

TABLE 1 · 19

Investment Promotion Zone - Employment & Exports

Industry	1980		1981(a)	
	Employment (End Dec.) No.	Gross export earnings Rs. Mn.	Employment (End Dec.) No.	Gross export earnings Rs. Mn.
1. Garments	9,147	470.1	17,386	775.2
2. Fishing gear and accessories	245	10.6	199	8.5
3. Rubber products	82	12.1	830	45.6
4. Lapidary and jewellery	285	3.2	140	3.1
5. Tea packeting	12	3.8	23	9.3
6. Cashew products	483	4.8	265	14.8
7. Electrical appliances	—	—	286	20.2
8. Other	327	0.7	792	5.0
Total	10,581	505.3	19,921	881.7

(a) Provisional

Sources: Greater Colombo Economic Commission,
Central Bank of Ceylon.

ECONOMIC AND SOCIAL OVERHEADS

Energy

Sri Lanka has been one of the hardest hit developing nations by the energy crunch resulting from a series of oil price hikes effected by the OPEC since the early nineteen seventies. Another dimension to the country's energy problem was added with the dawn of the eighties, when the demand for electricity grew, outstripping its supply. Meanwhile, the generation of hydro-power was constrained by drought conditions and the country had to resort to more and more thermal power generation involving high cost. The lesson of the past decade in regard to energy therefore, was the need to recognize that both petroleum and electricity as sources of energy, would no longer be cheaply or plentifully available. Hence, it was felt that the rational approach in facing an aggravating energy crisis, should consist of a sound demand management policy in the short-run, coupled with a planned supply expansion strategy including the search for alternative sources of energy in the long-run. The developments in the energy front in 1981, appeared to have broadly conformed to such an approach.

The high degree of dependence of Sri Lanka on petroleum imports and its implications on the balance of payments were manifested in the oil import bill of 1981 which rose by 7 per cent in rupee terms and absorbed 42 per cent of the total export earnings of the country. In U. S. Dollar terms, however, the import value of petroleum products decreased by 8 per cent, mainly reflecting the reduced volume of

imports and relatively stable price of oil in the international market in 1981. The depreciation of the rupee appeared to have contributed largely to the growth in oil import bill in rupee terms in the year under review. For example, in 1981 the average price per barrel of crude oil imported by Sri Lanka rose by 11 per cent in U.S. Dollar terms, whereas it increased by 29 per cent in rupee terms. The value of oil imports, represented 25 per cent of the country's total imports in 1981, compared with 24 per cent in the previous year. Meanwhile, the export of petroleum products declined marginally in U.S. Dollar terms notwithstanding its modest increase revealed in rupee terms. Netting the value of petroleum exports from the cost of such imports, the domestic consumption of petroleum can be estimated at Rs. 5,252 million amounting to 15 per cent of the total import expenditure or 26 per cent of the total export earnings of Sri Lanka in 1981.

The domestic prices of petroleum products were adjusted upwards by the Ceylon Petroleum Corporation (CPC) in early 1981 consequent to an increase in the oil price by the OPEC. The new price structure also aimed at rationalizing the consumption of different products such as kerosene, auto-diesel and heavy diesel. Although the policy of cross-subsidization was abandoned in general, the price of a gallon of petrol was raised further to a much higher level than its unit cost of production, whereas the price of a gallon of kerosene was kept well below its unit cost. The impact of the new price structure was either to reduce the levels of consumption in absolute terms or to contain their rates of increase to marginal amounts. For instance, despite the fact that kerosene was sold at a price below cost and Kerosene Stamps were made available to subsidize its consumption by the poorer segments of the country, the sales of kerosene have dropped by more than 10 per cent in 1981. The consumption of petrol however, remained more or less static despite a 14 per cent price hike effected in two stages during the year. Compared with a 14 per cent growth rate observed in 1980, there was a deceleration in the consumption of auto diesel in 1981 as it grew by only 5 per cent in view of a price increase of 28 per cent. The demand for heavy diesel however, rose by an unprecedented rate of 67 per cent in 1981 mainly reflecting the requirements resulting from increased resort to gas turbines by the Ceylon (CEB) Electricity Board to generate power. In general, the restraints on demand imposed by price increases might have been offset to some extent by the energy needs stemming from the higher level of economic activity in 1981. The energy pricing policy, therefore does not appear to have drastically hindered the pace of industrial, commercial, transportation and other energy intensive activities of the economy.

