

Annual Report 2011

National Enterprise Development Authority

Ministry of Industry and Commerce

National Enterprise Development Authority
Level 2, West Wing, Ceylinco House,
No 69, Janadhipathi Mawatha, Colombo 01
06/02/2013

Hon. Minister of Industry and Commerce
Ministry of Industry and Commerce
P.O.Box 570, 73/1, Galle Road
Colombo 03

Dear Sir,

Annual Report 2011

In terms of Sub Section 14(2) of the Finance Act no 38 of 1971, I submitted following documents.

01. The progress report of the National Enterprise development Authority for the year 2011
02. Balance Sheet as at 31st December 2011, Income and Expenditure Statement for the year ended 31st December 2011 and Cash flow Statement for the year ended 31st December 2011.
03. Report of the Auditor General

Yours Faithfully,



N.M. Shaheid
Chairman & Director General

Vision

“Creating a dynamic and sustainable competitive Enterprise Sector, this will contribute to the economic, political and social aspirations of the nation”

“To facilitate and proactively support development, growth and competitiveness of NEDA’s Enterprises as an integral part of the national economy of Sri Lanka”

Mission

- ❖ Stimulate the growth, expansion and development of Sri Lanka's economy by encouraging, promoting and facilitating small and medium enterprise development within Sri Lanka.
- ❖ Stimulate and encourage the establishment and operation outside Sri Lanka of enterprises designed with view to Internationalize domestic enterprises capable of penetrating foreign markets for the fulfillment of the objectives of the act of NEDA.
- ❖ Formulate policies, plans, promotional incentives appropriately designed and effectively support and promote trade and development in industry and agriculture.
- ❖ Empowerment of people of human capital development with technical skills as an integral component of enterprise development.
- ❖ Develop infrastructure facilities required to meet the development needs
- ❖ Facilitate the access of entrepreneurs to finances required for enterprise development and operation.
- ❖ Establish a Technology Development Fund to promote research and development in connection with product development, technological enhancement and commercialization of patents.
- ❖ Facilitate regional economic development.

01. **Mr. M.S.S. Ameer Ali**
Chairman/Director General
02. **Mr. M.A. Thajudeen**
Additional Secretary- Ministry of Industry and
Commerce
Ex- Officio – Board Director
03. **Mr. T.N. Ossen**
Director – Department of Public Finance of
Ministry of Finance
Board Director
04. **Rev. Elpitiye Sugunakiththi Thero**
Board Director
05. **Mr. A.L.Mohamed Haleek**
Board Director
06. **Mr. S.Lukman**
Board Director
07. **Mr. N.M. Shaheid**
Board Director
08. **Mr. M.A.C.M.Ameen**
Board Director
09. **Mr. S. Herath**
Board Director

01. Enterprise Policy

Towards Net Working Sri Lanka Entrepreneurs

1.1 National Enterprise Council:

Higher level of the Institutional Architecture is the National Enterprise Council (NEC) to address un- resolved issues at lower levels. The council may use the issues for policy formulating purposes. A Cabinet Memo was submitted to the Ministry of Industry & Commerce for necessary action for setting up of the Council.

1.2 National Enterprise Forum

NEDA promotes Institutional Architecture for better coordination and communication between different layers of business community (Pls. refer annex 1). National Enterprise Forum (NEF) consists of higher level officials representing various stakeholders. The nationally identified business issues and issues that are not resolved at lower levels of the Architecture are discussed at the NEF. There were three meetings conducted and issues discussed are as follows:

- i. Electricity Limitation for the enterprises
- ii. Improving Entrepreneurial capabilities of school children
- iii. Livestock policy and its applicability to the enterprises
- iv. Public Private Dialogue (PPD) to provide better service for the enterprises
- v. Business registration delays in Anuradhapura and Polonnaruwa districts
- vi. Land registration impossibility for Businesses in Anuradhapura
- vii. Credit rating system for SME

1.3 District Enterprise Forum



As per NEDA Corporate plan, it includes establishment of District Enterprise Forums (DEF) to provide business development services to the entrepreneurs. DEF forum is established at district level and it consists of governmental and nongovernmental BDS (Business Development Services) providers, Chambers and Trade or Business associations of the district.

Program objectives:

- Build up relationship among Business Development Service (BDS) Providers at district level
- Facilitate Public Private Dialog
- Establish proper coordination between DEF and SME associations
- Develop a system to provide business development services to entrepreneurs through DEF forum
- Collecting business issues from district level forum to National level forum

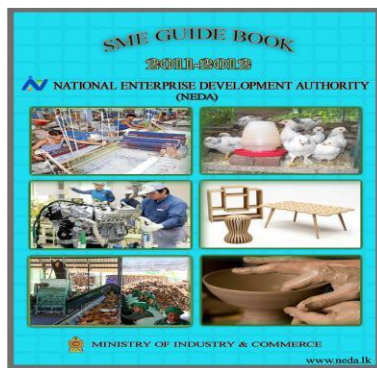
NEDA is strengthening these DEF forums with support of financial and technical guidance. And also, NEDA staff will attend to forum meeting for the guidance and give financial support on the basis of progress of the DEF forum.

NEDA has involved for activities in District Enterprise Forum (DEF) in District Enterprise forums were established with achieving NEDA objectives in Anuradapura, Galle, Jaffna, Hambanthota, Monaragala, Polonnaruwa, Mannar, Kandy, Matale, Ampara, Batticaloa, Badulla & Kurunegala districts. Action was initiated to establish district enterprise forum in Gampaha, Ratnapura, Kegalla, Trincomalee, Matara & Puttalam districts.

