

# INDUSTRY

## OVERALL PERFORMANCE

The industrial sector continued to maintain its growth momentum recording higher levels of production and exports in 1992. The value of industrial output which grew by 10 per cent in real terms in 1991, expanded by 12 per cent in 1992. This growth originated entirely from private sector industry. The output of private sector industry increased by 20 per cent in real terms, the highest rate of growth recorded since 1985. In contrast, the output of the public sector industry declined by 19 per cent.

In the private sector, the industrial sub-sectors which recorded large increases in production were textile and wearing apparel; chemicals, rubber and plastic; non-metallic minerals and paper and paper products. The substantial decline in public sector industrial output in 1992 was mainly due to the privatisation of a number of important public sector industries and a sharp decline in the output of the Ceylon Petroleum Corporation.

The value of industrial exports increased from Rs. 50,736 million in 1991 to Rs. 75,776 million in 1992. The share of textile and wearing apparel in total industrial exports increased from 66 per cent in 1991 to 69 per cent in 1992.

## INDUSTRIAL POLICY

The status of the Greater Colombo Economic Commission (GCEC) was elevated to a Board of Investment in November, 1992 with an increased responsibility of extending the promotional and facilitative activities in respect of both foreign and domestic investments from limited zones or areas to the whole country. A new incentive package was introduced in February, 1992 with a view to attracting investments and generating employment opportunities in less developed areas. A scheme for establishing 200 export oriented garment factories in Pradeshiya Sabha Divisions was initiated in 1992. Under the Industrial Promotion Act of 1990, seven Regional Industry Service Committees were set up in March, 1992 in order to promote, facilitate and co-ordinate industrial and related activities in the provinces.

In response to tax concessions granted for industries of a pioneering nature, 86 new industries and 174 existing industries with expanded capacities commenced operations by December, 1992. Tax concessions were also granted for the establishment of private industrial estates, of which 2 have got off the ground in 1992.

In keeping with government policy on privatisation, approval was given by the Cabinet for the conversion of a number of public sector industries into limited liability companies during 1992. These included the Ceylon Fertilizer Corporation, Sri Lanka Cement Corporation, Lubricant Plant of the Ceylon Petroleum Corporation, Colombo Gas Co. Ltd., Lanka Phosphate Ltd., National Paper Corporation and the Ceylon Mineral Sands Corporation. The majority of shares of the Ceylon Oils & Fats Ltd., Nylon 6 Plant of the Ceylon Petroleum Corporation, Kelani Tyres Ltd., Veyangoda Textile Mills Ltd., Lanka Ceramic Ltd. and Kahatagaha Graphite Ltd. were sold through Cabinet Appointed Tender Boards to the value of Rs. 81 million, Rs. 228 million, Rs. 400 million, Rs. 270 million, Rs. 112 million and Rs. 16 million respectively during 1992. The majority or balance shares of the Pugoda Textile Mills Ltd., Lanka Oxygen Ltd. and the Distilleries

Company of Sri Lanka Ltd. were sold through the Colombo Stock Exchange on "all-or-nothing basis" to the value of Rs. 1.06 million, Rs. 0.62 million and Rs. 1,053 million respectively. In addition, shares valued at Rs.495 million and Rs. 112 million of the Distilleries Company of Sri Lanka Ltd. and Bogala Graphite Ltd. respectively were offered to the public during the first half of the year.

## PRODUCTION

In real terms, the value of industrial output is estimated to have increased by 12 per cent in 1992. When the value of petroleum output is excluded the estimated expansion in industrial production was 16 per cent.

Industrial sub-sectors that recorded increases in production in 1992 were: textile, wearing apparel and leather products (31 per cent); non-metallic mineral products (20 per cent); wood and wood products (15 per cent); paper and paper products and basic metal products (14 per cent each); fabricated metal products (9 per cent) and food, beverages and tobacco (1 per cent). The only sector which recorded a decrease in output was chemicals, petroleum and plastic products (5 per cent).

The overall production in private sector industries recorded an increase of 20 per cent in 1992 compared to a 14 per cent growth in the previous year. This growth originated largely from three product categories viz. textile, wearing apparel and leather; chemicals, rubber and plastic products and non-metallic mineral products.

