

Investment Promotion Zone

The Greater Colombo Economic Commission (GCEC), one of the lead projects of the present government, has approved 137 projects by the end of the year. Of these, 64 firms have signed agreements with the GCEC to set up various industries. Among them, 23 firms, majority in garment manufacturing, were in commercial production in the Investment Promotion Zone (IPZ) at Katunayake by the end of the year. In addition, 5 firms were in trial production. The factories in the IPZ provided employment for 10,581 persons. Gross earnings from the IPZ exports amounted to Rs. 505 million (SDR 22 million) during 1980 and garment exports accounted for 93 per cent of these earnings. Comparative data on employment and gross earnings classified by type of industries are given in Table below. The projects approved by the Commission during the year included new types of industries such as those producing electronic devices, electrical parts, cargo containers, machinery equipment and irrigation pumps. Investment seminars, media publicity and media interviews were widely used at international levels to attract foreign investors.

TABLE 1. 18

Investment Promotion Zone - Employment and Exports

Industry	1979		1980 (a)	
	Employment (End Dec.) No.	Gross Export Earnings Rs. Mn.	Employment (End Dec.) No.	Gross Export Earnings Rs. Mn.
1. Garments ..	5,675	145.1	9,147	470.1
2. Fishing Gear and Accessories ..	73	5.1	245	10.6
3. Rubber Threads ..	26	1.2	82	12.1
4. Lapidary and Jewellery ..	110	0.7	285	3.2
5. Tea Packeting ..	—	—	12	3.8
6. Cashew Products ..	—	—	483	4.8
7. Other ..	—	—	327	0.7
Total ..	5,884	152.1	10,581	505.3

Source: Greater Colombo Economic Commission.

(a) Provisional.

ECONOMIC AND SOCIAL OVERHEADS

The trends observed in 1980 with respect to economic and social overheads and infrastructure facilities can be summarised as a continuous struggle to cope with widening and deepening requirements stemming from a range of economic activities in both public and private sectors. The revitalization of the economy initiated in 1977 necessitated economic overheads such as transport, communications and energy to grow at a rate commensurate with the expansion of dynamic productive sectors. As the lead time required for the planning and implementation of large

scale projects for power, transport and communications development is relatively long, a rapid increase in demand for such infrastructure facilities can easily outstrip their supply in the short and medium run, as was evidenced in Sri Lanka during the past three years. Furthermore, as investments in economic and social overheads generally do not generate a direct economic output, a conscious attempt has to be made to strike a balance in the investment mix between productive ventures and overhead projects.

Transportation

The impact of the import and exchange liberalization programme on the transport sector has been a mixed one, as this sector was both benefitted and pressurized by the developments that took place since late 1977. On the one hand,

TABLE 1.19

Salient Features of the Transport Sector 1979 - 1980

Item	1979	1980	Percentage Change
1. Registration of motor vehicles			
1.1 S.L.C.T.B. buses	747	788	+ 5.5
1.2 Private coaches	1,575	2,658	+ 68.8
1.3 Hiring cars and taxis	906	1,250	+ 38.0
1.4 Private cars	9,942	5,480	- 44.9
1.5 Motor cycles	15,459	34,725	+ 124.6
1.6 Lorries and other vehicles for goods transport	6,503	9,608	+ 47.7
2. S.L.C.T.B. operations			
2.1 Operated kilometers (Mn.)	482	517	+ 7.3
2.2 Passenger kilometers (Mn.)	19,265	20,010	+ 3.9
2.3 Estimated total revenue (Rs. Mn.)	1,118	1,576	+ 41.0
2.4 Estimated total cost (Rs. Mn.)	1,308	2,049	+ 56.6
2.5 Estimated loss (Rs. Mn.)	190	473	+ 148.9
3. C.G.R. operations			
3.1 Operated kilometers (Mn.)	11	10	- 8.8
3.2 Passenger kilometers (Mn.)	4,073	3,732	- 8.4
3.3 Cargo ton kilometers (Mn.)	268	165	- 38.4
3.4 Estimated total revenue (Rs. Mn.)	312	351	+ 12.5
3.5 Estimated operating loss (Rs. Mn.)	108	189	+ 75.0

