Performance Report - 2012

Department of Development Finance

Content

Vision

" To become the key government agency as facilitator

to develop Small and Medium Enterprises (SMEE),

Micro Enterprises, Banking Sector and Financial Markets

in order to accelerate the growth of the economy."

Mission

" Formulate appropriate policies and strategies to

mobilize financial resources for the development of SME sector,

micro enterprises sector, Banking sector and

improvement of the financial markets through

necessary intervention with the relevant stakeholders."

Functions of the Department

- Formulate appropriate polices, programmes and strategies for the development of the financial sector and government sponsored financial assistance schemes.

- Identify key issues and provide solutions to the development of small and medium enterprise and micro finance sectors.

- Facilitate enacting legislations for banking, insurance, small and medium enterprise and the micro enterprises.

- Formulation, implementation and follow up action on budget proposals and conducting empirical research to facilitate policies.

- Facilitate in policy formulation to solve current issues arises in time to time in the domestic economy.

2. Performance During 2012

2.1 Overview

Recognizing the vast scale of operations by Small and Medium Enterprises (SMEs) in handlooms, textiles, fabric & apparel, plantations and plantation industries, tourism, agriculture, food and beverages, construction, trade, manufacturing, storage, transport and other services, the government gives highest priority to this sector for progress in the real economy under "Mahinda Chinthana" Development Policy Framework of the Government. The SME contribution to the Gross Domestic Product (GDP) is around 30 percent providing 35 percent employment, 20 percent exports, and 30 percent value addition in the manufacturing sector. The Government has provided many incentives including a lower income tax regime, enhanced access to finance and infrastructure to improve productivity, competitiveness, innovation, and encouragement of value added production of SMEs considering their potential for development. Capitalizing on a favourable policy regime, a number of SMEs have moved on to value chain production processes and reached domestic markets as well as advanced economies.

HIGHLIGHTS ON DEVELOPMENT FINANCE

Finance for Primary Sector Development
- Fertilizer Subsidy Programme
- Promotion of production and use of organic fertilizer
- Provision of seeds and planting material
- Introduction of a "Crop Insurance Scheme" to minimize the risk of crop losses
- Paddy Purchasing Programme

Intervention on Microfinance Sector Development
- Encouragement to provide financial services such as insurance and leasing
- Entrepreneur training and skills development
- Increase in the financial inflows to microfinance market through "Divineguma"/Samurdhi Programme
- Microfinance Bill to be introduced to set up and supervisory or regulatory mechanism;

Strategic Intervention in SME Sector Development
- Improved access to financing
- Improved market opportunities
- Improved subcontract arrangements
- Improved tax environment

2.2 SME Financing

Since access to finance is a critical factor in the promotion of SMEs, continued policy initiatives are maintained to address concerns relating to financing of SMEs. In this context, a sum of Rs. 190,979 million has been provided to SMEs during 2012 for the improvement of agriculture, industry and services by public and private sector banks. It is encouraging to note that private banks have invested in operation of SMEs more than state banks in 2012, underscoring a greater public and private sector participation in the development of SMEs.

Table 1 - SME Loans Provided by Banks in 2012

Bank	Agricultural		Industries		Services		Other	
	No. of Loans	Amount (Rs. Mn)	No. Of Loans	Amount (Rs. Mn)	No. Of Loans	Amount (Rs. Mn)	No. Of Loans	Amount (Rs. Mn)
Bank of Ceylon	12	15.0	356	3,354.0	231	2,395.0	36	346.0
People's Bank	3,247	6,869.9	1,607	10,393.7	1,795	4,135.5	1,227	3,643.4
Regional Development Bank	385	195.0	590	490.0	170	85.0	280	590.0
Lankaputhra Development Bank Ltd.	42	101.3	241	1,120.6	39	243.2	31	113.5
Sanasa Development Bank Ltd.	22	152.0	42	581.0	9	139.0	61	625.0
National Development Bank PLC	370	1,725.8	1,098	3,346.7	380	1,132.9	2,817	5,748.3
DFCC Bank	487	1,445.5	2,953	13,053.6	1,017	5,981.1	-	-
Commercial Bank of Ceylon PLC	18,362	8,986.7	31,186	50,939.9	9,724	19,224.5	18,210	16,362.9
Sampath Bank	163	894.9	1,828	7,746.3	215	1,074.3	191	1,633.4
Hatton National Bank PLC	4,364	9,323.8	2,553	8,800.0	4,670	13,500.0	10,397	31,000.0
Nations Trust Bank PLC	132	679.2	537	1,129.9	2,453	3,806.1	8,876	10,929.3
Union Bank of Colombo Ltd.	2,526	756.0	3,286	4,839.0	1,382	2,326.0	34,873	3,680.0
Total	**30,112**	**31,145.1**	**46,277**	**105,794.6**	**22,085**	**54,042.6**	**76,999**	**74,671.9**

Source: Department of Development Finance

The Government has also secured foreign financing for SMEs during the recent past in view of the SME sector contribution to the economic development of the country. The total foreign financing commitments to the SME sector have increased by around 6 percent from 2006 to 2011.

Rural Credit Scheme

During 2012, the Government continued with the provision of an interest subsidy to lending banks and paid Rs. 195.8 million as interest subsidy on loans granted by PFIs using their own funds under the New Comprehensive Rural Credit Scheme (NCRCS). Compared with 2011, the demand for loans under this programme increased by 46 percent in 2012.

Table 2 - Overall Cultivation Loans under NCRCS, 2011-2012

Details	2011	2012
Loans released (Rs. Mn)	6,419.2	9,359.8
Extent of land cultivated (Acres)	316,326.3	355,752.9
Number of beneficiaries	98,593	112,413
Subsidy Paid (Rs. Mn)	205.2	195.8

Source: Regional Development Department, Central Bank of Sri Lanka

In terms of regional distribution**,** the highest number of beneficiaries was recorded in the Northern Province, followed by the North Central and Eastern Provinces. In terms of the amount disbursed, a significant growth has been recorded in the Eastern and Northern Provinces compared with 2011 due to the broader access to credit and the peaceful environment that encouraged more investment in the area.

Table 3 - Distributions of Cultivation Loans under NCRCS, 2011-2012

Province	No. of Loans Granted			Amount Released (Rs. Mn)		
	2011	2012	Growth %	2011	2012	Growth %
Western	14	0	-100.0	0.9	0.0	-100.0
Central	4,898	7,086	44.6	329.2	494.7	50.3
Southern	11,554	11,486	-0.5	586.2	674.1	14.9
North Central	36,989	30,773	-16.8	1,799.9	1,732.1	-3.8
North Western	1,435	1,165	-18.8	63.9	58.6	-8.3
Uva	5,632	8,105	43.9	330.7	483.6	46.2

Sabaragamuwa	569	503	-11.6	22.2	21.5	-3.1
Eastern	9,758	16,686	70.9	591.1	1,243.2	110.3
Northern	27,719	36,609	32.0	2,732.2	4,652.0	70.2
Total	**98,568.00**	**112,413.00**	**43.70**	**6,456.30**	**9,359.80**	**176.70**

Source: Regional Development Department, Central Bank of Sri Lanka

In terms of crop distribution, the paddy sector dominates disbursements, accounting for 73,488 loans amounting to Rs. 5,472.6 million followed by maize and onions which have been promoted as import substitute crops to minimize foreign exchange outflows.

Table 4 - Loan Granted by Crop in 2012

Crop	No. of Loans	Amount Released (Rs. Mn)	Land Extent (Acres)
Chillie	2,494	150.5	4,116.69
Maize	8,489	389.3	21,240.47
Onion	17,334	2,241.8	31,418.69
Paddy	73,488	5,472.6	281,663.41
Potato	4,198	558.5	5,165.96
Vegetable	5,290	485.4	8,032.52
Other	1,120	61.7	4,115.19
Total	**112,413**	**9,359.8**	**355,752.93**

Source: Regional Development Department, Central Bank of Sri Lanka

These subsidized loans encourage farmers to shift towards cash crops which have been promoted as import substitution crops to save foreign exchange. The progress achieved in 2012 further shows that about 30 percent of the total number of loans granted and 35 percent of disbursement was obtained by farmers who were cultivating cash crops such as Maize, Onion, Potato and Chillies which are being promoted as import substituted crops. Some of these cash crops have reached near self-sufficiency level i.e. maize and soya bean showing potential for export.