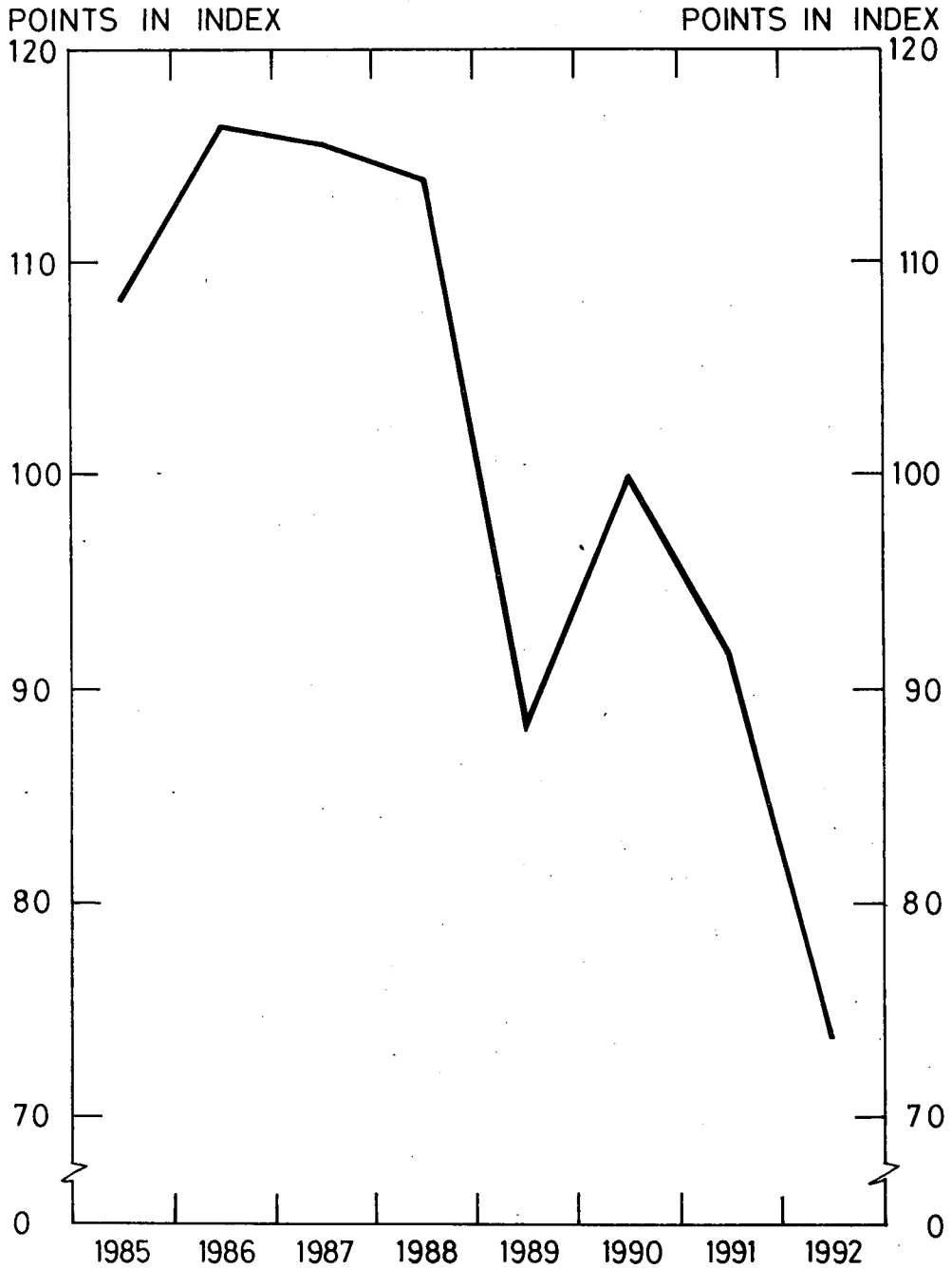
Almost the entire output of the textile, wearing apparel and leather products sub-sector was contributed by private sector industries. The privatisation of three textile mills and a leather manufacturing unit also contributed to this development. The substantial increase in the output of the textile, wearing apparel and leather products category was primarily a result of a rapid expansion of the export oriented garment industry, both within and outside the investment promotion zones and improved performance of the medium and small scale garment industry catering to the domestic market. A rapid expansion of non-quota garment exports particularly to the European Economic Community (EEC) which accounted for 35 per cent of the total garment exports of Sri Lanka was a noteworthy feature in this sector during 1992.

Private sector industries which contributed more than 80 per cent of the total output in the non-metallic mineral products sub-sector registered improved performance in 1992. Increased output levels were recorded in private sector industries engaged in the manufacture of ceramics, cement, asbestos and cutting and polishing of gems and diamond. Manufacture of glass and glass products, however, recorded a decline in output.

