608**	208	-	**26,816**	2,842	-	**29,658**	-	-	**29,658**	-	**29,658**
Ministry of Local Government & Provincial Councils	**495**	**495**	1,842	-	**2,337**	1,137	-	**3,474**	1,807	-	**5,281**	1,445	-	**6,726**	3,553	**10,279**
Ministry of Enterprise development & Investment Promotion	**....**	**1,411**	-	-	**1,411**	-	-	**1,411**	-	-	**1,411**	-	-	**1,411**	-	**1,411**
Ministry of Technology and Research	**....**	**....**	-	-	**....**	4,583	-	**4,583**	5,896	-	**10,479**	5,304	-	**15,783**	5,884	**21,667**
Ministry of National Languages and Social Integration	**....**	**203**	887	-	**1,090**	346	-	**1,436**	269	-	**1,705**	330	-	**2,035**	3,650	**5,685**
Ministry of Sports				-		-	-	**-**	331	-	**331**	691	-	**1,022**	3,737	**4,759**
Ministry of Indigenous Medicine	**....**	**221**	147	-	**368**	195	-	**563**	1,235	-	**1,798**	654	-	**2,452**	7,036	**9,488**
Ministry of Fisheries & Aquatic Resources Development	**3,454**	**4,042**	934	-	**4,976**	7,760	2,580	**10,156**	33,004	8,287	**34,873**	41,519	7,832	**68,560**	61,029	**129,589**
Ministry of Livestock & Rural Community Development	**-**	**-**	1,914	-	**1,914**	1,203	-	**3,117**	961	-	**4,078**	2,250	-	**6,328**	2,212	**8,540**
Ministry of National Heritage & Cultural Affairs	**....**	**1,291**	1,584	-	**2,875**	793	-	**3,668**	1,120	-	**4,788**	3,814	-	**8,602**	1,782	**10,384**
Ministry of Parliamentary Affairs	**150**	**150**	36	-	**186**	136	-	**322**	77	-	**399**	54	-	**453**	859	**1,312**
Ministry of Re-Settlement	**....**	**....**	529	-	**529**	16,681	-	**17,210**	2,296	-	**19,506**	6,136	-	**25,642**	1,398	**27,040**
Ministry of Industrial and Commerce	**434**	**434**	1,900	-	**2,334**	2,355	-	**4,689**	2,624	-	**7,313**	2,734	-	**10,047**	2,860	**12,907**
Ministry of Foreign Employment Promotion & Welfare	**....**	**....**	3,027	-	**3,027**	1,345	-	**4,372**	1,698	-	**6,070**	135	-	**6,205**	-	**6,205**
Ministry of Irrigation & Water Resources Management	**....**	**....**	-	-	**....**	591	-	**591**	221	-	**812**	123	-	**935**	89	**1,024**
Ministry of Lands and Land Development			-	-		-	-	**-**	12,922	-	**12,922**	2,985	-	**15,907**	-	**15,907**
Ministry of Youth Affairs	**....**	**6,803**	4,126	-	**10,929**	3,816	-	**14,745**	883	-	**15,628**	238	-	**15,866**	269	**16,135**

Notes to Financial Statements *contd...*

2103-Machinery

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Environment	**438**	**7,715**	1,596	-	**9,311**	1,607	37	**10,881**	1,963	-	**12,844**	1,938	-	**14,782**	2,699	**17,481**
Ministry of Internal Administration	....	....	-	-	....	4,703	-	**4,703**	4,921	-	**9,624**	314	-	**9,938**	-	**9,938**
Ministry of Youth Empowerment & Socio Economic Development	....	....	-	-	....	3,909	660	**3,249**	929	-	**4,178**	-	-	**4,178**	-	**4,178**
Ministry of Community Development & Social Inequity Eradication	**1,437**	**1,437**	-	-	**1,437**	3,325	-	**4,762**	1,007	-	**5,769**	-	-	**5,769**	-	**5,769**
Ministry of National Heritage	....	....	-	-	....	1,596	-	**1,596**	-	-	**1,596**	-	-	**1,596**	-	**1,596**
Ministry of Water Supply & Drainage	....	....	-	-	....	3,256	-	**3,256**	988	-	**4,244**	1,007	-	**5,251**	2,013	**7,264**
Ministry of Export Development & International Trade	....	....	-	-	....	2,252	-	**2,252**	556	-	**2,808**	1,087	66	**3,829**	-	**3,829**
Ministry of Public Estate Management & Development	....	....	-	-	....	462	-	**462**	1,309	-	**1,771**	673	-	**2,444**	-	**2,444**
Ministry of Construction & Engineering Services	....	....	-	-	....	3,579	-	**3,579**	701	15	**4,265**	736	-	**5,001**	-	**5,001**
Ministry of Special Projects	....	....	-	-	....	226	-	**226**	4	230	**-**	-	-	**-**	-	**-**
Ministry of Higher Education	....	....	-	-	....	3,667	-	**3,667**	1,545	-	**5,212**	126	-	**5,338**	559	**5,897**
Ministry of State Resources and Enterprise Development	....	....	-	-	....	3,349	-	**3,349**	269	-	**3,618**	344	-	**3,962**	78	**4,040**
Ministry of Public Management Reforms	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**-**		-	**-**	3,135	**3,135**
Ministry of Rehabilitation and Prison Reforms	**-**	**-**	-	-	**-**	-	-	**-**	-	-	**-**		-	**-**	4,173	**4,173**
Department of Muslim Religious & Cultural Affairs	**867**	**1,648**	-	-	**1,648**	253	-	**1,901**	7	-	**1,908**	85	-	**1,993**	128	**2,121**
Department of Christian Religious Affairs	**-**	**-**	-	-		-	-	**-**	180	-	**180**	215	-	**395**	2	**397**
Department of Hindu Religious & Cultural Affairs	**-**	**-**	-	-		-	-	**-**	103	-	**103**	72	-	**175**	285	**460**
Department of Public Trustee	**-**	**-**	-	-	....	797	-	**797**	551	-	**1,348**	67	-	**1,415**	32	**1,447**
Department of Cultural Affairs	....	**504**	931	-	**1,435**	1,914	-	**3,349**	3,471	-	**6,820**	805	-	**7,625**	8,358	**15,983**
Department of Archaeology	**2,976**	**4,195**	339	-	**4,534**	756	-	**5,290**	382	-	**5,672**	145	-	**5,817**	2,331	**8,148**
Department of National Museums	**5,982**	**7,038**	399	-	**7,437**	561	-	**7,998**	353	-	**8,351**	204	-	**8,555**	259	**8,814**
Department of National Archives	**4,846**	**6,705**	253	-	**6,958**	6,456	-	**13,414**	4,225	-	**17,639**	2,171	-	**19,810**	9,448	**29,258**
Department of Information	....	**10,860**	9,197	-	**20,057**	18,058	-	**38,115**	7,818	-	**45,933**	4,125	-	**50,058**	3,509	**53,567**
Department of Government Printer	....	**17,016**	43,061	-	**60,077**	96,456	-	**156,533**	106,485	-	**263,018**	25,282	-	**288,300**	89,449	**377,749**
Department of Examinations	....	**5,096**	5,001	-	**10,097**	1,763	-	**11,860**	2,141	-	**14,001**	2,461	-	**16,462**	1,409	**17,871**
Department of Educational Publications	**8**	**8**	-	-	**8**	-	-	**8**	383	-	**391**	412	-	**803**	96	**899**
Department of Technical Education &Training	**41,559**	**64,575**	31,027	-	**95,602**	7,690	-	**103,292**	20,533	-	**123,825**	841	-	**124,666**	1,960	**126,626**
Department of Social Services	....	....	44	-	**44**	779	-	**823**	914	-	**1,737**	335	-	**2,072**	315	**2,387**
Department of Probation & Child Care	**600**	**886**	4	-	**890**	227	-	**1,117**	129	-	**1,246**	243	-	**1,489**	437	**1,926**

