

INDUSTRY

OVERALL PERFORMANCE

The industrial sector which recorded an impressive expansion in 1990 witnessed a slight moderation of its growth momentum in 1991. The value of industrial output which grew by 14 per cent in real terms in 1990, expanded by a further 10 per cent in 1991. This growth came entirely from the private sector industry. The output of private sector industry increased by 14 per cent while that of the public sector declined by 8 per cent.

In the private sector, the industrial sub-sectors which recorded large increases in production were textile and wearing apparel; food, beverages and tobacco; chemicals and fabricated metal products. The substantial decline in public sector industrial output in 1991 was a result of production shortfalls in a number of important public sector industries, e.g. the Ceylon Petroleum, National Textile and Ceylon Ceramics Corporations.

The value of industrial exports increased from Rs.41,510 million in 1990 to Rs.50,736 million in 1991. The relative share of industrial exports in total export earnings increased from 52 per cent in 1990 to 60 per cent in 1991. Ready-made garments and petroleum products dominated the industrial exports accounting for 73 per cent of the total value of such exports. This indicates the need for shifting the structure of industrial production and exports towards more value added products if the country's industrial base is to be strengthened.

INDUSTRIAL POLICY

In 1991, measures were taken to implement the new industrial strategy introduced by the Ministry of Industries, Science and Technology. The Industrial Promotion Act No. 46 of 1990 which was passed by the Parliament on 6th December, 1990 became operative on 1st January, 1991. The Industrialization Commission set up for the inter-agency coordination commenced its operations in January, 1991. Regulations with regard to setting up of Advisory Council for industries and Regional Industrial Service Committees were announced in the latter part of the year. The third Investment Promotion Zone was set up at Koggala in the Southern Province in June 1991 with a view to developing underdeveloped regions in the country.

In keeping with the Government policy on privatisation, approval was given by the Cabinet for privatising the following public enterprises during 1991. Ceylon Steel, Sri Lanka Cement, Sevanagala, Hingurana and Kantalai Sugar Companies and Sri Lanka (Ceylon) Rubber Manufacturing Company Ltd. Approval was also granted for the conversion of a number of public enterprises into limited liability companies during the year. These included Lanka Plywood, National Paper, Paranthan Chemicals, Lanka Ceramics, Lanka Salt, Bogala Graphite, Kahatagaha Graphite and Ceylon Mineral Sands. Shares valued at Rs.27 million and Rs.30 million of Ceylon Oxygen and Pugoda Textile Companies, respectively were offered to the public during the year.

PRODUCTION

In real terms, the value of industrial output is estimated to have increased by 10 per cent in 1991. The overall production in private sector industries recorded an increase of 14 per cent while that of public sector industry declined by 8 per cent. When the value of petroleum output is excluded, industrial production is estimated to have expanded by 11 per cent.

Industrial sub-sectors that recorded increases in production in 1991 were: basic metal products (34 per cent), textile, wearing apparel and leather products (16 per cent), paper and paper products (15 per cent), fabricated metal products (14 per cent) and food, beverages and tobacco (8 per cent). The sub-sectors that recorded decreases in output were chemicals, petroleum and plastic products (3 per cent) and wood and wood products (2 per cent).

The substantial increase in the output of textile, wearing apparel and leather category was a result of a rapid expansion of the export oriented garment industry, both within and outside the investment promotion zone and improved performance of the garment industry catering to the domestic market. Output of textile and footwear products in the private sector also contributed to the improved performance of this category. However, the public sector production in the textile, wearing apparel and leather products category recorded a decline of 30 per cent in 1991. In the food, beverages and tobacco category, private sector industries showed an increased level of output, largely due to improved production of a number of industries manufacturing products such as sugar, milk products, flour, liquor products, tobacco, confectionery and meat products. The output of the public sector in this category, however, declined by 19 per cent.

In the chemicals, petroleum, coal, rubber and plastic products category, increased output levels were recorded mainly in the private sector industries engaged in the manufacture of rubber and plastic products, pharmaceuticals, soap and cosmetics. However, the public sector contribution to this category recorded a substantial decline largely due to a drop in output of the Ceylon Petroleum Corporation.