The growing dependence of the Ceylon Electricity Board on oil products in generating electric power tended to introduce a further dimension to the country's energy problem. The supply constraints in respect of hydro-power necessitated greater recourse to thermal power which in the earlier years served only as a back-up system. For example, the proportion of thermal generation in total power generation, which was less than 2 per cent during the pre-1978 period, rose to 4 per cent in 1979 and 11 per cent in 1980. In 1981, the relative dependence on thermal power was as high as 16 per cent resulting in heavy fuel bills and consequently making it necessary for the CEB to invoke the provisions of the "Fuel Adjustment Clause" in pricing electricity.

With the commissioning of three additional gas turbines in the course of 1981, the installed capacity of the CEB totalled 501 megawatts reflecting an enhancement of 19 per cent compared with the previous year's capacity. However, due to the drought conditions that existed in the catchment area coupled with the rapid growth in demand for electricity, the CEB was compelled to impose power-cuts ranging from five to eight hours from time to time mainly during the first half of the year. Nevertheless, the total sales of electricity in 1981 recorded a growth rate similar to what was observed in the previous year increasing by 6 per cent to 1,482 million kWh. As in the previous year, the highest growth rate in consumption of electricity was recorded by the domestic sector thereby raising its relative share in the total consumption to more than 14 per cent. The industrial sector which exhibited a negative growth rate in electricity consumption in 1980, reflected a 6 per cent increase in the year under review which enabled it to maintain its relative share of consumption at 45 per cent of the total. Presumably, the commercial sector experienced a 3 per cent reduction in its electricity consumption from the national grid due to the use of generators during the power-cuts in 1981. The overall pattern of electricity consumption by sectors however, did not reveal significant changes in the year under review.

Although the intensity of use of electricity might have diminished in certain sectors, mainly in response to higher tariffs, the overall growth in demand for electricity had not been arrested by such tariffs in the context of a growing economy. The electricity tariffs that came into operation in late 1980 continued in 1981 as well. Accordingly, consumption in excess of 200 units per month was subject to a surcharge, both to ensure that unwarranted consumption would be cut-down, as well as to reflect the exorbitant cost associated with thermal power generation. However, the profits that the CEB may earn from the new tariff policy might have to be sufficiently enhanced to fully finance the heavy capital costs that have to be incurred in the process of expanding its capacity to generate electricity.

Reviewing the experience of the past several years and also taking into account the projections for the rest of the nineteen eighties, the energy problem should be highlighted as a strong impediment to achieve the development objectives of the country. The rapid growth in demand for energy, in a way reflects the progress in achieving socio-economic development of a country ; but the consumption pattern of energy ought to be rationalized in view of the supply constraints in order that energy efficiency would be increased at both micro and macro levels. A country which has to set aside almost a quarter of her total export earnings for the import of oil and petroleum products for domestic consumption, cannot afford to waste energy or sell such products at subsidized prices. Similarly, when expensive fuels have to be utilized in generating power, a country has no choice but to reflect such costs in electricity tariffs. In this context, a realistic pricing policy aimed at short-run demand management and an enthusiastic conservation policy focussed on long run supply expansion should form the thrust of the national energy policy.