Sources: Department of Motor Traffic ;
Sri Lanka Central Transport Board ;
Ceylon Government Railway.

greater economic activity called for the movement of larger volumes of goods and passengers than before. On the other hand, freer availability of foreign exchange and liberalization of imports facilitated the replenishment of the vehicle stock and the enhancement of the supply of vehicles and spare parts, thereby relieving the constraints and pressures for transport expansion. The rising recurrent costs due to higher fuel prices and maintenance expenditures, however, hindered the attempts to improve the operational efficiency of road and rail transport services. The additional employment created through the expansion of private sector transport services appeared as a noteworthy achievement in 1980.

There was a significant expansion in the private sector transport operations in 1980. As against 788 buses of the Sri Lanka Central Transport Board (SLCTB), 2,658 coaches and 9,325 lorries and vans, belonging to the private agencies were newly registered at the Motor Traffic Department during the year. The liberalization of imports has enabled a massive inflow of private vehicles for both passenger and goods transport which, in turn, appeared to have relieved the burden of the public sector transport services to an appreciable extent. For example, the load factor of the SLCTB buses diminished from 75 per cent in 1979 to 72 per cent in 1980.

The impact of the expansion of private sector passenger transport services was felt by the SLCTB as indicated by the low rate of growth in the passenger kilometrage which rose by only 4 per cent in 1980, compared with 9 per cent in the previous year. The loss of traffic of the SLCTB in view of the competition from the private sector has been estimated at 647 million passenger kilometres in 1980. Reduction in the passenger kilometrage was evident mainly during the last quarter of the year and the development of this trend coincided with the second increase in the bus fares which came into effect in November, 1980.

The objective of allowing the private sector to participate in passenger transport business was to supplement the SLCTB service, mainly in the long distance routes. However, due to lack of planning and co-ordination, a competitive and rival approach appears to have emerged rather than a supplementary and constructive approach. It should be emphasized that an overall aim of future revisions to the passenger transport policy should at least endeavour to provide a more efficient service to the commuters.

However, in view of the growing competition from the private sector transport agencies, the SLCTB was compelled to adopt a more positive approach towards the improvement of efficiency and quality of the public transport service. While the higher operational costs of the SLCTB would have resulted mainly from external factors such as oil price increases and wage adjustments, high running costs of old vehicles, the public likewise should be assured that fare increases are not aimed at covering internal inefficiency, poor management or undue overhead costs of the Regional Transport Boards. In other words, frequent fare adjustments should not become the ready solution to bridge a widening gap between receipts and payments.

With respect to rail transport, the trends in 1980 were not very favourable. The Ceylon Government Railway (CGR) was not able to achieve any significant improvement either in the operated kilometrage or in the passenger kilometrage in 1980. In fact, provisional data obtained from the CGR indicate a drop of 9 per cent in the operated kilometrage in 1980 compared with the figure recorded in the previous year. The passenger kilometrage also appears to have declined

by 8 per cent over the same period. Furthermore, the volume of cargo handled by the Railway was less by 42 per cent in 1980, in comparison with the performance in 1979, which reflects the competition from private road hauliers.

The fare increases effected during 1980, however, enabled the CGR to enhance its revenue position by an estimated sum of Rs. 39 million or by 12.5 per cent over the last year's level. Meanwhile, the operational costs of the Railway increased from Rs. 108 million in 1979 to Rs. 189 million in 1980, mainly on account of the increases in expenditure on fuel, maintenance and wages. The shortages of locomotives, carriages and wagons, frequent breakdowns in the signalling system and deterioration of the rail track were the main factors which adversely affected the adequacy, efficiency and punctuality of the rail service.