Notes to Financial Statements *contd...*

2103-Machinery

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Department of Sports Development	2,188	2,835	19,038	-	21,873	18,017	-	39,890	-	-	39,890	5,523	-	45,413	24,910	70,323
Department of Ayurveda	413	3,054	4,808	-	7,862	3,613	-	11,475	3,771	-	15,246	377	-	15,623	9,271	24,894
Department of Labour	15,663	29,885	13,676	-	43,561	141,928	-	185,489	20,424	-	205,913	24,397	-	230,310	59,804	290,114
Sri Lanka Army	....	28,065	45,948	-	74,013	312,745	-	386,758	483,652	-	870,410	680,340	-	1,550,750	966,749	2,517,499
Sri Lanka Navy	323,588	323,588	530,000	187,000	666,588	230,313	2,824	894,077	34,673	-	928,750	55,620	1,823	982,547	504,259	1,486,806
Sri Lanka Air Force	8,999	35,148	11,018	-	46,166	4,198,862	1,693,213	2,551,815	5,253,175	613,742	7,191,248	1,615,583	328,375	8,478,456	357,002	8,835,458
Department of Police	....	....	-	-	....	442,799	-	442,799	-	-	442,799	-	-	442,799	301,101	743,900
Department of Immigration & Emigration	23,720	24,915	87,635	-	112,550	46,033	-	158,583	39,396	-	197,979	19,610	-	217,589	9,358	226,947
Department of registration of Persons	667	3,237	1,758	-	4,995	7,456	-	12,451	685	-	13,136	1,434	-	14,570	1,500	16,070
Department of Attorney General	....	....	-	-	....	5,799	-	5,799	-	-	5,799	-	-	5,799	-	5,799
Department of Legal Draftsman	562	562	-	-	562	-	-	562	-	-	562	-	-	562	-	562
Department of Prisons	5,666	10,092	6,445	-	16,537	6,271	-	22,808	4,973	-	27,781	11,667	-	39,448	8,817	48,265
Department of Supreme Court	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,159	1,159
Department of Official Languages	676	1,876	599	-	2,475	-	-	2,475	34	-	2,509	169	-	2,678	-	2,678
Department of National Planning	....	....	3,334	-	3,334	-	-	3,334	-	-	3,334	-	-	3,334	-	3,334
Department of Fiscal Policy	....	....	1,555	-	1,555	796	-	2,351	113	-	2,464	1,351	-	3,815	-	3,815
Depatment of National Budget	3,293	6,339	5,425	-	11,764	2,170	-	13,934	455	-	14,389	-	-	14,389	-	14,389
Department of Public Enterprises			-	-		-	-	-	922	-	922	-	6	916	-	916
Department of Management Service	-	-	-	-	-	-	-	-	-	-	-	110	-	110	-	110
Department of Development Finance	....	....	-	-	....	33	-	33	-	-	33	-	-	33	-	33
Department of Trade Tariff & Investment Policy			-	-	....	1,964	-	1,964	994	-	2,958	9	-	2,967	-	2,967
Department of Public Finance	....	178	-	-	178	-	-	178	-	-	178	-	-	178	-	178
Department of Inland Revenue	3,381	7,913	24,009	-	31,922	32,390	-	64,312	13,587	-	77,899	15,199	-	93,098	8,900	101,998
Department of Excise	293	680	1,935	-	2,615	3,870	-	6,485	3,962	-	10,447	1906	-	12,353	390	12,743
Department of Treasury Operations	....	-	-	-	....	1,318	-	1,318	1,139	-	2,457	-	-	2,457	-	2,457
Department of State Accounts	500	1,501	147	-	1,648	-	-	1,648	-	-	1,648	-	-	1,648	-	1,648
Department of Valuation	653	1,390	792	-	2,182	2,488	-	4,670	12,041	-	16,711	34,000	-	50,711	496	51,207
Department of Census & Statistics	1,002	4,415	1,797	-	6,212	10,066	48	16,230	6,728	-	22,958	10,677	66	33,569	-	33,569
Department of Pensions	237	299	-	-	299	1,679	-	1,978	2,385	-	4,363	2,520	-	6,883	5,697	12,580
Department of Registrar General	....	....	357	-	357	734	-	1,091	2,397	-	3,488	1,902	-	5,390	3,633	9,023
District Secretariat-Colombo	....	....	172	-	172	29,997	-	30,169	2,453	-	32,622	4,073	-	36,695	4,397	41,092
District Secretariat-Gampaha	....	1,298	3,543	-	4,841	2,437	-	7,278	1,849	-	9,127	1,857		10,984	3,697	14,681
District Secretariat-Kalutara	....	....	2,354	-	2,354	10,939	-	13,293	1,658	-	14,951	960	-	15,911	2,489	18,400
District Secretariat-Kandy	47	47	1,425	-	1,472	873	-	2,345	1,836	-	4,181	825	-	5,006	1,994	7,000
District Secretariat-Matale	380	380	1,499	-	1,879	877	-	2,756	755	15	3,496	1,020	4	4,512	1,398	5,910
District Secretariat-Nuwara Eliya	1,526	2,510	1,596	-	4,106	-	-	4,106	971	-	5,077	2,158	-	7,235	2,189	9,424

Notes to Financial Statements *contd...*

2103-Machinery

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
District Secretariat-Galle	274	1,088	2,851	-	3,939	4,846	-	8,785	1,825	-	10,610	1,181	32	11,759	5,433	17,192
District Secretariat-Matara	14	372	1,474	-	1,846	798	-	2,644	1,835	-	4,479	1,642	-	6,121	2,412	8,533
District Secretariat-Hambantota	400	400	2,034	-	2,434	445	-	2,879	651	-	3,530	1,499	-	5,029	225	5,254
District Secretariat-Jaffna	....	96	1,995	-	2,091	1,771	-	3,862	1,343	-	5,205	598	-	5,803	868	6,671
District Seretariat-Mannar	....	....	-	-	....	1,678	-	1,678	373	-	2,051	1,949	-	4,000	1,698	5,698
District Seretariat-Vavuniya	....	172	915	-	1,087	998	-	2,085	924	-	3,009	1,552	-	4,561	998	5,559
District Seretariat-Mulativu	....	....	1,258	-	1,258	2,111	-	3,369			3,369	773	-	4,142	2,838	6,980
District Seretariat-Kilinochchi	....	....	825	-	825	1,998	-	2,823	1,499	-	4,322	2,607	-	6,929	1,485	8,414
District Seretariat-Batticaloa	....	....	1,277	-	1,277	-	-	1,277	890	-	2,167	966	-	3,133	991	4,124
District Seretariat-Ampara	499	2,384	1,879	-	4,263	4,973	-	9,236	1,179	-	10,415	4,785	-	15,200	9,424	24,624
District Seretariat-Trincomalee	....	....	604	-	604	-	-	604	-	-	604	-	-	604	2,000	2,604
District Seretariat-Kurunegala	48	97	6,055	-	6,152	400	-	6,552	16	-	6,568			6,568	2,980	9,548
District Seretariat-Puttalam	....	....	-	-	....	798	-	798	922	-	1,720	1,995	-	3,715	734	4,449
District Seretariat-Anuradhapura	184	314	2,768	-	3,082	1,748	-	4,830	1,648	-	6,478	1,620	-	8,098	2,376	10,474
District Seretariat-Polonnaruwa	....	101	1,536	-	1,637	496	-	2,133	-	-	2,133	1,695	-	3,828	1,693	5,521
District Seretariat-Badulla	....	....	1,934	-	1,934	1,907	-	3,841	2,751	-	6,592	997	-	7,589	6,488	14,077
District Seretariat-Monaragala	....	400	1,264	-	1,664	500	-	2,164	1,997	-	4,161	2,000	-	6,161	2,500	8,661
District Seretariat-Ratnapura	101	176	1,268	-	1,444	115	-	1,559	320	-	1,879	-	-	1,879	-	1,879
District Seretariat-Kegalle	....	....	1,315	-	1,315	-	-	1,315	1,006	-	2,321	822	-	3,143	-	3,143
Department of Foreign Aid & Budget Monitoring	....	....	3,545	-	3,545	-	-	3,545	-	-	3,545	-	-	3,545	-	3,545
Department of Agrarian Development	....	....	-	-	....	14,705	-	14,705	3,099	-	17,804	14,095	-	31,899	7,246	39,145
Department of Irrigation	14,833	38,625	7,067	-	45,692	10,649	-	56,341	121,780	-	178,121	175,070	-	353,191	197,497	550,688
Department of Forests	500	998	-	-	998	649	-	1,647	989	-	2,636	958	-	3,594	985	4,579
Department of Wildlife Conservation	860	1,847	483	-	2,330	1,122	-	3,452	128,005	-	131,457	663	-	132,120	284	132,404
Department of Agriculture	4,536	5,504	11,530	-	17,034	35,740	-	52,774	6,292	148	58,918	6,601	-	65,519	21,937	87,456
Department of Land Settlement	327	327	-	-	327	380	-	707	-	-	707	-	-	707	1,968	2,675
Department of Survey	22,333	22,333	39,210	27	61,516	13,991	-	75,507	11,829	22	87,314	2,963	1,051	89,226	21,034	110,260
Department of Export Agriculture	1,130	1,130	-	-	1,130	-	-	1,130	2,881	-	4,011	6,679	57	10,633	5,465	16,098
Department of Fisheries and Aquatic Resources	603	8,540	8,259	-	16,799	3,380	-	20,179	5,712	-	25,891	3,719	7	29,603	3,927	33,530
Department of Coast Conservation	....	1,055	1,447	-	2,502	8,925	-	11,427	293	-	11,720	413	-	12,133	500	12,633
Department of Animal Production and Health	2,254	2,254	39,569	-	41,823	40,878	-	82,701	11,745	6	94,440	8,684	35	103,089	6,338	109,427
Department of Rubber Development			-	-		-	-	-	1,822	-	1,822	1,986	-	3,808	403	4,211
Department of National Zoological Garden	5,262	9,345	4,924	-	14,269	5,598	-	19,867	4,552	-	24,419	4,176	-	28,595	4,403	32,998

