2010

ANNUAL REPORT

EDB

SRI LANKA EXPORT DEVELOPMENT BOARD

24-06-2013

Hon. Abdul Rishad Bathiudeen,
Minister of Industry & Commerce,
73/1, Galle Road,
Colombo 03.

Annual Report and Statement of Accounts – 2010

Hon. Sir,

I am pleased to preset on behalf of the Board of Directors, the Annual Report of the SLEDB together with the following documents for 2010 in term of section 13 (2) of the Finance Act No.38 of 1971.

- Chairman's Report
- Statement of Accounts
- Auditor General's Report

Yours faithfully,

Bandula Egodage

Chairman & CE

SRI LANKA EXPORT DEVELOPMANT BOARD

SENIOR MANAGEMENT STAFF-2010

Chairman and Chief Executive	-	Mr. Anil Koswatte (up to mid of May 2010)
	-	Mr. Janaka Rathnayaka (from 20th May 2010)
Executive Director	-	Dr. Yousuf K. Maraikkar
Director General	-	Mrs.W.M.D.S.Weerakoon
Finance Division	-	Mr. M. K. G Mendis – Director [Up to 30th July 2010]
	-	Mrs. P. K Sumithrarachchi – Actg. Director [From 06th August 2010]
Human Resources Development Division	-	Mr. K. W. R. B Wijeratne - Director
Services Division	-	Mr. M. K Udayapala - Director
TradenetSL	-	Mrs. S. M Tirimanne - Director
Export Marketing Development	-	Mrs. J. Siriwardena - Director
Export Agriculture	-	Mr. M I Sufiyan - Director
SMED	-	Miss.RMP Hewaliyanage – Director
Policy & Planning Division	-	Mr.S.J.Silva - Director
Internal Audit Unit	-	Mr. H. S Fernando Chief Internal Auditor
Legal Unit	-	Mrs. D.T.Wijeratne Legal Officer
Auditor	-	Auditor General
Bankers	-	Bank of Ceylon Sampath Bank NDB Bank

Registered Office
No 42, Nawam Mawatha,
Colombo 02

SRI LANKA EXPORT DEVELOPMENT BOARD
BOARD OF DIRECTORS - 2010

01.	Mr. Janaka Rathnayaka	- Chairman
02.	Dr. Yousuf K. Maraikkar	- Director
03.	Mr. Nawaz Rajabdeen	- Director
04.	Mr. Sharaff M. Suhaib	- Director
05.	Mr. Sumith Wijesinghe	- Director
06.	Mr. K. P. Alawdeen	- Director
07.	Mr. Rohantha N. A. Athukorala	- Director
08.	Mr. A. M. Jayawickrema	- Addl. Secretary, Ministry of Ports & Aviation
09.	Mrs. Menike Chandrasiri	- Addl. Secretary, Ministry of Industry & Commerce
10.	Mr. M.H. Muinudeen	- Addl. Secretary, Ministry of Agriculture
11.	Mr. P.L.U Dissanayake	- Addl. Secretary, Ministry of Plantation Industries
12.	Dr. Mrs. A. Damitha N. De Zoysa	- Secretary Ministry of Fisheries & Aquatic Resources
13.	Dr. Nevil Goonewardena	- Director General Dept. of Trade, Tariff & Investment Policy Ministry of Finance & Planning
14.	Mr. B. G. R Uyangoda	- Addl. Secretary, Ministry of External Affairs
15.	Mr. V. Sivagnanasothy	- Secretary Ministry of Traditional Industries & Small Enterprise Development

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SRI LANKA EXPORT DEVELOPMENT BOARD

PERFORMANCE REPORT
January - December 2010

The Sri Lanka Export Development Board

The Sri Lanka Export Development Board [EDB], is Sri Lanka's apex organization for the development and promotion of exports and was established in 1979 under the Sri Lanka Export Development Act No. 40.

Vision

To be the most sought after destination for global sourcing in identified product sectors.

Mission

To be the nation's leading catalyst organization for development and promotion of products and services for exports, to enhance global competitiveness, maximize export earnings and achieve national economic goals.

Objectives

1] To increase the country's value of export of products and services to US$ 15 Bn. by 2015, in line with "Mahinda Chintana - Vision for the Future".

2] To increase the share of exports to markets other than the EU and USA by over 50% by 2015, while consolidating the market position in the EU and USA.

3] To pay particular attention to the seven identified key product sectors which will contribute over 80% of total export value and achieve significant growth in those sectors.

4] To project a more positive and a favourable image of Sri Lanka's exports as a whole, through the conduct of integrated marketing communication programmes in selected markets.

5] To broad-base the beneficiaries of exports, across the country and sectors including SMEs.

6] To build a team of excellence at the EDB, based on core values, with particular emphasis on employee productivity and commitment.

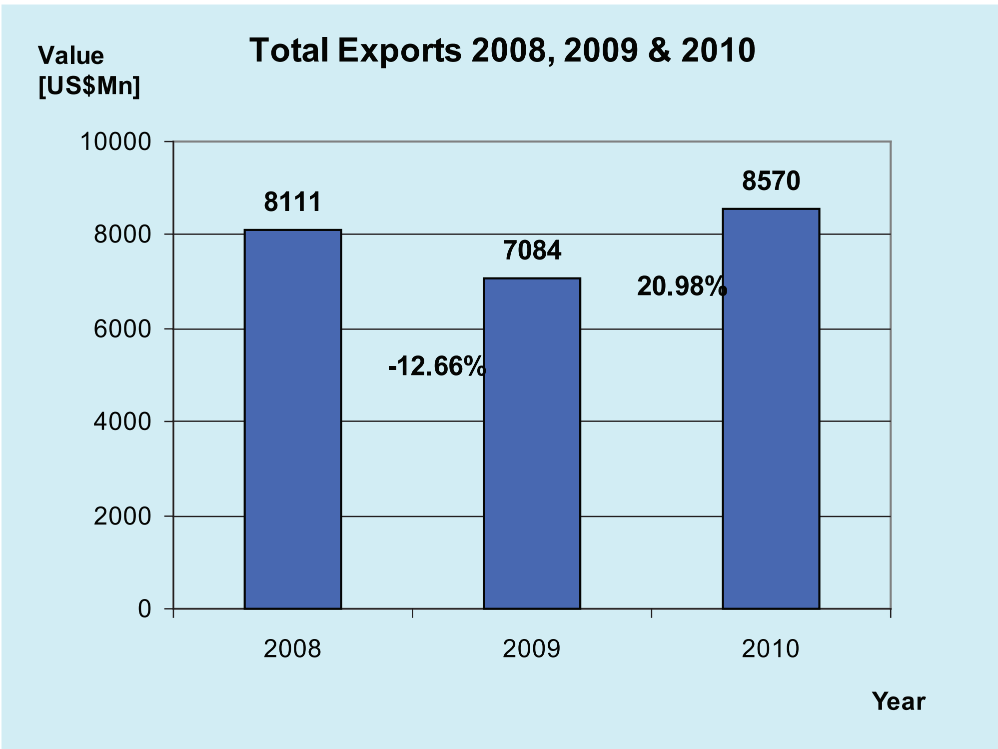
Performance during the Period January - December 2010

1] INTRODUCTION

The Sri Lanka Export Development Board, the Sri Lanka's apex state organization for the promotion and development of exports, implemented an array of programmes for the development of the sector during the period January to December 2010. The programmes implemented during this period mainly aimed at creating a conducive business environment, providing specialized and professional services to exporters to identify, penetrate and develop markets, develop and adapt products and services to meet requirements of the global market and also to promote export oriented SMEs specially in the provinces. These programmes were carried out with special emphasis on the Government's development objectives, ie: achieving a continuous annual economic growth rate of 8%, creating employment opportunities, alleviation of poverty and narrowing the regional disparities.

2] EXPORT PERFORMANCE DURING THE PERIOD JANUARY TO DECEMBER 2010

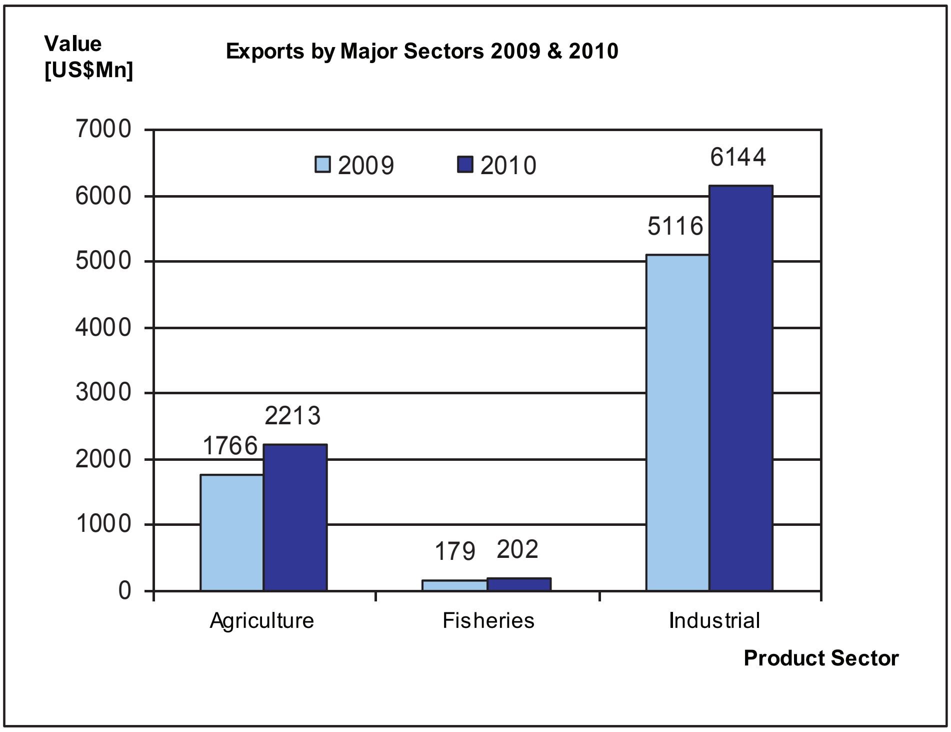
The export sector of Sri Lanka which experienced a severe setback in 2009, increased to US$ 8307 Mn. in 2010 by registering a healthy growth rate of 20.98% in US$ terms.