Agro Livestock Development

The loan scheme was started with a view to improve the small dairy farmers by providing loan facilities to meet their capital requirements in order to enhance local milk production in the country. The scheme commenced in March 2008 and was initially scheduled to disburse Rs. 5,000 million during 3 year period ending February 2011. However, the project period was extended until June 30th, 2012.

Table 5 - Agro Livestock Development Loan Scheme, 2008 - 2012

Beneficiaries	No. of Loans	%	Amount Released (Rs. Mn)	%
Small farmer borrowers	13,282	93.5	1,573.1	65.9
Investors in the private sector	911	6.5	813.7	34.1
Total	**14,193**	**100.0**	**2,386.8**	**100.0**

Source: Regional Development Department, Central Bank of Sri Lanka

Small dairy farmers have benefited mostly from this programme since more than 93 percent of the loans were obtained by them. The 11 commercial banks are engaged as PFIs providing loans utilizing their own funds, and the government has paid approximately Rs. 150 million to PFIs as interest subsidy up to end of 2012.

SME Bank Centres

The 2012 budget encouraged the banking system to setup dedicated SME bank centres in each district. These centres have been given incentives to encourage each commercial bank to move in this direction. In line with this proposal, steps have been taken by commercial banks to establish SME centres at district level to be equipped with state-of-the-art facilities to support SME entrepreneurs. The centres are now fully operational with dedicated staff to provide the entrepreneurs with required advisory and financial support.

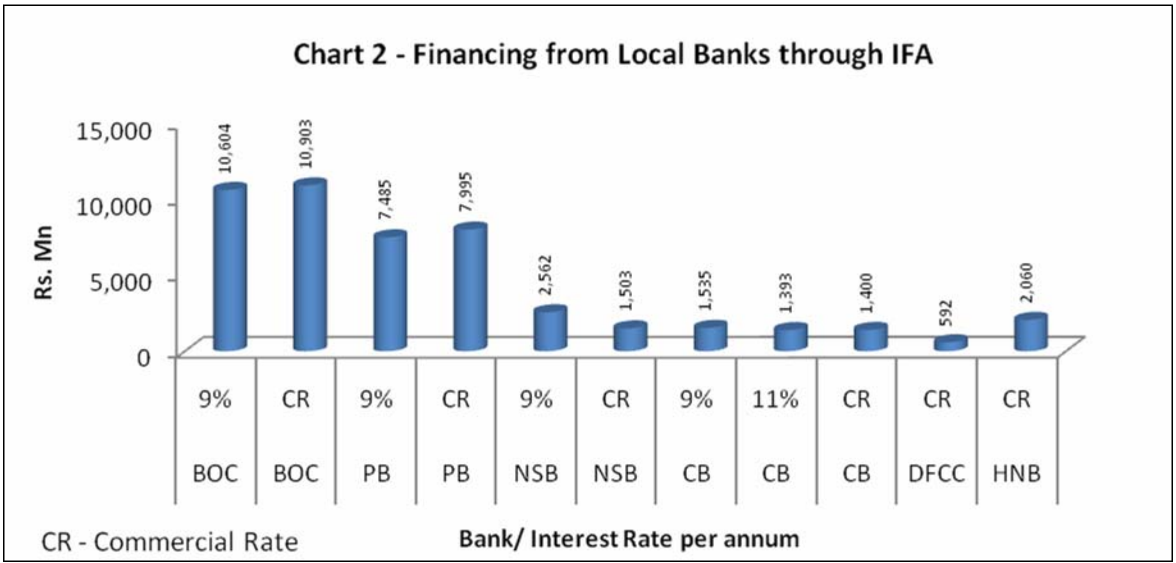
Table 6 - Performance of SME Banking Centres

Bank	Agricultural		Industries		Services		Other	
	No. of Loans	Amount (Rs. Mn)	No. Of Loans	Amount (Rs. Mn)	No. Of Loans	Amount (Rs. Mn)	No. Of Loans	Amount (Rs. Mn)
Bank of Ceylon	27	241.20	341	3,263.14	231	2,332.35	36	263.47
People's Bank	19	50.50	137	603.45	55	389.38	54	163.01
Regional Development Bank	6	6.7	8	10.4	17	27.6	0	0
Total	**52**	**298.4**	**486**	**3,876.99**	**303**	**2,749.33**	**90**	**462.48**

Source: Department of Development Finance

Investment Fund Account

The Investment Fund Account (IFA) which was created by channeling tax savings from income tax and VAT reforms in 2011 have come forward to contribute to the development process of the country through a long term financing approach which was lacking in the country. The creation of the IFA has promoted domestic contractors to various project financing to undertake construction work. Accordingly, 18 road projects totaling 575.62 km are being developed with financial assistance of Rs. 46 billion from the Commercial Bank, Bank of Ceylon, National Savings Bank, HNB, DFCC and People's Bank, through their IFA, at a competitive interest rate. Banks through IFAs have also gradually developed their medium term project portfolio to provide funds to other sectors as well.



2.3 Microfinance

Microfinance has been an effective instrument to satisfy the financial needs of the low income rural and urban community including informal sector entrepreneurs who do not have direct access to the formal banking system and financial institutions due to collateral and other formal requirements. Having recognized the significant role in facilitating and stimulating a viable and sustainable microfinance sector for the growth of small economies in the country, the government has taken steps to initiate various financial supports to micro enterprises as well as poor households for their livelihood development enabling them to access the main economic stream. The progress of micro financing programmes carried out by microfinance institutions in 2012 is given in Table 7.

Table 7 - Progress of Major Microfinance Institutions in 2012

Microfinance Institute	Total Deposits (Rs. Mn)	Total Borrowings (Rs. Mn)	Total Assets (Rs. Mn)	Total Investment (Rs. Mn)	Total Loan Portfolio (Rs. Mn)
Samurdhi Societies/Banks	42,233	87,046	47,323	42,098	84,251
Department of Co-operative Development	76,378	29,395	67,585	20,100	43,350
Department of Agrarian Development	237	184	1042	359	4,715
Regional Development Bank	54,710	6,078	69,134	11,385	105,870
SANASA Development Bank	18,003	10,337	24,834	3,430	17,919
Total	**191,561**	**133,040**	**209,918**	**77,372**	**256,105**

Source: Department of Development Finance

The outstanding loan portfolio of major microfinance institutions stands at Rs. 256 billion. The Regional Development Bank (RDB) holds the highest outstanding loan portfolio with Rs. 106 billion followed by Samurdhi Banking Societies which hold Rs. 84 billion. Commercial Banks also played a role in the facilitation of microfinance and loan disbursements to the microfinance sector. Their presence in 2012 is given in Table 8.

Table 8 - Loan Disbursement to the Microfinance Sector by Major Banks in 2012

Name of the Bank	Loan Disbursement				
	Less than Rs. 2 Mn	Rs. 2– 5 Mn	Rs. 5–10 Mn	More than Rs. 10 Mn	Total Rs. Mn
Bank of Ceylon	41,493	3,381	143	414	45,431
People's Bank	2,791	798	494	450	4,534
Regional Dev. Bank	7,748.00	-	-	-	7,748
NDB Bank	29	-	-	-	29
SANASA Dev.Bank	16,461	-	-	-	16,461
Commercial Bank	1,602	-	-	-	1,602
Sampath Bank	74	3	10	-	87
Hatton National Bank	9,106	2,643	1,889	2,745	16,383
Total	**79,304**	**6,825**	**2,536**	**3,609**	**92,275**

Source: Department of Development Finance

In 2012 the formal banks also have disbursed Rs. 92 billion to the microfinance sector out of which Rs. 45 billion was by Bank of Ceylon for implementing various micro credit programmes. Sanasa Development Bank too played a significant role in this process and has disbursed Rs. 16 billion in 2012. Hatton National Bank (HNB) remains active among commercial banks in microfinance activities and has offered a significant amount in loans to the microfinance sector in all range of loan amounts.