Notes to Financial Statements *contd...*

2103-Machinery Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Department of Commerce	....	1,330	792	-	2,122	799	-	2,921	471	-	3,392	491	-	3,883	460	4,343
Department of Measurement Units, Standards & Services	10,496	41,874	37,025	-	78,899	40,162	-	119,061	21,238	-	140,299	1,728	-	142,027	34,427	176,454
Department of Food Commissioner	....	....	45	-	45	871	-	916	-	-	916	235	-	1,151	4,513	5,664
Department of Co-operative Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-	193	193
Co-operative Employees Commission	....	258	40	-	298	-	-	298	-	-	298	67	-	365	84	449
Department of Textile Industries	....	....	165	-	165	-	-	165	-	-	165	-	-	165	-	165
Department of Meteorology	4,492	6,048	3,793	-	9,841	176,706	-	186,547	163,364	-	349,911	7,961	-	357,872	42,448	400,320
Department of Sri Lanka Railways	-	....	-	-	....	923	-	923	54,486	-	55,409	111,340	-	166,749	116,307	283,056
Department of Motor Traffic	....	4,799	22,229	100	26,928	28,172	-	55,100	23,534	-	78,634	12,114	-	90,748	71,075	161,823
Department of Posts	48	416	70,214	-	70,630	5,783	-	76,413	16,944	-	93,357	4,152	-	97,509	7,399	104,908
Department of Buildings	....	....	2,650	-	2,650	-	-	2,650	-	-	2,650	-	-	2,650	514	3,164
Government Factory	600	2,816	11,433	-	14,249	3,841	-	18,090	9,062	-	27,152	2,762	-	29,914	2,440	32,354
Department of National Physical Planning	225	1,710	1,921	-	3,631	1,945	-	5,576	61	-	5,637	99	-	5,736	78	5,814
Department of Civil Security		-	-	-	....	42,887	-	42,887	122,225	-	165,112	172,242	-	337,354	89,980	427,334
Department of National Botanical Gardens			-	-		-	-	-	270	-	270			270	291	561
Department of Management Audit	-	-	-	-	-	-	-	-	-	-	-	233	-	233	-	233
Coast Guard Department of Sri Lanka	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,075	23,075
Office of the Fomer Prime Minister (Hon.R.Wickramanayake)	43	43	-	-	43	-	-	43	-	-	43	-	-	43	-	43
Ministry of Policy Development & Implementation	3,339	3,339	-	-	3,339	-	-	3,339	-	-	3,339	-	-	3,339	-	3,339
Ministry of Reconstruction & Development	....	....	2,468	-	2,468	-	-	2,468	-	-	2,468	-	-	2,468	-	2,468
Ministry of Infrastructure Development in the Eastern Province	....	1,374	-	-	1,374	-	-	1,374	-	-	1,374	-	-	1,374	-	1,374
Ministry of Mahaweli & River Basin Development & Rajarata Development	....	606	-	-	606	-	-	606	-	-	606	-	-	606	-	606
Ministry of Eastern Development & Muslim Religious Affairs	947	947	-	-	947	-	-	947	-	-	947	-	-	947	-	947
Ministry of Home Affairs, Provincial Councils & Local Government	889	2,082	-	-	2,082	-	-	2,082	-	-	2,082	-	-	2,082	-	2,082

Notes to Financial Statements *contd...*

2103-Machinery

Rs '000'

Name of Institution	2004	2005	2006			2007			2008			2009			2010	
	Balance	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Disposal	Balance	Additions	Balance
Ministry of Interior	1,356	1,356	-	-	1,356	-	-	1,356	-	-	1,356	-	-	1,356	-	1,356
Ministry of Regional Development	....	....	522	-	522	588	-	1,110	-	-	1,110	-	-	1,110	-	1,110
Ministry of Infrastructure Development & Fisheries Housing	....	....	276	-	276	-	-	276	-	-	276	-	-	276	-	276
Ministry of Small & Rural Industries	....	559	31	-	590	-	-	590	-	-	590	-	-	590	-	590
Ministry of Southern Region Development	328	328	-	-	328	-	-	328	-	-	328	-	-	328	-	328
Ministry of Western Region Development	328	328	-	-	328	-	-	328	-	-	328	-	-	328	-	328
Ministry of Rural Economic Development	....	....	4,570	-	4,570	375	-	4,945	-	-	4,945	-	-	4,945	-	4,945
Ministry of Samurdhi & Poverty Alleviation	....	....	-	-	....	398	-	398	-	-	398	-	-	398	-	398
Ministry of Skills Development & Public Enterprise Reforms	....	....	1,103	-	1,103	2,061	-	3,164	-	-	3,164	-	-	3,164	-	3,164
Ministry of New Railroad Development	....	....	3,991	-	3,991	1,029	-	5,020	-	-	5,020	-	-	5,020	-	5,020
Ministry of Christian & Parliamentary Affairs	....	147	-	-	147	-	-	147	-	-	147	-	-	147	-	147
Ministry of North West Region Development	1,032	1,032	-	-	1,032	-	-	1,032	-	-	1,032	-	-	1,032	-	1,032
Ministry of Relief , Rehabilitation & Reconcilation	692	12,377	-	-	12,377	-	-	12,377	-	-	12,377	-	-	12,377	-	12,377
Ministry of Assisting Vanni Rehabilitation	155	155	-	-	155	-	-	155	-	-	155	-	-	155	-	155
Ministry of Promotion of Botanical & Zoological Gardens	....	....	181	-	181	331	-	512	-	-	512	-	-	512	-	512
Ministry of Textile Industry Development	....	....	1,279	-	1,279	-	-	1,279	-	-	1,279	-	-	1,279	-	1,279
Ministry of Rural Livelihood Development	....	....	3,918	-	3,918	603	-	4,521	-	-	4,521	-	-	4,521	-	4,521
Total	658,439	1,112,848	1,719,282	187,146	2,644,984	8,977,024	1,709,093	9,912,915	8,484,227	622,873	17,774,269	4,701,175	354,401	22,121,043	5,584,743	27,705,786

Notes to Financial Statements *contd...*

Note - 31 Statement of Contingent Liabilities

(A) STATEMENT OF BANK GUARANTEES ISSUED BY THE TREASURY UP TO 31.12.2010

No:	Name of Institution	Name of The Bank or Institution	Guaranteed Amount (Rs. Mn.)	Date of Issue	Date of Expiry	Capital Outstanding (Rs. Mn.)
1	Grayline International Pvt. Ltd.	People's Bank	400.00	11/08/1994	08/08/1996	351.00
2	Urban Development Authority	National Savings Bank	500.00	17/08/1999	01/07/2010	37.50
3	Overseas Reality Ceylon Pvt. Ltd.	SR & CC & Terriorism Fund (NITF)	500.00	14/02/2000	31/12/2007	395.82
4	Galadari Hotel Lanka Ltd.	SR & CC & Terriorism Fund (NITF)	350.00	14/02/2000	31/12/2007	350.00
5	Hospitality International Pvt. Ltd.	SR & CC & Terriorism Fund (NITF)	7.03	14/02/2000	31/12/2007	3.09
6	Galadari Hotel Lanka Ltd.	SR & CC & Terriorism Fund (NITF)	45.83	14/02/2000	31/12/2007	45.83
7	Hotel Developer's Lanka Ltd.	SR & CC & Terriorism Fund (NITF)	236.25	14/02/2000	31/12/2007	113.75
8	Co-operative Whole Sale Establishment	People's Bank	207.10	02/02/2005	31/03/2010	207.10
9	Sri Lanka Consumer Co-operative Societies Federation Ltd.	People's Bank	50.00	31/07/2006	31/07/2009	46.90
10	Lakdanavi Ltd.	National Savings Bank	2,992.00	22/02/2007	31/03/2022	2,992.00
11	Lakdanavi Ltd.	Employee's Trust Fund Board	2,992.00	01/03/2007	31/03/2022	2,992.00
12	West Coast Power Pvt. Ltd.	Hongkong & Shanghai Banking Co.Ltd.	22,248.08	28/06/2007	28/06/2022	21,729.30
13	Merchant Bank of Sri Lanka	Employee's Trust Fund Board	430.00	10/01/2008	10/01/2010	430.00
14	Ceylon Electricity Board 300MW Kerawalapitiya Combine Cycle Power Plant Project	People's Bank	4,116.00	07/05/2008	03/03/2023	4,116.00
15	Ceylon Electricity Board	People's Bank	1,683.00	11/06/2008	09/10/2023	1,683.00
16	Ceylon Petrolleum Corporation	Bank of Ceylon	80,500.00	09/09/2008	31/12/2009	80,500.00
17	Ceylon Electricity Board	People's Bank	2,661.98	29/09/2008	31/12/2011	2,661.98
18	People's Bank Pension Trust Fund	People's Bank	2,500.00	17/12/2008	16/12/2016	2,500.00
19	Ipologama Housing Project "Api Wenuwen Api" Fund	Bank of Ceylon	2,112.60	19/01/2009	19/01/2011	1,847.74
20	V Srimuhunthaar (Jt) Lankabarana Tea Factory	Seylan Bank	5.04	25/02/2009	25/02/2011	4.53
21	State Trading (Co-operative Wholesale) Company Ltd.	People's Bank	1,150.00	13/03/2009	31/05/2010	7.70
22	St. Micheael Tea Factory	Seylan Bank	3.36	27/03/2009	27/03/2011	3.03
23	Parakaduwa Tea Factory/MD Ariyasena	DFCC Bank	25.00	30/03/2009	30/03/2011	15.91
24	Madulsima Plantations PLC	Hatton National Bank PLC	96.04	01/04/2009	01/04/2011	68.02
25	Nawalakanda Tea Factory & Wewalkandura Tea Factory	Hatton National Bank PLC	60.00	01/04/2009	01/04/2011	42.50
26	Yahaladuwa Tea Manufactures	DFCC Bank	3.10	06/04/2009	06/04/2011	2.71
27	Derangala Hills Tea Factory	DFCC Bank	18.00	07/04/2009	07/04/2011	15.30
28	Cee Tee Hills Tea Factory	DFCC Bank	20.25	23/04/2009	23/04/2011	18.56
29	Kunduppa Kande Tea Factory	Hatton National Bank PLC	16.52	27/04/2009	27/04/2011	15.97
30	Morapitiya Tea Company Pvt. Ltd.	DFCC Bank	17.00	28/04/2009	28/04/2011	14.73
31	Hasaliya Tea Factory	Hatton National Bank PLC	3.39	28/04/2009	28/04/2011	3.16
32	Bandarahena Tea Factory	People's Bank	15.00	29/04/2009	29/04/2011	13.25
33	Menik Valley Plantation Pvt. Ltd.	DFCC Bank	13.50	05/05/2009	05/05/2011	11.72
34	Udumullagoda Thea Karmantha Shalawa	DFCC Bank	11.00	05/05/2009	05/05/2011	9.72
35	Needwood Tea Factory	DFCC Bank	8.00	07/05/2009	07/05/2011	7.07
36	Avissawella Tea Factory	National Development Bank PLC	17.00	11/05/2009	11/05/2011	15.02
37	Ivy Hills Tea Factory Pvt. Ltd.	Hatton National Bank PLC	12.24	14/05/2009	14/05/2011	11.63
38	Sirimevana Tea Factory	Hatton National Bank PLC	5.04	15/05/2009	15/05/2011	4.70