TABLE 1 . 20

Salient Features of the Energy Sector 1980 — 1981

Item	1980	1981*	Percentage Change
1. Petroleum Products			
1.1 Exports (Rs. Million) ..	3,122	3,375	+ 8.1
1.2 Imports (Rs. Million) ..	8,090	8,627	+ 6.6
1.3 Average price of crude oil (Rs. per barrel) ..	530.00	684.70	+ 29.2
1.4 Local price as at end of year (Rs. per gln.) ..			
(a) Petrol ..	40.00	45.50	+ 13.7
(b) Kerosene ..	15.18	17.68	+ 16.5
(c) Auto Diesel ..	21.00	27.00	+ 28.6
(d) Heavy Diesel ..	20.80	25.80	+ 24.0
(e) Furnace oil - 500 ..	20.20	20.20	-
800 ..	20.00	20.00	-
1000 ..	19.50	19.50	-
(f) Bitumen ..	15.00	28.50	+ 90.0
1.5 Local consumption (metric tons)			
(a) Petrol ..	107,728	109,017	+ 1.2
(b) Kerosene ..	188,648	168,248	- 10.8
(c) Auto Diesel ..	399,448	421,107	+ 5.4
(d) Heavy Diesel ..	63,920	106,625	+ 66.8
(e) Furnace oil ..	259,731	244,295	- 5.9
2. Electricity			
2.1 Installed capacity (MW) ..	421	502	+ 19.2
2.2 Units generated (Million kWh) ..	1,668.3	1,871.6	+ 12.2
2.3 Total sales (Million kWh) ..	1,391.6	1,481.7	+ 6.4
(a) Domestic ..	190.8	214.1	+ 12.2
(b) Industrial ..	625.6	664.8	+ 6.3
(c) Commercial ..	223.2	216.2	- 3.1
(d) Local Authorities ..	335.5	370.0	+ 10.3
(e) Street Lighting ..	16.5	16.6	+ 1.0
2.4 Rates as at end of year (Rs./kWh)(a) ..	0.45	0.45	-

Sources : Ceylon Petroleum Corporation;
Ceylon Electricity Board,
Sri Lanka Customs.

* Provisional.

(a) Domestic tariff (51—350 units)

Transportation

The need to expand and improve the movement of both goods and passengers in the context of a growing economy, and the difficulty of doing so in view of resource constraints and inflationary pressures, were the main features that characterized the transport sector in recent years. The rising cost of petroleum products, increasing expenditure on maintenance and growing operating losses of the public sector transport agencies, compelled them to pass on at least, a portion of the enhanced financial burden to the users of transport services by way of increasing bus and railway fares in 1979 and 1980. In 1981, however, there were no fare increases effected by the public transport agencies; instead the approach was to initiate cost-saving devices in the operations. Furthermore, the incentives and facilities granted to the private sector road hauliers and omnibus operators appeared to have assisted the efforts of the public transport agencies in maintaining an adequate service as well as in stabilizing the transportation charges.

The Sri Lanka Central Transport Board (SLCTB) decided to freeze the scale of its operations in 1981 at the level which prevailed in 1980, mainly in order to cope with the non-availability of financial support from public funds due to government budgetary constraints. It was, however, expected that the private omnibus operators were capable of supplementing the SLCTB's services in many routes. The operated kilometrage of the SLCTB reflected a 4.5 per cent drop from 517 million in 1980 to 493 million in 1981. Total strength of the bus fleet of the SLCTB stood at 7,192 in 1981 as against 7,511 in 1980 reflecting the low rate of replacement of discarded buses. The number of new buses registered by the SLCTB in 1981 was only 24 compared with 788 in the previous year. The passenger kilometrage handled by the SLCTB in 1981 at 13,785 million was 30 per cent lower than what was recorded in the year before. Accordingly, the load factor was reduced from 71 per cent in 1980 to 52 per cent in 1981.

In an attempt to curtail the operational costs, the SLCTB extended a Voluntary Retirement Scheme under which 6,002 employees opted to retire during the year 1981. Further, efforts were also directed at economising fuel consumption, improving stock control and minimizing corruption. In view of these and also due to some enhancement in revenue collection, the estimated loss of the SLCTB in 1981 at Rs. 449 million reflected a reduction of 5 per cent from the previous year's level.