Pawning Market

Pawning has become a most popular lending method among all segments of the society perhaps emphasizing that traditional banks still cannot cater to the low income people due to collateral issues. These loan programmes are prepared to meet the basic and urgent needs and expectations of the target customer group. Further, it was found that "Pawning" is more popular in rural areas. These facilities are different from most bank lending and provide a high volume of small loan advances within a short period of time. The progress of the pawning sector by 2012 is as follows.

Table 9 - Pawning Data from 2007 - 2012

Name of the Bank	Amount of Loans (Rs. Mn)					
	2007	2008	2009	2010	2011	2012
Commercial Bank	-	12.80	539.60	3,757.60	23,928.40	26,043.54
DFCC Vardhana	27.00	206.80	339.50	962.80	4,361.00	3,403.56
HNB	16,780.00	21,130.00	21,920.00	27,970.00	35,720.00	62,850.00
Peoples Bank	76,143.60	96,313.50	125,120.30	189,797.20	291,325.70	317,135.85
Sampath Bank	11,962.00	16,444.00	24,817.00	43,306.00	64,009.00	61,107.44
RDB	46,729.50	53,883.00	58,234.10	66,189.20	75,917.70	33,858.55
BOC	24,670.00	37,783.90	55,278.00	93,796.20	188,481.10	640,968.84
NSB	10,758.30	14,607.10	24,572.00	36,217.00	57,822.60	72,806.30

Seylan Bank	1,577.00	4990.40	7219.00	17,601.00	30,623.20	36,296.25
Total	**188,647.40**	**245,371.50**	**318,039.50**	**479,597.70**	**772,188.70**	**1,254,470.33**
No. of loans provided	**5,095,518**	**5,900,434**	**6,673,524**	**7,608,067**	**9,027,369**	**13,139,894**
Interest rate	**19-24%**	**18-24%**	**14-23%**	**10-14%**	**10-14%**	**17-21%**
Average loan size (Rs.)	**37,729**	**42,301**	**47,682**	**63,899**	**85,538**	**95,470**
Growth rate	-	**30%**	**30%**	**53%**	**60%**	**61%**

Source: Department of Development Finance

Pawning has increased during the last six years at an average rate of 47 percent per annum. The interest rate for gold pawning is market oriented and varies in the range of 14-20 percent. The total pawn loan portfolio is significant and loan disbursement in 2012 exceeded Rs. 1,254 billion among 13,139,894 clients. The average loan size has more than doubled within the last six years from Rs. 37,729 in 2007 to Rs. 95,470 in 2012.

The institution of an appropriate supervisory or regulatory mechanism is essential to ensure prudent practice among MFIs. For this purpose, the Microfinance Act has been drafted to introduce regulatory and supervisory arrangements through the Monetary Board of the Central Bank of Sri Lanka (CBSL) to perform as the regulator of the microfinance sector.

2.4 Development Support for Small Sector

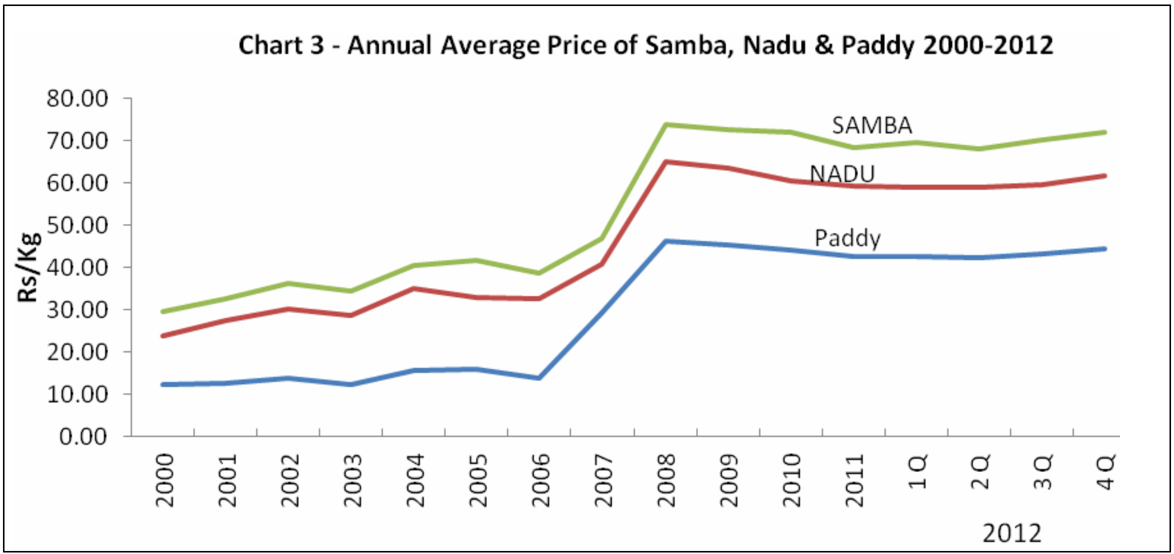
The Government assistance to small producer activities through a wide range of facilities ensuring a stable remunerative producer price for agricultural commodities such as paddy, maize, soya bean, onion, potato and milk has been the extended support to encourage agricultural productivity.

Table 10 - Farm Gate Price for Selected Crops 2006 - 2012

Crop	**Farm Gate Price (Rs. per kilogram)**						
	2006	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Paddy	13-14	15-18	20 - 22	28-30	28-30	28-30	32-35
Chillie (dried)	130	162	163-194	173-193	161-187	214-228	162-201
Maize	17-20	20-25	27-36	28-36	29-38	34-46	35-43
Onion	33-46	40-50	33-62	30-89	43-151	55-175	46-101
Potato	52-57	55-58	52-67	55-85	50-81	64-88	64-103
Milk (per litre)	22.72	23.97	30.83	31.20	34.80	50.00	50.00

Source: Department of Development Finance

The Government has been able to manage the price fluctuation of paddy by intervening in the market by purchasing paddy through the Paddy Marketing Board (PMB), District Secretaries/Government Agents (GAs), and cooperative societies which have created a stable level of price for farmers in 2012. The selling prices of paddy for farmers and the retail prices of rice for consumers have also been very stable since in the 2008 Yala season as a result of the guaranteed price scheme adopted by the Government for the paddy sector as shown in Chart 3.



The landmark of the paddy purchasing programme is establishment of a guaranteed price for paddy creating a favorable impact on paddy farmers. Table 11 illustrates the increase in the guaranteed price during the last seven years. It is evident that the guaranteed price has become more than double during the last seven year period where as the average cost of production of paddy remained around Rs.16 per kilogram in 2012. In order to ensure a stable market environment for paddy the Government, in the Budget Proposals 2013, has increased the guaranteed price to Rs. 32 per kilogram of Nadu and Rs. 35 per kilogram of Samba from the 2012/13 Maha season introducing at the same time a guaranteed price of Rs. 40 per kilogram of paddy produced using organic fertilizer.

Table 11 - Guaranteed Price for Paddy, 2006 – 2013

Period	Guaranteed Price (Rs./Kg)
2005/06 Maha	15.50 – 16.50
2006 Yala	15.50 – 16.50
2006/07 Maha	16.50 – 17.50
2007 Yala	16.50 – 17.50
2007/08 Maha	20.00 – 22.00
From 2008 Yala to 2012 Yala	28.00 – 30.00
2012/13 Maha	32.00 – 35.00

Source: Paddy Marketing Board

In addition to the paddy purchasing programme, the Government facilitated the purchase of soya beans and maize through the Thriposha Programme. The processed maize was purchased at Rs. 45 per kilogram from suppliers by the Thriposha Institute while paying Rs. 32 per kilogram to farmers. The entire requirement of soya beans for the Thriposha Programmme is met from local suppliers. Accordingly, the farmer was paid Rs. 85 per kilogram by the supplier and the Thriposha Institute purchased soya beans from supplier at a rate of Rs. 95 per kilogram. Subsequently, this price was increased to Rs. 115 considering the fact that some of the soya beans have been purchased from the farmers at a price of Rs. 105 per kilogram due to shortage of supply.