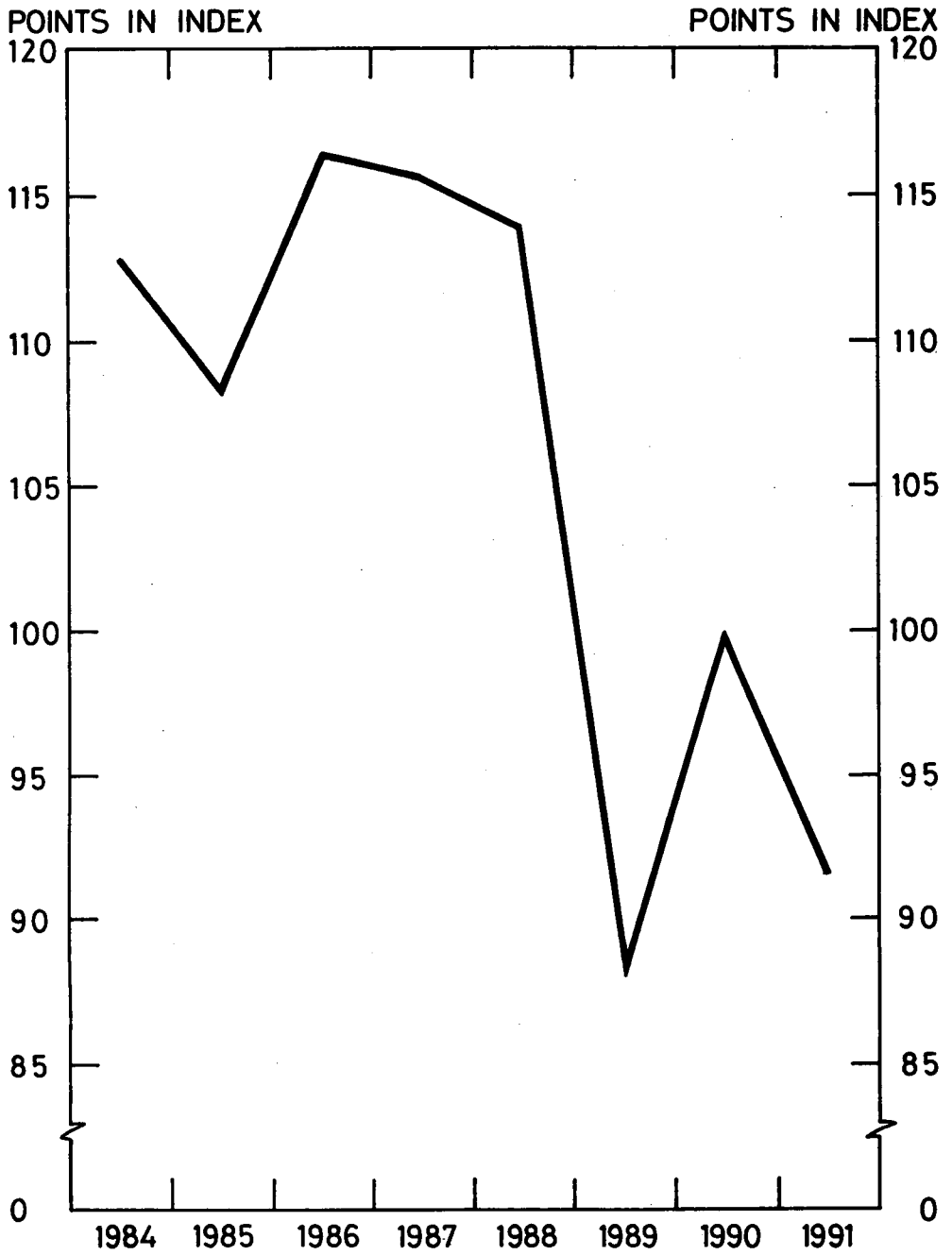
The increase in output in the fabricated metal products sector was entirely due to increased production in a number of private sector industries such as electrical machinery, transport equipment, fabricated metal, cables and refrigerators. Increased production in the Steel Corporation was mainly responsible for the higher output level of the basic metal products category. Private sector production in this category has also increased by 16 per cent which was largely reflected in the output of galvanized sheets and aluminium.