The overall performance of the Ceylon Government Railway (CGR) in 1981 did not show any significant improvement. The downward trend that was observed in 1980 continued in respect of passenger transportation by rail. The operated kilometrage of the CGR declined by nearly 9 per cent in 1981, while its passenger kilometrage dropped sharply by 21 per cent. The marked preference of commuters to travel by bus, particularly in the context of a rapidly growing private omnibus transport sector offering both short and long distance services at competitive fares, might have contributed to the decline in the demand for travel by train. In the case of goods transport, however, the railway appeared to have maintained a satisfactory level in 1981, compared with the performance in 1980. As against a drop of more than 26 per cent experienced in the cargo ton kilometrage in 1980, the provisional estimate for 1981 reveals only a modest increase of 8 per cent. The competitive rates offered by the CGR for goods transport and the introduction of better facilities such as containers for cargo appeared to have arrested a further decline in the demand for goods transport by rail.

The financial performance of the CGR in 1981 continued to be unsatisfactory. The financial results showed an increase in revenue by 14 per cent compared with the increase in costs by 20 per cent. The operating loss of the CGR in 1981 was Rs. 236 million - about 34 per cent more than in the previous year.

The expansion of private sector participation in bus transportation resulted in the creation of a Ministry of Private Omnibus Transport in 1981. The new ministry is responsible for policy formulation, regulation and co-ordination in respect of the private sector bus transport operations. The total number of passenger vans and buses involved in transport business has been estimated at more than 5,000. The

fact that there was a 30 per cent reduction in the passenger kilometrage of the SLCTB in 1981, roughly indicates the extent of passenger traffic handled by the private omnibus transporters. The main intention of allowing the private sector to operate buses for passenger transport was to supplement the services provided by the SLCTB.

However, the introduction of a large number of vehicles into the roads created heavy traffic congestion mainly in urban areas. Also, in view of the fact that between 50 to 60 per cent of the passenger vans and coaches imported, were between 2 to 4 years old, there appears to be a built-in-tendency in these vehicles to require higher maintenance expenses in terms of spare parts and repairs.

The import and exchange liberalisation, coupled with the lump sum depreciation facility, enabled an unprecedented inflow of motor vehicles into the country since 1978. There was, however, a slowing down of the rate of imports in 1981 mainly due to the withdrawal of the lump sum depreciation facility at the end of March, 1981. Hence, the new registration of all types of vehicles at the Department of Motor Traffic dropped in 1981 in comparison with the numbers for 1980. Next to the decline of the new registration of SLCTB buses which dropped by 97 per cent, the biggest reduction was seen in the case of motor cycles which decreased by 51 per cent. New Registration of the private coaches and vans which reflected a growth of 69 per cent in 1980, recorded a 12 per cent decline in 1981. Similarly, lorries and other vehicles for goods transport showed a 16 per cent reduction in terms of new registrations in 1981, compared with an increase of 48 per cent in the previous year. These trends indicated the gradual tapering off of the level of demand for import of vehicles, which rose to unprecedented levels soon after import and exchange liberalization policies were introduced in late 1977.

TABLE 1.21
Salient Features of the Transport Sector 1980 - 81

Item	1980	1981*	Percentage Change
1. New Registrations of Motor Vehicles (Nos)			
1.1 S. L. C. T. B. buses	788	24	- 96.9
1.2 Private coaches	2,658	2,330	- 12.3
1.3 Private and hiring cars	6,730	5,760	- 14.4
1.4 Motor cycles	34,725	17,160	- 50.6
1.5 Lorries and other vehicles for goods transport	9,608	8,036	- 16.4
2. S. L. C. T. B. Operations			
2.1 Operated kilometers (Mn.)	516.6	493.5	- 4.5
2.2 Passenger kilometers (Mn.)	19,774.2	13,785.3	- 30.3
2.3 Estimated total revenue (Rs. Mn.)	1,576.4	1,804.1	+ 14.4
2.4 Estimated total cost (Rs. Mn.)	2,048.8	2,253.2	+ 10.0
2.5 Estimated loss (Rs. Mn.)	472.4	449.1	- 4.9
3. C. G. R. Operations			
3.1 Operated kilometers (Mn.)	10.6	9.7	- 8.5
3.2 Passenger kilometers (Mn.)	3,835.0	3,021.6	- 21.2
3.3 Cargo tonkilometers (Mn.)	206.3	223.7	+ 8.4
3.4 Total revenue (Rs. Mn.)	358.8	408.9	+ 13.9
3.5 Total cost (Rs. Mn.)	534.9	644.8	+ 20.5
3.6 Operating loss (Rs. Mn.)	176.1	235.9	+ 34.0

* Provisional.