The government has also successfully intervened in the liquid milk market through MILCO and guarantees a farm gate price at Rs. 50 per liter for fresh milk. The Government has paid Rs. 160 million to MILCO in 2012 in order to develop the local dairy industry towards self-sufficiency. The positive impact of these price alterations was further enhanced by the provision of high yielding seeds, improved water management, reduction of wastage in transport, and ensuring environmental conservation through ecological balance etc.

2.5 Maintaining of Buffer Stocks for Food Security

The Paddy Marketing Board (PMB) has been assigned the maintenance of the buffer stock of paddy to ensure food security. For this purpose the PMB has purchased 126,262 Mt of stock of paddy spending Rs. 3,553.35 million in 2012 which would be sufficient for national consumption for near three weeks.

Table 12 - Stock Position of the PMB, 31.12.2012

Season	Paddy Stock			Value (Rs. Mn)
	Nadu (Mt)	Samba (Mt)	Total (Mt)	
2010 Yala	83,819	27,910	111,729	3,184.2
2010/11 Maha	2,913	556	3,469	98.2
2011 Yala	58,967	16,205	75,172	2,137.2
2011/12 Maha	107,319	8,467	115,786	3,258.9
2012 Yala	9,936	540	10,476	294.4

Source: Paddy Marketing Board

Further, the GAs have purchased through co-operative societies 37,497.28 Mt of paddy stock at Rs.1, 096.61 million during 2012. Both PMB and GAs have purchased more than 92 percent of their paddy stocks in 2011/12 Maha season.

Table 13 - Financing of Paddy Purchasing Programme (Rs. Mn)

Source	Paddy Marketing Board		Limits for District Secretaries
	Exposure Limit of Pledge Loans/Advances	Loans/ Advances Granted as at 31.12.2012	
Bank of Ceylon	3,100.0	3,100.0	-
People's Bank	2,100.0	1,668.9	-
Regional Development Bank	450.0	250.0	-
National Savings Bank*	1,000.0	725.9	-
Treasury Advances	2,000.0	2,000.0	1,340.0
Other	-	1,155.0	-
Total	**8,650.0**	**8,899.0**	**1,340.0**

Source: Ministry of Co-operatives and Internal Trade, State Banks
**Normal Loan Facility*

While achieving self sufficiency in the level of production and building the capacity to maintain sufficient stocks to ensure food security, the government has also attempted to promote rice production beyond the import replacement target. Accordingly, 22,950 Mt of rice was exported through PMB and 6,987 Mt of rice was donated to the Government of Somalia in 2012 in collaboration with the World Food Programme (WFP).

Donations made to the Government of Somalia - 2012

The contribution made by the private sector to the purchase of paddy is considerable. Around 65 percent of the annual paddy production is purchased by the private sector. The state banks and the private banks assisted the private sector by granting pledge loans to the value of Rs. 10,024 million in 2012.The state banks have granted the larger share of 73.5 percent of total pledged loans to the private sector led paddy purchases, disbursed mostly among small scale purchasers.

Table 14 - Loans Granted to the Private Sector for Paddy Purchasing - 2012

Bank	2011/12 Maha		2012 Yala		2012 Total	
	No.	Value (Rs. Mn)	No.	Value (Rs. Mn)	No.	Value (Rs. Mn)
People's Bank	120	1,010.6	90	512.3	210	1,522.9
Bank of Ceylon	69	3,386.0	33	2,306.0	102	5,692.0
Regional Development Bank	41	61.1	42	88.3	83	149.4
Total of State Banks	**230**	**4,457.7**	**165**	**2,906.6**	**395**	**7,364.3**
Commercial Bank	64	404.9	11	43.5	75	448.4
Hatton National Bank	87	690.5	92	849.7	179	1,540.2
Seylan Bank	33	150.0	31	198.1	64	348.1
Sampath Bank	75	323.0	-	-	75	323.0
Total of Private Banks	**259**	**1,568.4**	**134**	**1,091.3**	**393**	**2,659.7**
Grand Total	**489**	**6,026.1**	**299**	**3,997.9**	**788**	**10,024.0**

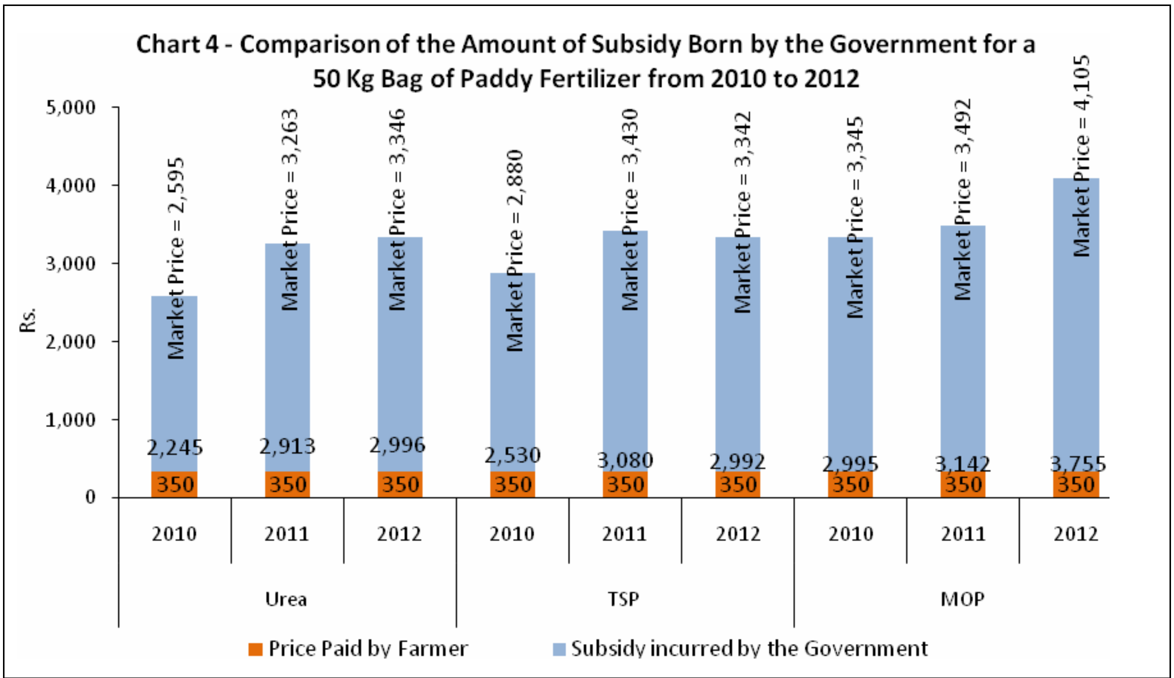
Source: Information obtained from respective banks and complied by the Department of Development Finance

2.6 Fertilizer Subsidy

Fertilizer Subsidy for Paddy

The Government has continuously emphasized the proper application and utilization of fertilizer in agriculture and recognized the need to provide a subsidy to reduce production costs in agriculture. Since the high prices of fertilizer remained a major constraint on paddy cultivation, the Government announced the Fertilizer Subsidy Programme for paddy in 2005 and it has continued successfully for the seventh consecutive year in 2012. Accordingly, the three major types of fertilizer made available for paddy cultivation; ie. Urea, TSP and MOP are sold at a subsidized price of Rs. 350 per 50 Kg bag each island-wide through Agrarian Service Centres.