The share of private sector has increased to nearly a half of the total output of the chemicals, petroleum, coal, rubber and plastic products sub-sector with the transfer of ownership of the Tyre Corporation and the decline in the output of public sector industries in this category in 1992. Increased output levels were also recorded in the private sector industries engaged in the manufacture of rubber and plastic products, soap, cosmetics, paints and varnishers, agro-chemicals and fertilizer.

The increase in output in the fabricated metal products sector was entirely due to improved performance of the private sector industries engaged in the manufacture of

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Central Bank of Sri Lanka.

machinery and equipment, cables and electrical appliances and fabricated metal. In the paper and paper products category, two-thirds of the total output was contributed by the private sector industries. Increased output levels were recorded in private sector industries engaged in printing and manufacture of labels, cartons and envelopes.

In the food, beverages and tobacco sub-sector, the private sector industries recorded poor production performance in 1992. This was partly due to the prolonged drought that prevailed during the early part of the year. The reduced expansion of the output of private sector industries was largely due to the decline in production of tobacco, sugar, liquor and dairy products. Industries which manufacture meat products, biscuits, flour and confectionery showed an improved performance.

The value of overall industrial production, in current terms, is estimated to have increased by 23 per cent in 1992. The value of textile, wearing apparel and leather rose by 45 per cent; wood and wood products by 25 per cent; non-metallic mineral products by 21 per cent; fabricated metal products and paper and paper products by 17 per cent (each); food, beverages and tobacco by 14 per cent; basic metal products and products (n.e.s.) by 12 per cent (each).

**TABLE 1.18**  
**Value of Industrial Production 1988 - 1992**  
**(Current Prices)**

Category	Rs. Million				
	1988	1989	1990	1991(b)	1992(a)
1. Food, beverages and tobacco	14,675	18,458	21,955	30,003	34,157
2. Textile, wearing apparel and leather products	18,166	22,073	27,930	33,854	48,929
3. Wood and wood products (including furniture)	640	667	721	802	1,005
4. Paper and paper products	1,492	1,456	1,880	2,214	2,586
5. Chemicals, petroleum, coal, rubber and plastic products	13,681	12,041	21,215	20,140	21,217
6. Non-metallic mineral products (except petroleum and coal)	2,267	6,007	7,554	8,181	9,892
7. Basic metal products	487	792	1,006	1,264	1,417
8. Fabricated metal products, machinery and transport equipment	2,477	3,182	4,199	5,093	5,948
9. Products not elsewhere specified	178	231	296	2,373	2,658
Total	54,063	64,907	86,756	103,924	127,809

(a) Provisional

(b) Revised

Source: Central Bank of Sri Lanka.

## PUBLIC SECTOR INDUSTRIES

In real terms, the public sector industrial output decreased by 19 per cent in 1992, compared with 8 per cent decline in the previous year. The sharp decrease in the public sector industrial output in 1992 was a combined result of the privatisation of a number of important public sector industrial enterprises and a substantial decrease in output of the Ceylon Petroleum Corporation (CPC) which accounted for 65 per cent of the total public sector industrial output. When petroleum is excluded, the output of public sector industrial enterprises declined by 22 per cent.

**TABLE 1.19**  
**Public Sector Major Industry Output Index 1990 - 1992**  
**(1977 = 100)**

Category	1990	1991	1992 (a)
1. Food, beverages and tobacco	22.6	18.3	13.4
2. Textile, wearing apparel and leather products	96.0	66.6	27.5
2.1 Textile	128.6	90.5	37.9
3. Wood and wood products	27.4	12.3	20.5
4. Paper and paper products	118.1	137.4	156.6
5. Chemical products	122.4	111.9	87.6
5.1 Petroleum products	124.3	113.1	92.4
6. Non-metallic mineral products	137.5	143.5	142.4
6.1 Cement	156.6	171.4	179.8
7. Basic metal products	80.3	111.5	125.7
8. Fabricated metal products	33.6	17.4	-
All categories	100.0	91.6	73.6
Excluding petroleum products	73.1	67.6	52.5

(a) Provisional

*Source* : Central Bank of Sri Lanka.

The public sector industrial enterprises which recorded decreases in output were: State Rubber Manufacturing (40 per cent), Ceylon Petroleum (18 per cent), Ceylon Mineral Sands (34 per cent) and Lanka Ceramics (3 per cent).

The substantial decline in output of the Ceylon Petroleum Corporation was mainly due to the closure of its refinery for 14 weeks in the second half of 1992 on account of a major modification to the crude distiller unit. The adverse weather conditions that prevailed during the year resulted in a decrease in output of the Sri Lanka Rubber Manufacturing Company Ltd. The decline in output of the Ceylon Mineral Sands Co. was mainly due to a short supply of sands on account of the adverse security conditions in the region.