Notes to Financial Statements *contd...*

Note - 31 Statement of Contingent Liabilities

(A) STATEMENT OF BANK GUARANTEES ISSUED BY THE TREASURY UP TO 31.12.2010

No:	Name of Institution	Name of The Bank or Institution	Guaranteed Amount (Rs. Mn.)	Date of Issue	Date of Expiry	Capital Outstanding (Rs. Mn.)
39	Liyanage Tea Factory	DFCC Vardhana Bank	11.00	16/05/2009	16/05/2011	11.00
40	Kongahawatte Tea Factory	Hatton National Bank PLC	22.00	18/05/2009	18/05/2011	17.23
41	The Haughton Tea Company Pvt. Ltd.	DFCC Bank	10.20	19/05/2009	19/05/2011	9.01
42	Producers of Ceylon Tea Pvt. Ltd.	DFCC Bank	13.40	19/05/2009	19/05/2011	11.48
43	Anglo Ceylon Pvt. Ltd.	Commercial Bank	15.00	21/05/2009	21/05/2011	11.25
44	Uduella Thea Karmantha Shalawa	DFCC Bank	7.00	22/05/2009	22/05/2011	6.23
45	Thiruwanakanda Thea Kamhala	DFCC Bank	4.00	22/05/2009	22/05/2011	3.53
46	Thotupolawatta Tea Factory	Bank of Ceylon	2.75	22/05/2009	22/05/2011	2.47
47	Sesame Senhora Tea Co.	Hatton National Bank PLC	23.00	27/05/2009	27/05/2011	21.46
48	Falcon Tea Factory	Sampath Bank	24.00	27/05/2009	27/05/2011	18.00
49	Neluwa Thiniyawala Thea Karmantha Shalawa	DFCC Bank	10.20	28/05/2009	28/05/2011	9.35
50	M/S Mussendapotha Estate Ltd.	Commercial Bank	6.15	28/05/2009	28/05/2011	5.84
51	New Vithanakanda Tea Factory Pvt. Ltd.	DFCC Bank	37.00	02/06/2009	02/06/2011	32.68
52	Kumudu Tea Factory	Hatton National Bank PLC	9.00	03/06/2009	03/06/2011	8.40
53	Cey T Produce Pvt. Ltd.	Hatton National Bank PLC	5.80	03/06/2009	03/06/2011	5.41
54	Ranvila Plantaations Pvt. Ltd.	DFCC Bank	13.30	04/06/2009	04/06/2011	11.77
55	Hillview Tea Factory Pvt. Ltd.	DFCC Bank	7.90	08/06/2009	08/06/2011	7.30
56	Elpitiya Plantation Ltd.	Bank of Ceylon	73.18	09/06/2009	09/06/2011	59.80
57	Spring View Tea Factory Pvt. Ltd.	DFCC Bank	11.30	10/06/2009	10/06/2011	10.55
58	Unity Tea Kamhala	DFCC Bank	10.00	10/06/2009	10/06/2011	7.08
59	Nilgiri Tea Factory	DFCC Bank	6.30	10/06/2009	10/06/2011	4.47
60	Suviska Thea Karmantha Shalawa	DFCC Bank	7.40	11/06/2009	11/06/2011	5.25
61	Hidellana Tea Factory	Sampath Bank	25.00	11/06/2009	11/06/2011	22.50
62	K L Ariyadasa	Hatton National Bank PLC	14.70	12/06/2009	12/06/2011	13.97
63	Kurugama Tea Factory	Commercial Bank	9.32	15/06/2009	15/06/2011	8.54
64	Seevali Hill Tea Factory Pvt. Ltd.	Commercial Bank	3.00	15/06/2009	15/06/2011	2.70
65	Seevali Hill Tea Factory Pvt. Ltd.	Commercial Bank	4.00	15/06/2009	15/06/2011	3.60
66	Green House Plantation Pvt. Ltd.	Commercial Bank	8.00	15/06/2009	15/06/2011	7.00
67	Sihara Thea Karmantha Shalawa	DFCC Bank	10.00	16/06/2009	16/06/2011	9.17
68	Dampahala Tea Co Pvt. Ltd.	DFCC Bank	4.50	16/06/2009	16/06/2011	3.42
69	M/S Neptune Tea Factory	Commercial Bank	8.46	19/06/2009	19/06/2011	7.76
70	Neluwa Lelwala Thea Karmantha Shalawa	DFCC Bank	12.00	22/06/2009	22/06/2011	11.03
71	Dediyagala Tea Factory Pvt. Ltd.	DFCC Bank	5.90	22/06/2009	22/06/2011	5.31
72	Three Times Tea Pvt. Ltd.	DFCC Bank	4.75	24/06/2009	24/06/2011	4.27

Notes to Financial Statements *contd...*

Note - 31 Statement of Contingent Liabilities

(A) STATEMENT OF BANK GUARANTEES ISSUED BY THE TREASURY UP TO 31.12.2010

No:	Name of Institution	Name of The Bank or Institution	Guaranteed Amount (Rs. Mn.)	Date of Issue	Date of Expiry	Capital Outstanding (Rs. Mn.)
73	M/S Gunawardena Tea Factory	Commercial Bank	5.00	24/06/2009	24/06/2011	3.96
74	Haycock Velly Tea Factory	Commercial Bank	5.50	24/06/2009	24/06/2011	5.32
75	New Diyagala Tea Factory	Hatton National Bank PLC	10.47	26/06/2009	26/06/2011	9.59
76	Horana Plantations PLC	People's Bank	77.00	26/06/2009	26/06/2011	60.90
77	Agalawatte Plantations PLC	Sampath Bank	25.31	26/06/2009	26/06/2011	25.31
78	Lucky Thea Karmantha Shalawa	DFCC Bank	14.40	29/06/2009	29/06/2011	13.26
79	Weihena Tea Factory	Hatton National Bank PLC	7.48	29/06/2009	29/06/2011	7.11
80	Mahaliyada Tea Factory	Hatton National Bank PLC	14.05	29/06/2009	29/06/2011	13.34
81	Danawala Tea Factory	Hatton National Bank PLC	8.43	29/06/2009	29/06/2011	8.01
82	Kegalle Plantations PLC	National Development Bank PLC	44.00	29/06/2009	29/06/2011	30.50
83	Namunukula Plantations PLC	National Development Bank PLC	29.00	29/06/2009	29/06/2011	20.50
84	Maskeliya Plantations PLC	National Development Bank PLC	179.00	29/06/2009	29/06/2011	136.50
85	Davidson Tea Company Pvt. Ltd.	National Development Bank PLC	4.30	29/06/2009	29/06/2011	3.87
86	Hedigalla Tea Factory	Commercial Bank	10.00	30/06/2009	30/06/2011	9.33
87	Uva Halpewatte Estate Ltd.	Commercial Bank	17.90	01/07/2009	01/07/2011	17.00
88	New Baddegama Tea Factory	DFCC Bank	2.00	02/07/2009	02/07/2011	1.80
89	Deenside Tea Factory	Hatton National Bank PLC	6.26	03/07/2009	03/07/2011	5.48
90	M/S Kirilipana Tea Factory	Bank of Ceylon	2.40	03/07/2009	03/07/2011	1.73
91	Kahawatta Plantation	Bank of Ceylon	75.00	07/07/2009	07/07/2011	59.38
92	E.K. Buuddipala	Bank of Ceylon	2.59	08/07/2009	08/07/2011	2.41
93	M/S Kirilipana Tea Factory	Bank of Ceylon	2.00	09/07/2009	09/07/2011	2.00
94	Doralawitiyehena Tea Factory Pvt. Ltd. Factory A	DFCC Bank	12.90	10/07/2009	10/07/2011	12.04
95	Doralawitiyehena Tea Factory Pvt. Ltd. Factory B	DFCC Bank	18.06	10/07/2009	10/07/2011	16.85
96	Athukorala Tea Factory	Hatton National Bank PLC	4.05	10/07/2009	10/07/2011	3.87
97	Hillneeds Plantation	Bank of Ceylon	6.98	14/07/2009	14/07/2011	-
98	Peak View Tea Factory	National Development Bank PLC	32.65	15/07/2009	15/07/2011	29.93
99	Kuttapitiya Tea Factory	National Development Bank PLC	20.70	15/07/2009	15/07/2011	18.98
100	Galpaditanne Tea Factory	National Development Bank PLC	57.40	16/07/2009	16/07/2011	52.64
101	M/S Henatenna Tea Factory Pvt. Ltd.	Commercial Bank	8.22	16/07/2009	16/07/2011	7.40
102	Imbulgahagoda Tea Factroy	Commercial Bank	3.00	21/07/2009	21/07/2011	2.67
103	Dandeniya Hills Thea Karmantha Shalawa	DFCC Bank	7.50	22/07/2009	22/07/2011	6.91
104	Adams View Tea Factory Pvt. Ltd.	National Development Bank PLC	18.30	24/07/2009	24/07/2011	16.39
105	Mosville Tea Factory	Hatton National Bank PLC	5.00	30/07/2009	30/07/2011	4.83
106	Goorookoya Tea Factory	People's Bank	4.99	30/07/2009	30/07/2011	3.74

