# Contents

## *1. Vision*

"To be the best Government fund manager in the South Asia Region."

## *2. Mission*

"We are committed to ensure efficiency, economy and safety in handling funds belonging to the Consolidated Fund and other Treasury funds and to harmonize the Government expenditure programmes with the revenue plans and borrowing programme, while providing stewardship for fund accounting, including foreign borrowings."

## *3. Introduction*

The Department of Treasury Operations (TOD) was established on 28th July 2004 with the objective of creating an efficient organization within the Treasury to handle matters relating to the management of the Consolidated Fund (Treasury cash flow) and Public Debt. In this endeavor, TOD translates estimated revenue and expenditure given in the National Budget into an operational cash inflow and outflow, management plan on; annual, monthly and daily basis and manage them effectively and efficiently in order to execute the National Budget in achieving budget targets of the Government.

## *4 Major Functions*

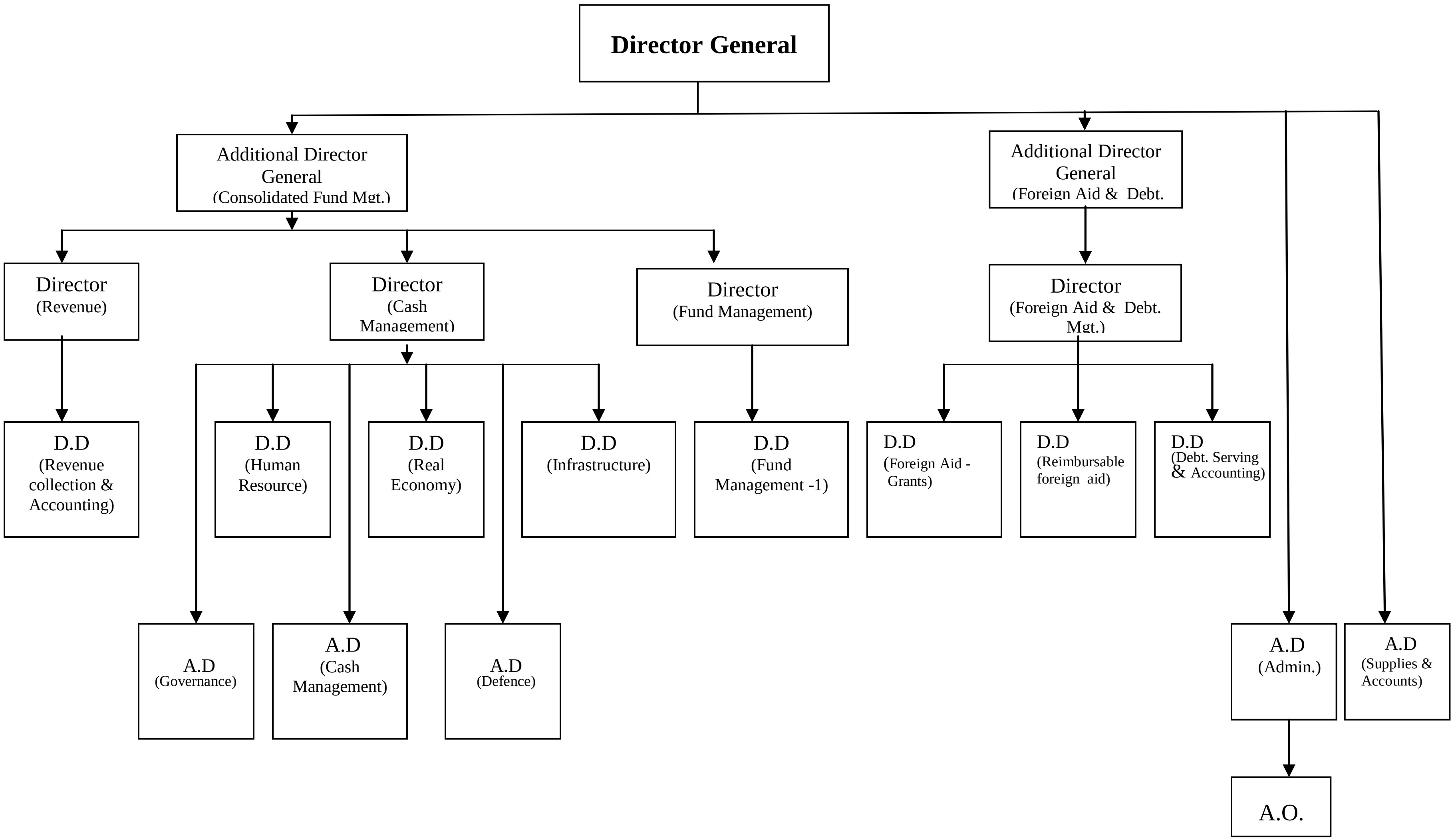
- Management of Treasury Cash Flow
- Facilitating in arrangement of Domestic and Foreign Commercial Borrowings.
- Disbursement of Treasury Funds through the payment system.
- Assessment, prioritization and release of funds to spending agencies.
- Issuance of Treasury Guarantees
- Operation of fund flows relating to the on-lending programs of the Government.
- Estimation, Collection and Accounting of 11 Non-Tax Revenue heads and 01 Tax Revenue heads.
- Facilitating for disbursement of funds under FA Loan and grants.
- Accounting of Government borrowings and debt repayments.
- Authorization and Supervision of Government bank accounts and imprest accounts.
- Guidance and Supervision of Accounting of Foreign-Aid Projects.

## 5. Carder Information and Organizational Structure

**Carder Information as at 31.12.2011**

| Designation | Approved Cadre | Existing Cadre |
|---|---|---|
| Director General | 1 | 1 |
| Additional Director General | 2 | 1 |
| S.L.A.S. - Class III | 1 | 0 |
| S.L.AcS - Class I | 5 | 5 |
| S.L.AcS - Class II/ III | 11 | 9 |
| Administrative Officer | 1 | 1 |
| Accounts Assistant | 2 | 0 |
| Accounts Analyst | 14 | 2 |
| Development Assistant | 1 | 0 |
| Programme Assistant | 1 | 0 |
| P.M.A. (Class I) | 5 | 7 |
| P.M.A. (Class II/III) | 54 | 50 |
| Data Entry Operator | 7 | 4 |
| Driver | 6 | 6 |
| K.K.S. 1 | 1 | 4 |
| K.K.S. 11/111 | 11 | 8 |
| **Total** | **123** | **98** |

# Organizational Structure



## 6. Human Resource Development

With the objective of improving the knowledge on information Technology and English Language and enhancing the skills of the employees of the Department, 28 officers of the Management Assistant Service and Information Technology Service were given the training in Sri Lanka Institute of Development Administration and MILODA during the year 2011 as detailed below.

1. Certificate in SLIDA Computer Driving Licence Training Programme
2. Office Automation Using Information Technology Training Programme
3. Advance Automation Using Information Technology Training Programme
4. M.s Access Training Programme
5. Computerrized Intergrated Government Accounting System Training Programme
6. Diploma in Communicational Skills in English Training Programme

In addition’’’’’’’’’’’, 8 officers of the Staff Grade participated in Foreign Training programs and 4 officers participated in Local Training Programs.