The subsidy paid by the Government on a 50 Kg bag of paddy fertilizer ranges from 86.5 to 91.5 percent of the market price and also the subsidy borne by the Government on a 50 Kg bag of paddy fertilizer has increased during the recent years.



As illustrated by Table 15 the average yield per hectare has increased through years with the Paddy Fertilizer Subsidy Programme. However, vagaries of weather have had a direct impact on paddy production frequently affecting the contribution for fertilizer subsidy, seeds and credit facilities to this sector in recent years. This led to further improvement in irrigation and water management system, grater interest in soil nourishing and conservation initiatives, development of high quality seeds, planting materials and better land use planning to get maximum benefits.

Table 15 - Change in Paddy Statistics through Benchmark Years - Maha Season

Description	1999/00 (Without Fertilizer Subsidy)	2005/06 (Initial Stage of Implementing the Fertilizer Subsidy Programme)	2011/12 (After 6 Years of Implementing the Fertilizer Subsidy Programme)	Percentage Increase (%)	
				1999/00 to 2011/12	2005/06 to 2011/12
Paddy Production (Mt)	1,781,000	2,135,592	2,716,961	34.45	21.40
Gross Extent Sown (Ha)	549,000	591,295	702,075	21.80	15.78
Gross Extent Harvested (Ha)	526,000	585,903	684,636	23.17	14.42
Average Yield (Kg/Ha)	3,798	4,069	4,444	14.54	8.44

Source: Department of Census and Statistics

It should be noted that the implementation of the fertilizer subsidy and maintenance of fertilizer prices at Rs. 350per 50 Kg bag to paddy farmers for 14 consecutive cultivation seasons have contributed to the increase in the number of farmers involved in paddy production as well as the application of fertilizer in cultivation.

Table 16 - Annual Fertilizer Distributions under the Paddy Fertilizer Subsidy Programme 2006 - 2012

Year	No. of Farmers Entitled in the Scheme in Both Seasons	Distributed Quantity of Fertilizer (Mt)				Expenditure Incurred by the Government for Fertilizer Subsidy (Rs. Mn)
		Urea	TSP	MOP	Total	
2006	1,099,983	120,509	27,347	30,753	178,609	3,970
2007	1,366,234	200,224	64,380	60,481	325,085	9,263
2008	1,693,323	257,043	88,073	76,400	421,516	22,561
2009	1,741,362	234,343	80,736	71,566	386,645	44,280
2010	1,886,509	275,273	92,262	82,533	450,068	21,242
2011	1,877,869	285,973	95,039	84,688	465,700	22,901
2012	1,701,827	253,068	85,083	77,252	415,403	26,268

Source: Department of Agrarian Development & National Fertilizer Secretariat

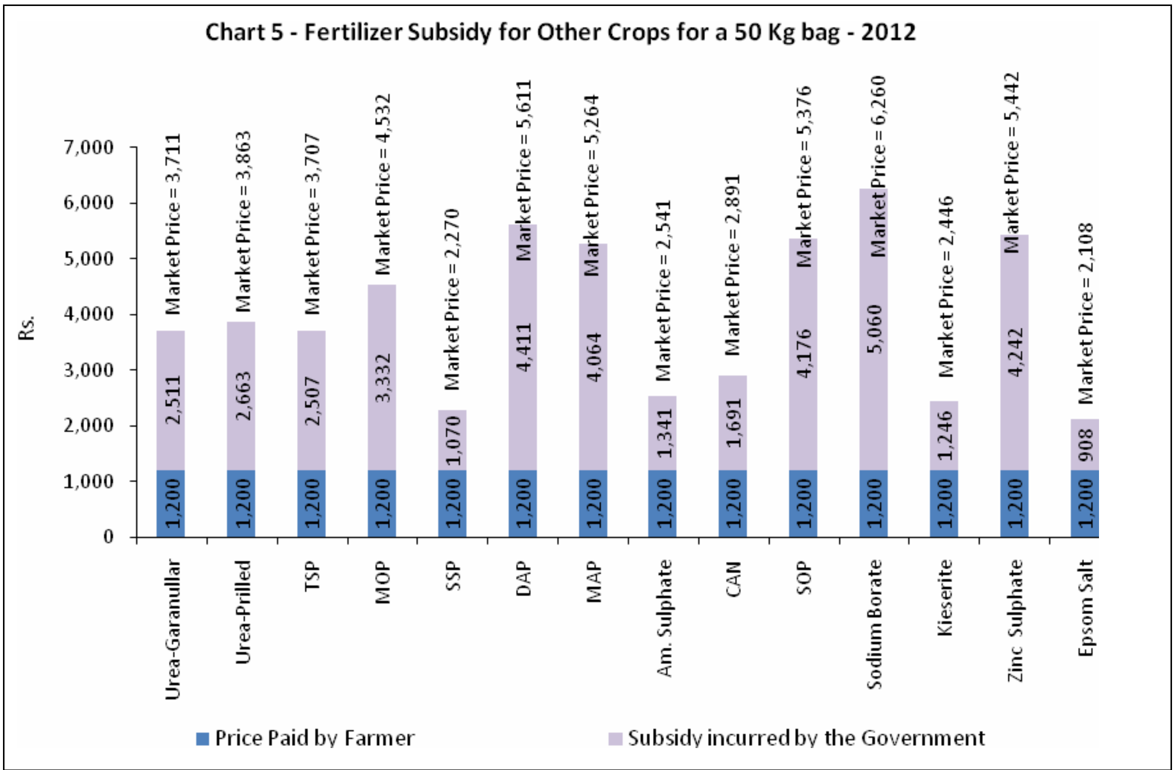
Fertilizer Subsidy for Other Crops

The fertilizer subsidy programme for other crops was announced on 06th May 2011 as an incentive to farmers to expand their cultivating capacity from one crop to multiple crops and to encourage productivity of agriculture particularly small holder agriculture which account for 75 - 90 percent in other crops. At the same time, this scheme has increased the accessibility to fertilizer, providing users with a variety of straight and mixed types with a range of quantities from both private and state owned fertilizer outlets.
It allows the following concessions to fertilizer consumers,

- A 50 Kg bag of any type of straight fertilizer of which the market price is higher than Rs. 1,200, to be sold at Rs. 1,200
- A 50 Kg bag of any type of straight fertilizer of which market price is less than Rs. 1,200, to be sold at its price
- A 50 Kg bag of mixed fertilizer to be sold at Rs. 1,300

By the removal of the need to obtain approval from authorities and avoiding the unnecessary burden of documentation, the fertilizer subsidy programme for all crops other than paddy allowed the farmers, planters as well as ordinary home gardeners to obtain their requirements conveniently from the open market. Moreover, this programme enabled farmers to reduce their cost of production for multiple crops.

The subsidy as a percentage of the market prices for a 50 Kg bag of straight fertilizer lies between 43.1 to 80.8 percent. Another major benefit of this programme is that it has extended a great support to the ongoing “Divineguma” and “1,000,000 home gardens” programme empowering the country to fast track current livelihood development activities.