Energy

Sri Lanka's energy problems which were explained in the early 1970s in terms of exorbitant increases in the price of petroleum products, raised new problems in the 1980s. The hydro-electric power supply which was inexpensive, adequate and readily available became expensive and scarce in view of the rapidly growing demand for power and adverse weather conditions which limited supply generation. The rising trend in oil prices and electricity rates were reflected in the prices of other substitutes such as firewood as well. As energy is an important factor for both economic and non-economic activities, the impact of high prices and scarcities was felt by all strata in the society both directly and indirectly through linkage effects.

The need to pursue an appropriate demand management policy to ensure an adequate supply of energy for both general consumption and production purposes was evident following the developments that took place in 1980. The oil price increases determined by the OPEC and the political disturbances in the Middle East revealed the high degree of vulnerability of the economy to changes in the international energy front. Meanwhile, the lack of rain in the catchment areas affected adversely hydro-power generation. As a result of the unsatisfactory power generation position 'power cuts' had to be imposed to ration the limited availability of electricity. The energy outlook for the next several years would be rather bleak if the same trends continue to prevail. The supplementation of hydro-power through gas turbines is a costly way of overcoming the present problem. It, however, does not offer a solution to the longer-term problem of adequate power supply for the economy.

The dependence of the Sri Lankan economy on petroleum imports cannot be reduced in the short and medium run at least, and the oil import bill would depend very much on the international price of crude oil. As the transport, industrial and commercial sectors rely to a great extent on petroleum products as the energy source, growth in these sectors would mean increased dependence on oil imports. Hence, the energy strategy should be one of conservation and economy while continuing to be selective in regard to projects with high power consumption.

The pressure on the balance of payments arising from high expenditures on oil imports was to some extent mitigated by export earnings from processed petroleum products. Such processed products enjoy the upward swings in world oil prices. The product mix obtained from the refinery of the Ceylon Petroleum Corporation (CPC) consists of several exportable products like naphtha, fuel oil, furnace, marine diesel and avtur. These products are in excess of local requirements and constitute exportable surpluses. Since the market for these products has been buoyant, export

TABLE 1.20
Salient Features of the Energy Sector
1979 - 1980

Item	1979	1980	Percentage Change
1. Petroleum products			
1.1 Exports (Million US \$)	30.173	66.293 ^(a)	+ 119.7
1.2 Imports (,,)	205.367	456.161	+ 122.1
1.3 Average price-oil (Rs. per barrel).. ..	298.00	537.00	+ 80.2
1.4 Local price as at end of year			
(a) Petrol (per gln.)	30.14	40.00	+ 32.7
(b) Kerosene ,,	10.73	15.18	+ 41.5
(c) Auto Diesel ,,	10.50	21.00	+ 100.0
(d) Heavy Diesel ,,	10.27	20.80	+ 102.5
(e) Furnace Oil 500 ,,	9.82	20.20	+ 105.7
800 ,,	9.59	20.00	+ 108.5
1000 ,,	9.13	19.50	+ 113.6
(f) Bitumen	11.64	15.00	+ 28.9
1.5 Local consumption (Metric tons)			
(a) Petrol (Super)	108,685	107,728	- 0.9
(b) Kerosene	230,074	188,648	- 18.0
(c) Auto Diesel	350,878	399,448	+ 13.8
(d) Heavy Diesel	67,196	63,920	- 4.9
(e) Furnace Oil	178,235	259,731	+ 45.7
2. Electricity			
2.1 Installed Capacity (MW)	401	421	+ 5.0
2.2 Units generated (Mn. kWh)	1,525.5	1,668.5	+ 9.4
2.3 Total Sales (Mn. kWh)	1,286.3	1,354.5 ^(a)	+ 5.3
(a) Domestic	149.4	178.1	+ 19.2
(b) Industrial	634.6	620.3	- 2.3
(c) Commercial	201.3	215.5	+ 7.0
(d) Local Authorities	296.3	335.1	+ 13.1
(e) Other	4.7	5.5	+ 17.0
2.4 Rates as at end of year (Rs./kWh) ^(b)	0.31	0.45	+ 45.2

Sources: Ceylon Petroleum Corporation;
Ceylon Electricity Board.