In the non-metallic mineral products category, increased output levels were recorded in the private sector industries engaged in the manufacture of glass, cement and ceramics. The production of public sector industries in this category also recorded a moderate increase mainly due to an improved production level of Lanka Cement Corporation.

In the wood and wood products category, an increased output level was recorded in the private sector. However, the reduced production levels of State Timber and Ceylon Plywoods Corporations resulted in a sharp drop in the output of the public sector. The increase in the output of National Paper Corporation was largely responsible for the higher level of output of paper and paper products category. In the private sector, substantial increases were recorded in the production of corrugated cartons, labels, envelopes and printing.

The value of industrial production, in current terms, is estimated to have increased by 15 per cent in 1991. The value of basic metal products rose by 31 per cent; textile, wearing apparel and leather by 24 per cent; food, beverages and tobacco by 22 per cent; fabricated metal products by 21 per cent; paper and paper products by 18 per cent; wood and wood products and non-metallic mineral products by 11 per cent (each). However, the value of chemicals, petroleum, coal, rubber and plastic products declined by 4 per cent.

**INDEX OF INDUSTRIAL PRODUCTION OF
THE PUBLIC SECTOR**



Central Bank of Sri Lanka.

TABLE 1.18
Value of Industrial production 1987 – 1991
(Current Prices)

Category	Rs. Million				
	1987	1988	1989*	1990	1991(a)
1. Food, beverages and tobacco	12,962	14,675	18,458	21,955	26,737
2. Textile, wearing apparel and leather Products	15,428	18,166	22,073	27,930	34,611
3. Wood and wood products (including furniture)	677	640	667	721	802
4. Paper and paper products	1,372	1,492	1,456	1,880	2,214
5. Chemicals, petroleum, coal, rubber and plastic products	13,477	13,681	12,041	21,215	20,455
6. Non-metallic mineral products (except petroleum and coal)	2,156	2,267	6,007	7,554	8,416
7. Basic metal products	307	487	792	1,006	1,319
8. Fabricated metal products, machinery and transport equipment	2,006	2,477	3,182	4,199	5,093
9. Products not elsewhere specified	155	178	231	296	373
Total	48,540	54,063	64,907	86,756	100,020

(a) Provisional

Source: Central Bank of Sri Lanka.

* Revised

PUBLIC SECTOR INDUSTRIES

In real terms, the public sector industrial output decreased by 8 per cent in 1991 as against an increase of 14 per cent in 1990. The sharp drop in public sector industrial output was largely due to substantial decreases in production of the Ceylon Petroleum Corporation (CPC) and the National Textile Corporation (NTC) which together account for 77 per cent of the total public sector industrial output. When petroleum is excluded, the public sector industrial output decreased by 7 per cent.

TABLE 1.19
Public Sector Major Industry Output Index 1989 – 1991
(1977 = 100)

Category	1989	1990	1991(a)
1. Food, beverages and tobacco	26.2	22.6	18.3
2. Textile, wearing apparel and leather products	173.8	96.0	67.0
2.1 Textile	236.2	128.6	90.5
3. Wood and wood products	28.9	27.4	12.3
4. Paper and paper products	107.9	118.1	137.4
5. Chemical products	85.8	122.4	111.9
5.1 Petroleum products	85.6	124.3	113.1
6. Non-metallic mineral products	137.5	137.5	143.5
6.1 Cement	164.8	156.6	171.4
7. Basic metal products	76.4	80.3	111.5
8. Fabricated metal products	44.2	33.6	17.4
All categories	89.3	100.0	91.6
Excluding petroleum products	93.4	73.1	67.6

(a) Provisional

Source: Central Bank of Sri Lanka.