Source: Sri Lanka Customs & Central Bank of Sri Lanka

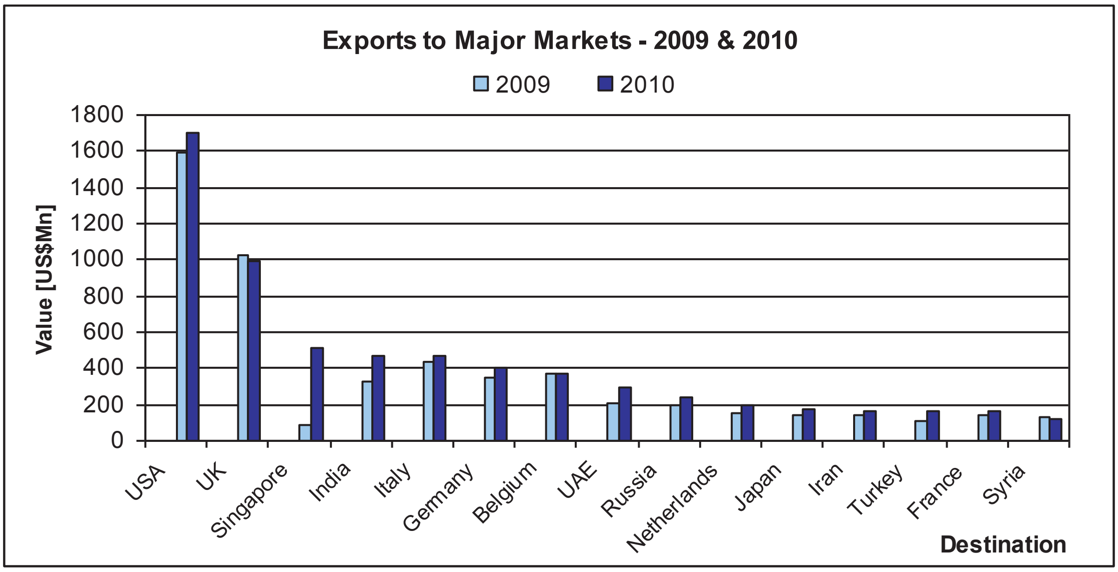
This increase in total exports reflected in agriculture, industrial and fisheries exports which grew by 25.31%, 20.1% and 12.86% respectively in 2010 compared with that of 2009.

Export earnings from agricultural products grew by 25.31% due to increased exports of tea [21.4%], natural rubber [75.8%], fibre based products [13.15%], spices [66.08%], fruits [31.92%], essential oils [208.9%] and cut flowers and foliage [17.84%].



Earnings from diamonds [1.42%], textile and garments [2.86%], food and beverages [41.34%], leather products [17.58%], wooden products [51.73%], paper products [496.28%], rubber products [44.88%], chemical and plastic products [25.72%], electrical, electronic and mechanical products [38.13%], ceramics [9.51%], footwear [14.58%], toys, games and sports goods [18.78%] and petroleum products [66.15%] increased impressively contributing to the overall positive performance of the industrial export sector.

A destinational analysis of exports shows that Sri Lanka's exports to all major markets except to U.K. [-3.43%] and Syria [-5.45%] grew substantially during 2010 compared to the performance in 2009. Exports to USA which absorbed nearly 21% of Sri Lankan exports recorded an encouraging growth rate of 6.8% in 2010 which is an encouraging improvement when compared to the negative growth rates of 4.8% and 15.7% registered in 2008 and 2009 respectively.



Source: Sri Lanka Customs & CBSL

As shown in the graph, exports to other major markets; India [45.82%], Germany [14.87%], Italy [6.56%], Belgium [1.31%], U.A.E. [37.22%], Russia [26.47%], the Netherlands [28.06%], Singapore [484.15%] and Japan [25.40%] too have registered increases during 2010.

3] PROGRESS OF THE MAJOR DEVELOPMENT PROGRAMMES CARRIED OUT BY THE EDB DURING 2010

3.1 Market Development Programmes

The EDB implemented the following market development programmes in major regions during the period under review with the objective of ensuring successful penetration of Sri Lankan products and services in existing, new and emerging markets.

European Region : Sri Lanka's exports to the European region which absorbed nearly 35% of our total exports grew by 5% during the period January to December 2010. During the year 2010, the EDB organized Sri Lanka's participation in eight international trade fairs / exhibitions in this region with the participation of 54 exporters. The trade events organized are Ambiante Gift Fair – 2010 in Germany, Paper World-2010, Nuremberg Toy Fair in Germany, Cebit in Germany, Interzoo - Germany, SIAL Food-2010, ITPF in Netherlands and European Sea Food Exposition in Belgium.

In addition, an outward buying mission to Belgium was successfully conducted with the participation of 10 Sri Lankan companies and nearly 50 B2B meetings were arranged for the participating enterprises. Two inward buying missions from Germany and Belgium were also organized during this period.

A 14 member trade delegation from Germany was also organized by the EDB in September 2010.

Two capacity building programmes i.e. a three day workshop on “Effective Trade Fair Participation” for 30 participants in Sri Lanka and “CBI” Export Coaching Programme in Netherlands for 6 exporters were also organized during this period.

The American Region: This region absorbed nearly 23% of Sri Lankan exports and registered increased exports of 7.8% during the period January – December 2010.

During the period under review four international Trade Fairs i.e., “International Boston Seafood Show in USA” which was organized for the first time on the request of the Seafood Exporters’ Association, “International Home & Houseware Show” in Chicago, “JCK - Las Vegas Show in USA, IFT Show-2010 in Chicago were organized by the EDB with the participation of 25 exporters.

The EDB also organized the Sri Lanka’s participation at the “WWD Global Sourcing Forum and WWD Retail CEO Summit in New York during this period. An Inward Buying Mission from USA also conducted during this period.

In addition, a capacity building programme on the “Latin American Market” was organized with the participation of 65 exporters. A seminar on “Footwear & Clothing” and one to one Consultation with two Canadian exporters were also organized in Colombo and Galle with the participation of 50 exporters. Another Seminar on “Doing Business” in co-ordination with USA Embassy in Sri Lanka was held in Colombo, Galle, Kandy and Trincomalee districts for SMEs in these regions.

Asia & Oceania Region : Exports to this region [SAARC, Other Asian countries and Australian Continent] which contributed nearly 20% to the Sri Lankan exports grew significantly by 22.23% during the period January to December 2010.

During the period under review, EDB organized Sri Lanka's participation in eight international trade fairs held in this region i.e. "Foodex-Japan", "Aahar-India", "Seoul International Exhibition" in South Korea and "My Karachi" and "Expo Pakistan" Exhibitions in Pakistan, "10th SAARC Trade Fair in Nepal, 11th Western China International Trade Fair in Sickhuan, with the total participation of 62 exporters. The EDB also organized Sri Lanka participation at the 3rd South Asian Countries Trade Fair - Kungmin in China with 83 export companies and was able to win the prestigious "Gold Award" for the best country pavilion at the fair.

In addition a contact promotion mission to Bangladesh was organized in collaboration with the Ceylon Chamber of Commerce with the participation of 05 companies.

One technical exposure programme for four exporters were also organized in parallel to Domotex-2010 Exhibition in China and Technical Exposure and Business Development Programme in Thailand for eight SME manufacturers of processed food. The EDB also participated at the Tuna Conference in Thailand with 06 exporters.

A seminar on "Opportunities for Sri Lanka rubber products in the Indian market" and the "Road Show" on "Rubber Expo" were organized with the participation of 60 export enterprises in collaboration with the Indian Rubber Industry Association.

Middle East, Africa & CIS Region : Nearly 16% of Sri Lanka's merchandized exports were destined to this region and our exports to the region increased by 21% during the period January to December 2010.

During the period under review participation at four international trade fairs i.e. "Cairo International Trade Fair", "Interior & Buildex - Muscat", "Gulf Food - Dubai" and "SAITEX-2010" in South Africa were organized by the EDB in this region with the participation of 35 exporters. A Road Show was also organized in parallel to "SAITEX - 2010" in South Africa. In addition one Inward Buying Mission from Palastine comprised for six delegates was also organized during this period.

Sri Lanka – South Africa partnership Forum was held for stakeholders, exporters and the delegation members in October 2010.

Strengthening Ties with Trade Officers attached to the Sri Lankan Missions Overseas

The EDB organized a five day intensive workshop for Sri Lanka's trade frontline in order to pave way to bring in a novel concept of "working together" for a common goal by different stakeholders responsible for the economic development of the country. The programme aimed at improving the knowledge and skills in the field of export marketing and promoting techniques of the officers in the Sri Lankan Missions overseas who are involved in promotional activities.