(a) Provisional

(b) Domestic consumption (above 50 units).

earnings from these sources in 1980 increased to Rs. 2,999 million (SDR 139.3 million) compared with Rs. 1,926 million (SDR 95.7 million) in the previous year. The oil import bill in 1980 amounted to Rs. 8,090 million (SDR 375.9 million) and as such, export proceeds from petroleum products financed 37 per cent of such imports. The value of oil imports represented 24 per cent of total imports in 1980, as against 17 per cent in 1979.

The price increase of oil in the world market averaged 80 per cent in 1980, compared with the average price level which prevailed in 1979. Accordingly, the local prices of petroleum products were revised on two occasions during 1980. At end 1980 the price of gasoline stood at Rs. 8.79 per litre, compared with Rs. 6.60 at the end of 1979, revealing a sale price increase of 33 per cent. The pricing formula of the CPC based on a cross-subsidization policy was modified to a great extent, to reflect the true costs of products such as diesel and kerosene. The price of kerosene was revised from Rs. 2.35 per litre in 1979 to Rs. 3.34 per litre at the end of 1980. The corresponding figures with respect to auto diesel price were Rs. 2.30 and Rs. 4.62, respectively. Although the price adjustments appeared to have had some effect on the level as well as the pattern of consumption of different petroleum products, the overall demand was conditioned more by the tempo of activity in the transport, commercial and industrial sectors.

The installed capacity of the Ceylon Electricity Board (CEB) was increased from 401 MW in 1979 to 421 MW in November, 1980 with the commissioning of a 20 MW Gas Turbine at the Kelanitissa Power Station. The bulk of the country's power supply however comes from hydro-plants while thermal plants are used as a back-up source. The number of units generated in 1980 reached 1,668 million kWh, reflecting an increase of more than 9 per cent over the previous year's level. The rate of growth of electricity sales over the same period was little over 5 per cent and the total sales amounted to 1,354 million kWh. in 1980.

The pattern of electricity consumption in 1980 revealed some changes in the relative shares of the different sectors. The domestic sector and the local authorities enhanced their relative shares of consumption in 1980 to 13 per cent and 16 per cent, respectively. On the other hand, of the total sales by the CEB, the industrial sector purchased 46 per cent. Meanwhile, the share of the commercial sector remained at 16 per cent as in the previous year. The rapid growth in housing and construction activities in both private and public sectors, increased use of electrical appliances and the general expansion of the other economic sectors, appeared to have influenced the above growth pattern of electricity consumption.

Housing and Urban Development

The census of housing taken in 1971 revealed that there was an acute shortage of housing in Sri Lanka in both rural and urban areas, while a considerable share of the existing housing stock was qualitatively sub-standard needing renovation or replacement. The problems appeared to be most acute in urban areas. The housing problem was further aggravated by the growth of population during the last decade. The low priority accorded to the housing sector in the past, as evidenced in the absence of incentives offered to the private sector for investment in housing appears to have hindered housing development.

One of the lead projects chosen by the present government, therefore, was the housing and urban development programme which aims at assisting and encouraging housing construction as well as planning and renovation of urban sector buildings. In the past, the public sector housing programmes have been limited to a great

extent by the non-availability of resources and hindered by institutional inadequacies. The present government initiated necessary steps to overcome several of these impediments, to pursue a vigorous programme of housing and urban development.