## 7. Financial Performance

### Financial Performance of the Department of Treasury Operations in 2011 is as Follows

Rs. '000

| Item | Category / Object / Item / Description | 2010 | | 2011 | | Increase / Decrease over 2010Expenditure | Increase / Decrease % Based on Actual Expenditure 2010 |
|---|---|---|---|---|---|---|---|
| | | Estimate | Actual | Estimate | Actual | | |
| **RECURRENT EXPENDITURE** | | **894,275** | **894,076** | **845,833** | **845,556** | **(48,520)** | **(5.43)** |
| | **Personal Emoluments** | **34,030** | **33,927** | **37,050** | **36,791** | **2,864** | **8.44** |
| 1001 | Salaries and Wages | 26,250 | 26,158 | 29,200 | 28,982 | 2,824 | 10.80 |
| 1002 | Overtime and Holyday Payments | 560 | 555 | 500 | 500 | (55) | (9.91) |
| 1003 | Other Allowances | 7,220 | 7,214 | 7,350 | 7,309 | 95 | 1.32 |
| | **Travelling Expenses** | **353** | **327** | **1,439** | **1,434** | **1,107** | **338.53** |
| 1101 | Domestic | 28 | 28 | 29 | 28 | 0 | 0 |
| 1102 | Foreign | 325 | 299 | 1,410 | 1,406 | 1,107 | 370.23 |
| | **Supplies** | **2,872** | **2,818** | **3,130** | **3,128** | **310** | **11** |
| 1201 | Stationery and Office Requisites | 1,305 | 1,254 | 1,440 | 1,439 | 185 | 14.75 |
| 1202 | Fuel | 1,527 | 1,524 | 1,645 | 1,644 | 120 | 7.87 |
| 1203 | Diets and Uniforms | 40 | 40 | 45 | 45 | 5 | 12.50 |
| | **Maintenance Expenditure** | **1,061** | **1,058** | **952** | **944** | **(114)** | **(10.78)** |
| 1301 | Vehicles | 644 | 642 | 630 | 625 | (17) | (2.65) |
| 1302 | Plant, Machinery and Equipment | 404 | 403 | 300 | 297 | (106) | (26.30) |
| 1303 | Buildings & Structure | 13 | 13 | 22 | 22 | 9 | 69.23 |
| | **Services** | **2,244** | **2,239** | **2,225** | **2,222** | **(17)** | **(0.76)** |
| 1401 | Transport | 776 | 775 | 769 | 768 | (7) | (0.90) |
| 1402 | Postal and Communication | | | 1,435 | 1,433 | (22) | (1.51) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | 1,458 | 1,455 | | | | |
| 1405 | Other | 10 | 9 | 21 | 21 | 12 | 133.33 |
| | **Transfers** | **853,715** | **853,707** | **801,037** | **801,037** | **52,670** | **(6.17)** |
| 1503-01 | Refund of Proceeds Lotteries Development Subsidies | 357,925 | 357,922 | 306,145 | 306,145 | **(51,777)** | (14.47) |
| 1504-02 | Stimulus Package Bonus Interest to RFC / NRFC Accounts | 52,311 | 52,310 | - | - | **(52,310)** | (100.00) |
| 1505-01 | Gov. Contribution of Public servant's Insurance Scheme | 442,794 | 442,790 | 494,229 | 494,229 | **51,439** | 11.62 |
| 1506 | Property Loan Interest to Public Servants | 685 | 685 | 663 | 663 | **(22)** | **(3.21)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Capital Expenditure** | **979,545** | **953,194** | **1,004,950** | **1,004,400** | **51,206** | **5.37** |
| | **Rehabilitation and Improvement of Capital Assets** | **1,595** | **1,271** | **3,800** | **3,284** | **2,013** | **158.38** |
| 2001 | Building Rehabilitation & Improvement | 200 | 180 | 100 | 64 | (116) | (64.44) |
| 2002-01 | Implementation of Treasury Single Accounts system | 800 | 497 | 3,300 | 2,823 | 2,326 | 468.01 |
| 2003 | Vehicles | 595 | 594 | 400 | 397 | (197) | (33.16) |
| | **Acquisition of Capital Assets** | **927** | **900** | **150** | **132** | **(768)** | **(85.33)** |
| 2102 | Furniture & Office Equipment | 900 | 900 | 100 | 94 | (806) | (89.56) |
| 2103 | Plant & Machinery & Equipment | 27 | - | 50 | 38 | 38 | - |
| | **Acquisition of Financial Assets** | **976,000** | **950,000** | **1,000,000** | **1,000,000** | **50,000** | **5.26** |
| 2302-02 | Payment to Mitsui & Taisei Co. Ltd | 900,000 | 900,000 | - | - | (900,000) | (100.00) |
| 2302-04 | Expansion the Marketing Network of Ceylon Fisheries Cooperation | 50,000 | 50,000 | - | - | (50,000) | (100.00) |
| 2302-05 | Ceylon Coal Company (pvt) Ltd | 26,000 | - | - | - | - | - |
| 2302-05 | Revolving fund to be utilized in purchasing the Farmer Products | - | - | 1,000,000 | 1,000,000 | 1,000,000 | - |
| | **Capacity Building** | **1,023** | **1,023** | **1,000** | **984** | (39) | (3.81) |
| 2401 | Training & Capacity Building | 1,023 | 1,023 | 1,000 | 984 | (39) | (3.81) |

# 8. Physical Performance

## 8.1 Cash Management

### 8.1.1 Treasury Cash Flow Management

Treasury Operations Department (TOD) adopted an effective cash planning and management strategy in 2011 to effectively manage the government finance, minimize borrowing costs and enable budget policy targets to be met. In achieving these objectives, one of the primary responsibilities of the TOD is to release cash to spending agencies (Government ministries, departments and other institutions) on timely manner and priority basis. It was the experience of the TOD that demands for cash was always higher than the availability of liquid funds. Therefore, it was the responsibility of the TOD to objectively assess the needs of cash demands of each and every spending agency in order to release the funds necessary for effective and efficient implementation of the budget.

The cash flow management strategy adopted by the TOD in 2011 contributed to ease the pressure on bunching dates of the debt obligations, hence lowering the refinancing risk of the public debt portfolio and the pressure on the domestic interest rates. Under this strategy, TOD prepared an operational monthly cash management plan, based on projected aggregate cash inflows, limits on cash outflows and likely timing of the borrowings. This monthly plan was based on the annual cash plan, prepared in line with the Appropriation Act approved by Parliament, setting out projected cash inflows, cash outflows and planned borrowings month by month.

TOD use revenue forecasts submitted by Departments of Inland Revenue, Customs and Excise and past monthly patterns to establish likely monthly inflow of tax and non tax revenue receipts and expenditures as a guide in preparation of these annual and monthly plans. The continuous updating of the operational cash flow in 2011 helped TOD to manage/streamline expenditure and contribute to the policy decisions on measures to increase Government revenue.

In order to obtain necessary guidance on cash flow management and achieving budgetary targets of 2011 and reviewing revenue targets, 12 cash flow meetings were held during the year under the chairmanship of the Secretary to the Treasury. The heads of revenue departments i.e. Inland Revenue, Sri Lanka Customs, Excise and relevant heads of the departments and officers of the Treasury participated in these meetings.

Similar to the other years, the filling of the gap between revenue and expenditure during the year was made through borrowings. However, the year 2011 was a challenging year for the TOD in achieving its objectives. Nevertheless, this department was able to successfully address all those challenges in 2011 with the assistance of the public debt department of the Central Bank of Sri Lanka. Among those challenges, following were the most notable.

1. To sustain the lower interest rate structure prevailed in the government securities market till end of September.
2. To ensure the treasury cash management is not contradicted with the quarterly economic targets to be achieved by the Central Bank of Sri Lanka.
3. To implement the public investment programme as planned.
4. To utilize the domestic financial resources without adversely affecting the credit needs of the private sector.
5. To recommend obtaining debt from the international capital market at a lower cost.
6. To recommend borrowing at the monthly Domestic Debt Management Committee (DDMC) meetings to achieve desired public investment targets.

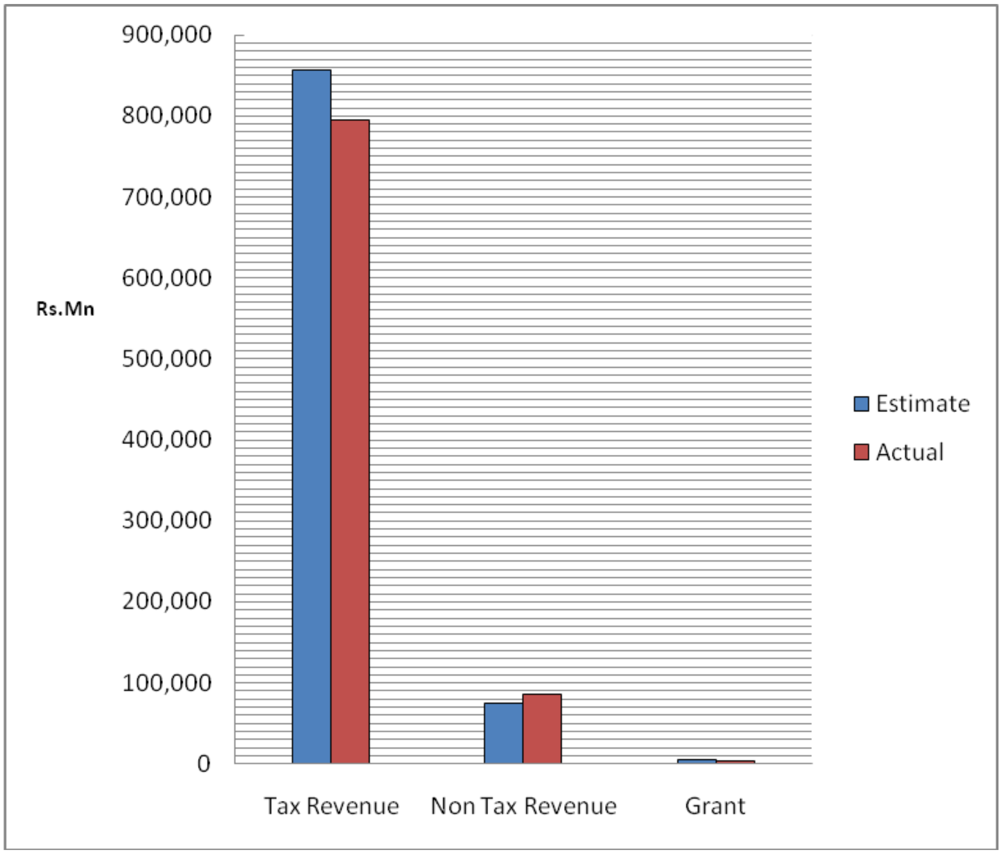
### *8.1.2 Treasury Cash inflow*

*Table 8.1 (a) Collection of Revenue - 2011*

**(Rs.Million)**

| | **Estimate** | **Actual** | **%** |
|---|---|---|---|
| Tax Revenue | 856,142 | 795,696 | 93 |
| Non Tax Revenue | 75,359 | 86,586 | 115 |
| Grant | 5,784 | 3,267 | 56 |
| **Total Revenue** | 937,285 | 885,549 | 94 |