The forum provided an excellent platform to exhort the current development goals of the country that has been laid down in post war Sri Lanka, in the field of investment, trade and tourism to the Sri Lanka's frontline. The Ministers of Foreign Affairs, Economic Development and Industry & Commerce and also the Governor of the Central Bank spelled out their expectations from the trade officers all over the world in achieving the set goals in the new development era of the country. Opportunity has also made for the participants to interact with the private sector business leaders to understand their expectations and goals.

Assistance for Exporters Own Marketing Scheme : The Scheme provides financial assistance on a reimbursement basis to exporters on a cost sharing basis for their own export marketing initiatives in overseas markets. During the period, assistance for ten exporters to the tune of Rs. 1.38 Mn. was approved under the scheme.

3.2 Supply Chain Development Programmes

During the period under review a series of integrated supply / product / design / market development programmes were implemented by the EDB to enhance the supply chain efficiency of our export product and services i.e. food & beverages, spices & allied products, coconut based products, fruits & vegetables, cutflowers & foliage, fish & fishery products, diamonds, gem & jewellery, garments, rubber & plastic products, leather & footwear, boats, toys & lifestyle products, light engineering products, ICT & professional services. Progress of the major programmes carried out during the period is briefly given below.

3.2.1 Establishment of Agro Export Zone Programme :

The EDB implemented several projects under this programme in selected provinces with the involvement of farmer villages to give effect to the proposal made in the Budget 2009. The main objective of this programme is to expand the agri supply base for exports while trickling down the benefits of exports to the rural community. The progress of the programmes carried out under the Agro Zone Project is given below.

- **Turmeric Cultivation in the Ampara District :** Under the first phase of the project 197 farmers in Gonagolla, Uhana and Mayadunne areas of Ampara district have been assisted to cultivate turmeric in an extent of 38.25 acres. A nursery project to cultivate turmeric seed in 15 acres has been commenced to obtain the seedling for the second phase.

- **Pineapple Project in the Eastern Province** : The project aims to distribute pineapple suckers among 200 farmers in the Namaloya, Weraketagoda, Mannikkamadu, Pallanoya, Koduvil, Central Camp and Deegawapi areas in the Ampara district to cultivate 200 acres. Upto now 174,401 suckers were distributed among the farmers and 44 acres are already under cultivation.

- **Introduction of Long-line Technology to Improve the Quality of Fish Catch in Kalmunai, Eastern Province :**

Fifty multi day boat owners were selected and trained on long-line technology and on-board handling. Fifty long lines with 200 hooks and 35 Global Positioning Systems [GPS] were distributed among them and a floating pier was also installed for their use.

- **Breeding and Rearing of Ornamental Fish for Exports in Polonnaruwa District** : Under the first and second phase of the project farm equipments were distributed among 100 selected farmers engaged in the ornamental fish industry. Under the third phase of the project 125 farmers have already been selected for assistance.

- **Cultivation & Processing of Foliage and Cutflowers in Bingiriya, North Western Province** : Under the first phase of the project 100 anthurium net houses and 100 net houses for foliage are to be distributed among selected farmers. All selected farmers under the project have been trained and 50 net houses for anthurium have already been distributed. Arrangements are being made to distribute the balance 150 net houses to the selected farmers. Preliminary work with regard to establishment of a central facility for the project is also being carried out. Construction of a road to the project has been partly completed under the "Maga Neguma" programme.

- **Cultivation of Fruits & Vegetables for Exports in Weerawila, Hambantota District**:
  This project is implemented through the Tissamaharama, EPV in an extent of 19 acres. Cultivation of selected crops, mango, papaya, drumstick, banana and sesame has already commenced.

- **Upgrade Quality Standards of Cinnamon Peeling in Southern Province** :

This project is aimed at establishing 20 processing centres to introduce Good Manufacturing Practices [GMP] to the cinnamon industry. Under the project, 15 centres have already been set up and have commenced commercial operations. Work related to the balance 5 centres is being completed. Arrangements are also being made to establish an additional 11 GMP centres island wide.

3.2.2 Other Supply Chain Development Programmes

- **National Organic Certification Programme** : With the objective of facilitating the issuing of Organic Certification for development of the organic production base in Sri Lanka, National Organic Certification [Guaranteed] Ltd. [NOGL] was established in collaboration with the EU and GTZ. Under the second phase of the project the EDB is in the process of establishing the National Organic Certification Authority [NOCA] as a separate entity established under the EDB Act for the development and facilitation of all matters connected with export of organic products.

All legal formalities with regard to the project has been almost completed and a Cabinet paper has been submitted and awaiting the approval to establish the entity.

- **Integrated Agriculture Model Project :** The objective of this project is to encourage investment in the agriculture sector with the involvement of farmer clusters in the provinces to encourage efficient production and marketing of quality agricultural crops / ornamental fish and thereby improving the non-traditional agriculture sector in Sri Lanka. Under this programme 49 projects covering 12 districts have been granted approval. Up to now 30 companies have set up the projects and Rs. 75.95 Mn. has been disbursed as financial assistance.

- **Assistance to Obtain Quality Management Systems :** The scheme is aimed at assisting exporters to obtain standards such as GAP, GMP, HACCP, ISO 22000 etc. required to enter the international market. Twenty three exporters have applied for assistance under the scheme and eight exporters have already obtained quality certifications with the EDB assistance.

- **Development of Rice Based Products :** An assistance scheme to encourage entrepreneurs engaged in the food processing industry to promote and export innovative / convenient food products from rice was implemented and 03 companies were selected for assistance. Two companies have already purchased the equipment.

- **"Ceylon Cinnamon" Brand Positioning Programme :** The EDB has launched a programme to establish "Ceylon Cinnamon" as a brand name to gain recognition for the product in the global market. Rules and regulations and "Cinnamon logo" required for this purpose has been developed in consultation with the National Intellectual Property Rights Office and forwarded to the Ministry to obtain approval from the Presidential Secretariat.

- **Upgrading Giftware & Toy Sector :** A special giftware development programme was undertaken by the EDB with a view to develop a core group of export ready SMEs manufacturing giftware to cater to the export market.

Under the first and second stages of the programme 60 SMEs have already been developed. Under the marketing phase of the 2nd stage, 15 SMEs were given the opportunity to participate at the Kungmin Fair in China in mid 2010.

- The product and design development phase of the third stage of the programme has already commenced with the assistance from 13 craft design experts of U.K. and France. They worked with craftsmen in Hapuvida, Talagune, Maradamune, Pilimatalawa, Kovulara and Magalla to develop a unique range of giftware products suitable for the international market. The "giftware collection" of these craftsmen was displayed at the Craft Exhibition organized by the EDB in November 2010 in parallel to the Sri Lanka Design Festival.

  In addition, a seminar on "Certificate and Standardization for Toy Sector" was also organized in Colombo with the participation of 40 export oriented entrepreneurs.

- **Promotion of Apparel Sector :** With the objective of optimizing the utilization of trade concessions granted under the Indo-Sri Lanka Free Trade Agreement, the EDB organized an official delegation to visit the "Global India Textile Show" in 2010. In addition, the visit of officials of the Powerloom Development & Export Promotion Council of India was also organized by the EDB.

  Two Technical workshops on 'Branding & Labeling' for the Apparel industry and for the Footwear sector was organized, concurrent to the Sri Lanka Fashion Week organized by the Sri Lanka Apparel Institute from 15^{th} – 20^{th} November 2010. Obtained the services of two Experts from London College of Fashion, UK to conduct the workshops.

- **Sri Lanka Design Festival - 2010 :** The Sri Lanka Design Festival [SLDF]-2010 was successfully held from 11^{th} – 16^{th} November at the Mount Lavinia Hotel to the second consecutive year. The theme of the festival was "A Celebration of Creativity, Innovation and Sustainability". SLDF-2010 was a unique festival designed to promote Sri Lanka's creative industries and the apparel manufacturing industry's ethical stance and creative strength on a global platform.

  This exclusive programme included over 100 events including a model artisan and craft village, exhibitions, fashion shows, symposiums, demonstrations and a hands-on workshops. The event was organized by the EDB and the Academy of Design in association with the other industry stakeholders.

  The unique highlight of the festival was the "Artisan & Craft Village", a dynamic fusion of traditional crafts and modern designs opened throughout the event. The "Giftware / Craft Collection" displayed at this event was developed by our artisans with the technical assistance of foreign design experts organized by the EDB.

- **Boat Industry Development Programme :** "The Boat Show-2010" of Sri Lanka was organized in collaboration with the Boat Building Technology Improvement Institute [BTI] and other stakeholders in April this year with the objective of displaying and promoting products of the boat industry among potential buyers. The EDB also organized a ten member delegation from Pakistan and a three member trade delegation from India to visit the event.

  Carried out the work related to organizing the first ever international participation for the Boat building industry in Sri Lanka at Dubai International Boat Show 2011.

- **Footwear & Leather Exhibition** :

  The EDB organized the "Footwear & Leather Fair-2010" under the theme "Walk into a World of Opportunity" in collaboration with the Ministry of Industries & Commerce, IDB and other industry stakeholders from 5th - 7th November, 2010 at the BMICH. This was the third of its kind and the objective was to promote the image of the Sri Lanka Footwear and Leather Products to achieve recognition of the industry both locally and internationally.

  Nearly 170 export oriented manufacturers exhibited their products at the Exhibition. A fashion show, design competitions visits of foreign buyer delegations, workshops and seminars were also organized in parallel to this successfully concluded event. The "Fashion Show" depicted the Sri Lankan talents and designs in this field while the "Design Competition" was aimed at encouraging young and upcoming designers in the leather and footwear industry to display their talents.