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

Housing and Urban Development

Reflecting the high priority attached by the government to housing and urban development as well as in response to the increased demand for both commercial and residential buildings, the construction sector recorded impressive growth rates since 1978. This momentum however, could not be sustained in 1981, although those projects that were initiated, and for which resources were already committed had to be continued and completed. The urge to invest in housing and urban development activity appeared to have been arrested to some extent in 1981 by the material and financial constraints and in particular by the budgetary constraints.

The large scale housing programme of the government was rationalized by accommodating more of the low-cost, Aided Self-Help type (ASH) housing schemes and freezing the high cost, direct construction type activity. The scaling down or re-structuring of the programmes of the National Housing Development Authority (NHDA) and the Urban Development Authority (UDA) to levels more compatible with the changed financial outlook resulting mainly from escalation of construction costs therefore, did not drastically impair the progress of on-going projects. Instead, the emphasis on financial discipline and cost control compelled these agencies to achieve as much as possible of their physical targets within a given resource framework. In this context, the progress shown by the public sector housing and development programmes appeared to be quite satisfactory as can be observed from Table 1.22.

TABLE 1.22
Public Sector Housing Programme
(Progress 1978 — 1981)

Programme	No. of Units Target	Total Estimated Cost Rs. Mn.	No. of Units Completed	No. of Units under Construction	Total Cumulative Expenditure Rs. Mn.
1. Direct Construction	36,000	4,608.8	7,864	4,482	2,137.8
2. Rural Housing	50,000	779.8	14,767	15,454	403.9
2.1 A. S. H. Housing	—	(100)	4,798	10,862	—
2.2 Model Villages	—	—	8,959	3,702	—
2.3 Fisheries Houses	—	—	1,010	890	—
3. Electoral Housing	26,040	760.0	6,210	4,008	503.6
4. Public Servants Quarters	695	88.0	239	288	71.7
5. Slums and Shanty upgrading	5,839	55.0	n.a.	n.a.	20.5
6. National Housing Fund loan	14,000	—	28,000	n.a.	275.0
7. Total	132,574	6,291.6	57,080	24,232	3,412.5

Sources : National Housing Development Authority,
Urban Development Authority,
Ministry of Local Government Housing & Construction.

The overall cumulative expenditure of the public sector housing programmes during the period 1978—81 has been estimated at Rs. 3,412 million. In comparison with the total envisaged cost of these projects the actual expenditure by end 1981, therefore, amounted to 54 per cent. The physical progress in terms of different types of housing activity indicated an impressive performance, particularly, in respect of the Rural Housing Programme. The number of units completed under this programme as at end 1981, amounted to 14,767, reflecting an increase of about 70 per cent compared with its level of achievement an year ago. Furthermore, 15,454 units under this programme were under construction during 1981. Accordingly, the number of already completed units and the number of units being completed as at end of 1981 totalled 30,221, accounting for 60 per cent of the final target of 50,000 units under the Rural Housing Programme. There were three main components of this programme, namely Aided Self-Help (ASH) type, Model Villages and Fisheries Houses, which were almost exclusively aimed at catering to the housing needs of the rural poor. In view of the beneficiary group and also due to the relatively low cost nature of these types, the Rural Housing Programme appeared to have received the highest priority in 1981.