**Chart 8.1 (a) Estimated and Actual Revenue 2011**




As shown in the Table 8.1(a) and the Chart 8.1(a) revenue collected in the year 2011 was 94% of the estimated revenue. This progress consists of 93% from the tax revenue, 115% from the non tax revenue and 56% of the foreign grants.

Due to the higher economic growth and significant rise in imports, the total revenue collected by the General Treasury in year 2011 was Rs. 885,549 Million which is Rs. 86,290 Million higher than the revenue of the previous year. This increase has been reported in both tax and non tax revenue categories. The increase of the revenue from income based taxes, import related taxes and excise duties were the main contributory factors for the increase in the tax revenue. The receipt of higher profits and dividends from state owned enterprises has resulted in increasing the non tax revenue in 2011. Accordingly, 90% of the total revenue in 2011 was received from the tax revenue. The balance 10% consists of non tax revenue.

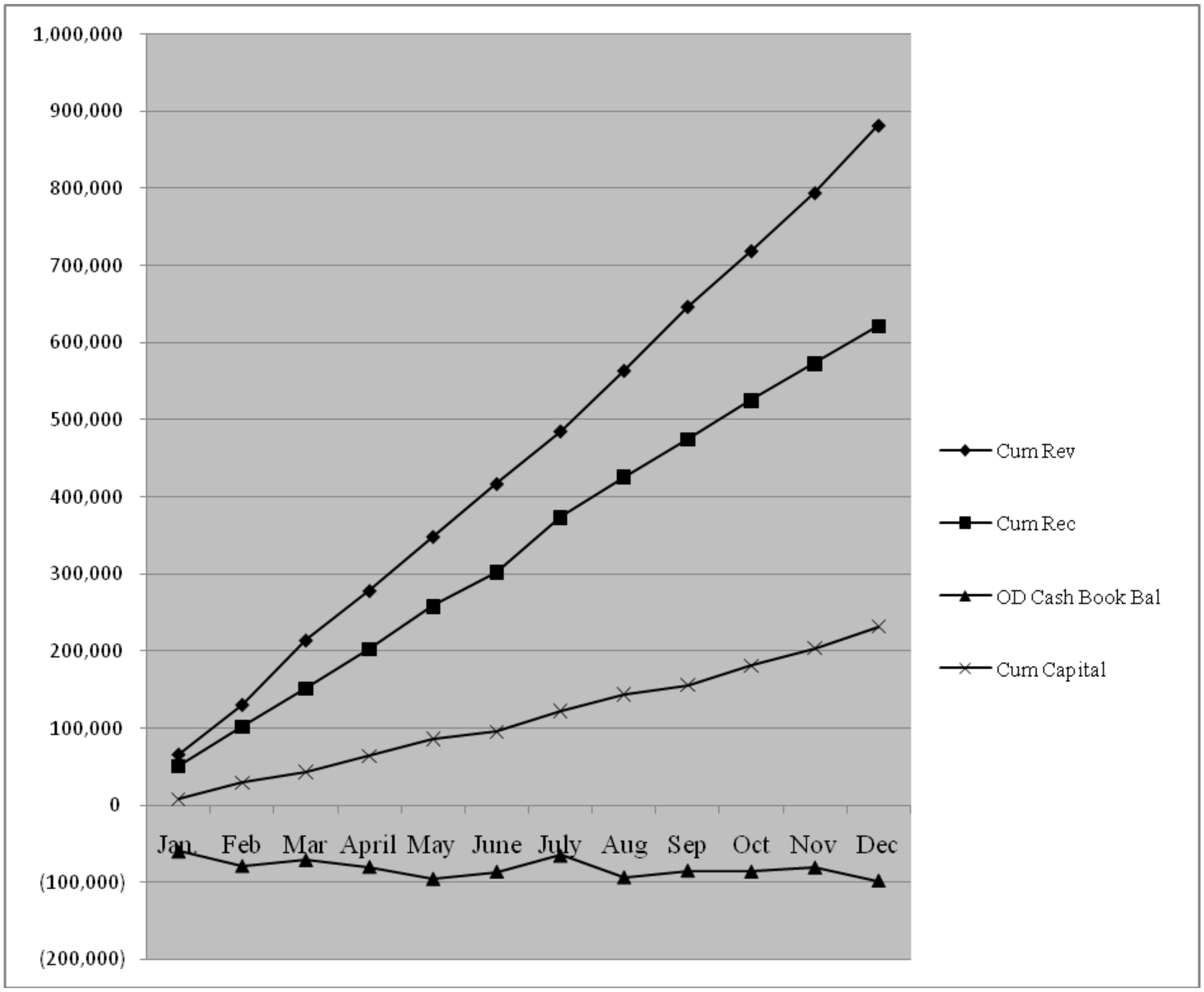
Compared to the year 2010, the cash inflow from foreign grants have been declined by Rs. 2,052 Million due to the gradual move of Sri Lanka towards middle income country status.

### *8.1.3 Treasury Cash Outflow*

Department of Treasury Operations has fully contributed for government effort of controlling recurrent expenditure and maintaining capital expenditure at a required level when releasing cash in 2011.

One of the challenging tasks of the Department was to match the revenue to meet the recurrent expenditure including interest payments. The Chart 8.1 (b) shows actual cumulative revenue, cumulative recurrent and capital expenditure and its impact on the bank overdraft.

***Chart 8.1 (b) Matching of Treasury Cash Inflow and Outflow***




| | Cum Rev | Cum Rec | OD Cash Book Bal | Cum Capital |
|---|---|---|---|---|
| Jan. | 66,393 | 51,531 | (59,305) | 7,941 |
| Feb | 130,892 | 102,374 | (78,383) | 29,393 |
| Mar | 214,317 | 152,084 | (70,580) | 43,246 |
| April | 278,520 | 203,117 | (79,615) | 63,531 |
| May | 348,795 | 258,406 | (95,307) | 85,462 |
| June | 417,348 | 302,675 | (85,939) | 95,104 |
| July | 485,698 | 373,719 | (64,607) | 122,164 |
| Aug | 564,237 | 426,254 | (93,369) | 143,341 |
| Sep | 647,335 | 475,246 | (84,435) | 155,545 |
| Oct | 719,502 | 525,771 | (85,773) | 180,749 |
| Nov | 794,838 | 573,544 | (80,308) | 203,624 |
| Dec | 882,282 | 621,662 | (97,809) | 230,973 |

As shown in the Chart 8.1(b) government revenue collection was greater than the recurrent expenditure during the year 2011 and difference between recurrent expenditure and revenue has increased during later part of the year. That excess revenue has resulted to increase capital expenditure towards end of the year. Compared to the previous year, in 2011 Department of

Treasury Operations released more funds for recurrent expenditure for personal emoluments, pensions and interest payments.