Notes to Financial Statements *contd...*

Note - 31 Statement of Contingent Liabilities

(A) STATEMENT OF BANK GUARANTEES ISSUED BY THE TREASURY UP TO 31.12.2010

No:	Name of Institution	Name of The Bank or Institution	Guaranteed Amount (Rs. Mn.)	Date of Issue	Date of Expiry	Capital Outstanding (Rs. Mn.)
107	Coolbawn Tea Factory	People's Bank	8.34	30/07/2009	30/07/2011	5.21
108	Kallumale Tea Factory	People's Bank	5.88	30/07/2009	30/07/2011	3.68
109	A.S.D.S. Ketanwila Tea Factory	Commercial Bank	4.00	30/07/2009	30/07/2011	3.87
110	Kodagoda Tea Factory	Hatton National Bank PLC	4.43	31/07/2009	31/07/2011	4.18
111	Kelaniya Braemar Tea Factory	Hatton National Bank PLC	2.20	31/07/2009	31/07/2011	2.09
112	Nalvin View Tea Factory	DFCC Bank	22.90	01/08/2009	01/08/2011	21.37
113	New Kandagastenna Tea Factory	DFCC Bank	36.20	01/08/2009	01/08/2011	33.79
114	A.N. Lanka Pvt. Ltd.	Commercial Bank	7.96	07/08/2009	07/08/2011	7.43
115	Bentota Power Generators Pvt. Ltd./Bentota Tea Factory	DFCC Bank	3.00	14/08/2009	14/08/2011	2.90
116	Green Lanka Management	DFCC Bank	1.75	19/08/2009	19/08/2011	1.67
117	L.P. Fernando & Sons	DFCC Bank	1.60	19/08/2009	19/08/2011	1.50
118	Danduwangalawatta Tea Factory/MD Ariyasena	DFCC Bank	20.00	01/09/2009	01/09/2011	18.33
119	Danduwangalawatta Tea Factory/MD Ariyasena	DFCC Bank	15.00	01/09/2009	01/09/2011	13.75
120	Ceylon Petroleum Storage Terminals Ltd.	People's Bank	437.00	03/09/2009	06/04/2010	109.00
121	Rakadahena Tea Factory	Hatton National Bank PLC	15.31	03/09/2009	03/09/2011	14.99
122	Ceylon Electricity Board	People's Bank	8,000.00	07/09/2009	10/03/2010	5,770.00
123	Kanthisisri Tea Factory	Hatton National Bank PLC	9.57	28/09/2009	28/09/2011	9.25
124	Hill Garden Tea Factory	Bank of Ceylon	24.66	28/09/2009	28/09/2011	23.83
125	Ceylon Petroleum Corporation	Bank of Ceylon	25,000.00	29/09/2009	27/09/2011	25,000.00
126	Ever Green Factory	Bank of Ceylon	34.98	30/09/2009	30/09/2011	34.40
127	Ceylon Petroleum Storage Terminals Ltd.	People's Bank	4,634.50	09/10/2009	06/10/2019	2,822.00
128	Mulatiyana Tea Factory	Commercial Bank	14.90	09/10/2009	09/10/2011	14.65
129	Ehalakanda Tea Factory	Bank of Ceylon	7.36	12/10/2009	12/10/2011	7.11
130	Dishan Valley Thea Kamhala	DFCC Bank	17.00	13/10/2009	13/10/2011	16.72
131	Watawala Plantation	Commercial Bank	148.87	16/10/2009	16/10/2011	143.87
132	People's Bank Pension Trust Fund	People's Bank	2,500.00	23/10/2009	22/10/2017	2,500.00
133	Cooruwatte Tea Factory	Hatton National Bank PLC	8.00	04/11/2009	04/11/2011	8.00
134	Urban Development Authority	National Savings Bank	2,770.00	06/11/2009	18/11/2024	1,388.70
135	Marakanda Tea Factory	Commercial Bank	4.80	06/11/2009	06/11/2011	4.80
136	Agarapathana Plantation	Bank of Ceylon	129.06	13/11/2009	13/11/2011	122.64
137	Kirimetideniya Thea Kamhala	DFCC Bank	10.45	18/11/2009	18/11/2011	8.85
138	Muswanna Tea Factory	Bank of Ceylon	7.00	18/11/2009	18/11/2011	6.85
139	Rotuba Tea Factory	Commercial Bank	3.50	20/11/2009	20/11/2011	3.50
140	Mihin Lanka Pvt. Ltd.	Bank of Ceylon	1,552.50	25/11/2009	24/11/2012	1,519.26

Notes to Financial Statements *contd...*

Note - 31 Statement of Contingent Liabilities

(A) STATEMENT OF BANK GUARANTEES ISSUED BY THE TREASURY UP TO 31.12.2010

No:	Name of Institution	Name of The Bank or Institution	Guaranteed Amount (Rs. Mn.)	Date of Issue	Date of Expiry	Capital Outstanding (Rs. Mn.)
141	STC General Trading Company Ltd.	People's Bank	440.00	30/11/2009	26/05/2010	129.39
142	Karagoda Tea Factory	DFCC Bank	14.00	04/12/2009	04/12/2011	12.37
143	Rathnayake Tea Factory	Bank of Ceylon	4.00	11/12/2009	11/12/2011	4.00
144	STC General Trading Company Ltd.	Bank of Ceylon	1,125.00	22/12/2009	22/03/2010	1,055.93
145	Kelani Valley Plantations PLC	National Development Bank PLC	110.00	24/12/2009	24/12/2011	-
146	SriLankan AirLines Ltd.	Bank of Ceylon	1,150.00	30/12/2009	30/10/2010	-
147	Ceylon Electricity Board	People's Bank	5,000.00	17/08/2010	31/07/2016	-
148	Ministry of Defence/Urban Development Authority	Bank of Ceylon	10,000.00	-	-	-
149	Mihin Lanka	Bank of Ceylon	252.27	-	25/11/2012	1,771.00
150	West Coast Power Pvt. Ltd.	Hatton National Bank PLC	2,825.00	-	-	2,825.00
151	Lanka Sathosa Ltd.	People's Bank	124.00	12/07/2010	05/07/2010	124.00
152	Corporative Wholesales Establishment	Commercial Bank	287.21	18/11/2003	14/11/2016	132.56
153	Nilwala Tea Factory	People's Bank	15.00	24/12/2009	-	7.50
154	Sri Lanka Airforce	People's Bank	11,230.97	-	-	3,912.48
155	Corporative Wholesales Establishment	People's Bank	625.00	14/11/2003	14/11/2016	625.00
	GRAND TOTAL		**206,877.85**	**-**	**-**	**212,097.32**

Notes to Financial Statements *contd...*

(B) Statement of Letters of Comfort Issued to Local Banks and the Liability as at 31.12.2010

No:	Name of Institution	Name of The Bank	Total Value of Letter of Comfort Issued (Value in Mn.)	Date of Issue	Liability as at 31.12.2010 (Rs. in Million)
1	Sri Lanka Air Force		2,227.90	21.12.2004	466.90
2	Sri Lanka Air Force		597.22	19.07.2005	128.16
3	Sri Lanka Air Force	People's Bank	4,918.40	19.07.2005	2,008.51
4	Sri Lanka Air Force		337.21	13.09.2009	245.85
5	Sri Lanka Air Force		973.21	29.12.2008	973.21
6	Sri Lanka Army		9,874.50	-	9,874.50
7	Sri Lanka Navy		4,199.70	18.02.2009	4,199.70
8	Secretary to the President		11.30	30.10.2009	11.30
9	Secretary to the Prime Minister		61.50	27.11.2009	61.50
10	Police Department		101.40	08.12.2009	101.40
11	Special Task Force		112.60	16.12.2009	112.60
12	Government Printing Department		27.00	12.08.2009	27.00
13	Department of Civil Security		289.50	11.09.2009	289.50
14	Ministry of Fisheries		126.80	02.12.2009	126.80
15	Department of Immigration and Emigration		5.50	08.12.2009	5.50
16	Ministry of Defence	Bank of Ceylon	1.20	09.12.2009	1.20
17	Ministry of Environment		10.30	15.12.2009	10.30
18	Ministry of Social Services		10.40	15.12.2009	10.40
19	Ministry of Youth Affairs		27.20	15.12.2009	27.20
20	Ministry of Water Supply		3.50	16.12.2009	3.50
21	Ministry of Public Administration		5.20	17.12.2009	5.20
22	Ministry of Posts and Telecommunications		10.50	30.12.2009	10.50
23	Ministry of Disaster Management		6.00	30.12.2009	6.00
24	Ministry of Ports		12.30	-	12.30
25	Ministry of Industries		6.30	-	6.30
26	Ministry of National Languages		2.60	-	2.60
	TOTAL		**23,959.24**	**-**	**18,727.93**

Explanatory Note on Note - 30

Accumulated Total Investment and Accumulated Revenue Deficit

The presentation of composition of the accumulated revenue deficit, which has been derived in the newly introduced reporting formats, has not been possible for periods prior to 2004 as the information required for ascertaining the same has not been compiled during pre-2004 periods. Total investments in physical assets are comprised of accumulated value of property, plant and equipment held by Ministries, Departments and Statutory Boards, at cost.

Among other physical assets held in the form of property, plant and equipment, major items included are the accumulated value of physical assets of the infrastructure facilities provided by the State over the years in Transport, Irrigation, Health, Education etc., at cost. Therefore, there are difficulties associated with presenting the detailed itemized composition of such assets held by or prevailed under the supervision of the relevant Ministries, Departments and other Institutions as a detailed system of documentation and information had not been maintained to itemize the total value of such assets in the Cash Based Accounting System adopted. Similarly, total accumulated depreciation on those assets is also not calculated in the Cash Based Accounting System.