The majority of public sector industrial enterprises displayed poor performance during the year. The enterprises which recorded decreases in output were: Ceylon Leather Products (65 per cent), Lanka Loha Hardware (48 per cent), State Timber (44 per cent), Oils and Fats (32 per cent), National Textile (30 per cent), National Salt (17 per cent), Sri Lanka Sugar (15 per cent), Ceylon Mineral Sands (12 per cent), State Rubber Manufacturing (10 per cent), Ceylon Petroleum (9 per cent) and Lanka Ceramics (9 per cent).

The decline in the output of the Ceylon Petroleum Corporation was mainly due to the closure of its refinery for maintenance work for nearly 4 weeks in the first quarter of 1991. The output of the National Textile Corporation decreased by 30 per cent primarily due to the transfer of the ownership of two textile mills (Thulhiriya and Pugoda) to the private sector. The stoppage of production in the Ceylon Leather Products Corporation since May 1991 was responsible for the poor performance of the Ceylon Leather Products Corporation.

Reduced level of felling operations resulted in the decline in the output of the State Timber Corporation. The sharp decrease in output of the Oils and Fats Company Limited was due to the termination of production activities since July, 1991 in order to make pre-arrangements for privatisation. The output of Lanka Loha Hardware declined on account of a short supply of raw materials during the year. The reduced output level of National Salt Corporation was mainly due to the production shortfalls in salterns of Elephant Pass and Puttalam. The decrease in output of the Sri Lanka Sugar Company Ltd. was entirely due to the low levels of production recorded at Kantalai, Hingurana and Sevenagala factories as a result of short supply of sugar cane. The disruptions caused to electricity supplies and continuing civil disturbances in the region had an adverse impact on the production of Ceylon Mineral Sands Corporation.

The public enterprises that recorded production increases during the year were : Distilleries Company (57 per cent), Ceylon Steel (39 per cent), National Paper (16 per cent), Sri Lanka Cement (9 per cent) and State Mining and Mineral Development (6 per cent).

TABLE 1.20
Transfers of Government Funds to Industrial Enterprises
1989 - 1991

Corporation / Enterprise	Rs. Million								
	Capital			Current			Total		
	1989	1990	1991(a)	1989	1990	1991(a)	1989	1990	1991(a)
1. Sri Lanka Sugar Corporation	107.0	68.6	-	225.0	-	-	332.0	68.6	-
2. Ceylon Fertilizer Corporation	3.0	-	-	-	-	-	3.0	-	-
3. National Textile Corporation	42.0	42.0	42.0	-	-	-	42.0	42.0	42.0
4. Ceylon Oils & Fats Corporation	-	-	-	5.6	-	-	5.6	-	-
Total	152.0	110.6	42.0	230.6	-	-	382.6	110.6	42.0

(a) Estimated

Source: General Treasury.

In terms of sectoral classification of public enterprises, basic metal products sector recorded highest growth (39 per cent) in 1991. The other sectors that recorded increased levels of output were paper and paper products (16 per cent) and non-metallic mineral products (4 per cent). The sectors that recorded decreases in output were wood and wood products (54 per cent), fabricated metal products (48 per cent), textile, wearing apparel and leather (30 per cent), food beverages and tobacco (19 per cent) and chemical products (9 per cent).

Total Budgetary transfers to public sector industrial enterprises during the year amounted to Rs. 42 million recording a 62 per cent decrease compared with the previous year. This amount was entirely received by the National Textile Corporation as capital transfers.

POWER AND FUEL

The sales of industrial fuel, excluding that to the Ceylon Electricity Board increased by 31 per cent in 1991. Sales of heavy diesel and furnace oil increased by 62 per cent and by 27 per cent, respectively in 1991.

TABLE 1.21
Power and Fuel used in Industry 1990 – 1991

Item	1990(b)	1991(a)
1. Electricity (Gwh) (c)	909.5	958.6
1.1 Small Industry	55.3	67.0
1.2 Medium Industry	498.7	513.7
1.3 Large Industry	355.5	377.9
2. Domestic sales of industrial fuel ('000 metric tons) (d)	180.5	236.8
2.1 Heavy diesel	20.1	32.5
2.2 Furnance oil	160.4	204.3

Sources: Ceylon Electricity Board,
Ceylon Petroleum Corporation.