For the successful implementation of the public sector housing and urban development programmes, the National Housing Development Authority (NHDA) and the Urban Development Authority (UDA) were established. The public sector housing programmes are summarised in the following table

TABLE 1. 21
Public Sector Housing Programmes
(Progress as at end December, 1980)

Programme	No. of Units (Target)	Total Estimated Cost	No. of Units Completed	No. of Units under Construction	Total Cumulative Expenditure (a) Rs. Mn.
		Rs. Mn.			
1. Direct construction	36,000	4,608.8	5,797	16,750	1,230.3
2. Aided Self Help (ASH)	50,000	779.8	8,699	17,746	313.0
2.1 ASH housing	—	(100.0)	3,606	13,492	—
2.2 Model villages	—	—	4,838	2,871	—
2.3 Fisheries houses	—	—	255	1,383	—
3. Electoral housing	26,040	760.0	5,880	5,040	238.0
3.1 On direct construction basis	5,880	256.0	—	—	—
3.2 On modified ASH basis	20,160	504.0	—	—	—
4. Public servants' quarters	695	88.0	n.a.	n.a.	70.0
5. Slums and shanty upgrading	5,839	55.0	465	n.a.	0.2
6. National Housing Fund loans	14,000	n.a.	n.a.	n.a.	130.0

(a) Provisional

Sources: National Housing Development Authority; Urban Development Authority; Ministry of Local Government Housing and Construction.

The total projected expenditure of all schemes and projects earmarked by the UDA for completion during the period 1980-84 has been estimated at Rs. 2,646 million. The UDA hopes to finance these activities through four major sources which include voted expenditure, UDA Debenture loans, capital contributions from local governments and initial capital and the revenue generated by the UDA. Most of the UDA projects with the exception of the slum and shanty upgrading scheme will be executed on a commercial basis and the Authority expects to earn a reasonable profit by leasing all rentable space to augment funds to finance its activities.

The housing and urban development programme of the government has no doubt, made a significant and visible impact on the growth pattern of the economy, in the course of past three years. The question remains, however, whether the same rate of activity could be sustained in view of the resource constraints and the escalating costs of construction, particularly when several other sectors of the economy are pressing for resources. In this context, the basic issue appears to be one of maintaining an appropriate balance between infrastructure expenditures and production oriented investments.

EMPLOYMENT

An investment and production oriented strategy aimed at increasing both absorption and productivity of labour should be considered as the most effective short term expedient for improving the standard of living of the people in a developing country. In this sense, one of the most favourable outcomes of the policies introduced in late 1977 was the creation of a large number of new and remunerative jobs in several sectors.

The total number of new employment opportunities created within the organized sector during the three year period 1978-80 amounted to 278,035 thus enabling the rate of unemployment to decline to about 15 per cent. However, compared with an estimated increase of 125,000 persons per year entering the labour force seeking employment, it would appear that employment opportunities would have to grow at a much faster rate to prevent the numbers unemployed from increasing. These figures, however, do not take into account employment in the informal sector.

Despite the high cumulative total for the period 1978-80, there has been a steady decrease in the rate of employment creation in the organized sector, particularly in 1980. Compared with 145,000 and 115,000 opportunities in 1978 and 1979 respectively, the number of employment offered by government departments, semi-government institutions and other organized private sector enterprises (i.e. those contributing to the Employees' Provident Fund) amounted to only 18,035. This does not, however, include the additional jobs created in the unorganized private sector, the traditional agricultural sector as well as any increase in self-employment in various sectors in the economy.

According to the Central Bank's annual survey of employment in the public sector, employment in government departments rose by 6,193 in 1980, as against an increase of 33,173 in 1979. In semi-government institutions, the number of new jobs created in 1980 was 8,812 compared with 63,000 in 1979. Provisional data obtained from the Employees' Provident Fund records, and also from a sample of establishments in the private sector, indicated a total of 3,030 new employment opportunities generated by the organised private sector institutions.

The relatively low rate of growth in employment in 1980 could be mainly attributable to the general reduction in the labour absorptive capacity of the key sectors of the economy. For example, the plantation sector recorded a lower growth rate in 1980, while the construction and trade sectors could not sustain the high tempo of activity of the previous two years. The industry sector was probably resorting to more capital intensive techniques of production under the tax incentives offered such as lump sum depreciation granted to promote investments. Furthermore, the high rate of growth in employment creation that was observed in the initial period following import and exchange liberalization cannot be expected to prevail year after year, unless the labour absorption capacity of the economy is improved.