NEDA wish to get support from RISC officers in Ministry of Industry & Commerce and NEDA has conducted workshop for aware them about future activities. In addition, Awareness & experience sharing programs were arranged & implemented for District Chamber officers to success of this program. In addition, NEDA Conducted two workshop for aware the District Enterprise Forums (DEF) with collaboration of FCCISL in Colombo & Dambulla.

02. Access to Information

2.1 SME Guide book:



NEDA introduced SME Guide book in year 2009. Upon the much appreciation from the business community, NEDA envisages to review and publish the SME GUIDE BOOK 2011-2012. The Guide Book contains information with regard to Financial and Non-Financial BDS providers. Target group of the Guide Book are the SMEs especially in the regions. This is a find blend of source of information where SME could be able to decide from where he is going to get the service at home without wasting there valuable time for searching an institution. The case is same for the services of Banks.

The Guide Book contains almost all the information with regard development and other specialised loan schemes. The Guide Book is printed based on the Public Private Partnership (PPP) where NEDA could be able to get sponsorships from 6 commercial banks.

2.2 NEDA Website:



NEDA web site was restructured for enhancing the capacity and to improve the quality and accessibility to information. The following information is now being available;

- i. Electronic version of the guide book
- ii. Policy documents and Policy review system
- iii. Videos of Episodes teaching the subject of enterprise development

- iv. Information with regard to Chambers
- v. NEDA Enterprise development interventions
- vi. News
- vii. Sample business plans

03. Towards made in Sri Lanka

3.1 Flourishing Entrepreneurship Culture

“Gamata Obina Vyapara” Program:



Small and Medium Enterprises (SMEs) have been identified to play a crucial role in the economic development process in Sri Lanka and it is more important to alleviate poverty & a solution for unemployment. In Sri Lanka, majority of population are living in rural areas which are estimated to be 78 percent of the total population. The small & medium Enterprises in the regional areas are the major source of employment and SME sector development.

It is clear that the sector has not achieved desired level of contribution when compare with other countries.

NEDA has planned to promote SME sector especially in regional areas in the country and it is named as “Gamata Obina Vyapara” to promote business at village level. As per Mahinda Chinthana Way Forward” special emphasis is given to promote SME sector of the country. This will provide logical basis for adhoc way of identifying and selecting business by entrepreneurs.

This program consists of three major components:

1. Identifies Competitive Business Opportunities, issues and suggestions for development of competitive business sectors in a given geographical area (District Level)
2. Match entrepreneurs with right business
3. Implementation of Sector development proposals suggested by first step of the program

Through the above component of the program, NEDA promote SME sector in regional level and encourage other rural host community by developing regional business model through the “Gamata Obina Vyapara” program.

NEDA has completed first component of the “Gamata Obina Vyapara” program in Kurunegala, Kandy, Mannar & Batticaloa districts as first stage. NEDA has started second component of the program with supporting of Divisional Secretariat office for selected DS divisions in above districts. DS Divisions were selected in three districts as given bellow.

District**DS Division****Kurunegala**

Pannala Maho
Kurunegala
Polgahawela
Narammala

**Batticaloa**

Koralaipattu West
Koralaipattu Central
Kalawanchikudai
Koralaipattu South
Koralaipattu

**Mannar**

Musali
Manthai West
Madhu



Beneficiaries are selected with the support of Divisional Secretariat Office. NEDA wishes to select ten entrepreneurs per one DS Division and develop them towards successful independent business while guiding them for access to finance, technology and markets. NEDA has selected ten entrepreneurs in Pannala with supporting of DS office and completed individual business plans & provided grants for their business activities.

3.2 Capacity building of Sri Lankan Entrepreneurs

Technical Training program:



As per NEDA Act & Corporate plan, NEDA is involving with technology transferring and entrepreneurship development programs. At present, most of people are involving with business or income generation activities with lack of technical skills and quality of their products are very low. Hence, NEDA has decided to conduct technical training programs in different regions to improve their technical knowledge & skills.

NEDA has identified technical training requirements through Local competitive Advantage programs & field observation

NEDA has carried out nine technical training programs in different regions as given in the table below.

Training programs	Location	No. of
Food processing	Valachchanai, Oddamawadi, Kalawanchi kudai, Arayambathy & Vellavelly in Batticaloa District.	151
	Mutur in Trincomalee district	60
Dress making program	Mutur & Kinniya in Trincomalee District	165
Total		376

NEDA has conducted an exposure visit to Kurunegala district for coir & coir based producers in Batticaloa district in association with District Secretariat Office to identify new technologies using in Kurunegala district. Fifty coir base producers were participated for this program.

In addition, NEDA has carried out workshop on current trends & standards of handicraft sector in Kandy district. Relevant private & public institution and handicraft entrepreneurs were participated for this workshop. Objective of this workshop was to make aware entrepreneurs about the current trends & standards and this workshop was arranged by Kandy District Chamber under guidance of NEDA

Entrepreneurship Development Training program:



As per Corporate Plan, NEDA has conducted business development training programs for SMEs at regional level with supporting of National Chamber of Commerce of Sri Lanka & District Chambers.

Program objectives:

- ☐ Improve the quality and productivity of their products and services
- ☐ Improve entrepreneurship skills of participants
- ☐ Improve their profits
- ☐ Participants will be exposed to the business network
- ☐ Improve management skills ☐ Improve Financial management

Trainings were provided in suitable location through regular training programs targeting improvements of management and technical skills.