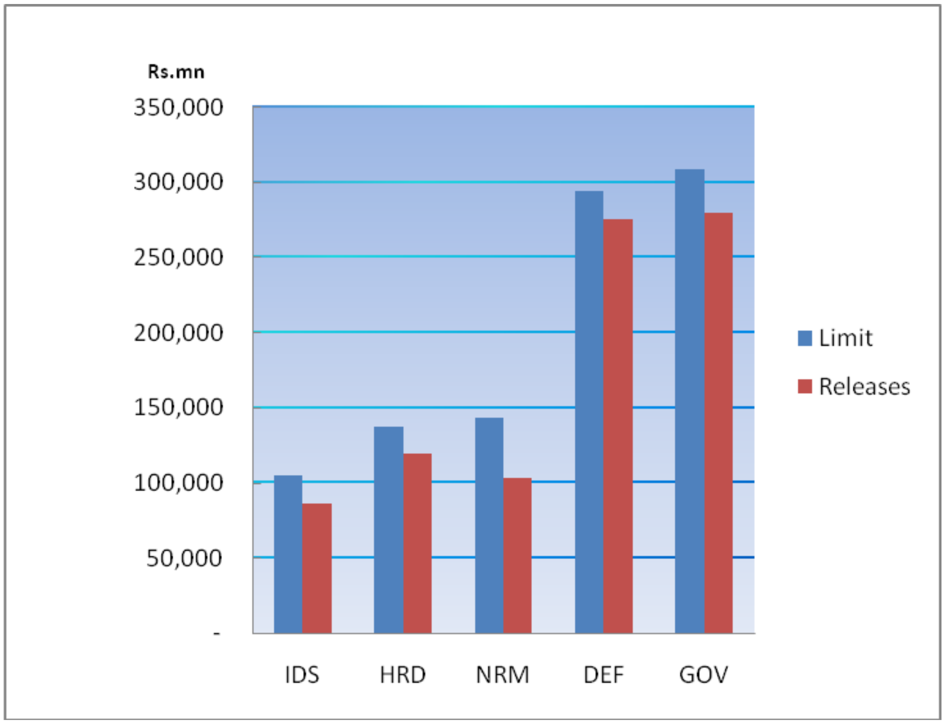
During 2011, Department of Treasury Operations took all steps to release cash without delay for capital expenditure in order to expedite infrastructure development projects. Accordingly, Department of Treasury Operations released Rs.233,835 Million in 2011 for the implementation of the public investment programme in 2011. Under the government capital expenditure program cash has been released for investments in road development, transportation, "Gama Neguma" programme, infrastructure development programme in lagging regions, ports, irrigation, agriculture, power and energy, education, health and water supply.

### *8.1.4 Composition of Cash Limits and Releases*

Cash Management Division of the TOD consists of five sectors in line with the organizational design of the National Budget Department (NBD) as follows:

1. Infrastructure Development Sector (IDS)
2. Human Resources Development Sector (HRD)
3. Natural Resources Management Sector (NRM)
4. Defence Sector (DEF), and
5. Governance Sector (GOV)

***Chart 8.1 (C) Annual Cash Limit and Cash Releases – 2011***




| | IDS | HRD | NRM | DEF | GOV |
|---|---|---|---|---|---|
| Limit | 104,725 | 137,276 | 142,878 | 293,460 | 308,247 |
| Releases | 86,401 | 119,133 | 103,302 | 275,185 | 279,049 |
| Peresentage of Releases | 83% | 87% | 72% | 94% | 91% |

As shown in the Chart 8.1 (c), in 2011 Department of Treasury Operations has released sufficient cash for each sector to meet its requirement. During this period, the Treasury had released funds amounting to more than 90 % of the limits for defence and the governance sectors. Implementation of "Uthuru Wasanthaya" accelerated development programme and district level cash releases for administration and development activities were the main reasons for increasing cash releases in those sectors.

***Chart 8.1 (d) Limits and Cash Releases for* Recurrent Expenditure -2011**

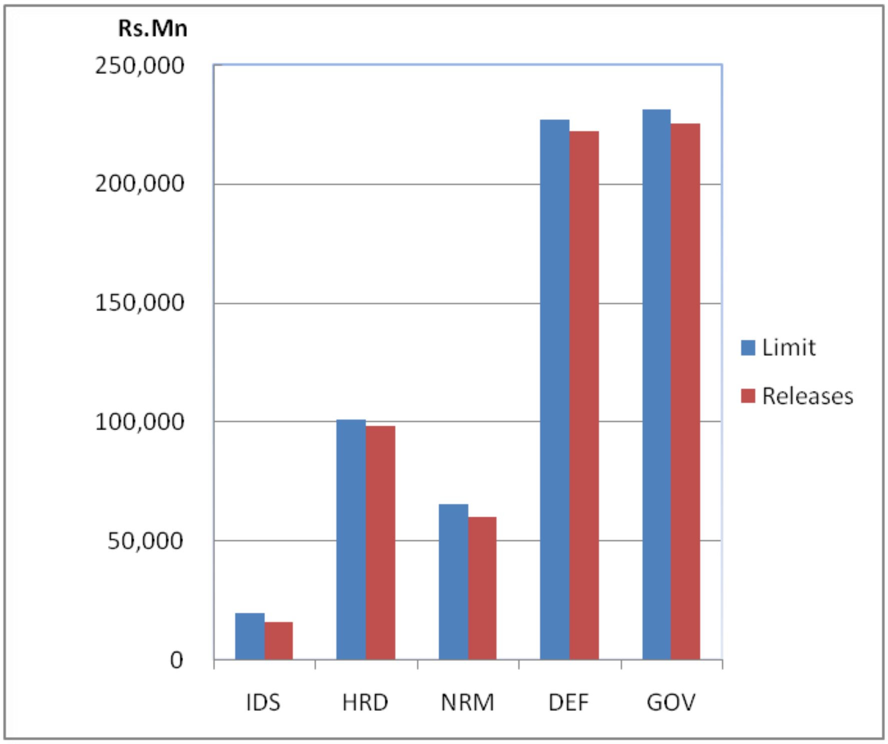



**Chart 8.1 (e) Cash Releases for Capital Expenditure -2011**

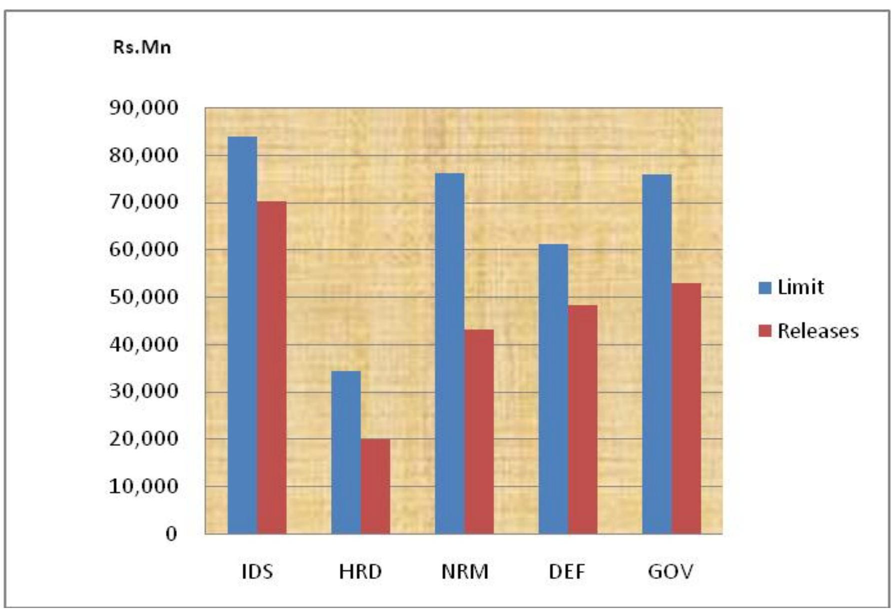



**Table 8.1 (b) Sector-wise Breakdown of**
**Recurrent and Capital Expenditure and Imprest Limits**

(Rs. Million)

| Sectors | Recurrent | | | Capital | | |
|---|---|---|---|---|---|---|
| | Limit | Releases | % | Limit | Releases | % |
| IDS | 19,504 | 15,855 | 81 | 83,839 | 70,035 | 84 |
| HRD | 100,918 | 97,849 | 97 | 34,330 | 19,738 | 57 |
| NRM | 65,264 | 59,586 | 91 | 76,122 | 43,050 | 57 |
| DEF | 226,747 | 222,101 | 98 | 61,150 | 48,202 | 79 |
| GOV | 230,943 | 225,423 | 98 | 75,825 | 52,810 | 70 |
| **Total** | **643,375** | **620,815** | 96 | **331,265** | **233,835** | 71 |

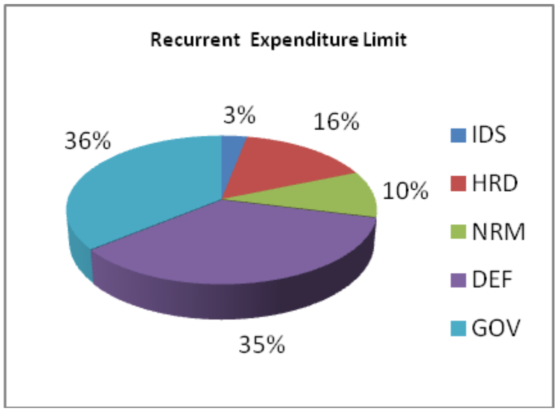
As shown in the Table 8.1(b) and Chart 8.1(d) cash requirement of spending agencies for recurrent expenditure had almost been fulfilled. In other words that was about 96 % of the total cash limit determined for the year based on the annual budget. For Human Resources Development, Defence and Government sectors, cash releases for recurrent expenditure had been more than 97%.