- **Ceramics :** A technical handbook for the ceramic industry was compiled and published during this period.

- **Development of the Foundry Industry :** The EDB implemented a technology upgrading programme for the foundry industry and two companies have been recommended for assistance under the programme. The financial viability of 06 projects submitted by the foundry industrialists is being evaluated.

- **Facets Show - 2010 :**

The EDB also jointly with other stakeholders organized the "Facets-2010 Gem & Jewellery Show" held in Colombo this year. 17 SME companies were given the opportunity to display their products at the EDB special pavilion with the objective of giving them the necessary exposure and the opportunity to develop business contacts with buyers and link up with exporters for sub contracting.

- **Development of Export Services** : Information & Communication Technology, Business Process Outsourcing and Professional Services have been identified as key sectors for development and two web portals for both sectors were developed and launched during this period. Two awareness programmes were also organized on "Regulatory Environment for Export Service Sector" and on "Intercultural Communication" with the participation of nearly 90 exporters / potential exporters of this sector. The EDB also organized Sri Lanka's participation at the GITEX-2010 Exhibition" held in Dubai with the participation of 7 exporting companies.

  In addition the EDB is in the process of conducting a value survey on the ICT / BPO and Professional Services sector.

3.3 Regional Export Development Programmes

With the objective of mobilizing rural resources and skills to enhance exports, a range of regional export development programmes have been carried out by the EDB through its provincial network. A brief note on progress of the major programmes carried out during the period under review is given below:

- **Southern Province**

  - **Fruits and Vegetable Cultivation Project :**

This project was implemented in Weerawila under Agro Export Zone prgroammes listed in 3.2 above.

  - **Tissamaharama Export Production Village** : The EDB continued to monitor the progress of the Tissamaharama EPV which consisted of 500 members and engaged in manufacturing reedware baskets for packing of tea. With the objective of diversification of activities of the company a handloom manufacturing unit was commenced and assistance was given to install five machines and to train the employees.

  - **Integrated Product / Design Development Programme for Gem & Jewellery :** A capacity building programme for 18 jewellery craftsmen was carried out and they were given an opportunity to display their jewellery collection at the "Kungmin Fair" in China, Las Vegas Jewellery Exhibition in USA and Facets-2010 Exhibition in Colombo.

- **Northern Province**

  - EDB has set up a coordinating office in Jaffna and arrangements have been made to set up a Provincial Office in Mannar District to co-ordinate the development activities in the Northern Province. A supply development programme for green chillies for exports in the Mannar district has been initiated and 411 farmers from three villages; Periyamadu, Puddukklam and Palay Permalkattu were selected for the projects and seed material were distributed among them.

- **Central Province**

  - **Spice Development Programme :** This project was implemented in collaboration with the Department of Agriculture to uplift the quality of value added spices. 125

farmers have been selected to provide financial assistance to purchase tarpaulin carpets under the project. In addition, two awareness programmes on value added spices were conducted in Rattota and Pallepola in Matale district with the participation of 100 farmers.

- **Ornamental Fish Development Programme :** This programme is aimed at establishing 35 farm units linked to a leading exporter. The initial training programme was held for the selected breeders.

- **Cutflowers & Foliage Development Programme** : Under this project 30 out grower units in Matale and 20 out grower units in Nuwara Eliya and Kegalle are to be established. In parallel to this programme two seminars on cut flowers and foliage for export market were organized in Ambagamuwa and Matale with the participation of 90 growers.

- **Product & Design Development Progammes** : The EDB implemented a product and design development programme for Hemp products in Menikhinna and Kalasirigama, for Batik products in Lawella and Kiribathkumbura, for Handloom in Thalagune, for Powerloom in Matale, for pure silk products in Pallekele for brassware in Pilimatalawa and for lacquer products in Hapuwida. Services of foreign consultants were provided to select craftsmen and their new products were displayed at the Sri Lanka Design Festival held in November 2010.

North Western Province

- In addition to the ornamental fish development programme in Polonnaruwa and cut flowers & foliage development programme in Bingiriya implemented under the Agro Export Zone programme listed under section 3.2 above, the following activities were also carried out by the EDB in the North Western Province during this period.

- **Cultivation and semi processing of medicinal herbs in Kurunegala District :** This project is aimed at developing a reliable supply base for exports through an outgrower system and preliminary arrangements are being carried out with the provincial authorities to launch the project.

- **Skills Development Programme :** During the period, six awareness programmes were carried out with the participation of 200 entrepreneurs in the province.

- **Eastern Province**

In addition to the three projects, ie: cultivation of pineapple in Ampara district, cultivation of turmeric in Ampara district and introduction of long line technology for fishing in Kalmunai implemented under the Agro Zone listed under section 3.2 above, the following programmes were also carried out by the EDB in the Eastern province.

- **Skills Development Programmes :** EDB organized 03 awareness programmes for 156 entrepreneurs in the Trincomalee and Ampara districts on export related subject. In addition, 05 training programmes on mushrooms, pineapple and turmeric cultivation and modern design skills for handloom weavers and reed producers were conducted for the entrepreneurs in the Ampara and Batticaloa districts.

- **Uva Province**

- **Cultivation of bell pepper & passion fruits** : Initial arrangements were made to promote investment in passion fruit cultivation for exports and cultivation of bell pepper under protected agriculture, during the period under review.

- **Skills/entrepreneurship development programmes :** During the period under review, 05 programmes on potential export products, cutflowers & foliage, post harvest technology, packaging, cinnamon peeling and entrepreneurship development were conducted for 185 entrepreneurs in the Badulla district.

3.4 Other Programmes

- **E-Commerce Services :** TradenetSL, the e-commerce arm of the EDB provides a range of e-services to the business community. The TradenetSL has strengthened its e-commerce centre network in Southern, North Central, Central Provinces enabling SMEs in the provinces to use e-business technologies. During the period under review the TradenetSL has increased its membership by 35 totaling to 1652 and 05 new subscribers were registered for on-line trade statistics totaling to 62 services such as on-line searches [278] web advertisements [06], websites [07], web links [06], trade lead postings [118] and web mail forwarding [83] on-line were also provided to exporters and potential exporters.

The e-market place - EDB's official gateway to the business world is through a trade portal hosted on www.srilankabusiness.com. Up to date 76 exporters have joined the portal and 24 successful transactions were carried out through this web portal. Further, 09 Awareness Seminars on e-commerce and export development activities were conducted in Agalawatta, Kandy, Galle, Sewanagala, Moneragala, Colombo and Ampara.

- **Provision of Trade Information & Advisory Services** : The EDB channeled its resources towards the provision of multifaceted services to the export sector ranging from computerized database facilities, advisory services, publications to library services. Over 35 on line price searches and 170 searches on statistics were carried out for external users as well as for internal users and library facilities were also provided to nearly 700 entrepreneurs. Eleven information stalls at exhibitions such as "Deyata Kirula", "Boat Show – 2010", "Dumbadeniya ICT Exhibition", "Kithula Waruna", "Intrad", "FACET", "Agribusiness", "SME Machinery Entrepreneur Day", were organized for dissemination of information. In addition advisory services on all aspects of export related subjects were provided to more than 2500 exporters / potential exporters through EDB Head Office and its provincial network

- **Export Related Publications :** During the period under review, 24 issues of "Exponews" and 12 issues of "Apanayana Puwath" were published and dispatched to subscribers. Twelve issues of "Policy Briefing" News Bulletin were also circulated during the period under review.

- **Export Performance Indicators - 2000 - 2009** : which includes comprehensive data relating to the export sector was published in printed and CD forms.

- **Packaging Development Programme** : The Packaging Centre of EDB has conducted 15 programmes in various parts of the island including Jaffna with the objective of educating, especially the export oriented SMEs on quality, reliable and cost effective packaging for their products. Packing of fresh and value added agro products, packing handicrafts and textile items, new packaging techniques, packaging of food, packaging as a value addition and marketing tool, package labeling etc. were among the main subject areas covered under the programmes.

  In addition, dissemination of technical information and provision of advices on export packaging as required by the SMEs / Exporters were also implemented by serving more than 80 individuals / institutions who are engaged in direct and indirect exports.

The Centre has embarked the preparation of "Packaging Industry Information Handbook" and also the "Packaging Industry Profile" has been updated during this period. A preliminary need survey for the development of packaging system to increase fish density of existing export packaging system has also been completed.

- **Presidential Export Awards**

The EDB has made necessary arrangements to conduct the 'Presidential Export Awards' ceremony to recognize and reward the exporters for exception achievements in their respective fields during the years 2007, 2008 and 2009 under the patronage of H.E. The President.

- **"Dahas Diriya" Investment Support Programme :** This programme was implemented to reward exporters of non-traditional value added products on their export performance and to encourage them to invest in export related activities.

During the period under review, the EDB reimbursed Rs. 23.50 Mn among exporters for investments allowed under the scheme.

- **Simplified VAT Deferment / Suspension Facility [SVAT Scheme]** : The SLEDB is entrusted with the implementation of the SVAT Scheme for non apparel sector under the guidelines issued by the Department of Inland Revenue. SLEDB is responsible of registering, monitoring, maintaining of records and submission of monthly report to the Department of Inland Revenue in relation to the above scheme. At present, there are about 740 direct and indirect exporters registered under the scheme. The benefit to the exporters through this scheme is estimated around Rs. 18 Bn per during 2010 which helps them to reduce their cash flow difficulties.

- **Scheme to Refund EDB CESS to Exporters [SRECE] :** The scheme is in operation since year 2009 to enhance the competitiveness of exporters by refunding Cess paid on imported inputs. At present four [04] exporters have already been registered under the scheme.