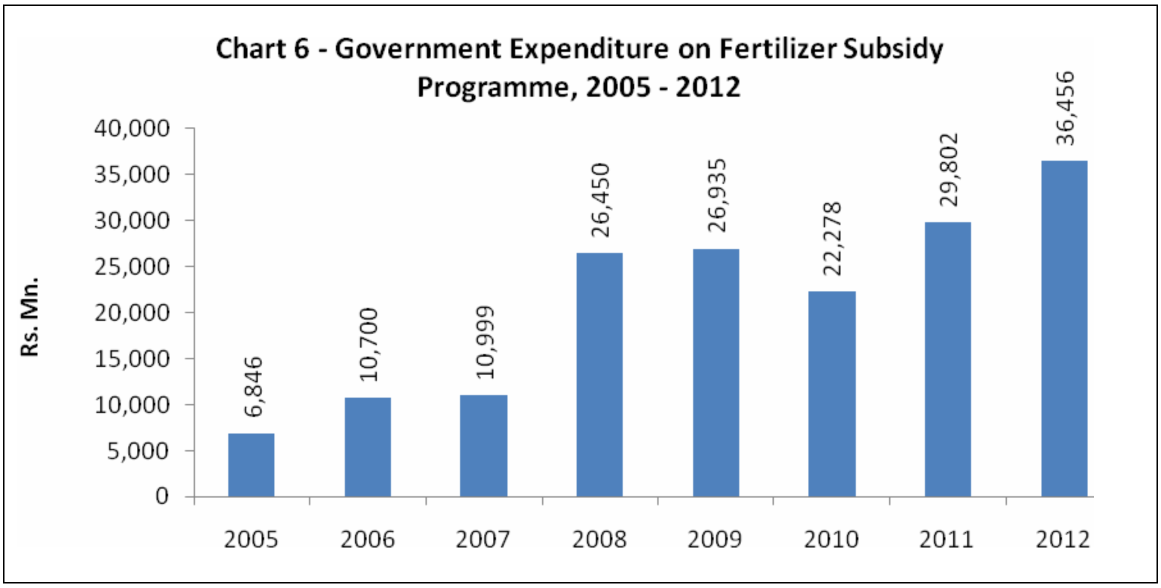
During the last five years the total usage of chemical fertilizer for other crops has increased by 124 percent from 170,020 Mt in 2008 to 380,829 Mt in 2012.

In 2012, the Government incurred a cost around Rs. 36,456 million on the fertilizer subsidy programmes which was around 0.5 percent of the GDP. Taking this together with the expenditure incurred by users, it appears that nearly one percent of GDP is spent in the form of fertilizer expenditure in the country.

Table 17 - Fertilizer Usage for Other Crops 2008 - 2012 (Mt)

Crop	2008	2009	2010	2011	2012	Percentage increase from 2008-2012
Tea	113,418	171,659	193,474	169,534	195,593	72
Rubber	7,552	7,150	10,825	14,291	15,559	106
Coconut	16,872	17,625	26,502	54,194	45,710	171
Vegetable	18,553	23,353	31,566	51,719	66,494	258
Other Crops	13,625	12,881	19,312	45,585	57,473	322
Total	**170,020**	**232,668**	**281,679**	**335,323**	**380,829**	**124**

Source: Department of Development Finance



HIGHLIGHTS OF FERTILIZER SUBSIDY

- Maintenance of sufficient levels of buffer stocks of fertilizer to ensure regular supply.
- Promotion of awareness to prevent excessive use of chemical fertilizer and to use both organic and chemical fertilizer in appropriate mix.
- Implementation of a "Crop Insurance Scheme" for paddy farmers who are entitled in the paddy fertilizer subsidy.
- Promotion of small and medium scale organic fertilizer manufacturers who have complied with recognized quality standards to supply at a guaranteed price of Rs. 400 per 50 Kg bag of organic fertilizer through the Ceylon Fertilizer Company.

2.7 Foreign Financing Projects Implemented by Department of Development Finance for SME and Microfinance Sector

2.7.1 Small and Medium Enterprise Regional Development Project

The Small and Medium Enterprise Regional Development project, commenced in May 2008, with the aim of reducing regional disparity through increased regional output and employment opportunities, was successfully completed by August 2012 and the utilization rate was around 81 percent of the total allocation.

Table 18 - Overall progress of the Project

Agency	Allocation USD Mn	Disbursements USD Mn	Utilization Rate
Asian Development Bank	50	40.37	80.74%
Participatory Commercial Banks	16.67	13.7	82.18%
Small & Medium Enterprises	22.00	18.02	81.91%
Total	**88.76**	**72.09**	**81.22%**

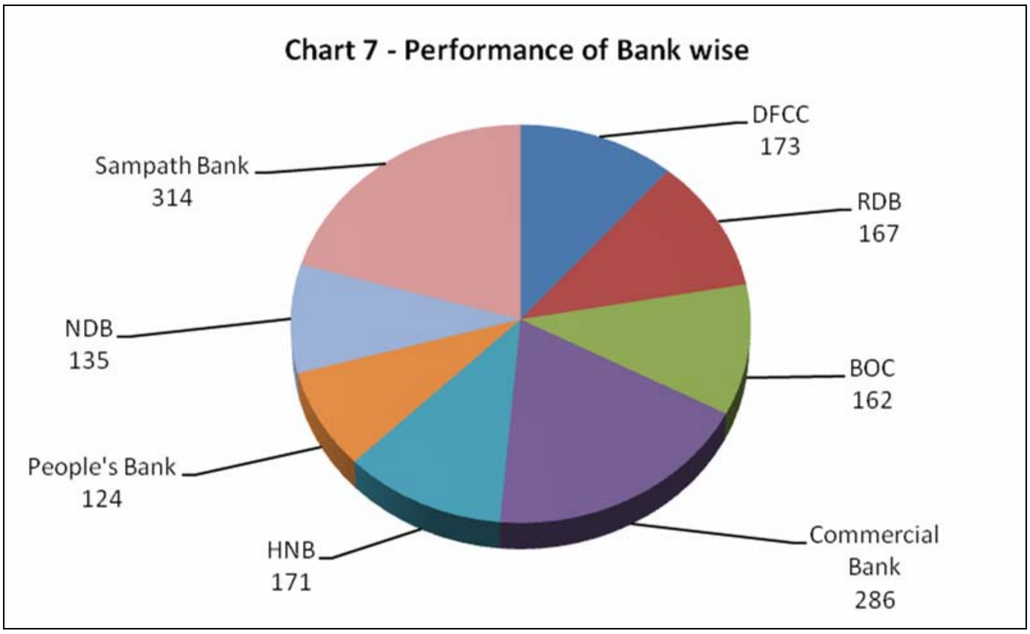
Source: Department of Development Finance

Main achievement of the project

- Granted 966 loans amounting to Rs. 4,261.88 million for SMEs
- Loans were granted to 21 sub sectors including agriculture sector to the provinces except Western Province.
- 15,892 direct and indirect employment opportunities were created.
- Several value chain clusters were formed by granting loans to SMEs in forward and backward linkages of the sectors.

2.7.2 Small and Medium Enterprise Development Facility Project

The Small and Medium Enterprise Development Facility Project, funded by the World Bank, commenced in January 2011 expecting the expansion of opportunities to reduce regional disparity and improving living standard of the rural community by creating employment opportunities. The estimated total cost of the project is USD 57.4 million and Participatory Financial Institutions (PFIs) in 2012 disbursed Rs. 1,532 million among 217 SMEs, which shows an 87 percent growth in loan disbursement and 141 percent growth in number of loans granted compared to 2011. The bank wise performance is in Chart 7.



In terms of sectoral classification, the Agro Processing, Hotels, Restaurants & Tourism, Manufacturing and Services sectors were received more financial assistance than the other sectors. Agro processing sector accounted for Rs. 377.33 million, while Tourism sector has accounted for Rs. 297 million in 2012. However, Beauty Culture/Dressmaking, Fisheries, Floriculture, Ornamental Fish and IT/Software Development sectors recorded low progress in terms of number of loans compared to other sectors.

Under the capacity development component, the all PFIs trained 3,315 loan officers of their banks and 3,586 small and medium entrepreneurs utilizing Rs. 21.32 million. Bank of Ceylon has secured the first place by training 1,149 their loan officers and 981 entrepreneurs utilizing Rs. 4 million. However, National Development Bank spent the highest amount of funds under the capacity building whereas it trained only 583 loan officers and 788 entrepreneurs.