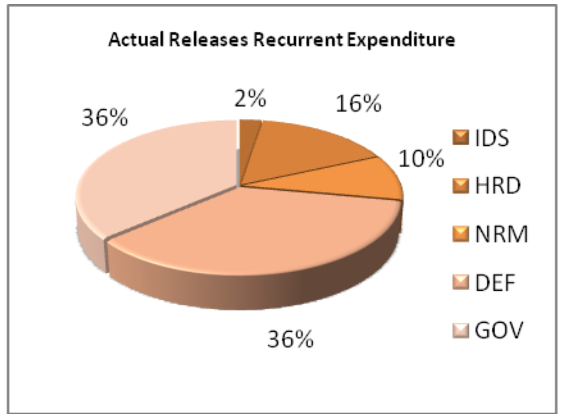
In case of capital expenditure, Treasury was able to release up to 71 % of the cash limit. In line with the total releases pertaining to capital expenditure of 71%, TOD released 70% of limit for the governance sector for capital expenditure programme in all districts. The highest release on capital expenditure, 84 % of its limit, was made for the IDS sector in 2011.

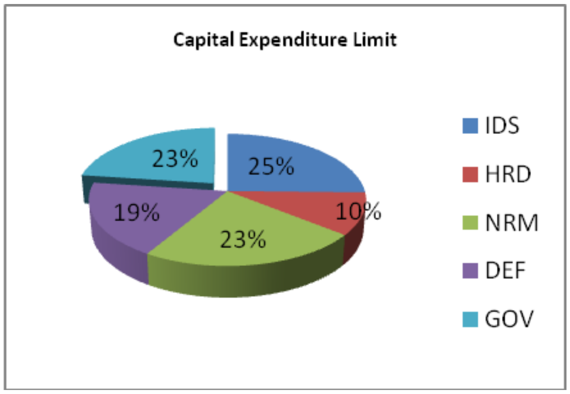
### *8.1.5 Sectoral Composition of Cash Limits and Actual releases*

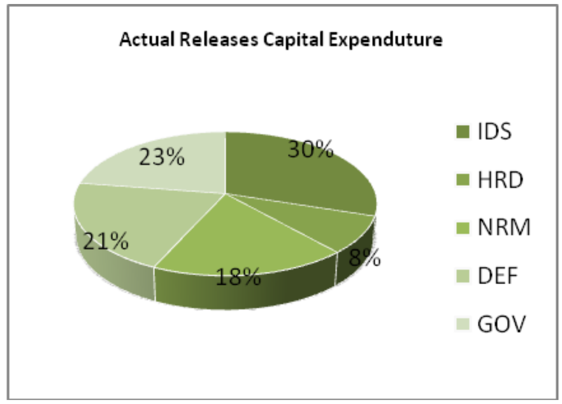
When budget is formulated, the priority is given to the important sectors of the economy in allocating resources. The Department of Treasury Operations being the budget execution arm of the General Treasury has to maintain the same importance and priorities in releasing cash. As per the compositions shown in the Chart 8.1(f) TOD released cash for recurrent Expenditure, Capital Expenditure and Advances to Public Officers (POA), endorsing the said priorities.

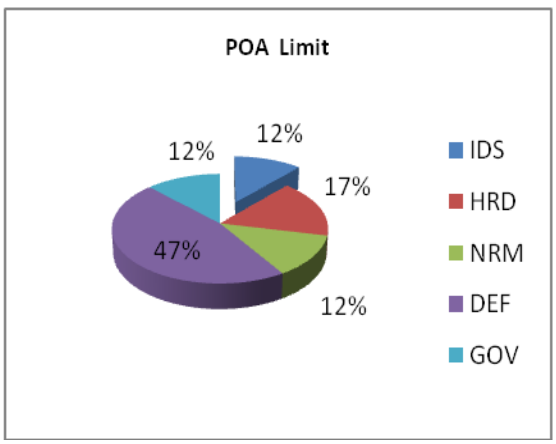
***Chart 8.1 (f) Sectoral Composition of Cash Limits and Releases - 2011***

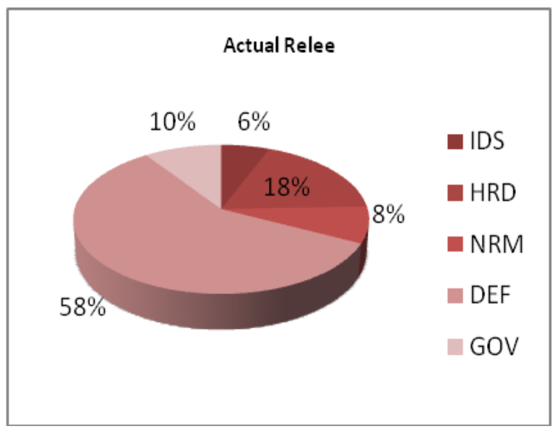

Recurrent Expenditure Limit
3%
16%
10%
35%
36%
IDS
HRD
NRM
DEF
GOV


Actual Releases Recurrent Expenditure
2%
16%
10%
36%
36%
IDS
HRD
NRM
DEF
GOV


Capital Expenditure Limit
25%
10%
23%
19%
23%
IDS
HRD
NRM
DEF
GOV


Actual Releases Capital Expenduture
30%
8%
18%
21%
23%
IDS
HRD
NRM
DEF
GOV


POA Limit
12%
17%
12%
47%
12%
IDS
HRD
NRM
DEF
GOV


Actual Relee
6%
18%
8%
58%
10%
IDS
HRD
NRM
DEF
GOV

## *8.2 Government Borrowings*

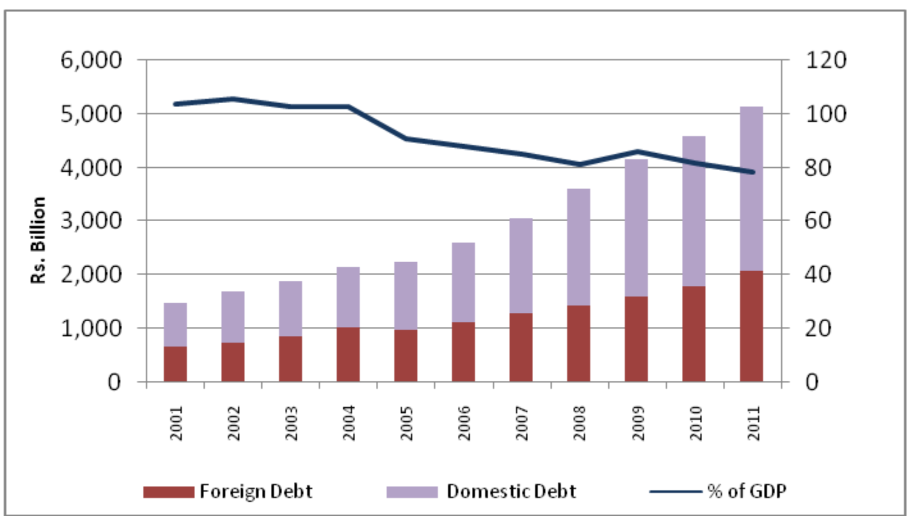
The borrowings to finance the government resource gap are made in accordance with the provisions of the annual Appropriation Act. As per the accounting format of the government budget, in 2011, the gross borrowing limit to finance the resources gap approved by Parliament in the Appropriation Act No. 20 of 2010 amounted to Rs. 997 billion.

Complying with the borrowing limits set by Parliament in 2011 of Rs. 997 billion, gross borrowings from domestic sources amounted to Rs. 671.3 billion while gross borrowing from foreign sources amounted to Rs. 322.8 billion totalling at Rs 994.1 billion, which was within the limit approved by the Parliament.

The actual total gross domestic borrowings of Rs.671.3 billion in 2011 reflected a 13 percent increase over that of Rs. 594.2 billion in 2010. During 2011, the issuance of Treasury bills declined by 3.8 percent to Rs. 79.6 billion and SLDBs by 52 percent to Rs. 5.3 billion. Treasury bonds and bills accounted for 76.7 percent and 11.8 percent of the gross domestic borrowings, respectively in 2011.