- **Scheme to Issue Recommendations for Indirect Exporters to Open Foreign Currency Accounts :** This scheme enables the indirect exporters to receive payments in foreign currency for their supplies to direct exporters, which could be deposited in an Indirect Exporter Foreign Currency Account [IEFCA] and utilized to import inputs required for manufacture. The EDB issued 3 recommendations to banks on behalf of indirect exporters to open 3 IEFCAs during the period under review.

- **Establishing Product Sector Advisory Committees :** The EDB established the 20 Advisory Committees covering key product sectors and other export related areas in terms of the EDB Act. A Gazette Notification was also published in this regard. The meetings of the Advisory Committees are scheduled to be held during the first quarter of 2011.

- **Formulation of the Strategic Plan of the EDB - 2011-2015 :**

The EDB formulated its Strategic Plan for the period 2011-2015 in consultation with the EDB Advisory Committee members and the staff of the EDB and was presented to the Hon. Minister of Industry & Commerce at a ceremony held on 06th December 2010. The Strategic Plan which is centered on our Mission "To be the nation's leading catalyst organization for the development and promotion of products and services for exports, to enhance global competitiveness, maximize export earnings and achieve national economic goals." aims to increase our annual export earnings up to US$ 15 bn. by the year 2015.

- **Skills Development, Awareness & Training Programmes :** During the period, EDB conducted 85 skills and entrepreneurship development programmes in Trincomalee, Badarawela, Badulla, Agalawatta, Horana, Kurunegala, Galle, Nallur, Kandy, Kalutara, Kosgama, Ambagamuwa, Matale and Colombo with the participation of 3845 entrepreneurs engaged in export related activities. These programmes were aimed at creating awareness on the markets, potential products, regulation and procedures in key markets, import / export procedures, packaging and enhancing product specific technical skills.

The EDB also conducts two special training courses on import and export procedures. During this period 04 Certificate Courses on Import / Export Procedures and 03 programmes on "Operational Aspects of International Trade" were conducted and nearly 287 entrepreneurs were trained through these programmes during the period.

SRI LANKA EXPORT DEVELOPMENT BOARD
BALANCE SHEET
AS AT 31ST DECEMBER 2010

	Current Year 2010 Rs. Cts.	Previous Year 2009 Rs. Cts.
ASSETS		
NON-CURRENT ASSETS		
Property,Plant & Equipment	53,685,815.14	59,550,760.38
Investments	324,562,361.00	287,881,201.00
CURRENT ASSETS		
Stocks	1,824,633.91	2,265,189.94
Debtors & Receivables	142,616,039.28	158,881,814.08
Cash & Cash Equivalents	73,776,084.89	4,551,616.91
Principal Collector of Customs	468,742,448.83	468,742,448.83
	1,065,207,383.05	**981,873,031.14**
EQUITY		
Government Contribution	7,904,002.00	7,904,002.00
UNDP Contribution	2,110,282.00	2,110,282.00
ITC Contribution	12,716.35	12,716.35
Export Promotion Secretariat	**202,677.32**	**202,677.32**
	10,229,677.67	**10,229,677.67**
RETAINED EARNINGS		
Excess of Income over Expenditure	922,253,187.13	760,419,525.67
CURRENT LIABILITIES		
Creditors & Accrued Charges	55,991,525.31	136,242,589.30
Provision for Gratuity	72,344,753.48	70,588,128.50
	128,336,278.79	206,830,717.80
Net Assets-Expo Unit	4,388,239.46	4,393,110.00
	1,065,207,383.05	**981,873,031.14**

Janaka Ratnayake
Chairman & CE

Mrs. P. K Sumithrarachchi
Director Finance

SRI LANKA EXPORT DEVELOPMENT BOARD

STATEMENT OF INCOME & EXPENDITURE
FOR THE YEAR ENDED 31ST DECEMBER 2010

	Current Year 2010 Rs. Cts.	Previous Year 2009 Rs. Cts.
Cess Income	493,750,000.00	414,350,000.00
Special Deposit-Ministry	55,400,000.00	-
Interest	2,535,733.94	-
Sundry Income	25,370,105.01	17,677,471.52
Dividends Income & Share of Profit	15,571,625.75	46,416,186.23
Associate Company Profits	39,681,160.00	-
Seminars & Course Fees	10,809,545.49	12,459,511.89
Jathika Saviya Gama Naguma	-	889,730.00
Loan Interest	2,404,486.37	2,607,207.34
Sale of Books	316,621.00	468,541.00
Chennai Rent & Electricity	50,002.24	20,305,453.00
	645,889,279.80	**515,174,100.98**

ADMINISTRATIVE EXPENSES

	Current Year 2010 Rs. Cts.	Previous Year 2009 Rs. Cts.
Personnel Emoluments	139,861,764.17	143,144,337.63
EPF, ETF & Pensions	20,729,866.63	28,065,926.72
Travelling-Local	1,030,641.40	1,679,752.12
Supplies Requisites	3,494,581.33	6,239,459.48
Other Services	20,755,771.92	24,868,879.37
Scholarship Training & Others	1,409,647.54	1,804,037.73
Maintenance of Office Equipments	1,593,673.65	1,273,029.88
Rent	47,539,332.23	47,292,330.90
Fuel & Lubricants	6,624,963.66	9,196,519.94
Repairs & Maintenance of Vehicles	5,975,377.29	7,006,769.26
Private Hiring Charges	4,370,051.26	2,491,479.85
Communication & Subscription	6,930,480.80	7,381,577.68
Provision for Depreciation	8,809,011.64	9,388,497.00
	269,125,163.52	**289,832,597.56**

EXPORT DEVELOPMENT EXPENSES

Export Agriculture Division	105,726,182.74	58,706,277.67
EU Funded Project	5,694,429.69	7,211,887.22
Marketing Division	44,605,469.36	29,594,988.91
Sri Lanka Trade Centre-Chennai	-	44,270,923.92
Policy & Planning Division	3,023,482.90	139,954.07
Product Management Division	18,464,752.94	34,915,450.32
Services Division	2,245,110.01	2,480,757.37
Small & Medium Enterprise Development Division	8,474,023.05	11,280,373.75
Trade Information Services Division	4,744,062.28	8,464,030.29
Trade Net Division	6,890,543.54	2,275,793.82
Export Incentives-Dahas Diriya	6,288,494.10	4,594,862.06
Stimulas Package	-	4,742,907.00
Integrated Agriculture model farm Project	12,394,662.70	9,066,151.40
HACCP Programme	-	452,966.00
Rice based Products	900,000.00	478,631.87
International Quality Certification	546,128.00	1,192,320.00
Cess Refund Scheme	1,494,950.03	-
	221,492,291.34	**219,868,275.67**
TOTAL EXPENDITURE	**490,617,454.86**	**509,700,873.23**
EXCESS OF INCOME OVER EXPENDITURE	**155,271,824.94**	**5,473,227.75**

SRI LANKA EXPORT DEVELOPMENT BOARD

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2010

2009	Cash Flows from Operating activities		Rs.Mn. 2010
5,473	**Excess of income over Expenditure**		155,272
	Adjustments for :		
9,389	Depreciation	7,951	
12,609	Provision for Gratuity	6,015	
-	(Profit)/Loss on Disposal of fixed Assets		
(9,414)	Prior year Adjustments	(6,562)	
(46,416)	Dividend Income	(55,253)	
(2,607)	Interest Income	(2,404)	
-	**Items not involving in movement of cash**		
-	Lease Interest		
(36,439)			50,253
(30,966)	**Operating Profit before working capital changes**		**105,019**
555	(Increase)/ Decrease in Inventories		441
857	(Increase)/ Decrease in Debtors and Receivables		1,266
-	(Increase)/ Decrease in Debtors and Receivables (Principal Collector)		
36,278	(Increase)/ Decrease in Creditors and Accrued Expenses		(59,374)
37,690			(42,667)
6,724	**Cash Flow generated from operations**		**62,352**
(7,606)	Gratuity paid		(4,259)
-	Taxes paid		
(7,606)			(4,259)
(882)	**Net Cash Inflow/(outflow) from operating activities**		**58,093**

	Cash Flows from investing activities	
(3,159)	Purchases of Fixed Assets	(2,087)
-	Proceeds from Sale of Fixed Assets	
11,773	Dividend Income	15,572
(10,553)	Lease rental paid	(1,758)
2,607	Interest received	2,404
668		14,131
(214)	**Net Cash Inflow/ (outflow) from investing activities**	**72,224**
	Cash Flows from financing activities	
	Investments in Shares	
(8,279)	Redemption of investments	(3,000)
(8,279)		(3,000)
	Net Increase/(decrease) in Cash and Cash Equivalents	
(8,493)	**during the year**	**69,224**
13,045	Cash and Cash Equivalents at the beginning of the year	4,552
4,552	**Cash and Cash Equivalents at the end of the year**	**73,776**

The Chairman,

Export Development Board of Sri Lanka.

Report of the Auditor General on the Financial Statements of the Export Development Board of Sri Lanka for the year ended 31 December 2010 in terms of Section 14(2)(c) of the Finance Act, No.38 of 1971

The audit of financial statements of the Export Development Board of Sri Lanka for the year ended 31 December 2010 was carried out under my direction in pursuance of provision 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. My comments and observations which I consider should be published with the annual report of the Board 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 forwarded to the Chairman on 23 December 2011.

1.2 Responsibility of the Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. 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.