However, for the fulfillment of requirements on the accountability on those physical assets in property, plant and equipment held by Ministries and Departments, especially in respect of movable physical assets, Annual Verification Procedure is followed for reporting the position to the Auditor General in terms of provisions in Section 3 of Chapter XIII of Government Financial Regulations, for securitization.

Head-wise Summary of Expenditure Account with Budgetary Provision - 2010

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	9,405,490,400	10,132,217,000	93%	2,860,424,190	2,871,227,000	6,545,066,210	7,260,990,000
2	Office of the Prime Minister	221,695,442	232,330,000	95%	169,442,028	171,680,000	52,253,414	60,650,000
3	Judges of the Superior Courts	69,919,649	85,220,000	82%	69,919,649	85,220,000	0	0
4	Office of the Cabinet of Ministers	45,791,908	50,098,061	91%	37,085,104	38,774,061	8,706,804	11,324,000
5	Parliament	1,416,555,320	1,568,537,000	90%	1,287,985,343	1,418,537,000	128,569,977	150,000,000
6	Office of the Leader of the House of Parliament	20,477,177	21,850,000	94%	19,299,312	20,200,000	1,177,865	1,650,000
7	Office of the Chief Government Whip of Parliament	26,752,993	29,775,000	90%	22,688,361	24,975,000	4,064,632	4,800,000
8	Office of the Leader of the Opposition of Parliament	60,124,711	64,685,000	93%	50,986,965	54,585,000	9,137,747	10,100,000
11	The Constitutional Council	11,534,282	19,782,000	58%	11,522,482	19,582,000	11,800	200,000
12	Public Service Commission	91,799,271	120,061,000	76%	90,255,479	113,116,500	1,543,792	6,944,500
13	Judicial Service Commission	28,308,283	34,970,000	81%	27,955,107	34,470,000	353,176	500,000
14	National Police Commission	30,852,097	46,292,000	67%	30,726,187	45,742,000	125,910	550,000
15	Administration Appeals Tribunal	11,979,598	12,160,000	99%	11,883,548	11,935,000	96,050	225,000
16	Commission to Investigate Allegation of Bribery or Corruption	140,469,491	202,310,000	69%	104,504,858	116,450,000	35,964,633	85,860,000
17	Department of Elections	4,039,373,693	4,218,527,000	96%	3,995,023,228	4,166,027,000	44,350,465	52,500,000
18	Auditor General	791,982,822	894,842,000	89%	557,209,632	583,692,000	234,773,190	311,150,000
19	Office of the Parliamentary Commissioner for Administration	9,983,178	10,483,000	95%	5,460,594	5,908,000	4,522,584	4,575,000
20	Office of the Finance Commission	78,337,552	91,440,000	86%	32,322,471	33,950,000	46,015,081	57,490,000
21	National Education Commission	26,980,867	31,030,000	87%	22,424,346	25,880,000	4,556,521	5,150,000
22	Human Rights Commission of Sri Lanka	109,310,225	118,605,114	92%	98,899,927	104,740,000	10,410,298	13,865,114
101	Ministry of Buddha Sasana & Religous Affairs	425,484,174	488,191,000	87%	75,250,313	76,401,000	350,233,860	411,790,000
102	Ministry of Finance and Planning	992,457,349	1,667,549,598	60%	587,457,897	601,319,745	404,999,452	1,066,229,853
103	Ministry of Defence	4,614,851,760	4,742,781,954	97%	1,979,238,838	2,088,378,000	2,635,612,921	2,654,403,954
105	Ministry of Economic Development	52,946,338,975	56,648,060,000	93%	8,270,319,968	8,404,153,050	44,676,019,006	48,243,906,950
106	Ministry of Disaster Management	1,069,632,943	1,213,757,000	88%	457,426,890	482,777,000	612,206,053	730,980,000
108	Ministry of Posts & Telecommunication	194,786,823	225,371,108	86%	76,720,597	79,125,000	118,066,226	146,246,108
110	Ministry of Justice	440,526,699	471,059,000	94%	251,636,893	261,961,386	188,889,806	209,097,614
111	Ministry of Health	53,730,639,061	54,538,250,000	99%	45,108,586,774	45,163,850,000	8,622,052,287	9,374,400,000
112	Ministry of External Affairs	6,337,648,300	6,586,379,500	96%	5,598,757,133	5,616,903,500	738,891,167	969,476,000
113	Ministry of Ports & Aviation	29,287,295,352	30,580,255,000	96%	138,109,253	151,747,000	29,149,186,099	30,428,508,000
114	Ministry of Transport	5,593,162,012	6,229,690,000	90%	4,314,853,965	4,328,100,000	1,278,308,047	1,901,590,000
115	Ministry of Petroleum Industries	88,003,438	96,915,000	91%	76,344,584	82,595,000	11,658,854	14,320,000
116	Ministry of Co-operatives and Internal Trade	899,772,520	921,983,000	98%	398,592,279	413,997,645	501,180,241	507,985,355
117	Ministry of Highways	84,729,932,409	89,507,920,000	95%	115,694,652	120,910,000	84,614,237,757	89,387,010,000
118	Ministry of Agriculture	24,405,396,993	32,114,628,000	76%	22,730,174,774	30,278,914,151	1,675,222,218	1,835,713,849
119	Ministry of Power and Energy	26,099,058,364	29,060,918,981	90%	815,035,690	1,388,546,000	25,284,022,674	27,672,372,981
120	Ministry of Child Development & Women's Affairs	619,405,816	638,460,000	97%	458,000,129	469,530,250	161,405,687	168,929,750
121	Ministry of Public Administration and Home Affairs	793,244,825	945,350,000	84%	382,609,720	400,850,000	410,635,105	544,500,000
122	Ministry of Mass Media and Information	526,996,309	574,695,000	92%	337,784,845	350,355,000	189,211,463	224,340,000

Head-wise Summary of Expenditure Account with Budgetary Provision - 2010 *contd...*

Head No.	Ministry/Department	Total Expenditure (Rs.)	Total Provisions (Rs.)	%	Recurrent Expenditure Rs.)	Recurrent Provisions (Rs.)	Capital Expenditure (Rs.)	Capital Provisions (Rs.)
123	Ministry of Construction, Engineering Services, Housing & Common Amenities	611,371,135	614,849,135	99%	204,257,129	206,249,235	407,114,006	408,599,900
124	Ministry of Social Services	376,435,497	399,623,844	94%	270,286,566	283,888,000	106,148,931	115,735,844
126	Ministry of Education	26,418,877,309	26,536,740,000	100%	22,373,559,739	22,379,229,000	4,045,317,569	4,157,511,000
127	Ministry of Labour Relations & Produtivity Improvement	400,347,170	408,243,000	98%	321,089,268	327,358,000	79,257,902	80,885,000
128	Ministry of Traditional Industries and Small Enterprises Development	674,026,676	700,458,000	96%	494,675,179	506,118,000	179,351,497	194,340,000
130	Ministry of Local Government & Provincial Councils	7,046,692,826	7,833,480,000	90%	143,901,767	155,844,000	6,902,791,060	7,677,636,000
133	Ministry of Technology & Research	1,886,082,969	2,484,723,000	76%	908,869,558	1,080,578,000	977,213,411	1,404,145,000
134	Ministry of National Languages and Social Integration	268,463,364	289,207,879	93%	154,568,783	159,431,000	113,894,581	129,776,879
135	Ministry of Plantation Industries	3,322,391,604	3,900,900,000	85%	1,362,065,483	1,480,710,000	1,960,326,121	2,420,190,000
136	Ministry of Sports	350,459,873	422,256,390	83%	191,700,779	197,441,390	158,759,094	224,815,000
138	Ministry of Indigeneous Medicine	244,192,121	317,150,000	77%	139,663,791	163,550,000	104,528,330	153,600,000
139	Ministry of Fisheries & Aquatic Resourses Development	5,615,558,807	6,346,841,130	88%	528,865,841	535,649,800	5,086,692,966	5,811,191,330
140	Ministry of Livestock & Rural Community Development	895,556,111	1,268,468,240	71%	152,977,293	164,326,000	742,578,818	1,104,142,240
142	Ministry of National Heritage & Cultural Affairs	1,136,359,309	1,720,185,200	66%	628,837,578	619,025,200	507,521,730	1,101,160,000
143	Ministry of Parliamentary Affairs	344,173,440	384,420,000	90%	297,457,558	334,984,000	46,715,882	49,436,000
145	Ministry of Re-settlement	2,816,905,027	3,180,390,600	89%	1,191,543,771	1,185,694,000	1,625,361,257	1,994,696,600
149	Ministry of Industry and Commerce	1,192,626,698	1,544,973,000	77%	453,082,707	552,080,000	739,543,992	992,893,000
152	Ministry of Irrigation Water Resources Management	6,864,537,302	9,402,336,754	73%	1,908,209,245	1,987,235,000	4,956,328,058	7,415,101,754
153	Ministry of Land and Land Development	1,362,415,043	1,437,994,000	95%	220,776,780	226,394,500	1,141,638,263	1,211,599,500
156	Ministry of Youth Affairs	4,861,270,291	4,968,492,633	98%	2,308,644,847	2,349,269,750	2,552,625,444	2,619,222,883
160	Ministry of Environment	1,157,526,678	1,948,592,738	59%	479,049,247	490,123,000	678,477,431	1,458,469,738
166	Ministry of Water Supply and Drainage	26,441,794,079	26,663,793,000	99%	139,329,290	147,793,000	26,302,464,790	26,516,000,000
171	Ministry of Higher Education	4,305,111,814	5,325,921,940	81%	550,173,092	585,159,300	3,754,938,722	4,740,762,640
173	Ministry of Public Management Reform	58,461,115	84,940,000	69%	45,845,565	66,501,500	12,615,550	18,438,500
174	Ministry of Rehabilitation and Prison Reforms	1,031,145,486	1,042,589,224	99%	257,424,069	261,560,000	773,721,417	781,029,224
175	Ministry of State Resource & Enterprise Development	367,509,414	383,205,000	96%	112,266,382	117,525,000	255,243,031	265,680,000
201	Department of Buddhist Affairs	455,882,938	505,277,285	90%	398,909,356	439,201,285	56,973,582	66,076,000
202	Department of Muslim Religious & Cultural Affairs	100,761,455	105,136,422	96%	41,873,855	43,486,422	58,887,600	61,650,000
203	Department of Christian Religious & Cultural Affairs	61,738,673	67,898,000	91%	52,036,526	56,973,000	9,702,147	10,925,000
204	Department of Hindu Religious and Cultural Affairs	131,957,720	134,135,000	98%	57,427,742	58,605,000	74,529,978	75,530,000
205	Department of Public Trustee	33,668,205	34,547,000	97%	27,899,283	28,474,000	5,768,922	6,073,000
206	Department of Cultural Affairs	245,783,012	289,990,000	85%	224,781,561	228,580,000	21,001,451	61,410,000
207	Department of Archaeology	409,385,858	429,207,000	95%	356,402,826	362,157,000	52,983,033	67,050,000
208	Department of National Museums	100,175,317	101,331,000	99%	82,185,122	83,131,000	17,990,195	18,200,000
209	Department of National Archives	249,981,625	259,150,000	96%	51,449,597	52,856,000	198,532,028	206,294,000
210	Department of Information	215,938,960	269,435,968	80%	146,917,398	154,835,000	69,021,562	114,600,968
211	Department of Government Printer	1,192,858,376	1,195,820,000	100%	1,083,276,333	1,084,620,000	109,582,043	111,200,000
212	Department of Examination	1,728,445,657	1,740,380,000	99%	1,577,067,634	1,577,630,000	151,378,023	162,750,000