2.7.3 National Agri-business Development Programme – IFAD

In line with the Government's policy of promoting public private partnership in agribusiness activities, a Financing Agreement was signed on 23.02.2013 with International Fund for Agricultural Development (IFAD), providing USD 22.5 million to implement the National Agri-business Development Programme from 2010 to 2016. This programme is being implemented by the Regional Development Department, Central Bank of Sri Lanka (CBSL) under the supervision of the Department of Development Finance, Ministry Finance and Planning. The programme components are;

I. Marketing Chain Development and Linkages
II. Microfinance and Training of Youth
III. Programme Management and Policy Support

In order to apply innovative approaches for the development of agri-business sector, it was designed to create public companies with share capital contribution by the farmers/stakeholders under this programme. It is however, observed that the implementation mechanism proposed under this new concept was not created a conducive environment to carry out the activities smoothly. Both the Government and IFAD have therefore, decided to revise the scope and transfer the programme from CBSL to the Ministry of Economic Development to implement the program in collaboration with the "Divineguma" programme in order to utilize the funds more effectively.

2.7.4 SME Sector Development Program – GIZ

The Implementing Agreement was signed in June 2012 between the Federal Republic of Germany and the Government of Sri Lanka providing EURO 2.785 million through German International Cooperation (GIZ) for the implementation of the SME Sector Development Programme. In addition to that, Germany has agreed to provide an additional funding for this program with the objective of improving the financial and non-financial pre-conditions required for the development of SME sector.

Achievements for 2012

- Established advisory and steering committees to oversee the project activities
- Trained staff of banking sector by international experts
- Commenced initial policy dialogue with relevant agencies
- Organized a 4 day workshop on Process of Planning for the SME in Cambodia
- Finalized the work plan for the year 2013
- Introduced monitoring and evaluation mechanism for the programme and
- Commenced initial discussions on establishment of Technical Development Fund by National Enterprise Development Agency (NEDA)

2.7.5 Promotion of Microfinance Project (ProMis) – GIZ

The objective of this program is to enhance and improve the services offered by selected Micro Finance Institutions (MFIs) to the poorer section of society and micro and small enterprises in an appropriate manner. The project has three components:

1. Capacity development of microfinance institution
2. Development of microfinance service sector
3. Development of framework for microfinance policy and legislation

The Implementation Agreement for this programme was signed between the Government of Sri Lanka and the Government of the Federal Republic of Germany in March 2007. The phase 1 and 11 of this project were completed in 2009 and 2012 respectively. The total cost of the programme is EURO 3.7 million. The project was implemented by the German International Cooperation (GIZ) under the purview of the Department of Development Finance in the districts of Ampara, Batticaloa, Jaffna, Mannar, Trincomalee, Vauniya, Badulla, Moneragala, Nuwara-Eliya and Puttalam.

Significant achievements

- Strengthened the microfinance sector in institutional terms and to extend its regional base
- Supported twenty microfinance institutions to improve their efficiency and sustainability in order to provide better financial services to the people.
- Conducted a range of local training and advisory services for about 350 employees of partner organizations eg: household cash management, entrepreneurship development, leadership & personality development training, and technical training
- Established a microfinance network representing the interests of more than 80 member organizations
- Expanded microfinance services in disadvantaged areas of the country with around 420,000 new clients.
- Completed a legal study on the microfinance sector in Sri Lanka
- Exchanged the best practices among beneficiaries through enabling dialogue workshops

2.8 Other

During 2012, the Department prepared 04 Cabinet Memoranda and Observations for 10 Cabinet Memoranda for the Hon. Minister of Finance and Planning. Further the Department has submitted comments for 08 Cabinet Memoranda for other Treasury departments.

Most of the officers of the Department have served as members of the Boards (Treasury Representatives) of statutory bodies and as the members of the Cabinet appointed Technical Evaluation Committees and Procurement Committees during the period concerned.

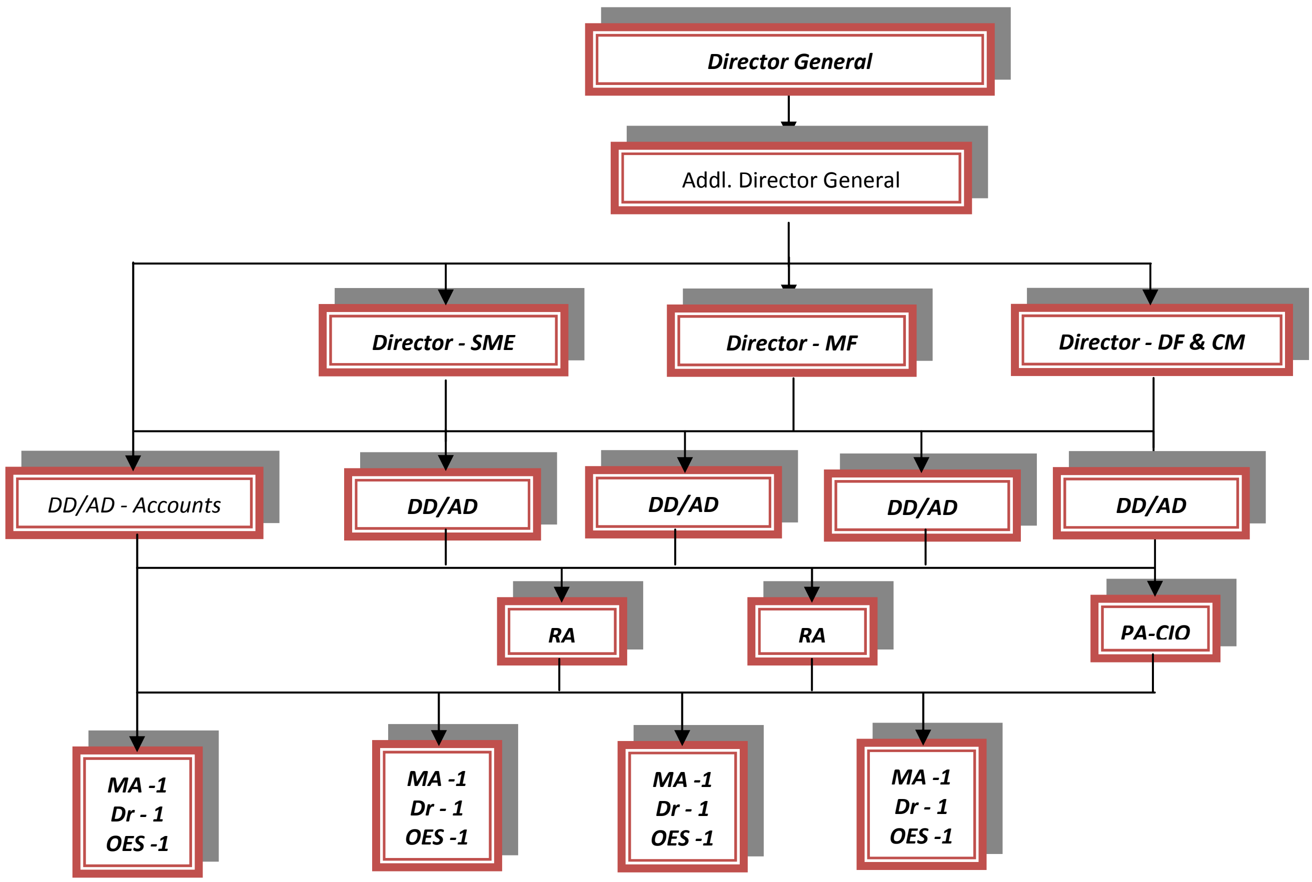
Further, the Department arranged pre-budget discussions with His Excellency the President and the farmer organizations, chambers and traders and other relevant stakeholders to obtain diverse views and suggestions to prepare a more realistic and practical budget for 2013.