The public sector industrial enterprises that recorded production increases during the year were: Lanka Salt (159 per cent), State Timber (66 per cent), National Paper (14 per cent), Ceylon Steel (13 per cent) and Sri Lanka Cement (5 per cent).

The substantial increase in the output of the State Timber Corporation was mainly due to an increase in the demand for sleepers, transmission poles and sawn timber during the year. The improved performance of both the Embilipitiya and Valachchenai Mills resulted in the increased production of the National Paper Corporation. Increased output level of the Lanka Salt Company Ltd. was a result of favourable weather conditions that prevailed during the year. The adequate supply of raw materials throughout the year was reflected in the improved output levels of the Ceylon Steel Corporation.

In terms of sectoral classification of public enterprises, the wood and wood products sector recorded the highest growth (66 per cent) in 1992. The other sectors that recorded increased levels of output were: paper and paper products (14 per cent) and basic metal products (13 per cent). The sectors that recorded decreases in output were: food; beverages and tobacco (26 per cent); chemical products (22 per cent) and non-metallic mineral products (1 per cent).

**TABLE 1.20**  
**Transfers of Government Funds to Industrial Enterprises**  
**1990 - 1992**

Rs. Million

Corporation / Enterprise	Capital			Current			Total		
	1990	1991	1992(a)	1990	1991	1992(a)	1990	1991	1992(a)
1. Sri Lanka Sugar Corporation	35.4	-	-	-	-	-	35.4	-	-
2. Ceylon Fertilizer Corporation	-	-	-	-	0.1	-	-	0.1	-
3. National Textile Corporation	42.0	42.0	42.0	-	-	-	42.0	42.0	42.0
4. Ceylon Plywoods Corporation	-	-	-	-	4.0	-	-	4.0	-
5. National Paper Corporation	-	-	32.0	-	-	-	-	-	32.0
<b>Total</b>	<b>77.4</b>	<b>42.0</b>	<b>74.0</b>	<b>-</b>	<b>4.1</b>	<b>-</b>	<b>77.4</b>	<b>46.1</b>	<b>74.0</b>

(a) Estimated

Source: General Treasury

Budgetary transfers to public sector industrial enterprises during the year amounted to Rs. 74 million which was an increase of 61 per cent compared with the previous year. The National Textile Corporation and the National Paper Corporation received Rs. 42 million and Rs. 32 million, respectively as capital transfers during the year.

### VALUE ADDED

In current terms, the value added in industry increased by 24 per cent in 1992 compared with a 23 per cent growth in the previous year. The value added is derived by subtracting the cost of raw materials and power and fuel from the ex-factory value of output.

**TABLE 1.21**  
**Value Added in Industry 1988 - 1992**

Rs. Million

Category	1988	1989	1990	1991(b)	1992(a)
1. Food, beverages and tobacco	8,225	10,168	12,065	15,070	17,340
2. Textile, wearing apparel and leather products	4,797	5,746	7,167	8,542	13,260
3. Wood and wood products (including furniture)	463	496	485	571	677
4. Paper and paper products	751	745	1,019	1,167	1,397
5. Chemicals, petroleum, coal, rubber and plastic products	3,827	3,531	2,428	3,199	3,416
6. Non-metallic mineral products (except petroleum and coal)	1,308	1,218	4,742	4,905	5,918
7. Basic metal products	71	77	194	248	263
8. Fabricated metal products, machinery and transport equipment	1,518	1,969	2,746	3,247	3,629
9. Manufactured products (n.e.s.)	90	117	138	1,092	1,196
<b>Total</b>	<b>21,050</b>	<b>24,067</b>	<b>30,984</b>	<b>38,041</b>	<b>47,096</b>

(a) Provisional.

(b) Revised.

Source: Central Bank of Sri Lanka.

Total value added in manufacturing industry in 1992, amounted to Rs. 47,096 million. As a percentage of value of output, the average value added was 37 per cent in 1992, the same ratio recorded in 1991. Among the categories of industries with value added ratios above 50 per cent were wood and wood products (67 per cent); fabricated metal products (61 per cent); non-metallic mineral products (60 per cent); paper and paper products (54 per cent) and food, beverages and tobacco (51 per cent). Value added ratios were below 50 per cent in textile, wearing apparel and leather products (27 per cent); basic metal products (19 per cent) and petroleum and chemical products (16 per cent) categories.

## POWER AND FUEL

The sales of industrial fuel, excluding that to the Ceylon Electricity Board increased by 21 per cent in 1992. Sales of furnace oil and heavy diesel increased by 16 per cent and 65 per cent, respectively in 1992.