With the favourable economic environment, the government was able to complete its fourth international sovereign bond issue of US$ 1,000 million successfully in July 2011, where the funds raised were utilized to retire a portion of high cost government debt .

***Chart 8.1 (a)Composition of Government Debt - 2011***




### 8.3 Public Debt Management

The Government, with the view of meeting various financial requirements obtains debts through internal and external sources by means of short term, medium term and long term basis. Borrowing at the lowest possible cost and ensuring adequate availability of funding to service the existing debt are the two basic principles that guide the borrowing strategy of the government. Department of Treasury Operations, Central Bank of Sri Lanka (CBSL) and the Department of External Resources (ERD) collectively perform this task.

As such , including the loans obtained during the year , the total debt stock of the government at the end of the financial year was Rs. 5,133 Billion which is a 12 % increase comparing with the previous year while out of 60 % of the total debt or Rs. 3,082 Billion of debt represented the borrowings obtained through domestic sources, 40 % or Rs. 2,051 Billion had represented borrowings obtained through foreign sources.

The composition of the Government borrowings as at end of the December 2011 are tabulated below.

**Table 8. 3 (a) Public Debt**

| *Item* | | Rs. Billion<br>End December 2010 | Rs. Billion<br>End December 2011 |
|---|---|---|---|
| **Total Domestic Debt** | | 2,805.31 | 3,082.65 |
| **Short- Term** | | 699.86 | 809.15 |
| | Treasury Bills | 571.75 | 661.01 |
| | Provisional advances from the Central Bank | 78.00 | 94.74 |
| | Other | 50.11 | 53.40 |
| **Medium and Long-tem** | | 2,105.45 | 2,273.50 |
| | Rupee Securities | 87.71 | 61.96 |
| | Treasury Bonds | 1,827.42 | 2,018.78 |
| | Sri Lanka Development Bonds | 173.06 | 175.93 |
| | Foreign Bank Debt | 17.26 | 16.83 |
| **Total Foreign Debt** | | 1,784.69 | 2,050.71 |
| **By Institution** | | | |
| **Concessionary Loans** | | 1,280.07 | 1,395.76 |
| | Bilateral | 590.88 | 661.41 |
| | Multilateral | 638.11 | 679.24 |
| | Export credit | 48.42 | 52.61 |
| | Commercial Banks | 2.66 | 2.50 |
| **Non- Concessionary Loans** | | 470.66 | 628.65 |
| | Bilateral | 81.78 | 117.89 |
| | Multilateral | 22.47 | 42.96 |
| | Export credit | 142.98 | 203.93 |
| | Commercial Banks | 223.43 | 263.87 |
| **Other** | | 33.96 | 26.30 |
| **Total Outstanding Government Debt** | | 4,590.00 | 5,133.36 |

## *8.3.1 Medium and Long Term Domestic Debt*

The long term and medium term domestic debt stock as compared with that of the previous year had been increased from Rs. 2,105 Billion to Rs. 2,273 Billion representing 8% increase similar to the previous year.

Maturity Structure of the Medium and Long Term Domestic Debt Portfolio as at 31.12.2011 are given in Table 8.3 (b).

**Table 8.3 (b)Maturity Structure of Domestic Debt - As at end 2011** **RS ‘000″**

| Maturity Year | Instrument | | | | | | Total | Maturity as a % Total |
|---|---|---|---|---|---|---|---|---|
| | Treasury bills | Treasury bonds | Rupee loans | SLDBs | OBUs | Other (Net of deposits) | | |
| 2012 | 590,885 | 432,718 | 3,575 | 36,107 | 17,085 | 131,058 | 1,211,428 | 43.2 |
| 2013 | | 411,562 | 2,868 | 85,434 | | | 499,864 | 17.8 |
| 2014 | | 255,827 | | 36,562 | | | 292,389 | 10.4 |
| 2015 | | 248,009 | 31,430 | 16,630 | | | 296,068 | 10.6 |
| 2016 | | 148,729 | | 9,112 | | | 157,841 | 5.6 |
| 2017 | | 42,459 | | | | | 42,459 | 1.5 |
| 2018 | | 96,669 | | | | | 96,669 | 3.5 |
| 2019 | | 69,773 | | | | | 69,773 | 2.5 |
| 2020 | | 58,745 | | | | | 58,745 | 2.1 |
| 2023 | | 51,084 | 24,088 | | | | 75,172 | 2.7 |
| 2026 | | 3,676 | | | | | 3,676 | 0.1 |
| Total | 590,885 | 1,819,251 | 61,961 | 183,845 | 17,085 | 131,058 | 2,804,085 | 100.0 |

Of the total domestic debt, maturities within 1 year (2012) amounted to Rs.1, 211 billion which is 43.2 percent of the total stock of domestic debt at the end of 2011. The average time to maturity (ATM) of domestic debt increased to 2.35 years from 2.10 years in the previous year. With the preference for Treasury bonds prevailing over short term instruments, the duration of domestic currency debt increased to 1.8 years at the end of 2011 from 1.74 years in end 2010.

## 8.4 Foreign Aid Management

### 8.4.1 Reimbursable Foreign Aid (RFA)

This is a method of disbursing funds under the donor funded projects. Under this method, the government has to utilize domestic funds to incur expenditure relating to the donor funded projects and subsequently such expenditure is reimbursed from the donor. Currently, major donors such as; the World Bank, the Asian Development Bank and the Japan International Cooperation Agency (JICA) release their funds in advance for implementing projects and as a result, disbursing funds under the RFA method is being reduced.

However, during the year an amount of Rs.6,931 million has been released to the Projects under RFA method and this amount is a significant reduction compared to the previous year released amount of Rs.12,604 million.

#### 8.4.1.1. Imprest Accounts operating in Foreign Currency Units

The Treasury maintains imprest fund accounts at the CBSL for facilitating of disbursements of funds of which received to the Government of Sri Lanka from the various Donor Agencies. During the year under review, the Treasury opened 22 new imprest fund accounts for this purpose. Including these new accounts, 128 accounts were operated during the year and funds amounting to Rs.43,123 million had been received to these accounts .This value indicates a slight increase in receipts of funds compared to the previous year indicated value of Rs.36,144 million.

Out of the funds available in these accounts, Project Implementing Agencies have utilized funds amounting to Rs 36,172 million during the year, indicating a decrease compared to the previous year reported value of Rs.39,298 million.

### *8.4.2 Debt Servicing*

| | **2010 (Rs. Mn )** | **2011 (Rs. Mn)** |
|---|---|---|
| **Interest Payments** | **344,364** | **356,699** |
| Domestic Debt | 311,462 | 312,252 |
| Foreign Debt | 28,703 | 40,724 |
| Other | 4,199 | 3,723 |
| **Loan Repayment** | **452,611** | **538,683** |
| Domestic | 383,499 | 443,317 |
| Foreign | 69,112 | 95,366 |
| **Total Debt Servicing** | **796,975** | **895,382** |

With compared to the year 2010, total debt servicing has been increased from Rs. 796,975 million to Rs. 895,382 million indicating an increase of 12.35%. This has resulted increase in both interest payment by 3.58% and loan repayment by 19%.

### *8.4.3 Foreign Aid Grant*

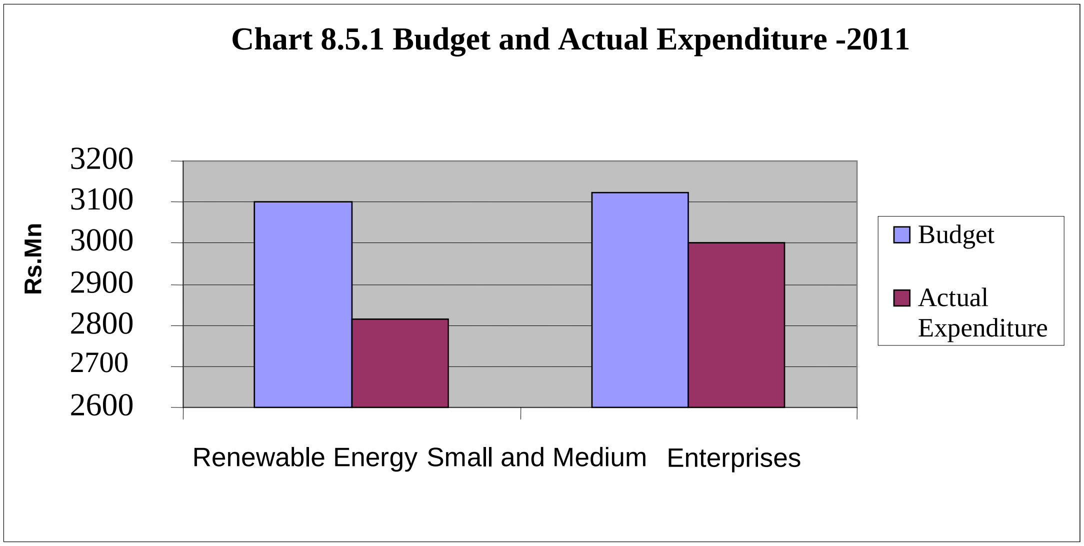
During the year 2011, Rs. 7 billion has been invested under Foreign Aid Cash Grant. In addition to the above, Rs. 9 billion worth of materials and equipment have been received as foreign aid grant.