Training programs	Location	No. of Beneficiaries
Marketing & Customers	Hingurakgoda in Polonnaruwa District	35
Quality & Productivity	Chilaw in Puttalam District	35
Human Resource Management	Ratnapura	24
Human Resource Management	Chilaw in Puttalam District	22
Product Costing & Pricing	Anuradapura	25
Human Resource Management	Kurunegala	30
Human Resource Management	Anuradapura	29
Financial Decision Making, Taxation & Accounting	Ehatuwewa in Kurunegala District	36
Total		236

“Divi Neguma” National Programme:



Ministry of Economic Development & Ministry of Traditional Industries and Small enterprise Development is organizing “Divi Naguma” cottage industry cluster promotional exhibition under the Divi Neguma National Programme. Ministry of Economic Development has invited National Enterprise Development Authority to contribute for this exhibition. This exhibition has planed for all district (21 District) and 13 exhibition in this year.

NEDA has participated in all exhibitions organized by Ministry of Traditional Industry in this year. (Seven Exhibitions). And also, NEDA was involved in training & facilitation program for “Divinaguma” beneficiaries. Dairy & Poultry management and food processing training programs were carried out for 9 beneficiaries in Anuradhapura District.

Incense Stick Production

NEDA conducted stakeholder workshops in order to promote incense stick production in Sri Lanka which is presently been imported mainly from India with an annual expenditure of Rs. 300 Million. The following activities were done in order to facilitate local incense stick production.

01. Increasing of Cess
02. Conducting technical training programmes
03. Promotion of Raw material production (Charcoal Powder, Bamboo Sticks, Etc....)

Proposal to invent a hand operated incense stick machine

04. Contribution to National Development Programmes

“Dayata Kirula” Exhibition:



NEDA involve for the national program “**Deyata Kirula**” National exhibition-2012 in Anuradapura District. NEDA has established 11 Rural Enterprise Forums at Divisional Secretariat level with supporting of Anuradapura District Chamber and conducted three entrepreneurship development training programs for 71 entrepreneurs in Anuradapura District (Thabutteagama and

Nuwaragampalatha DS divisions). Eleven (11) divisional level enterprise forums were established

NEDA Participated at the “Dayata Kirula” exhibition held in Buttala in year 2011 and performed live street drama to motivate the crowd for engaging in business

4.1 Nurturing Innovative business culture in Sri Lanka

Technology Development Fund:



NEDA initiated a Cabinet memo as per the provision made in the Act. of NEDA and forwarded it to the Ministry of Industry and Commerce for the establishment of Technology Development Fund (TDF) in Sri Lanka. As a result working group on Commercialization of Research through Technology Transfer was established. At the same time NEDA explored possibility of getting technical assistance from Malaysian Technology Development Cooperation (MTDC). MTDC submitted a proposal for testing the feasibility of establishing TDF in Sri Lanka and then submitted it to the Working Group for recommendations

05. Improving Competiveness of Industry through Cluster approach

Moratuwa Wood Cluster Development program



National Enterprise Development Authority (NEDA) initiated actions to declare Moratuwa Wood Cluster and the Wewaldeniya Cane Cluster as Special Economic Zones (SEZs) under Section 12-subsection (1) and the Section 14(g) of the Act of Incorporation of NEDA- Act no; 17 of 2006 to develop those

clusters as globally competitive enterprise clusters through improving the Business Climate, the Local Economic Governance and developing business linkages with global counterpart clusters under its geographical enterprise cluster development (GECD) program.

This program will develop cluster firms to create a competitive enterprise base within the locality and promote and facilitate entrepreneurship development to sustain development gains by harnessing localized inter firm and intra firm business linkages.

NEDA has identified Moratuwa as an informal geographical cluster and planed to develop it as an organized cluster by expanding the development work already undertaken by the Government under Industrial Villages Development program with the support of development partners.

NEDA has completed bellow activities in 2011

- ☐ Established Moratuwa United Wood craft association by merging Saw Millers Association, Wood Workshop Owners Association and the Furniture Shop Owners/Traders Association as the self- help common association for the Moratuwa wood cluster in collaboration with NCCI.
- ☐ Evaluated the Final Report submitted by Town Planners Association on special data base development of Moratuwa & Wewaldeniya clusters with Technical Evaluation Committee.
- ☐ Action was initiated to establish a management company for development of Moratuwa wood Cluster in consultation with the Stakeholders
- ☐ Arrange the meeting with Handicraft Board, State Timber Corporation NCCI , ITI and the ministry of industry on development of project proposal to upgrade Wood Work Training centre in Katubedda to international level with the technical assistance from the Austrian firm VAM represented by Mr. Prokoni
- ☐ Draft Gazette notifications on declaration of Moratuwa wood cluster area as special economic zone to the Ministry of Industry and Commerce

- identified development partners for cluster development and carried out initial discussions with them.
- Initial activities are completed to register Moratuwa United Wood craft association with supporting of NCCSL.
- Development partners forum were held with university of Moratuwa, IDB and SEEDs. Based on the decisions made at this forums action is being taken to prepare MOU to be sign with the development partners to implement the respective component of the cluster development program prepared by NEDA.
- Completed one day workshop with furniture cluster development partners and Moratuwa United Wood craft association to discuss common problems in furniture cluster development and identify information for MOUs.
- Completed four (07) mini furniture exhibitions in Bingiriya ,Gampaha , Dankotuwa, Negombo, Kuliapitiya.

Wewaldeniya Cluster Development Program:

NEDA has identified Wewaldeniya as an informal geographical cluster and planed to develop it as an organized cluster by expanding the development work already undertaken by the Government under Industrial Villages Development program with the support of development partners.