Head-wise Summary of Expenditure Account with Budgetary Provision - 2010 *contd...*

Head No.	Ministry/Department	Total Expenditure (Rs.)	Total Provisions (Rs.)	%	Recurrent Expenditure Rs.)	Recurrent Provisions (Rs.)	Capital Expenditure (Rs.)	Capital Provisions (Rs.)
213	Department of Educational Publication	89,905,150	103,780,000	87%	19,269,450	20,730,000	70,635,700	83,050,000
214	University Grants Commission	13,793,880,241	14,915,280,000	92%	10,961,907,241	11,415,280,000	2,831,973,000	3,500,000,000
215	Department of Technical Education & Trainnig	1,008,103,110	1,180,675,000	85%	923,955,210	966,875,000	84,147,901	213,800,000
216	Department of Social Services	302,553,418	311,253,000	97%	271,889,407	278,498,000	30,664,011	32,755,000
217	Department of Probation and Child Care Services	144,476,291	146,983,000	98%	138,169,994	140,303,000	6,306,297	6,680,000
218	Department of The Com. General of Samurdhi	9,768,718,511	9,959,340,000	98%	9,762,019,546	9,952,440,000	6,698,965	6,900,000
219	Department of Sports Development	868,364,046	966,828,000	90%	291,648,985	299,603,000	576,715,062	667,225,000
220	Department of Ayurveda	645,818,321	767,100,000	84%	584,906,002	612,100,000	60,912,318	155,000,000
221	Department of Labour	979,745,692	991,571,000	99%	760,752,134	769,571,000	218,993,558	222,000,000
222	Sri Lanka Army	108,777,738,701	109,225,900,000	100%	104,273,494,452	104,594,900,000	4,504,244,249	4,631,000,000
223	Sri Lanka Navy	30,949,687,085	31,081,459,175	100%	26,947,281,519	26,958,000,000	4,002,405,566	4,123,459,175
224	Sri Lanka Air Force	22,526,177,097	22,891,028,010	98%	18,887,051,668	18,891,250,000	3,639,125,429	3,999,778,010
225	Department of Police	37,587,644,737	37,773,308,200	100%	36,542,760,599	36,548,308,200	1,044,884,138	1,225,000,000
226	Department of Immigration and Emigration	643,169,926	672,060,000	96%	476,523,590	502,760,000	166,646,335	169,300,000
227	Department of Registration of Persons	216,136,267	263,525,000	82%	177,493,590	183,025,000	38,642,677	80,500,000
228	Courts Administration	3,427,950,626	3,480,270,820	98%	2,693,044,654	2,704,599,724	734,905,972	775,671,096
229	Department of Attorney-General	394,161,527	426,830,000	92%	361,472,305	391,220,000	32,689,223	35,610,000
230	Department of Legal Draftsman	69,589,739	80,650,000	86%	45,060,578	47,150,000	24,529,161	33,500,000
231	Department of Debt Conciliation Board	5,809,024	6,225,000	93%	5,635,597	6,025,000	173,428	200,000
232	Prisons Department	3,320,899,987	3,329,400,000	100%	3,132,019,693	3,136,300,000	188,880,294	193,100,000
233	Department of Government Analyst	292,784,074	298,020,000	98%	66,122,246	66,650,000	226,661,828	231,370,000
234	Registrar of the supreme Court	87,798,816	90,975,256	97%	79,362,552	80,561,256	8,436,263	10,414,000
235	Department of Law Commission	9,229,641	11,520,000	80%	7,593,463	8,970,000	1,636,178	2,550,000
236	Department of Official Language	57,783,173	79,460,000	73%	52,371,835	56,270,000	5,411,338	23,190,000
237	Department of National Planning	88,319,069	160,176,000	55%	50,793,285	62,680,000	37,525,784	97,496,000
238	Department of Fiscal Policy	1,724,873,154	1,736,768,000	99%	1,723,839,699	1,735,550,000	1,033,455	1,218,000
239	Department of External Resources	856,280,830	1,018,705,000	84%	535,766,830	538,147,000	320,514,000	480,558,000
240	Department of National Budget	64,565,170	1,449,122,451	4%	63,645,412	207,496,806	919,757	1,241,625,645
241	Department of Public Enterprises	36,131,065	38,183,391	95%	34,667,341	36,461,000	1,463,724	1,722,391
242	Department of Management Services	26,924,723	29,120,000	92%	25,490,004	27,095,000	1,434,718	2,025,000
243	Department of Development Finance	760,950,684	880,612,000	86%	752,019,324	762,110,000	8,931,359	118,502,000
244	Department of Trade, Tariff and Investment Policy	933,579,143	1,003,158,000	93%	932,877,799	1,002,439,000	701,344	719,000
245	Department of Public Finance	232,020,078	301,832,000	77%	218,478,721	288,222,000	13,541,357	13,610,000
246	Department of Inland Revenue	1,606,108,423	2,104,812,000	76%	1,441,705,452	1,451,163,000	164,402,970	653,649,000
247	Department of Sri Lanka Customs	2,044,703,841	2,367,480,000	86%	1,245,119,927	1,550,180,000	799,583,914	817,300,000
248	Department of Excise	403,601,012	406,400,000	99%	381,234,196	383,450,000	22,366,816	22,950,000
249	Department of Treasury Operations	813,866,496,070	839,991,220,000	97%	352,753,436,996	364,598,175,000	461,113,059,074	475,393,045,000
250	Department of State Accounts	30,303,077	34,730,000	87%	28,384,826	31,680,000	1,918,251	3,050,000
251	Department of Valuation	212,973,857	223,991,000	95%	190,820,713	201,641,000	22,153,143	22,350,000
252	Department of Census & Statistics	761,941,087	1,170,658,000	65%	544,701,167	603,925,000	217,239,920	566,733,000

Head-wise Summary of Expenditure Account with Budgetary Provision - 2010 *contd...*