1.3 Scope of Audit and Basis of Opinion

My responsibility is to express an opinion on these financial statements based on my audit. Audit opinion, comments and findings in this report are based on review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards to obtain reasonable assurance as to whether the financial statements are free from material misstatements. The audit includes the examination on a test basis of evidence supporting the amounts and disclosures in financial statements and assessment of accounting policies used and significant estimates made by the management in the preparation of financial statements as well as evaluating their overall presentation. I have obtained sufficient information and explanations which to the best of my knowledge and belief were necessary for the purpose of my audit. I therefore believe that my audit provides a reasonable basis for my opinion. 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.

2. Financial Statements

2.1 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 Export Development Board of Sri Lanka had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 2:2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Export Development Board of Sri Lanka as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Reference to Sri Lanka Accounting Standards	Non-compliance
(a) Standard No. 18	(i) Action had not been taken either to write off the value of computers, furniture, office equipment and television equipment taken off from use over 05 years ago or to disclose in the financial statements.
	(ii) The fully depreciated motor vehicles, furniture and office equipment still being utilised had not been revalued and brought to account.
	(iii) The computers and computer accessories had not been depreciated based on the useful life of the assets.
	(iv) The policy on the depreciation of lease assets had not been formulated and implemented to ensure the write off of the capital expenditure incurred on the lease assets valued at Rs.11,494,648 within the lease period.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) The depreciation for the year under review on the fixed assets such as computer software, television equipment, furniture and office equipment had been understated by Rs.41,634, overstated by Rs.17,008 and understated by Rs.276,160 respectively.

(b) Ten motor vehicles purchased for Rs.32,750,000 on lease purchase in the 2005 had not been depreciated in the year 2006 and as such the depreciation on motor vehicles had been understated in the accounts by a sum of Rs.3,353,600.

(c) The following deficiencies were observed in the accounting for the investment in the shares of "Development Holdings Company" which is an Associate Company of the Board.

(i) Even though the Associate Company had undistributed accumulated retained profits, the increase in the carrying value of the investments in the 07 years from 2000 to 2005 and the year 2007 had not been brought to account.

(ii) Even though the increase in the carrying value of the investment, based on the retained profits of the company as at 31 December 2010 amounting to Rs.1,004,166,781, should have been brought to accounts as Rs.411,708,280 in terms of Sri Lanka Accounting Standard 27 only a sum of Rs.232,277,411 had been brought to account.

(iii) Accordingly, it was further observed that the accounting policy on accounting for the carrying value of the investment had not been followed uniformity, continuously and correctly.

(iv) As the Board is exempted from income tax, Withholding Tax cannot be recovered on the dividends amounting to Rs.36,244,971 received by the Board from the Company during the period 2007 to 2009.

Nevertheless, the company had recovered Withholding Tax amounting to Rs.3,624,498 resulting in a decrease in the dividends received. Action had not been taken to recover and account for the dividend income receivable amounting to Rs.3,624,498.

(d) Money received from the encashment of an investment of Rs.1,154,000 made in fixed deposits in the year 1998 and not bought to account up to the year under review had been brought to account as other income.

(e) Fifteen advances amounting to Rs.1,842,403 granted in the year under review and preceding years for export promotion programmes and sundry services had been disclosed as advances even up to 31 December of the year under review instead of settlement of the advances and accounting for expenditure since the relevant services had been received.

(f) The investments made in the shares of private companies under various export promotion programmes amounted to Rs.156,848,516 and the provisions for the diminution in the value of shares amounted to Rs.159,838,617. As such an over provision of Rs.2,990,051 had been brought to account for the risk of diminution of value beyond the value of the investment.

2.2.3 Unreconciled Control Accounts

According to the accounts, the outstanding balance as at 31 December 2010 out of the loans granted under the Loan Scheme implemented for exporters amounted to Rs.46,655,856 whereas according to the schedule of loans furnished the balance amounted to Rs.45,587,690. As such the difference of Rs.1,068,166 between the balances had not been reconciled and settled.

2.2.4 Accounts Receivable and Payable

The following observations are made.

(a) Accounts Receivable

(i) The outstanding balance as at 31 December 2009 out of the loans granted to exporters amounted to Rs.46,737,356 and a provision of Rs.57,159,274 exceeding the debts by Rs.10,421,917 had been made foor bad debts. Nevertheless, it was observed that 07 exporters had been paying back the outstanding loans. The over provision of Rs.10,421,918 made in the accounts had been written off from the accounts in the year under review.

(ii) Action had not been taken for the recovery of the Value Added Tax balances receivable amounting to Rs.65,287,697 accumulated over a period exceeding 05 years up to 31 December of the year under review. Those balances of accounts remained in the accounts for over 05 years without being reconciled.

(iii) Even though periods of 02 to 04 years had elapsed in respect of the trade stall rents amounting to Rs.9,510,139 and electricity charges amounting to Rs.2,637,383 totalling Rs.12,147,522 due from 07 trade stalls of the Sri Lanka Trade Centre, Chennai, India, those had not been recovered.

(iv) Even though an advance of Rs.4,500,000 had been paid in the year 2009 on the contract for the supply of 1,200,000 shoots of Mauritius pineapple for the Pineapple Cultivation Project, Ampara District of the Export Agricultural Zones Programmes, 174,401 Pineapple shoots only had been supplied. The balance of the advance remaining due to the breach of the conditions of agreement and the expiry of the agreement period by 31 December 2010 amounting to Rs.3,191,993 appeared in the Unsettled Advanced Account even by 30 April 2011.

(v) The advance of Rs.3,857,360 paid to the District Secretary, Hambanthota for the execution of 04 activities of the Hambanthota

Weerawila Vegetable and Fruit Cultivation Project of the Export Agricultural Zones Programme had been spent by 31 December of the year under review the advance had not been settled and the expenditure brought to account.

(vi) The unsettled amounts out of the advances granted to the Chief Secretary and the Director General of the Department of Agriculture for the implementation of the Mannar Chillie Cultivation Project of the Export Agricultural Programme, as at 31 December of the year under review amounted to Rs.1,535,572 and Rs.250,000 respectively.

(b) Accounts Payable

Action had not been taken even up to 31 December of the year under review for the payment of the creditors balances amounting to Rs.5,359,837 accumulated in 04 accounts over a period exceeding 05 years or to adjust and settle the balance.

2.2.5 Lack of Evidence for Audit

The following observations are made.

(a) The investments in the shares of private companies totaling Rs.481,400,978 , loans receivable from exporters totalling Rs.46,655,856 , sundry debtors and receivables totalling Rs.83,113,243 , sundry creditors totalling Rs.52,972,310 and the Value Added Tax receivable from Embassy Offices totaling Rs.2,035,247 and the expenditure incurred from those Tax Acounts totalling Rs.3,476,280 could not be satisfactory vouched or accepted in audit due to the non-submission of Registers of Investments, Register of Loans, Loan Ledgers, Register of Debtors, Debtors Ledger, Registers of Creditors, Creditors Ledger, detailed schedules, confirmation of balances, Bank Statements, Payment Vouchers, Invoices, reports on expenditure and files containing information, relating to the balances of those assets and liabilities accounts.

(b) A stock of 1,656 units of furniture valued at Rs.8,356,005 made available by the Associate Company of the Board "Development Holdings" for the use of the Board had been brought to accounts under fixed assets as office equipment. Documentary evidence in support of the receipt of ownership of those fixed assets had not been furnished to audit.

(c) The balancers in 02 assets accounts totalling Rs.2,624,250 and the balances of 04 liabilities accounts totalling Rs.16,772,881 had accumulated over a period exceeding 05 years up to 31 December of the year under review and action had not been taken to settle the balances of those old accounts. The explanations relating to those balances of accounts and the documentary evidence relating thereto were not furnished while the correctness of those balances could not be established.

(d) There were unusual debit balances totalling Rs.12,918,011 in liabilities accounts including refundable depositsexporters contribution and EU-EPV Sales control amounting to Rs.680,565, Rs.1,833,757 and Rs.10,403,689 and an unused credit balance of Rs.458,757 in the assets accounts of Overseas Travel Account existed and the explanations thereon were not furnished. Thus it was observed that the transactions had been erroneously brought to account.

(e) The 720 journal vouchers relating to the adjustments amounting to Rs.59,380,031, Rs.519,400,884, Rs.2,688,387, Rs.11,643,121 and Rs.5,992,846 made for adjustments of accounts such as expenditure, income, assets, liabilities and the accumulated surplus respectively had not been certified. In addition, material evidence on accounting and the evidence in support of the amount brought to account had not been disclosed in the notes to the journals in most instances. The explanations thereon had also not been furnished.

(f) Replies to 16 audit queries relating to the year under review totalling Rs.903,243,571 issued to the Chairman had not been furnished despite the elapse of 03 to 09 months by 14 October 2011.

2.2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

	Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a)	Section 2 (1) of the Export Development Act, No. 40 of 1979	The National Development Council comprising the President and Ministers responsible for the implementation of Export Development Programmes and Policies had not met in 19 years from the year 1992 up to the year 2010.
	Paragraph IV of the Circular No. DMS/A2/EDB dated 30 November 2006 of the Department of Management Services	The Scheme of Recruitment and Promotions of the Board had not been revised in terms of the provisions of the Circular and the approval of the Department of Management Services obtained.
(b)	Circular No. IAI/2002/02 dated 28 November 2002 of the Secretary to the Treasury and Financial Regulations 350 and 357	A Board of Survey of the fixed assets valued at Rs.146,186,137 had not been conducted for the year under review and the Repors of the Board of Survey for the year 2009 had not been furnished.