NEDA has selected SANASA as a development partner to extend its technical and financial assistance to effectively implement the development initiatives undertaken by NEDA in Wewaldeniya Cane Cluster. Hence, NEDA wish to sign a MOU with “SANASA” to assign the develop roles and determine tasks and responsibilities of the two development partners Viz. SANASA and NEDA

Coir Cluster Development program:



The coir industry of the NWP is one of the major competitive businesses in the country. Over 45 percent of the country's coconut cultivation is in NWP and 85 percent of the country's mills operate in NWP and Western province. This coir fibre industry which extracts its basic raw material from coconut husk has become competitive position on the world market and facing some challengers such as new competitors entering to the world market, difficulties in filling export orders

(low supply of coconut husk, raw material transporting technology problems and out dated machineries), failing relationship among relevant parties and low contribution to employment.

As per NEDA corporate plan, National Enterprise Development Authority makes effort to bring together industry stakeholders and improve coordination among them (all parties involving with export & delivery, manufacturing and raw material sourcing). NEDA has conducted coir convention program to improve coordination among stockholders.

And also, NEDA has conducted stake holders meeting with owners of state plantations, private plantation companies, Coconut Development Authority (CDA), Coconut Research Institute (CRI) and Coconut Cultivation Board (CCB) and any other relevant Government and Private Sector organizations and also decided to call for relevant Government Officials such as Deputy Inspector General of Police (DIG), Industrial Development Board (IDB), Export Development Board (EDB) and Coconut Growers and other relevant institutes to prepare the future action plan.

Handloom Cluster Development Program:



Arrangements have been made to produce 70 Handloom machines to distribute among war affected handlooms weavers of Batticaloa District. NEDA conducted Capacity development for 90 Handloom weavers of Batticaloa District in the areas of Colour and design, business development and product development. This was carried as a response to Buyer seller meeting held in year 2010 at Palamunai and Marathamunai.

06. Meeting Entrepreneurs and BDS Providers

Business Development Service Fairs:



As per NEDA Corporate Plan, business trade fairs and BDS providers service fairs were carried out for the purpose of SME sector development at regional level. NEDA has identified that the almost all the medium and small scale entrepreneurs are unaware about the Business Development Service (BDS) Providers available in the region and in the country as well as the functions and services provided by them thus unable to get maximum service out of them. In order to fulfil this gap between entrepreneurs and BDS providers, a strong linkages and interaction should be created. Business service trade fairs will make the bridge between small and medium scale entrepreneurs and BDS providers to utilize the services maximally from the BDS providers, thus enhancing the entrepreneurship ability of the potential entrepreneurs.

In 2011, NEDA has carried out BDS fairs in Batticaloa & Anuradhapura districts.

Internationalization of Local Businesses – Access to Technologies, Machineries and Equipment's:

NEDA organized 37 SME entrepreneurs to International Import and Export Fair that displays technologies, machineries and equipment's held in Guangzhou, China that visited more than 600,000 visitors per session.

Strengthening of BDS providers:

As per NEDA Corporate Plan, it includes preparation & publication of National directory of Business Development Service (BDS) providers. Business Development Service providers have major role to provide services for performing entrepreneurs. Different types of BDS providers are involving with SME sector development and mainly assists to marketing, technology development & transfer, financial, entrepreneurship development, information technology etc.

NEDA has planned to carry out above program with five steps

1. Registration of BDS providers under NEDA
2. Preparation of National directory of BDS providers (Soft copy)
3. Publication of National directory
4. Need assessment of BDS providers
5. Strengthening of BDS providers

1. Registration of BDS providers under NEDA

NEDA has planned to register all type of BDS providers in the country and aware them through paper advertisements. In addition, all District secretariat & divisional secretariat office are aware through sending letters and registration forms.

2. Preparation of National directory of BDS providers

Information will be collected from registered BDS providers under NEDA and their general information & services are considered. Special format is used for present these BDS information. This directory will be very essential for entrepreneurs and aware entrepreneurs regarding available BDS providers & their services at regional level.

3. Publication of National Directory

NEDA has planned to prepare as a guide book and publish this directory through regional level launching programs. NEDA expect prepare 5000 of hard copies (Sinhala & Tamil) at first stage and distribute among BDS providers as well as entrepreneurs.

4. Need Assessment of BDS providers

NEDA wish to conduct need assessment of BDS providers through need assessment format focusing of human resource of BDS providers and identify needs of HR development by analysing this information.

5. Strengthening of BDS providers

Base on the need assessment results, NEDA will decide capacity development program for BDS staff. In 2011, NEDA has called application from BDS providers for registration

07. Special Projects

“Hakiyawata Rakiyawak” program:



NEDA initiated a project to identify unemployed youths in the North and East and needy employers. Through “Hakiyawata Rakiyawak” programme suitable youths will be introduced to needy employers by conducting a job fair in the districts of the regions. NEDA with the cooperation of Board of Investment (BOI) identified nearly 2000 employment opportunities in Katunayaka free trade zone itself. However, the first attempt i.e. to introduce un-employed youth from Manar District was unsuccessful as they reluctant moving away from the District. Therefore the programme, it will be repeated in other regions after doing a preliminary study whether the youth would like to move away.

Rehabilitation of War affected Enterprises:

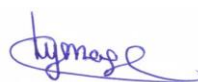
Paper advertisement was published in news paper to gather information with regard to war affected SMEs in North & East. Consultant was volunteered to prepare the proposal for possible donor assistance. 2700 application have received from the victimized enterprises from selected at district in North and East.