3. Establishments and Administrations

3.1 Cadre Position

Position		Approved Cadre	Existing Cadre
01	Director General	01	01
02	Additional Director General	01	00
03	Director	03	03
03	Deputy Director/Assistant Director	04	03
04	Deputy Director/Assistant Director - Accountant	01	01
05	Planning Assistant	01	01
06	Research Assistant	02	01
07	Management Assistant	04	04
08	Driver	05	05
09	OES	04	04
Total		***26***	***23***

3.2 Organization Chart



DD	- Deputy Director
AD	- Assistant Director
PA (CIO)	- Planning Assistant (Chief Innovative Officer)
RA	- Research Assistant
MA	- Management Assistant
Dr	- Driver
OES	- Office Employment Service

<u>Sector</u>

SME	- Small and Medium Enterprise
MF	- Microfinance
DF & CM	- Development Finance & Capital Market

3.3 Staff Information

Name	Designation	Contact Details		
		Telephone	Fax	Email
Mr. D.S. Jayaweera	Director General	2484542	2394908	tspcdon@sltnet.lk dgdf@dfd.treasury.gov.lk
Ms. C.S. Perera	Director	2484572	2484955	christinep@dfd.treasury.gov.lk
Ms. A.H.S. Fareeda	Director	2484595	2484955	fareedah@dfd.treasury.gov.lk
Mrs. M.K.D.N. Madampe	Director	2484605	2484955	nilukad@dfd.treasury.gov.lk
Mr. P.M.K. Hettiarachchi	Deputy Director	2484596	2484955	manjulap@dfd.treasury.gov.lk
Mrs. W.L.M.A. Liyanage	Accountant	2484596	2484955	liyanagem@dfd.treasury.gov.lk manorigl@yahoo.com
Ms. R.A.D.R. Ranasinghe	Assistant Director	2484594	2484955	ranithad@dfd.treasury.gov.lk radranitha@gmail.com
Ms. J.D. Kotinkaduwa	Assistant Director	2484854	2484955	dilrukshij@dfd.treasury.gov.lk jdilkotinkaduwa@yahoo.com
Mr. H.P.S. Shantha	Planning Assistant	2484884	2484955	shantha@dfd.treasury.gov.lk
Ms. A.M. Wickramasinghe	Research Assistant	2484884	2484955	amanthiw@dfd.treasury.gov.lk
Mrs. C. Assalarachchi	Management Assistant	2484855	2484955	-
Mrs. P.H.S. Samarawickrama	Management Assistant	2484862	2484955	-
Mrs.T. Hewawasam (Appointed on 05.01.2012)	Management Assistant	2484862	2484955	-
Ms. E.W. Sheelawathi	Management Assistant	2484862	2484955	-
Ms. J.M.I.A. Geeshani *	ICT Assistant	2484884	2484955	-
Mr. M.N.L. Premathilake	Driver	2484855	2484955	-
Mr. K.R.P. Hemachandra (Transferred on 22.02.2012)	Driver	2484855	2484955	-
Mr. D.A. Jayarathne (Transferred on 10.08.2012)	Driver	2484855	2484955	-

Name	Designation	Contact Details		
		Telephone	Fax	Email
Mr. H.P.R. Samarasinghe (Appointed on 05.01.2012)	Driver	2484855	2484955	-
Mr. W.A. Upali (Appointed on 05.01.2012 & Transferred on 08.08.2012)	Driver	2484855	2484955	-
Mr. K.D. Keerthiranthna (Appointed on 12.06.2012)	Driver	2484855	2484955	-
Mr. S.A. Keerthisena (Appointed on 08.08.2012)	Driver	2484855	2484955	-
Mr. R.P.J. Hanton (Appointed on 17.08.2012)	Driver	2484855	2484955	-
Mr. P.A.A. Fernando (Transferred on 02.04.2012)	OES	2484855	2484955	-
Mrs. J.A.H.C.K. Jayasinghe	OES	2484855	2484955	-
Mr. R.M. Kulathunga (Appointed on 02.01.2012)	OES	2484855	2484955	-
Mr. K.P.I. Chaminda (Appointed on 04.01.2012)	OES	2484855	2484955	-
Mr. J.M.D.J.S. Hemantha (Appointed on 04.04.2012)	OES	2484855	2484955	-

* *Seconded from the Department of Census and Statistics*

3.4 Local Training Courses, Study Tours & Seminars

Name of the Officer	Name of the Course	Period of the Course	Name of the Institute
Ms. C.S. Perera Director	Awareness Programme on Public Procurement Management	19.07.2012-20.07.2012	Academy of Financial Studies
Ms. A.H.S. Fareeda Director	Accounting & Financial Management	19.09.2012-20.09.2012	Central Bank of Sri Lanka
Mrs. M.K.D.N. Madampe Director	Awareness Programme on Public Procurement Management	19.07.2012-20.07.2012	Academy of Financial Studies
Mrs. W.L.M.A. Liyanage Accountant	Deficit Financing Mechanism, Debt and Debt Management Strategies	16.02.2012-17.02.2012	Academy of Financial Studies
Ms. R.A.D.R. Ranasinghe Assistant Director	Deficit Financing Mechanism, Debt and Debt Management Strategies	16.02.2012-17.02.2012	Academy of Financial Studies
Mrs. T. Hewawasam Management Assistant	Diploma in Communication English	10.05.2012-04.04.2013	Academy of Financial Studies
Ms. J.M.I.A. Geeshani ICT Assistant	Diploma in Software Development	01.08.2011-03.08.2012	NIBM
Mr. M.N.L. Premathilaka Driver	Protected, Scientific and Economical Driving Programme	02.03.2012 (One day)	Institute for Construction Training & Development
	Training Programme for Drivers	09.10.2012-12.10.2012	German Technical Training Institute
Mr. R.P.J. Hanton Driver	Training Programme for Drivers	22.10.2012-25.10.2012	German Technical Training Institute
Mr. K.D. Keerthirathna	Training Programme for Drivers	22.10.2012-25.10.2012	German Technical Training Institute
Mr. S.A. Keerthisena	Training Programme for Drivers	16.10.2012-19.10.2012	German Technical Training Institute

3.5 Foreign Training Courses, Study Tours & Seminars

Name of the Officer	Name of the Course	Period of the Course	Name of the Country
Mr. D.S. Jayaweera Director General	Better Air Quality – 2012	03.12.2012-08.12.2012	Hong Kong
Ms. C.S. Perera Director	Skills Development Programme (SME Development)	22.10.2012-27.10.2012	Cambodia
Ms. A.H.S. Fareeda Director	Enabling Private Sector Growth & Attracting FDIs	10.07.2012-21.07.2012	Singapore
	Knowledge Sharing Programme (KSP) – High Level Policy Demand Seminar	19.11.2012-24.11.2012	Korea
Mr. P.M.K. Hettiarachchi Assistant Director	Master Degree on Public Policy & Public Finance at the International University	03.08.2010-04.07.2012	Japan
Ms. J.D. Kotinkaduwa Assistant Director	M.A. in Policy Economics	12.08.2011-06.06.2012	USA
Mr. H.P.S. Shantha Planning Assistant	Macroeconomic Development for the Developing Countries	06.09.2012-26.09.2012	China
Ms. A.M. Wickramasinghe Research Assistant	Economic Development Strategy Programme	05.06.2012-25.06.2012	Korea

4. Financial Information

Item	Estimated (Rs.)	Actual Cost (Rs.)
Recurrent Expenditure	**358,900,500**	**315,775,337**
Personal Emoluments	9,870,000	9,797,887
Traveling Expenses	772,240	757,232
Supplies	1,598,210	1,581,385
Maintenance Expenditure	1,120,000	1,094,413
Services	1,310,790	1,051,291
Development Subsidies (Interest Subsidies)	343,921,260	301,186,121
Other Transfers	308,000	307,008
Capital Expenditure	**2,164,617,000**	**1,560,816,339**
Acquisition of Capital Assets	300,000	254,972
Capacity Building	400,000	125,565
Promotion of Micro Finance Sector (ProMis-GTZ)	1,530,550	1,530,546
Small and Medium Enterprise Regional Development Project (SMERDP)	625,400	625,393
Crisis Response SME Development Facility Project (WB)	2,024,374,600	1,546,472,911
National Agribusiness Development Programme (IFAD)	136,917,000	11,806,952
Promotion of SME Sector (GTZ)	469,450	0
Grand Total	**2,523,517,500**	**1,876,591,676**