2.2.7 Transactions not supported by Adequate Authority

The following observations are made.

(a) Nine motor vehicles allocated to different Divisions for official duties had been used by the Directors of the Board as allocated official motor vehicles contrary to the provisions of the Public Enterprises Circular No. PED/12 of 02 June 2003 and the Public Enterprises Circular No. 22/99 of 08 October 1999 and used for travel to and from residences and private travel. The following observations were made in connection with the running of 07 of those motor vehicles during the period July 2009 to June 2010 and the expenditure on fuel incurred by the Board.

(i) The motor vehicles allocated for office work had run 86,878 kilometres of private travel and the Board had spent a sum of Rs.1,155,396 for fuel and that represented 63 per cent of the total cost of fuel.

(ii) In addition hired motor vehicles had been used for travel to and from office and a sum of Rs.46,065 had been paid in the year under review for hired motor vehicles.

(iii) The overtime and combined allowances of the drivers who drove the motor vehicles on private travel had also been paid.

(iv) It was further observed that the Directors had used separate motor vehicles for travel to and from the office without using the common transport facilities for travel between residences and office provided to the officers during the year under review at a cost of Rs.6,385,605.

(b) The practice of payment of financial aid approved under the Combined Agricultural Model Programme is for the entrepreneur company implementing the projects to spend on the investment on the production sector, and the Board to supply 50 per cent as a reimbursement on the production of statements of expenditure and documentary evidence. Contrary to such practice an advance of Rs.2,000,000 had been paid in the year 2009 to an entrepreneur company implementing projects before incurring expenditure. Action had not been taken either for obtaining the statements of expenditure in support of spending those advances on the production field or for the recovery of the advance paid.

3. Financial and Operating Review

3.1 Financial Review

3.1.1 Financial Results

The total income and the total expenditure for the year under review amounted to Rs.645,889,280 and Rs.490,617,455 respectively and the corresponding total income and total expenditure of the preceding year amounted to Rs.515,174,101 and Rs.509,700,873. Thus the surplus of the working of the Board for the year under review amounted to Rs.155,271,825 and Rs.5,473,228 for the preceding year, thus indicating an increase of Rs.149,798,597 in the financial result for the year under review. Even though the development expenditure had increased by Rs.1,624,015 in the year 2010 the increase of receipts by Rs.130,715,179 and decrease of administration expenses by Rs.20,707,433 had affected this position.

3.1.2 Analytical Financial Review

The following observations are made.

(a) The expenditure relating to the year had not been correctly brought to account and contrary to the provisions of Sri Lanka Accounting Standard No. 10, prior year adjustments had been made to the accumulated surplus / deficit in the subsequent years as a regular feature.

(b) As a result, the financial results disclosed in the financial statements of the respective years had been unusually and conversely changed thus adversely affecting the financial results.

(c) The observations on the adverse effect on the financial results of 03 preceding years are given below.

   (i) The surplus of Rs.5,473,227 for the year 2009 had been conversely converted to a deficit of Rs.1,088,609 due to the adjustments amounting to Rs.6,561,836 made in the year under review.

   (ii) The surplus of Rs.17,318,705 for the year 2008 had been reduced to Rs.7,904,432 due to the adjustments amounting to Rs.9,414,273 made in the year 2009.

(iii) The deficit of Rs.174,341 for the year 2007 had been conversely converted to a surplus of Rs.3,127,320 due to the adjustments amounting to Rs.3,301,661 made in the year 2008.

3.2 Operating Review

3.2.1 Performance

The following observations are made on the performance under the Programmes and Projects of the Board as at 31 December of the year under review.

(a) Government Budget Proposal Programmes

(I) Combined Agriculture Model Programme

According to the Government Budget proposals for the year 2005, the completion of 100 Projects under the Programme had been targeted on a provision of Rs.500 million by 31 December 2008. Even though the period of the programme had been extended up to 31 December 2010 due to the non-completion of the Project activities targeted in the Programme, only 22 Projects had been commenced. Even out of that the targeted promotion had been achieved by 04 projects only. Even though the investment of Rs.500 million each by the Government and the enterpreneurs had been targeted the investments thereon amounted to Rs.69 million and Rs.151 million respectively.

(II) Export Agriculture Zones Programme

(i) Hambanthota - Weerawila Vegatable and Fruit Cultivation Project

* Even though the establishment of cultivation activities of 15 acres at cost of Rs.8 million under Stage I had been targeted for completion by 31 December of the year under review, the cultivation of 06 acres only had been completed under the Project.

* The supply of infrastructure facilities for the farm such as the constrution of the water tank, eletric fence, houses for the farm and the road system had not been commenced.

* As the Project work had not been completed during the targeted period, a provision of Rs.1.5 million made for the year under review had not been utilised.

(ii) Pineapple Cultivation Project of the Ampara District

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* According to the Project Plans, the establishement of cultivation work of 200 acres had been targeted for completion by 30 June of the year under review. Nevertheless, the cultivation had been established on 44 acres only. Non-supply of pinapple shoots had been the reason for that.

* Even though the supply of 1,200,000 Pineapple shoots should have been made by 28 February of the year under review 174,401 Pineapple shoots only had been supplied by 31 December of the year under review.

* Even though a provision of Rs.16.2 million had been made for the Project activities in the year under review, a sum of Rs.2 million only had been utilised due to the poor performance of the Project. That represented 12 per cent of the total provisions.

(iii) Bingiriya Anthurium Flower and Cut Foliage Plant Cultivation Project, Kurunegala District

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* Even the preliminary work under Stage I of the Project such as the establishment cultivation models of the

Kandakuwatta Agriculture Model Cultivation Zone, supply of infrastructure facilities and the construction of buildings for the centres relating to the collection of production planned for the agriculture zone, packing, export processing, training, etc. which should have been implemented in two years and completed by 31 December of the year under review according to targets had not been commenced.

* Even though the supply of 17,000 anthurium plants and 50,000 cement flower pots to the cultivators of anthurium flowers had been targeted for completion by or before 31 December of the year under review, 4,300 plants only had been supplied by that date while no cement pots had been supplied.\

* As such, the anthurium flower cultivation in the 50 netting houses constructed in the area of the Udubaddawa Divisional Secretariat had not been established even by 31 December of the year under review. According to the target for the 50 netting houses constructed in the area of the Bingiriya Divisional Secretariat, each house should have 800 plants while only 86 had been planted.

* Out of the provision of Rs.19.8 million made for the year under review Rs.9.6 million only had been utilised and that represented 48 per cent of the provision.

(b) Export Promotion and Development Programmes of the Board

(I) Promotion of Export Markets

* Out of the 31 Export Market Promotion Activities in Europe, America, Africa, Middle East, Asiatic and Commonwealth

Countries for which provision of Rs.40.9 million had been made in the Action Plan for the year under review, 20 activities costing Rs.24.1 million had been postponed to the year 2011 and implementation had been suspended. Several preliminary activities of the balance 11 Export Market activities only had been done. A sum of Rs.3.6 million out of the provision of Rs.16.8 million made for the purpose had been utilised in that connection.

* The overall physical and financial performance had been 56 per cent and 66 per cent respectively.

* Further, it was observed that most of the exporters who had participated in the foreign trade exhibitions and markets for export market promotion activities had not received orders. Adequate follow up action had not been taken in this connection.

(II) Export Products Supply Development Programme
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* According to the Action Plan for the year under review provision of Rs.99.59 million had been made for 72 Export Development Programmes under the Export Products Supply Divisions such as the Agriculture and Fisherirs, Industries, Export Services and Export Packing. Out of that 05 programmes costing Rs.4.70 million out of 23 programmes costing Rs.37.30 million had been postponed and the implementation of 05 Programmes costing Rs.1.83 million had been suspended.

* The balance 13 Programmes had not been adequately executed in the year under review. Out of the provision of Rs.30.80 million made for the purpose only a sum of Rs.0.86 million had been utilised.

* As such the overall physical and financial performance had been 68 per cent and 63 per cent respectively.

(III) Regional Export Development Programmes

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* Out of the 63 Regional Export Development Programmes targeted for implementation with provision amounting to Rs.41.89 million by the Western, Southern, Central, North Western, Nothern and Eastern and Uwa Regional Offices, 11 Programmes implemented with provisions amounting to Rs.25.95 million had not been adequately executed and as such provisions amounting to Rs.0.07 million only had been utilised.

* The overall physical and financial performance of the Regional Export Development Programmes had been 83 per cent and 0.28 per cent respectively.

(c) The contribution of the Export Development Board to the Gross National Product according to the objectives and functions of the Board had not been determined.

3.2.2 Management Inefficiencies

The following observations are made.

(a) The lease agreement on the building in which the North Western Provincial Office of the Board is maintained had expired on 31 May 2009 and contrary to the provisions of the Procurement Guidelines 2006 the said old leased building lacking in adequate office facilities had been used continuously since the date of expiry on the payment of an agreed monthly lease rental of Rs.100,000.

(b) The criteria and procedures had not been laid down and implemented to carry out follow up work on the evaluations and reviews aimed at achieving the targeted objectives of the Export Promotion Programmes such as "Dahas Diriya" "Combined Agriculture Models" and "Agriculture Zones".

(c) The procurement action on the supply of 50,000 cement flower pots and 17,000 anthurium plants to the anthurium cultivators under the Bingiriya Agricultural Export Zone Project had been beset with irregularity, deficiencies, long delays and inefficient management and as such that activity had not been implemented within the targeted period of 02 years.

(d) The following observations are made in connection with the action taken on the collection of devidends on the investments made in the shares of "Development Holdings (Private) Company, an Associate Company of the Board.