## *8.5 Implementation and Monitoring of on-lending projects under Foreign Aid Management Activities*

The Foreign Aid Management Division is responsible for estimating, disbursing, accounting and reporting on on-lending projects which come under the purview of the Department of Treasury Operations. The primary objective of the on-lending projects is to increase the access to credit by the micro, small, and medium size entrepreneurs, who are deprived of obtaining a loan from the established banking sector under a turbulent economic and financial environment. Therefore, the government implemented several subsidized refinancing schemes to facilitate this sector. These refinance schemes were financed by foreign funded loans and grants and also by the consolidated fund appropriated from the Annual Budget.

The budgetary provision allocated for on lending project for the year 2011 was Rs. 6.67 billion which less than that of the previous year amounting the Rs.111 billion by 40 %.due to the ending of foreign funded project loans after their due duration period. Out of the total provision of Rs. 6.67 billion, the department was able to disburse Rs. 6.15 billion during the financial year 2011, which indicates a 92% achievement from the budgetary provision made for on-lending projects under the Department of Treasury Operations.

Budgetary Provisions made under on-lending projects had been mainly allocated for providing of electricity through Renewable Energy and for Small & Medium Enterprises. Their financial progress is shown in the Chart given below.




Out of the total on-lending budget, 47 % was allocated for small and medium scale enterprises while 46 % was made allocated for the projects providing of electricity through renewable energy. As financial progress shown in the above chart, provisions allocated for the projects implemented under both areas have been utilized significantly and as a result, overall financial performance under the on the on-lending projects indicated a 92% utilization rate as against the budget.

## 8. 6 Government Revenue

### 8.6.1 Collection of Revenue:

The Director General Treasury Operations is functioned as Revenue Accounting officer for 11 Non Tax - Revenue Heads and 01 Tax - Revenue Head.

Out of the total estimated Non-Tax Revenue of Rs.121 Billion for the year under review, a sum of Rs.42.4 Billion or 33% was expected to be earned from the above Non Tax Revenue Heads and Rs.20.5 Billion was expected to be earned from a Tax - Revenue Head. During the year under review the department was able to earn a sum of Rs.54 Billion as Non Tax - Revenue and Rs.18.6 Billion as Tax Revenue.

Further, the Director General of Treasury Operations functioned as the Revenue Accounting Officer for Foreign Aid Grants. Although the estimated revenue under Foreign Aid Grants was Rs.13.7 Billion, the total grant received during the year under review was Rs.16 Billion.

The details of the above 13 Revenue Heads in respect of year 2010-2011 are shown below.

**Collection of Non Tax Revenue 2010 – 2011** **Rs.Thousands**

| Revenue Description | Revenue Collection | | |
|---|---|---|---|
| | 2010 | 2011 | |
| | Collection | Estimate | Collection |
| **Non tax Revenue** | | | |
| Rent on Govt. Buildings | 696,660 | 690,000 | 663,387 |
| Other Rentals | 73,068 | 60,000 | 662,160 |
| On Lending Interest | 6,549,368 | 6,775,000 | 7,293,475 |
| Other Interest | 1,468,033 | 1,300,000 | 2,553,028 |
| Departmental Sales | 100,232 | 100,000 | 137,491 |
| Sundries | 2,775,977 | 5,500,000 | 6,502,094 |
| Fines & Forfeits | 3,078,482 | 2,800,000 | 6,267,217 |
| Other Receipts | 8,140,792 | 8,500,000 | 12,711,008 |
| Other Current Transfers | 1,780,660 | 1,485,000 | 1,953,084 |
| Sale of Capital Assets | 240,456 | 500,000 | 514,298 |
| Recovery of Sub Loans | 15,534,545 | 14,772,000 | 14,877,713 |
| Sub Total | **40,438,273** | **42,482,000** | **54,131,955** |
| **Tax revenue** | | | |
| Telephone Subscribers' Levy | 8,868,353 | 20,500,000 | 18,650,864 |
| Environmental Protection tax | 1,068,735 | - | - |
| Sub Total | **9,937,088** | **20,500,000** | **18,650,864** |
| **Foreign Grants** | | | |
| Foreign Grants | 16,950,006 | 13,750,000 | 15,961,635 |
| Sub Total | **16,950,006** | **13,750,000** | **15,961,635** |
| **Total Revenue** | **67,325,367** | **76,732,000** | **88,744,454** |

According to the above Table, the actual Non Tax Revenue in year 2011 is exceeded by 27% against the estimated revenue. There is a 34% increase against the previous year.

The revenue items of Telecommunication Subscriber Levy and Environment Protection Tax was classified as one revenue item in 2011.Accordingly, 88% of increase indicates against the previous year Tax Revenue.

## 8.7 Sub Loan

### 8.7.1 Recovery of Sub Loan Capital and Interest:

The Department is maintained information system on Sub Loans which is updated monthly. Out of the eleven Non Tax Revenue Heads, Director General of Treasury Operations is responsible for the recovering both capital and the interest of the sub loan. Assessment, Collection and Acceptance of revenue under the above two Revenue Heads are done by this Department.

During the year 2011, an amount of Rs. 34.6 Billion has been released as sub loans and Rs. 14.9 Billion has been recovered as the loan capital. In addition to the above, Rs. 7.3 Billion has been collected as interest on sub loans granted.

As a result of strengthening the monitoring of loan recovery process, the Treasury Operations Department has been able to achieve the target set for loan recoveries and the due interest for the year. The outstanding balance of the sub loans at the end of year 2011 was Rs. 299 Billion granted to 76 different institutions including Commercial Banks, Development Banks and Rural Development Banks etc.

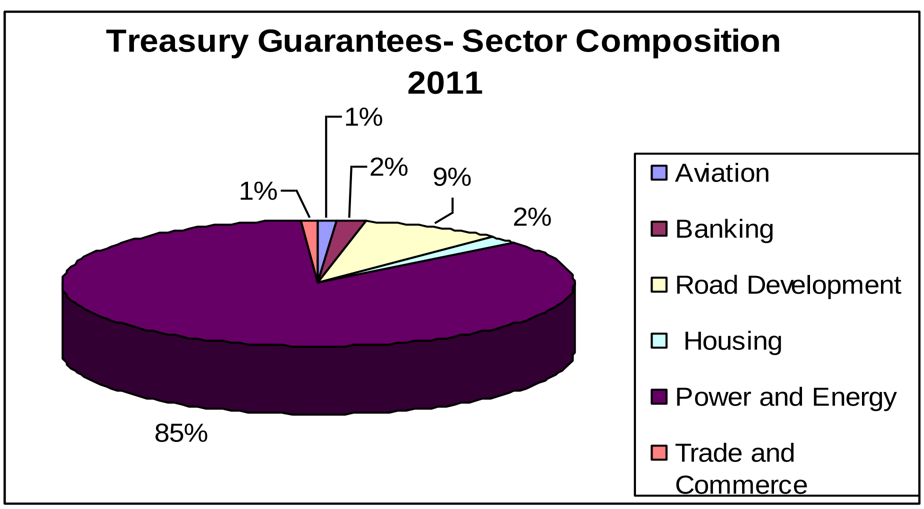
### 8.8 Contingent Liabilities on Guarantees and Letter of Comforts

### 8.8.1 Treasury Guarantees

State enterprises when seeking financial assistance from domestic or external sources to meet their capital as well as working capital requirements, request Treasury Indemnities and the Department of Treasury Operations in turn issues the required guarantees subject to the provision in the Fiscal Management (Responsibility) Act No.3 of 2003.