- (a) Provisional
- (b) Revised
- (c) Includes manufacturing and export processing industries.
Small Industries is defined as those units having rated capacity below 50 Kva, medium industry as 50–500 Kva and large industry as above 500 Kva.
- (d) Sales other than to the Ceylon Electricity Board

The use of electricity in industry increased by 5 per cent during 1991. This was made up of increases of 21 per cent in small scale industries, 3 per cent in medium scale industries and 6 per cent in large scale industries.

FACILITIES TO INDUSTRIES

The industrial sector continued to receive financial assistance on concessional terms during the year under review. The Medium and Long-term Credit Fund of the Central Bank (MLCF) and the Small and Medium Scale Industries Credit Guarantee Scheme (SMI) of the National Development Bank were two major refinancing programmes under which industries received financial assistance. In addition, the Development Finance Corporation of

Ceylon (DFCC), the National Development Bank (NDB) and commercial banks provided direct financial assistance to industrial ventures in the form of loans and equity participation.

During the year 1991, the Central Bank continued to operate the MLCF in collaboration with commercial banks and the Export Development Board. The approval of refinance under the MLCF of the Central Bank reflected a substantial decrease in 1991 due to a sharp drop in the assistance to sick industries category. The aggregate sum of refinance provided under categories II, III, IV and special refinance facilities for sick industries amounted to Rs. 237 million in 1991, as compared with Rs. 908 million in the previous year.

TABLE 1.22
Approvals of Refinance and Financial Assistance
Sanctioned by the National Development Bank - 1991

Category	Refinance Approvals SMI Project III		Direct Financial Assistance		Total	
	No.	Amount Rs. Mn.	No.	Amount Rs. Mn.	No.	Amount Rs. Mn.
1. Food, beverages and tobacco	349	182.4	22	537.65	371	720.05
2. Textile, wearing apparel and leather products	220	130.7	38	376.74	258	507.44
3. Wood and wood products (including furniture)	89	34.1	6	10.06	95	44.16
4. Paper and paper products	53	44.6	2	12.80	55	57.40
5. Chemicals, petroleum, coal, rubber and plastic products	74	74.1	19	193.43	93	267.53
6. Non-metallic mineral products (except petroleum and coal)	75	25.7	-	-	75	25.70
7. Basic metal products	138	51.1	40	442.99	178	494.09
8. Fabricated metal products, machinery and transport equipment	-	-	-	-	-	-
9. Products not elsewhere specified	504	215.3	86	1197.60	590	1412.90
Total	1502	758.0	213	2771.27	1715	3529.27

Source: National Development Bank.

As at end December, 1991 the Central Bank has issued 8,851 guarantees covering loan disbursements of Rs. 2,555 million in respect of small scale industries and SMI I, II and III. A sum of Rs. 448 million was fully recovered in respect of 2,556 loans as at end of the year. With regard to the loans outstanding category, a sum of Rs. 233 million has fallen into arrears in respect of 1,382 loans. As at end of 1991, the Central Bank had paid a sum of Rs. 44 million in settlement of 392 claims.

The National Development Bank (NDB) provides direct financial assistance to industrial projects by way of loans and equity participation. In 1991, the NDB approved 213 projects with an outlay of Rs. 2,771 million for direct financial assistance, in comparison to 140 projects serviced with an outlay of Rs. 1,938 million in 1990. The industrial categories that received the major share of this assistance were food beverages and tobacco; basic metal products and textile, wearing apparel and leather products.

The DFCC approved 333 projects with an outlay of Rs. 1,744 million for the industrial sector by way of loans and equity participation. The industrial categories that received the major share of this assistance were food, beverages and tobacco; chemicals, petroleum and coal, rubber and plastic products wearing apparel and leather products and fabricated metal products.