Head No.	Ministry/Department	Total Expenditure (Rs.)	Total Provisions (Rs.)	%	Recurrent Expenditure Rs.)	Recurrent Provisions (Rs.)	Capital Expenditure (Rs.)	Capital Provisions (Rs.)
253	Department of Pensions	102,731,726,161	102,753,450,000	100%	102,712,185,535	102,725,100,000	19,540,626	28,350,000
254	Department of Registrar General	560,208,372	585,275,000	96%	509,680,295	519,275,000	50,528,077	66,000,000
255	District Secretariat, Colombo	514,425,594	528,575,000	97%	389,543,836	401,075,000	124,881,759	127,500,000
256	District Secretariat, Gampaha	550,639,958	561,925,000	98%	522,884,658	532,325,000	27,755,301	29,600,000
257	District Secretariat, Kalutara	483,636,373	499,150,000	97%	432,214,158	447,400,000	51,422,214	51,750,000
258	District Secretariat, Kandy	632,507,572	656,325,000	96%	573,487,669	596,775,000	59,019,903	59,550,000
259	District Secretariat, Matale	315,129,610	337,000,000	94%	295,546,816	306,500,000	19,582,794	30,500,000
260	District Secretariat, Nuwara Eliya	309,296,662	363,100,000	85%	234,558,251	243,450,000	74,738,412	119,650,000
261	District Secretariat, Galle	586,125,797	595,750,000	98%	538,612,933	548,050,000	47,512,865	47,700,000
262	District Secretariat, Matara	510,635,173	528,050,000	97%	423,462,307	440,060,000	87,172,865	87,990,000
263	District Secretariat, Hambantota	370,748,734	381,150,000	97%	323,520,747	332,667,182	47,227,987	48,482,818
264	District Secretariat, Kchcheri - Jaffna	372,432,879	373,011,417	100%	302,407,537	302,925,000	70,025,342	70,086,417
265	District Secretariat, Kchcheri - Mannar	122,501,750	125,439,000	98%	92,336,701	92,389,000	30,165,049	33,050,000
266	District Secretariat, Kchcheri - Vavuniya	137,729,813	139,800,000	99%	94,891,705	96,750,000	42,838,108	43,050,000
267	District Secretariat, Kchcheri - Mullaitive	95,848,813	99,395,000	96%	66,142,554	68,625,000	29,706,259	30,770,000
268	District Secretariat, Kchcheri - Kilinochchi	122,152,436	125,925,519	97%	74,151,294	76,650,000	48,001,143	49,275,519
269	District Secretariat, Kchcheri - Batticaloa	277,004,932	296,350,000	93%	254,852,319	260,200,000	22,152,613	36,150,000
270	District Secretariat, Kchcheri - Ampara	503,922,311	523,525,000	96%	416,599,002	435,125,000	87,323,309	88,400,000
271	District Secretariat, Kchcheri - Trincomalee	229,358,308	234,450,376	98%	177,042,775	180,666,376	52,315,533	53,784,000
272	District Secretariat, Kurunegala	852,427,429	892,850,000	95%	801,862,689	839,450,000	50,564,740	53,400,000
273	District Secretariat, Puttalam	393,321,780	466,700,000	84%	334,841,012	350,400,000	58,480,768	116,300,000
274	District Secretariat, Anuradhapura	461,385,136	478,225,000	96%	421,735,267	437,075,000	39,649,869	41,150,000
275	District Secretariat, Polonnaruwa	221,991,173	231,675,000	96%	189,486,599	198,725,000	32,504,574	32,950,000
276	District Secretariat, Badulla	405,229,457	419,400,000	97%	335,769,235	345,250,000	69,460,222	74,150,000
277	District Secretariat, Monaragala	338,298,613	342,550,000	99%	237,507,345	241,400,000	100,791,268	101,150,000
278	District Secretariat, Ratnapura	401,480,004	412,900,000	97%	371,616,811	381,350,000	29,863,192	31,550,000
279	District Secretariat, Kegalle	311,437,482	347,075,000	90%	296,518,794	311,075,000	14,918,687	36,000,000
280	Department of Foreign Aid & Budget Monitoring	58,484,635	89,135,000	66%	51,472,755	58,375,000	7,011,880	30,760,000
281	Department of Agrarian Development	2,935,646,041	3,038,900,000	97%	2,742,827,052	2,841,400,000	192,818,989	197,500,000
282	Department of Irrigation	4,710,654,611	5,929,790,000	79%	1,126,493,498	1,206,590,000	3,584,161,113	4,723,200,000
283	Department of Forest	1,001,854,548	1,025,600,000	98%	718,090,348	741,100,000	283,764,199	284,500,000
284	Department of Wild Life Conservation	951,697,260	1,006,013,000	95%	433,268,017	453,063,000	518,429,242	552,950,000
285	Department of Agriculture	2,112,734,184	2,312,922,000	91%	1,666,525,421	1,761,562,000	446,208,764	551,360,000
286	Department of Land Commissioner	422,330,572	440,976,000	96%	154,349,237	171,725,000	267,981,335	269,251,000
287	Department of Land Settlelment	162,852,468	173,505,000	94%	157,498,857	167,910,000	5,353,611	5,595,000
288	Department of Surveyor General	1,635,831,177	1,722,068,000	95%	1,555,974,986	1,638,276,000	79,856,192	83,792,000
289	Department of Export Agriculture	453,002,326	473,387,000	96%	237,607,130	248,087,000	215,395,196	225,300,000
290	Department of Fisheries & Aquatic Resources	252,849,433	254,055,000	100%	215,838,776	216,330,000	37,010,657	37,725,000
291	Department of Coast Conservation	316,673,041	332,780,000	95%	113,353,081	113,630,000	203,319,960	219,150,000
292	Department of Animal Production & Health	555,666,810	706,716,000	79%	270,846,241	275,766,000	284,820,569	430,950,000
293	Department of Rubber Development	583,970,569	658,020,000	89%	368,456,463	376,120,000	215,514,106	281,900,000

Head-wise Summary of Expenditure Account with Budgetary Provision - 2010 *contd...*

Head No.	Ministry/Department	Total Expenditure (Rs.)	Total Provisions (Rs.)	%	Recurrent Expenditure Rs.)	Recurrent Provisions (Rs.)	Capital Expenditure (Rs.)	Capital Provisions (Rs.)
294	Department of National Zoological Gardens	371,194,493	401,289,000	93%	133,305,870	133,939,000	237,888,623	267,350,000
295	Department of Commerce	518,750,561	535,745,000	97%	74,393,296	86,920,000	444,357,265	448,825,000
296	Department of Import & Export Control	34,089,682	35,858,000	95%	33,785,208	35,508,000	304,474	350,000
297	Department of Registrar of Companies	21,553,583	22,950,000	94%	21,553,583	22,950,000	0	0
298	Department of Measurement Unit Standards & Services	85,680,495	111,692,000	77%	50,764,938	52,192,000	34,915,557	59,500,000
299	National Intellectual Property Office of Sri Lanka	12,927,217	16,360,000	79%	12,927,217	16,360,000	0	0
300	Department of Food Commissioner	92,963,192	108,196,000	86%	65,835,543	80,233,800	27,127,649	27,962,200
301	Department of Co-operative Development	468,510,471	507,940,000	92%	42,472,157	44,290,000	426,038,313	463,650,000
302	Co-operative Employees Commission	8,370,178	10,846,000	77%	8,155,438	10,520,000	214,740	326,000
303	Department of Textile Industries	68,668,509	77,822,000	88%	49,860,371	55,389,000	18,808,138	22,433,000
304	Department of Meteorology	193,310,555	270,320,000	72%	144,808,683	149,680,000	48,501,873	120,640,000
305	Department of Up-country Peasantry Rehabilitation	13,190,406	17,145,000	77%	12,246,020	16,145,000	944,386	1,000,000
306	Department of Sri Lanka Railways	19,355,534,795	27,036,350,000	72%	7,191,352,333	7,285,750,000	12,164,182,462	19,750,600,000
307	Department of Motor Traffic	1,760,553,236	1,883,704,000	93%	716,620,372	773,154,000	1,043,932,864	1,110,550,000
308	Department of Posts	7,538,615,445	7,605,600,000	99%	7,333,147,367	7,371,300,000	205,468,078	234,300,000
309	Department of Buildings	204,711,527	211,892,000	97%	187,978,561	194,772,000	16,732,966	17,120,000
310	Government Factory	71,829,362	74,535,000	96%	44,358,368	45,095,000	27,470,994	29,440,000
311	Department of National Physical Planning	153,821,206	159,190,000	97%	133,797,006	136,140,000	20,024,199	23,050,000
312	Western Provincial Council	8,219,188,977	8,305,600,000	99%	6,100,000,000	6,100,000,000	2,119,188,977	2,205,600,000
313	Central Provincial Council	15,221,058,780	15,554,650,000	98%	13,000,000,000	13,000,000,000	2,221,058,780	2,554,650,000
314	Southern Provincial Council, Galle	12,454,801,911	12,632,881,887	99%	10,500,000,000	10,500,000,000	1,954,801,911	2,132,881,887
315	North East Provincial Council	11,323,814,780	11,981,170,000	95%	8,700,000,000	8,700,000,000	2,623,814,780	3,281,170,000
316	North Western Provincial Council	14,167,370,136	14,232,800,000	100%	12,299,000,000	12,300,000,000	1,868,370,136	1,932,800,000
317	North Central Provincial Council	10,681,444,683	10,830,350,000	99%	7,300,000,000	7,300,000,000	3,381,444,683	3,530,350,000
318	Uva Provincial Council	10,993,312,692	11,540,090,000	95%	8,300,000,000	8,300,000,000	2,693,312,692	3,240,090,000
319	Sabaragamuva Provincial Council	10,886,651,806	11,117,600,000	98%	9,000,000,000	9,000,000,000	1,886,651,806	2,117,600,000
320	Department of Civil Security	8,708,279,328	8,710,450,000	100%	8,454,747,529	8,456,450,000	253,531,798	254,000,000
321	Eastern Provincial Council	13,049,784,114	13,787,760,000	95%	10,100,000,000	10,100,000,000	2,949,784,114	3,687,760,000
322	Department of National Botanical Gardens	298,620,048	304,768,000	98%	149,637,238	154,178,000	148,982,810	150,590,000
323	Department of Legal Affairs	8,073,533	8,520,000	95%	7,519,134	7,870,000	554,399	650,000
324	Department of Management Audit	14,321,424	14,360,000	100%	13,776,463	13,802,000	544,961	558,000
325	Department of Coast Guard of Sri Lanka	48,234,893	60,175,000	80%	19,249,667	19,675,000	28,985,227	40,500,000
326	Department of Community Base Correction	70,275,481	72,350,000	97%	53,852,266	54,400,000	16,423,215	17,950,000
	Total	**1,751,112,476,010**	**1,831,654,767,200**	**96%**	**951,493,955,879**	**976,050,553,014**	**799,618,520,131**	**855,604,214,186**

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கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல / My No. } EF/B/SA/AR **36/2010**

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දිනය / திகதி / Date } 09 May 2011

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 2010 was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Generally Accepted Accounting Principles and the best accounting methods and practices relating to Public Sector Accounting. This responsibility includes, designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosers in financial statements and assessment of accounting policies 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 2010 and the results of its operation and cash flows for the year then ended.

H.A.S.Samaraweera
Acting Auditor General

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