Balance Sheet as at 31st December 2011

	Note	2011 Rs	2010 Rs
Assets			
Non- Current Assets			
Property Plant & Equipment	10	6,600,495.42	3,133,495.28
Current Assets			
Payment in Advance		15,000.00	15,000.00
Advances		228,800.00	70,000.00
Cash & Bank Balance		1,998,625.12	1,937,086.86
Festival Advance		12,000.00	11,000.00
Deposit on office rent		799,380.00	
Prepaid	11	84,164.86	
		9,738,465.40	5,166,582.14
Equity and Liabilities			
Capital Contribution Differed	12	13,229,838.47	9,510,429.65
Accumulated Profit/(Loss)		(4,948,495.54)	(3,148,528.05)
Profit/(Loss) during the year		507,710.61	(1,799,967.49)
		8,789,053.54	4,561,934.11
Non-Current Liabilities			
BOC Received for School Competition		53,010.58	128,010.58
Current Liabilities			
Accrued Expenses	13	896,401.28	476,637.45
Total Equity and Liabilities		9,738,465.40	5,166,582.14



N.M. Shaheid
Chairman/Director General



K.B. Liyanage
Accountant

Income and Expenditure Statement for the Year Ended 31st December 2011

	Note	2011	2010
		Rs	Rs
Income			
Recurrent Granted from the General Treasury		19,464,000.00	8,920,000.00
Other Income	1	126,525.86	5,505.72
Capital Granted Differed for the year		21,305,591.18	10,195,518.12
Total Income		40,896,117.04	19,121,023.84
Less :- Operating Expenses			
Remuneration of the Staff	2	8,421,367.12	6,035,129.56
Administration Expenses	3	8,257,656.80	2,747,591.41
Travelling Expenses	4	377,061.24	669,341.50
Maintenance Expenses	5	582,954.20	97,554.08
Supplies and Consumables	6	1,421,046.00	1,135,581.49
Depreciation	7	1,976,812.49	1,387,942.49
Development Expenses	8	19,328,778.69	8,807,576.63
Total Operating Expenses		40,365,676.54	20,880,717.16
Surplus/ (Deficit) from Operating Activities		530,440.50	(1,759,693.32)
Less :-Finance Cost			
	9	22,729.89	40,275.17
Net Surplus/ (Deficit) for the Period		507,710.61	(1,799,968.49)
Add :-			
Surplus/ (Deficit) for the Previous years		(4,948,495.54)	(9,462,092.25)
Less :- Prior Year Adj			6,313,564.20
Net Surplus/ (Deficit) Carried Forward		(4,440,784.93)	(4,948,495.54)

Cash Flow Statement for the Year ended 31st December 2011

	Note	2011 Rs.	2010 Rs.
Cash Flows From Operating Activities			
Surplus/ (Deficit)		507,710.61	(1,799,967.49)
Non Cash Movements			
Accrued Expenses		419,763.83	(6,164,787.55)
Depreciation		1,976,812.49	
Prior Year Adjustments		-	6,313,564.20
Advances		(158,800.00)	(70,000.00)
Festival Advance		(1,000.00)	(7,000.00)
Payment in Advance		-	
Deposit on office Rent		(799,380)	
Prepaid		(84,164.86)	
Net Cash Flows From Operating Activities (a)		1,860,942.07	(1,728,190.84)
Cash Flows From Investing Activities			
Purchased Fixed Assets		(5,443,812.63)	(250,557.16)
Net Cash Flows From Investing Activities (b)		(5,443,812.63)	(250,557.16)
Cash Flow from Financing Activates			
Capital Grants From Treasury		25,025,000.00	9,600,000.00
Payment of BOC Received for School Competition		(75,000.00)	
Development expenses paid on capital grant		(21,305,591.18)	(8,807,575.63)
Net Cash Flows From Financing Activities (c)		3,644,408.82	792,424.37
Net Increase/Decrease in Cash & Cash Equivalent (a) + (b) + ©		61,538.26	(1,186,323.63)
Cash & Cash Equivalents as at 1st January 2011		1,937,086.86	3,123,410.49
Cash & Cash Equivalents as at 31st December 2011		1,998,625.12	1,937,086.86

Note to Financial Statements

01. General

- a) The Financial Statements have been prepared in accordance with the Sri Lanka Accounting Standards and Generally Accepted Accounting Principles. The accounting policies are consistent with those used in the previous year and the changes of the policies are appropriately disclosed.
- b) Figures related to previous year have been shown wherever necessary to facilitate comparison with previous year.
- c) Grants received from Treasury have been identified as capital & Recurrent and accounted accordingly.

02. Property, Plant & Equipment's

Tangible Assets are shown at cost less accumulated depreciation. Provisions for depreciation for the remaining fixed assets have been made considering the value and lifetime of the assets on the Straight- Line method.

Fully depreciation is charged in the year of purchase and not charged in the year of disposal.

The rates of the depreciation are follows:-

Office Equipment's	12.5%
Furniture	10%
Computer & Accessories	25%
Motor Vehicles	20%
Library Books	10%

03. Cash and Cash Equivalents

Cash & cash equivalent include Cash in Hand and Bank balance as at 31st December 2011

04. Liabilities

Current liabilities are those, which fall due for payment on demand or within one year from the Balance Sheet date. Non – Current Liabilities will fall due for payment one year or more than one year after the Balance Sheet date.

05. Gratuity

No Gratuity had been charged in the year 2011 since there is no permanent employee more than 5 years' service.