Commercial banks continued to provide financial facilities to industries during 1991. Commercial bank's advances for industrial purposes (excluding Engineering and Building Trade and Mining) amounted to Rs. 14,513 million as at end of September, 1991.

PRIVATE FOREIGN INVESTMENT

The Greater Colombo Economic Commission (GCEC) which functions as "One Stop Investment Promotion Centre" approved 74 projects with "GCEC status" in 1991, bringing the total number of projects approved to 411 by the end of 1991. Of these, agreements had been signed in respect of 246 projects with the GCEC to set up industries. A total of 153 enterprises were in commercial operation as at end of 1991. Of those projects in production, 72 were in the Katunayake Investment Promotion Zone (KIPZ), 28 in the Biyagama Investment Promotion Zone (BIPZ), 2 in Koggala Investment Promotion Zone (KgIPZ) and 51 in various other parts of the country.

In 1991, the employment in GCEC enterprises increased by 20 per cent, bringing the total number of employment in these enterprises to 85,457 persons. Of these, 56,825 or 66 per cent were engaged in the textile, wearing apparel and leather product sector. Nevertheless, the relative share of employment in this category declined from 70 per cent in 1990 to 66 per cent of total employment in GCEC enterprises in 1991. Chemicals, petroleum, coal, rubber and plastic and food, beverages and tobacco products were among the industrial categories which recorded the highest rate of employment generation.

Gross export earnings of GCEC enterprises were Rs. 22,093 million (SDR 390 million) in 1991 showing an increase of 26 per cent over the previous year. In SDR terms, the increase was 21 per cent. Export earnings from textile and readymade garments were 24 per cent higher than the previous year's level and continued to be the major foreign exchange earner accounting for 65 per cent of the total GCEC export earnings. Export earnings per employee in the textile and garment sector stood at Rs. 267,108, as compared with Rs. 235,528 in the previous year. The value of exports of non-garments enterprises increased by 30 per cent during the year under review.

The total envisaged investment of projects approved in 1991 was Rs. 8,070 million. Foreign investors came from a number of countries such as Japan, Hongkong, Australia, South Korea, Holland and India. The projects approved by the GCEC in 1991 included the production of costume jewellery, porcelain figurines, cut and polished diamonds, electro magnetic products, computer software parts, scrap metals, occupational clothing, garments, rubber boots, artificial flowers, plastic wear, cut flowers and fruits, marine fish packing and soft toys.

TABLE 1.23
Investment Promotion Zones
Employment and Export Earnings 1990 – 1991

Category	1990		1991(a)	
	Employment (End Dec.)	Gross Export Earnings (f.o.b.) Rs. Mn.	Employment (End Dec.)	Gross Export Earnings (f.o.b.) Rs. Mn.
1. Food, beverages and tobacco	1,633	849	2,168	1,235
2. Textile, wearing apparel and leather Products	49,554	11,669	54,214	14,481
3. Wood and wood products (including furniture)	44	6	52	10
4. Chemicals, petroleum, coal, rubber and plastic products	2,765	503	5,390	1,088
5. Non-metallic mineral products (except petroleum and coal)	5,502	1,811	6,069	1,871
6. Fabricated metal products, machinery and transport equipment	1,436	750	1,465	686
7. Products not elsewhere specified	6,024	1,213	11,182	1,778
8. Services (b)	4,400	724	4,917	944
Total	71,358	17,525	85,457	22,093

(a) Provisional

(b) Excluding Air Lanka Ltd.

Source : Greater Colombo Economic Commission.

Subsequent to the establishment of the "One Stop Investment Promotion Centre" the GCEC has approved 105 projects with "FIAC status" which do not enjoy GCEC concessions. The total envisaged investment in these projects amounted to Rs. 2,107 million, of which the foreign investment component was Rs. 843 million and the local investment component was Rs. 1,254 million. The employment potential of these enterprises was 7,161 persons.

During the year promotional activities were undertaken in Singapore. "Sri Lanka Investment Forum" sponsored by UNIDO and GCEC was held in Colombo during 4th to 7th November, 1991 with a view to promoting a wide range of investment projects in Sri Lanka.