(i) Even though the Company had earned profits during the years 1999 to 2006 adequate for the payment of dividends, the dividends for the investment of the Board in respect of that period had not been collected and the company had been allowed to retain the profits.

(ii) Even though the company had paid dividends amounting to Rs.8,654,438, Rs.12,081,657 and Rs.16,108,876 in respect of the years 2007, 2008 and 2009 respectively and those taken as a percentage of the retained profits as at 31 December of the above years represented very insignificat dividend of 0.96 per cent, 1.34 per cent and 1.70 per cent.

(iii) The practice of allowing the company to retain profit without collecting substantial dividends for the investment made by the Board, cannot be accepted as a prudent step. Action had not been taken to collect substantial dividends and utilise such funds effectively for the achievement of the objectives of the Board.

(e) The invested money and the interest thereon amounting to Rs.2,535,734 had been withdrawn in the year under review on a sum of Rs.1,154,000 invested in a fixed deposit in the year 1998 and not bought to account even up to the year under review. The following observations are made in this connection.

(i) Action had not been taken over a period over 12 years to account for the deposit and for the maintenance of files and registers containing documentary evidence of the deposit.

(ii) The Withholding Tax on the deposit amounting to Rs.281,748 had been recovered by the Bank. Despite the Export Development Board being a Statutory Institution exempt from taxes in terms of Section 18 of Part IV of the Sri Lanka Export Development Board Act, No. 40 of 1979 action had not been taken either to prevent the recovery of tax on interest income or for obtaining a refund of the tax recovered.

(f) The following observations are made on the maintanenace of the investments amounting to Rs.156,848,566 made in the shares of companies established under different Export Promotion Programmes.

(i) Appropriate courses of action had not been taken for the settlement of transactions of the companies which had become dormant either due to the non-achievement of the targets of the export promotion programmes implemented by establishing such companies or due to failure and to dessolive such companies and recover the money invested.

(ii) Action had not been taken to follow up on the companies in active operation and maintain records on the operations. A plan of action for the collection of dividents for the investments made in the active companies is not in operation.

(iii) Provision for the diminution in the full value of shares had been made irregularly without ascertaining whether the value had diminished or obtaining the confirmation of the diminished value through a formal procedure.

(g) Even though the Board had received a sum of Rs.30 million in December 2003 from the Rural Economy Resuscitation Fund to incur expenditure on the installation of 600 greenhouses for the cultivation of vegetables under the Uwa Paranagama Greenhouses Project, only 100 greenhouses had been commenced and the installation of the balance 500 greenhouses had not been completed even by the 30 April 2011. The Board had not taken adequate steps to complete the work. The Board held the responsibility for the payment of Rs.5 million paid to the farmers of Uva Paranagama for the installation of 100 greenhouses and the payment of a service charge of one per cent on those loans in accordance with the conditions of the agreement.

(h) Thirty audit queries of the Auditor General issued in the year 2010 had not been brought to the notice of the Audit Committee for discussion at its meetings in terms of Sections 7.4.1 (d) of the Public Enterprises Circular No. PED/12 of 03 June 2003.

3.2.3 Transactions of Contentions Nature

The following observations are made.

(a) The balance of security deposits obtained from the trade stalls rented out from the Sri Lanka Trade Centre, Chennai according to the accounts amounted to Rs.625,996. Security deposits amounting to Rs.985,996 comprising Rs.680,247 set off against arrears of trade stall rents and refunds amounting to Rs.305,749 had been released in the year under review. The following further observations are made in this connection.

    (i) The release of security deposits exceeding the balance of Security Deposit Account by Rs.360,000 is a contentious issue and the overpayment had been erroneously brought to account under debtors.

    (ii) As such fictitious asset of Rs.360,000 appeared in the accounts.

(b) Outside the approved procedure for the payment of financial aid to the export companies participating in foreign trade exhibition and in addition to the approved financial aid, a loan of Rs.114,400 had been paid on 06 January

2009 to an export company which had participated in a foreign trade exhibition. That loan had not been recovered even by 30 April 2011.

3.2.4 Underutilisation of Funds

The following observations are made.

(a) A balance of Rs.1,875,331 in 03 Bank Current Accounts opened for various purposes remaining after the settlement transactions of such purposes had been idle for more than 05 years without being effectively utilised for the activities of the Board.

(b) Out of the funds made available by the Government for the Projects activities of the Export Development Programmes implemented by the Board, a sum of Rs.70,454,532 not so utilised remained in the Bank Current Account as at 31 December 2010. A sum of Rs.1,965,340 not utilised in the preceding years as well remained in the Bank Current Account.

3.2.5 Resources of the Board Supplied to Other Government Institutions

The following observations are made.

(a) Contrary to the provisions in Section 8.3.9 of the Circular No. PED/12 dated 02 June 2003 of the Department of Public Enterprises, 06 hired motor vehicles had been made available to another Government institution from 19 November 2009 to 30 June 2010 and sums totalling Rs.1,782,214 comprising hire charges on motor vehicles amounting to Rs.1,689,764 and the overtime and other allowances of drivers amounting to Rs.92,450 had been spent by the Board.

(b) Contrary to the above circular, 03 motor vehicles of the Board and 03 officers from its staff had been released for service in the Ministry service from the year 2007 and sums totalling Rs.3,153,451 comprising the maintenance expenses of motor vehicles amounting to Rs.2,166,275 and the overtime and combined allowances of the staff amounting to Rs.987,176 had been spent by the Board in the year under review.

3.2.6 Identified Losses

The following observations are made.

(a) The air-conditioner purchased for Rs.80,000 in the year 2006 for the Regional Office planned to be established in Trincomalee but not established and kept idling in the Regional Office, Kurunegala for more than 04 years had been removed in the year under review as it had become inoperative.

(b) Even though the Board had invested sums totalling of Rs.1,000,000 in the years 1999, 2000 and 2005 in the shares of the private company "SLAT (PVT) LTD" established in the Batatha Industrial Project, Hambanthota to commence a Leather Industrial Project, the work of the company had been inactive from its inception as the project had been abandoned. The share certificates for the investment made had also not been received by the Board.

(c) Trade stall rents amounting to Rs.2,026,887 and electricity charges amounting to Rs.312,289 totalling Rs.2,339,176 receivable from 03 trade stalls of the Sri Lanka Trade Centre, Chennai in India for periods ranging from 02 to 06 years could not be recovered as appropriate action had not been taken for the recovery of the money.

(e) Out of the insurance indemnity receivable brought to account in respect of 13 accidents to 08 motor vehicles of the Board in the year under review and the preceding years, a sum of Rs.373,188 not recovered had been brought to account under the Motor Vehicles Repairs and Maintenance Account and written off.

3.2.7 Procurement Contract Administration

(a) Purchase of Pineapple Shoots for Pineapple Cultivation Project - Ampara District Rs.9,000,000

The following observations are made in this connection.

(i) Without taking action in terms of provisions of Sections 3.1.2, 5.3.11, 6.2, 6.3.1 and 6.3.6 of the Procurement Guidelines 2006, the contract had been awarded to the only bid which had not been furnished in the formal manner.

(iii) Contrary to the provisions of Section 5.4.4 of the Procurement Guidelines 2006, advances amounting to 50 per cent of the contract value of Rs.4,500,000 had been paid. A Performance Bond had not been obtained for the payment.

(iv) According to the conditions of the agreement, the supply of 1,200,000 pineapple shoots should have been completed by 28 February of the year under review in 04 instances, by supplying not less than 100,000 pineapple shoots in each instance. Contrary to the condition, only 174,401 Pineapple shoots had been supplied in smaller quantities in 10 instances. No action had been taken in that connection.

(iv) Even though the agreement period had expired, the sum of Rs.3,191,993 recoverable out of the advance paid had not been recovered.

(v) Liquidated damages for the breach of agreement had not been recovered from the contractor in terms of clause 10 of the agreement.

(vi) The establishment of cultivation has stalled halfway due to the non-supply of Pineapple shoots and no suitable course of action had been taken to complete the project.

(b) Construction of 100 Netting Houses for Bingiriya Cut Ornamantal Foliage Plant Project - Rs.12,164,700

Action had been taken to revise the specifications after the award of the contract for Rs.12,164,700 and entering into the agreement. As such the contract work which should have been completed on 28 February 2010 had not been commenced even by 30 April 2011. Thus it was observed that there was an inordinate delay in the implementation of procurement activities.

3.2.8 Cadre Composition

The approved cadre of the Board had been 365 and the actual cadre had been 252 and as such there were 113 vacant posts as at 31 December 2010. That represented 31 per cent of the approved cadre.

3.2.9 Budgetary Control

According to the Budget for the year 2010 estimated expenditure for the development activities amounted to Rs.390 million. However, actual expenditure for the development activities as at end of the year amounted to Rs.221 million thus the actual expenditure out of the budgeted provision stood at 57 per cent. Accordingly, it was observed that the budget had not been made use of as an effective instrument of management control.

4. Systems and Controls

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

(a) Elimination of Fixed Assets
(b) Investments made in Shares of Companies and Collection of Dividends thereon
(c) Recovery of Loans Granted to Exporters

(d) Collection of Outstanding Income
(e) Utilisation of Funds
(f) Maintenance of Subsidiary Registers
(g) Settlement of Unusual Account Balances
(h) Survey of Assets
(i) Implementation of Projects of Export Promotion Programmes, Review of Achievement of Objectives and Follow up Action
(j) Achievement of Objectives of the Action Plan

H.A.S.Samaraweera
Auditor General