The direct construction activity turned out to be the most expensive category accounting for almost 63 per cent of the total financial resources committed to the public sector housing programme as at end 1981. The original target of constructing 36,000 units under this programme therefore, may be unrealistic in view of the rising costs of construction. The needed adjustments in the overall public sector housing programme should most logically be made in this category. The fact that the resources earmarked for the Electoral Housing Programme and Public Servants' Quarters Project form a relatively small proportion of the total estimated cost of the overall housing programme leaves less scope for any adjustments in these categories.

While the activities of the National Housing Development Authority (NHDA) were widely spread over the country, the Urban Development Authority (UDA) was primarily involved in the reconstruction and development of selected urban centres of the island. The most significant programme of the UDA has been the Sri Jayawardenapura Capital Development Project mainly consisting of a Parliamentary Complex and two Administrative Complexes. The estimated expenditure incurred by the UDA on this project as at end 1981, approximated Rs. 888 million. The financing of the Capital Development Project, however, was done by several line ministries through their budgets in addition to the funds provided by the UDA. The construction work in connection with the parliamentary complex was completed in late 1981 while the work was underway in the case of administrative complexes. The infrastructure for the capital development project including telecommunication, water supply and drainage and roads were also near completion as at end 1981.

With a view to relocating certain industries and warehouses, the UDA launched several projects such as the Orugodawatte Food Stores Complex, Peliyagoda Integrated Urban Development Project and Ratmalana Industrial Site project. The first of these was nearing completion while the work was in progress in the other two cases, as at end of 1981. Redevelopment of the Fish Market and the Vegetable

Market in Pettah were also being implemented in the year under review. As a part of the Central Area Redevelopment Programme, the UDA has sponsored the Echelon Square Project consisting of four components including the construction of two luxury hotels.

The high rate of activity under the UDA however, was retarded to some extent in 1981, in view of financial constraints and rapid increase in construction costs. The decision to raise funds by issuing debentures helped the UDA only marginally. Nonetheless, the slum and shanty upgrading programme aimed at benefitting the urban poor appeared to have progressed as scheduled accounting for Rs. 20.5 million of the UDA investment as at end 1981. In view of the need to extend assistance to local authorities in urban areas to raise funds required to carry out community development projects, the UDA also set up a Development Consultancy Unit. The UDA also undertook the development of several sites for the private developers to set up facilities such as markets, resthouses and cinema halls in urban areas.

In view of the rapid escalation of construction costs and the high cost of borrowing, there seemed to have been a deceleration in the housing and construction activity by the private sector. In the absence of a more composite index covering the entire island, the number of building plans approved by the Colombo Municipality serves as a crude proxy for the extent of private sector building activity. In terms of this indicator, the upsurge in the private sector housing and construction work which reached a peak in 1979, appeared to have stabilized since 1980 and the performance in 1981 confirmed this trend.

Compared with 1,134 new approvals of building plans in the previous year, in 1981 there were 1,140 approvals by the Colombo Municipality. Nearly one-half of the approvals in 1981 reflected additions and alterations which recorded an increase of 16 per cent in comparison with the figure for 1980. Meanwhile, the number of approvals in respect of new construction of houses, flats, commercial and industrial buildings together showed a drop of 11 per cent in 1981. The reduction in the construction of new buildings could be mainly attributed to the cumulative effect of the price increases in building materials such as cement, iron, steel, timber and glass. The lack of buildable land as well as the exorbitant land prices in the Colombo Municipality area also contributed heavily to this situation. Therefore, it was not unlikely that the location of construction activity, in terms of new buildings for both residential and industrial purposes, shifted to the sub-urban areas away from the Colombo Municipality area. While the rate of growth of new construction slowed down, that of additions and alterations increased in the Colombo Municipality area in 1981 reflecting the tendency to both economize on land use and modernize the existing facilities. However, housing and construction activity undertaken by the private sector in 1981, indicated a levelling off of the high rate of activity experienced in this sector during the past two years.

EMPLOYMENT

One of the major objectives of the economic policies introduced in 1977 was to make a substantial dent in the unemployment problem that has been built up over the years. Given the need to gradually rationalise and reduce the consumers subsidies that was required to generate the resource needs of an investment and