06. Income and expenditure

Income and expenditure are recognized on accrual basis

08. Capital Grant Differed

Total capital grants received from the treasury was credited to the "Capital Contribution Account". The differed portion relating to the year (equalant amount to the depreciation and the total cost incurred to development expenses) have been credited to the income and expenditure account.

09. Taxation

Income Tax

No provision has been made in the accounts as the Authority is a statutory board. That receive grant from the Treasury.

10. Corporate Information

Name of the Organization	: National Enterprise Development Authority
Legal Form	: National Enterprise Development Authority Act, No. 17 of 2006
Nature of Operations	: Promote, Support, Encourage & Facilitate Enterprise Development within Sri Lanka with Special Emphasis to the Small & Medium Enterprise Sector of the Country.

National Enterprise Forum

The above Forum (NEF) consists of higher level officials representing various stakeholders. The nationally identified business issues and issues that are not resolved at lower levels of the architecture are discussed at the NEF. Three meetings were conducted and the issues discussed are as follows:-

- i. Electricity limitation for the enterprises.
- ii. Improving entrepreneurial capabilities of school children.
- iii. Livestock policy and its applicability to the enterprises.
- iv. Public Private Dialogue (PPD) to provide better service for the enterprises.
- v. Business registration delays in Anuradhapura and Polonnaruwa districts.
- vi. Land registration impossibility for businesses in Anuradhapura.
- vii. Credit rating system for SME

District Enterprise Forum

District Enterprise Forums establishment for provide business development services to the entrepreneurs. District Enterprise Forums is established at district level. NEDA has established District Enterprise Forums in Anuradhapura, Galle, Jaffna, Hambantota, Monaragala, Polonnaruwa, Mannar, Kandy, Matale, Ampara, Batticaloa, Badulla and Kurunegala districts.

The program objectives are as follows:-

- Build up relationship among BDS providers at district level.
- Facilitate Public Private Dialogue.
- Establish proper coordination between DEF and SME associations.
- Develop a system to provide BDS to entrepreneurs through DEF forum.
- Collecting business issues from district level forum to National level forum.

SME Guide Book

NEDA reviewed and published the SME Guide Book 2011-2012. This is a fine blend of source of information where SME entrepreneurs could be able to decide from where he is going to get the service at home without wasting there valuable time for searching an institution.

NEDA Website Development

NEDA web site was restructured for enhancing the capacity and to improve the quality and accessibility to information.

Economic Zone

Gamata Obina Vyapara

“ Gamata Obina Vyapara “ to promote business at village level. As per Mahinda Chinthana way Forward” special emphasis is given to promote SME sector of the country.

Hakiyawata Rakiyawa

Through the above programme suitable unemployed youths and needy employers in the North and East were identified. The unemployed youths will be introduced to the needy employers by conducting a job fair in the districts of the regions.

Entrepreneur Development Training Program.

NEDA has decided to conduct technical training programs in different regions to improve their technical knowledge and skills. NEDA has identified technical training requirements through Local Competitive Advantage (LOCA) programs and field observation.

Entrepreneurship Development Training Program

As per Corporate Plan, NEDA has conducted Business Development Training Programs for SMEs at regional level with the support of National Chamber of Commerce of Sri Lanka and District Chambers.

The program objectives were to improve quality and productivity of their products and services, improve entrepreneurship skills of participants, improve their profits, improve management skills and improve financial management.

“ Divi Neguma “

Ministry of Economic Development and Ministry of Traditional Industries and Small Enterprise Development had organized “ Divi Neguma “ cottage industry cluster promotional exhibitions under the Divi Neguma National Programme. Ministry of Economic Development had invited NEDA to contribute for this exhibition. This exhibition has been planned for all 21 Districts and 13 exhibitions to be held this year.

Technology Development Fund

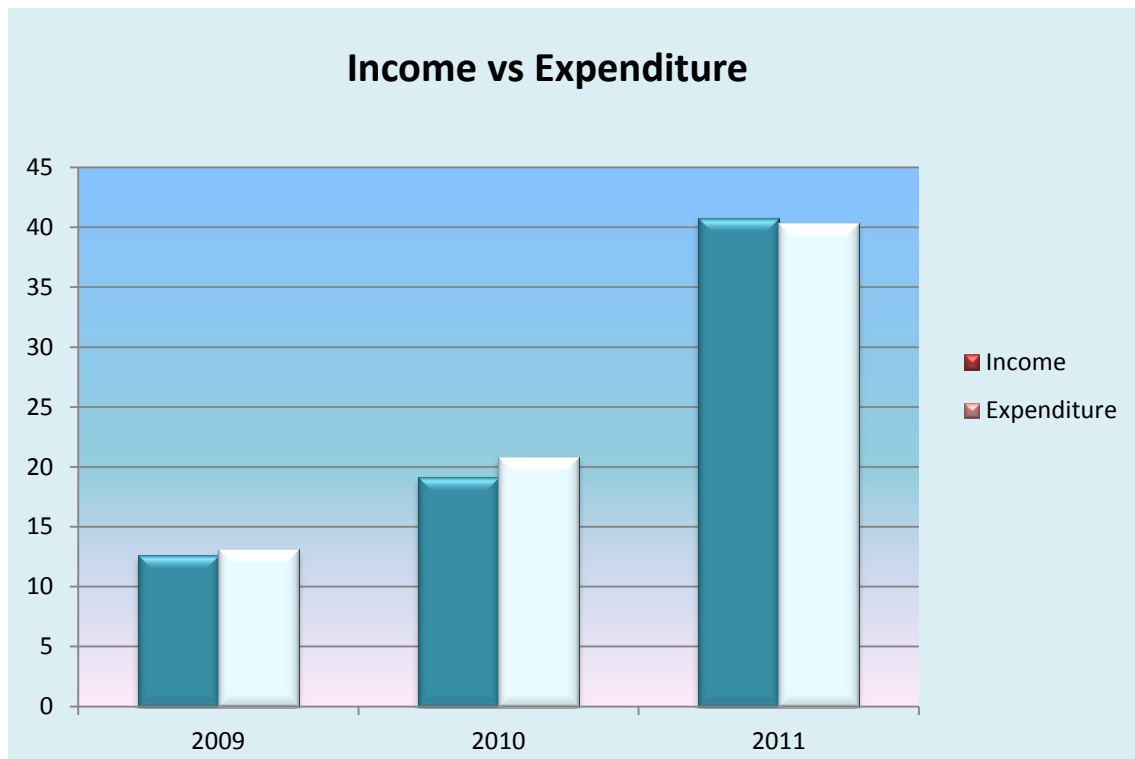
NEDA initiated a Cabinet memo and forwarded it to the Ministry of Industry and Commerce for the establishment of Technology Development Fund (TDF) in Sri Lanka. As a result a working group on Commercialization of Research through Technology Transfer was established. At the same time NEDA explored the possibility of getting technical assistance from Malaysian Technology Development Corporation (MTDC). MTDC submitted a proposal testing the