Accordingly, the value of Rs.198 Billion Treasury Guarantees has been issued by the end of 31st December 2011.This value is 7% decrease with compared to the previous year balance of Rs.212 Billion. During the year under review four Treasury Guarantees for the value of Rs 20 Billion has been issued. Out of the total guarantees so far issued , around 85% represent the Power and Energy sector.

| The Sectoral Composition of the Treasury Guarantees is tabulated below.Sector | Value in Rs Billion | Percentage % |
|---|---|---|
| Aviation | 2 | 1 |
| Banking | 5 | 2 |
| Road Development | 19 | 9 |
| Housing | 3 | 2 |
| Power and Energy | 168 | 85 |
| Trade and Commerce | 1 | 1 |
| Total | **198** | **100** |

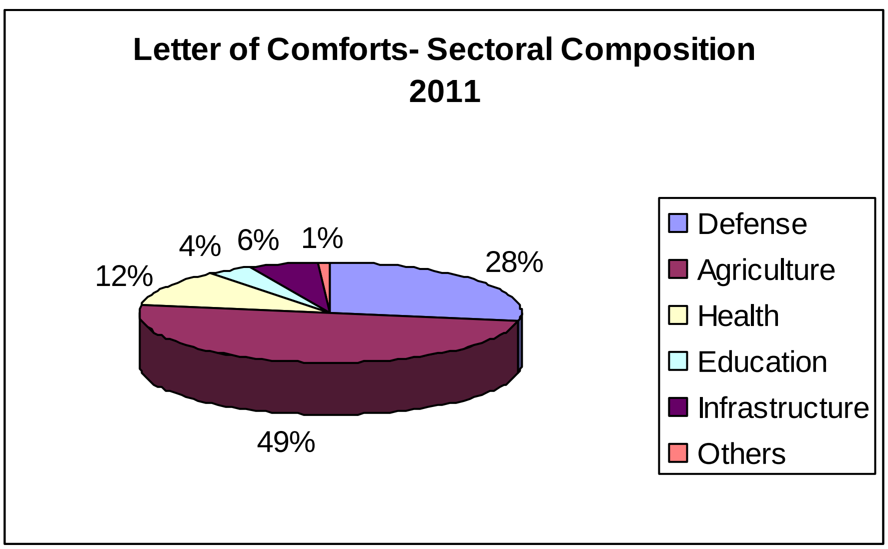


### 8.8.2 Letters of Comforts

Letters of comforts issued by the department to facilitate opening of the Letter of Credit were Rs. 27,661 Million as at 31.12.2011. This is an increase of 48% with compared to the previous year balances of Rs.18,728 Million.

The Sectoral Composition of the Letter of Comforts is tabulated below.

| Sector | Value in Rs. Million | Percentage % |
|---|---|---|
| Defense | 7,704 | 28 |
| Agriculture | 13,952 | 49 |
| Health | 3,237 | 12 |
| Education | 1,006 | 4 |
| Infrastructure | 1,546 | 6 |
| Others | 216 | 1 |
| **Total** | **27,661** | **100** |



### 8.9 Property Loan Guarantee Fund:

The government, with the view of ensuring all the public officers to have the opportunity to acquire valuable assets, introduced a housing loan scheme through the banking sector as a budget proposal in 2005. The Loan Guarantee Fund was established under the Department of Treasury Operations to ensure the prompt settlement of loans by the General Treasury in the event the officers who obtained loans through this scheme is died or become totally disabled or retired on medical grounds. For this purpose, the above Guarantee Fund was established on 5th August 2005 with the initial investment of Rs. 916 million in the Treasury Bonds.

In terms of Budget Circular No.122 of 26.04.2005, the execution of the fund, investment and recovery of earnings on investment and settlement of loans on behalf of public officers referred to above was entrusted with the Department of Treasury Operations.

Accordingly, after settlement of loan balances totaling Rs.31 million for 46 public officers died or become totally disabled or retired on medical grounds, in year 2011 the net balance available as at the end of the year 2011 was Rs.1,291.2 million as shown below. The total loan settlements made under this scheme from the inception of the fund was Rs.118.4 million for 175 public officers died or become totally disabled or retired on medical grounds

The operation of the fund during the year 2011 is summarized below.

| | | | |
|---|---|---|---|
| | | | **Rs. mn** |
| Balance as at 01.01.2011 | | | 1,240.6 |
| **Add : Receipts** | | | |
| Interest income | | | 82.2 |
| | | | **1,322.8** |
| **Less : Payments** | | | |
| Settlement of loan balances | | | (31.6) |
| Balance as at 31.12.2011 | | | |
| | Treasury Bonds | 916.2 | |
| | General Deposit | 374.9 | **1,291.2** |

The above table further indicates that settlement of loan balances so far were able to recover from the interest income without affecting the initial investment of Rs.916 Million.

### 8.10 Specially Assigned Functions

#### 8.10.1 Operation of Revolving Fund for implementation of Paddy Price Stabilization Scheme

TOD is responsible for the operation of Revolving Fund created through voted fund to meet working capital needs to purchase paddy.

The Treasury has released Rs:574.024 million to Paddy Marketing Board during the year 2011 with the recommendation of the Ministry of Trade, Marketing Development Co-operatives and Consumer services and balance due at paddy Marketing Board is Rs:1839.99 million as at 31.12.2011. Table 8.10.1 shows the financial position of the Revolving Fund as at 31.12.2011.

Table 8.10.1Balance Sheet of the Revolving Fund as at 31.12.2011.

| **Assets:** | **Rs.** |
|---|---|
| **Current assets** | |
| **Amount Receivable** | |
| Paddy Marketing Board | 1,899,999,208.00 |
| Ministry of Trade, Marketing Development..... | 69,016,876.46 |
| District Secretariats | 645,408,171.38 |
| Dept:of Corporative Development | 7,354,622.53 |
| **Cash and Cash Equivalents** | |
| Cash Balance | 582,450,927.80 |
| **Total** | 3,204,229,806.17 |
| Financing: | |
| Initial Capital | 2,999,025,150.00 |
| Interest Income | 204,952,656.17 |
| **Liabilities** | |
| District Secretary-Rathnapura | 252,000.00 |
| **Total** | 3,204,229,806.17 |

Details of recovery of advances released for purchase of paddy from the Revolving Fund and different other sources during the year 2011 are given below.

Table 8.10.2 Recoveries from Paddy Purchase Programme -2011

| Institution | Other sources Rs. | Revolving Fund Rs. |
|---|---|---|
| District Secretariats | | 698,975,529.21 |
| Min: of Trade Marketing Development | 558,946.00 | 6,186,895.02 |
| Department of Co-operative Development | | 27,249,681.49 |
| **Total** | 558,946.00 | 732,412,105.72 |

The Department of Treasury Operations is constantly monitoring the recoveries from the relevant parties in order to ensure smooth operation of the Revolving Fund in meeting the financial needs of the implementing agencies.

### 8.11 Progress on Treasury Single Accounts System and Electronic Payment System

The Department of Treasury Operations with a view of pioneer in the financial management in South Asia, has achieved the following targets during the year 2011 while improving its Financial Management System and the Treasury Single Accounting System.

01. Year 2011 recorded total receipts of Rs. 2,730.4 Billion and total payment of Rs. 2,829.7 Billion, excluding inter bank payment settlements. All these receipts and payments have been made under 5,566 Pay - in – Vouchers and 13,299 Payment vouchers respectively. With the objective of convenience and safety in financial transaction process in Sri Lanka, all this 13,299 payment vouchers had been made through 12,921 transactions. Out of those, 9,279 transactions have been made through electronic fund transfer system via Bank of Ceylon and People's Bank.

This represented 72% of the total payments. 378 Inter bank payments have been made in 2011 and 90% of them has been made through Real Time Gross Settlement System of the Central Bank. Total number of receipt recorded in 2011 is 5,910 and 90% of them was made through fund transfer without using cheques.

Making payments and settlements without using cheques reducing circulation of high value cheques in the economy, thus enhancing the effectiveness and safety of financial transaction in Sri Lanka.This was a remarkable contribution to the development of the Sri Lankan financial market.

02. Implementing of the Treasury Single Accounting System contributed to enhance the effectiveness and efficiency of managing in the Deputy Secretary to the Treasury's (DST's) bank accounts in 2011.

Accordingly, end of the day idle cash balances of the bank accounts of every Ministries, Departments, District and Divisional Secretaries have been effectively used to enhance the balance of DST's account.

Average daily idle cash balance of those Government bank accounts has been Rs.20 Billion in the year 2011.Department of Treasury Operations managed to save about Rs.1.5 Billion of interest expenditure by effectively using these idle cash balances through the Treasury Single Accounting System in 2011.

03. Cash releases to implement 2011 Budget continued till end of 31.12.2011 and the Treasury received all unutilized cash balances after closing the cash book at the year-end, through Bank network with no cost to the Government. Hence, the Treasury has able to receive all unutilized cash Balances held by spending agencies as at 31.12.2011 to DST accounts within first two weeks of 2012.