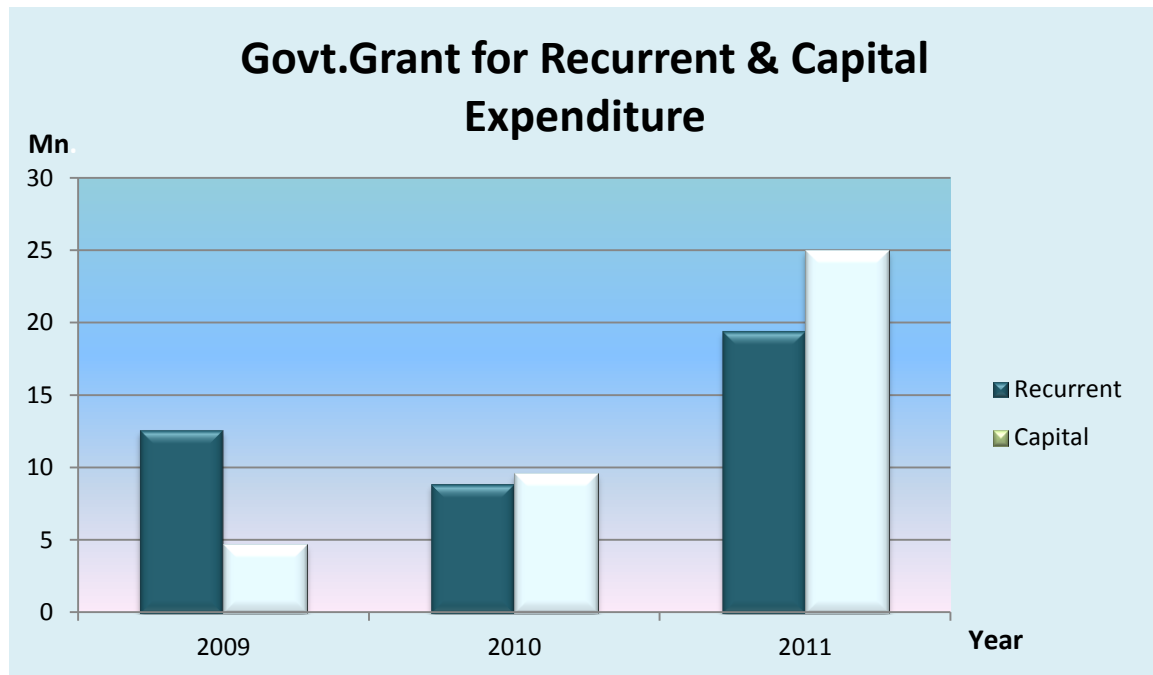
feasibility of establishing TDF in Sri Lanka and then submitted it to the Working Group for their recommendations.

NEDA has completed the following activities in 2011.

- Established Moratuwa United Wood Craft Association by merging Saw Millers Association, Wood Workshop Owners Association and the Furniture Shop Owners/Traders Association as the self- help common association for the Moratuwa Wood cluster in collaboration with NCCI.
- Evaluated the Final Report submitted by Town Planners Association on special data base development of Moratuwa & Wewaldeniya clusters with Technical Evaluation Committee.
- Action was initiated to establish a management company for development of Moratuwa Wood Cluster in consultation with the stakeholders.
- Arranged the meeting with Handicraft Board, State Timber Corporation, NCCC, ITI and the Ministry of Industry on development of a project proposal to upgrade Wood Work Training Centre in Katubedda to international level with the technical assistance from the Austrian Firm VAM represented by Mr. Prokoni.
- Draft Gazette notifications on declaration of Moratuwa Wood Cluster area as special economic zone to the Ministry of Industry and Commerce.
- Identified development partners for cluster development and carried out initial discussions with them.
- Initial activities are completed to register Moratuwa United Wood Craft Association with the support of the NCCSL.
- Development partners forum were held with the University of Moratuwa, IDB and SEEDS. Based on the decisions made at this forums action is being taken to prepare the MOC to be signed with the development partners to implement the respective component of the cluster development program prepared by NEDA.

- Completed one day workshop with furniture cluster development partners and Moratuwa United Wood Craft Association to discuss common problems in furniture cluster development and identify information for MOUs.
- Completed four (07) mini furniture exhibitions in Bingiriya, Gampaha, Dankotuwa, Negombo and Kuliyaipitiya.





Report of the Auditor General on the Financial Statements of the National Enterprise Development Authority for the year ended 31 December 2011 in terms of Section 14 (2) (c) of the Finance Act, No. 38 of 1971.

The audit of financial statements of the National Enterprise Development Authority for the year ended 31 December 2011 comprising the balance sheet as at 31 December 2011 and the income statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 20 (2) of the National Enterprises Development Authority Act, No. 17 of 2006. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14 (2) (c) of the Finance Act appear in this report. A detailed report in terms of Section 13 (7) (a) of the Finance Act was issued to the Chairman of the Authority on 26 October 2012.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require

that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1.4 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Enterprise Development Authority as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

- (a) The statement of changes in equity had not been presented along with the financial statements in terms of Sri Lanka Accounting Standards 03.
- (b) The formal cash flow statement had not been prepared in terms of Sri Lanka Accounting Standards 09.

2.2.2 Non-compliance with Laws, Rules, Regulations, etc.

The following instances of non-compliance were observed during the course of audit.

Reference to Laws, Rules, Regulations, etc.,

Non-compliance

- (a) National Enterprise Development Authority Act, No. 17 of 2006.

Section 19(3)

Even though the Authority should establish a National Enterprise Development Fund and all the monies allocated or received for technical development activities should be credited to such Fund in terms of the relevant provision, action had not been taken in accordance with such provision.

- (b) Public Enterprise Circular No. PED/12 of 02 June 2003

Section 5.2.1

The budget had not been prepared and submitted to audit in terms of the circular

provision.

Section 6.5.1

Although the financial statements for the year 2011 should have been presented to audit within 60 days after closure of the financial year, the financial statements of the Authority had been presented for audit only on 28 June 2012 after a delay of 04 months.

3. Financial and Operating Review

3.1 Financial Review

3.1.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year under review had resulted in a surplus of Rs.530,441 as against the deficit of Rs.1,759,693 for the preceding year, thus indicating a favourable improvement in the financial results by Rs.2,290,134.

3.1.2 Analytical Financial Review

Although the development expenditure for the year under review had increased by Rs.10,521,203 or 120 per cent as compared with the preceding year, increase of grant received from the Treasury for recurrent expenditure and deferred capital income by Rs.21,654,073 or 113 per cent had mainly attributed for the favourable improvement of this operational results by Rs.2,290,134.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) A vehicle assigned to the former Chairman had met with an accident on 04 February 2008 while he was out of the Island at that time a person who is not a driver had driven this vehicle. Any further action had not been taken considering that the relevant person had afforded the losses incurred by the accident and thereby financial losses were not incurred to the Authority. The procedure to be followed at the time of occurring accident to any asset belonging to the Government Institution were shown in F.R 101 and 113 and as such any formal action such as fixing of responsible officer relating to the accident, the manner of recovering losses, obtaining copy of the Police report had not been followed by the Authority with regard to this accident.
- (b) The Authority had obtained the service of a Consultant since the year 2008 and consultancy fees amounting to Rs.720,000 at the rate of Rs.60,000 per month had been paid during the year 2011. However, a report consisting of services supplied by the relevant Consultant, reports prepared by him, supervision or projection activities carried out etc. had not been submitted for the year 2011 and as such it could not be ruled out in audit that this consultancy fee is a fruitless expenditure to the Authority.
- (c) A sum of Rs.3,240,149 had been spent from the Funds of the Authority for partitioning of the office space in an extent of 4,441 square feet of a building belonging to a private company obtained by the Authority during the year under review by paying Rs.4,382,072.

5. Accountability and Good Governance

5.1 Corporate Plan

The following observations are made.

- (a) According to the Action Plan, a sum of Rs.23 million had been provided for 15 activities. However, a sum of Rs.23 million had been provided only for Object Code 2107 in the Annual Estimate. Any estimate had not been submitted for 10 items under Object Code 2107 (Other expenditure). Further, scope of the enterprise development had not been specifically identified for the period for which the Corporate Plan had been presented.
- (b) Provision had not been made in the expenditure estimate submitted as annual budget relating to items under the Enhancement of Effectiveness shown as 03rd activity in the Action Plan. A

sum of Rs.0.5 million had been provided for 04th activity (Cleaner Production) shown in the Action Plan relating to final two quarters. But, provision had not been made in the annual budget in this regard. A sum of Rs.02 million had been allocated for 05th activity in the Action Plan for first two quarters of the year 2011 while a sum of Rs.11.4 million had been shown in the annual estimate for the year 2011.

- (c) Although a sum of Rs.05 million had been shown in the annual budget relating to sub items from 6.1 to 6.5 in the 6th activity of the Action Plan, it had not been presented in the manner of comparing the financial value relating to each item. Similarly, it was not specifically presented so as to identify from which item the allocation of funds for 7th and 8th activities had been made.

Accordingly, it was observed in audit that Action Plan and Budget had not been prepared based on the Corporate Plan.

5.2 Budgetary Control

Significant variances were observed between the actual expenditure and the budgeted value of expenditure for the year 2011, therefore, it was observed in audit that the management had failed to make use the budget as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Authority from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Staff
- (c) Budgetary Control
- (d) Expenditure Control

H.A.S.Samaraweera
Auditor General