**TABLE 1.22**  
**Power and Fuel used in Industry 1991 – 1992**

Item	1991(b)	1992(a)
1. Electricity (Gwh) (c)	958.3	1,047.4
1.1 Small Industry	67.4	74.7
1.2 Medium Industry	494.3	504.3
1.3 Large Industry	396.6	468.4
2. Domestic sales of industrial fuel ('000 metric tons) (d)	192.2	231.8
2.1 Heavy Diesel	17.7	29.2
2.2 Furnace Oil	174.5	202.6

(a) Provisional.

(b) Revised.

(c) Includes manufacturing and export processing industries.

Small industry 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.

Sources: Ceylon Electricity Board,  
Ceylon Petroleum Corporation.

The use of electricity in industry increased by 9 per cent during 1992. This was made up of increases of 11 per cent in small scale industries, 2 per cent in medium scale industries and 23 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 Small and Medium Scale Industries Credit Guarantee Scheme (SMI) of the National Development Bank was the major financing programme 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.

As at end December, 1992, the Central Bank had issued 10,718 guarantees covering loan disbursements of Rs. 5,005 million in respect of small scale industries and SMI I, II, III and IV. A sum of Rs. 744 million was fully recovered in respect of 3,157 loans as at the end of the year. With regard to the loans outstanding category, a sum of Rs. 2,267 million had fallen into arrears in respect of 6,200 loans. As at end of 1992, Central Bank had paid a sum of Rs. 49 million in settlement of 416 claims.

**TABLE 1.23**  
**Approvals of Refinance and Financial Assistance**  
**Sanctioned by the National Development Bank – 1992**

Category	Refinance Approvals SMI Project IV		Direct Financial Assistance		Total	
	No.	Amount Rs. Mn.	No.	Amount Rs. Mn.	No.	Amount Rs. Mn.
1. Food, beverages and tobacco	442	217.46	24	416.54	466	634.00
2. Textile, wearing apparel and leather products	197	143.85	95	1,182.99	292	1,326.84
3. Wood and wood products (including furniture)	131	47.66	7	14.04	138	61.70
4. Paper and paper products	72	40.72	2	50.00	74	90.72
5. Chemicals, petroleum, coal, rubber and plastic products	64	55.61	26	184.51	90	240.12
6. Non-metallic mineral products (except petroleum and coal)	107	41.35	–	–	107	41.35
7. Basic metal products	159	80.36	43	606.86	202	687.22
8. Fabricated metal products, machinery and transport equipment	–	–	–	–	–	–
9. Products not elsewhere specified	911	379.62	115	1,552.51	1,026	1,932.13
<b>Total</b>	<b>2,083</b>	<b>1,006.63</b>	<b>312</b>	<b>4,007.45</b>	<b>2,395</b>	<b>5,014.08</b>

*Source* : National Development Bank.

The National Development Bank (NDB) provides direct financial assistance to industrial projects by way of loans and equity participation. In 1992, the NDB approved 312 projects with an outlay of Rs. 4,007 million for direct financial assistance, in comparison to 213 projects serviced with an outlay of Rs. 2,771 million in 1991. The industrial categories that received the major share of this assistance were: textile, wearing apparel and leather products; basic metal products and food, beverages and tobacco products.



The DFCC approved 331 projects with an outlay of Rs. 2,577 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; rubber and plastic products; textile, wearing apparel and leather products and fabricated metal products.

During 1992 the commercial banks too continued to provide financial assistance to industries. Commercial bank advances to the industrial sector during the first nine months of the year increased by 7 per cent from Rs. 13,483 million to Rs. 14,441 million as at end of September, 1992.

## **PRIVATE FOREIGN INVESTMENT**

The Board of Investment of Sri Lanka (BOI) which functions as "One-Stop Investment Promotion Centre" continued to provide a wide range of incentives and concessions under two incentive schemes. The BOI approved 291 projects in 1992, under Section 17 of the GCEC Law (special incentive scheme) bringing the total number of projects approved to 702 by the end of 1992. Of these, agreements had been signed in respect of 398 projects with the BOI to set up various industries. A total of 211 enterprises were in commercial operation as at end of 1992. Of those in production, 79 were in Katunayake Investment Promotion Zone (KIPZ), 38 in Biyagama Investment Promotion Zone (BIPZ), 8 in Koggala Investment Promotion Zone (KgIPZ) and 86 in other parts of the country.

In 1992, the employment in BOI enterprises increased by 22 per cent, bringing the total number in employment in these enterprises to 104,220 persons. Of these, 65,465 or 63 per cent were engaged in the textile, wearing apparel and leather product sector. The relative share of employment in the non-garment sector increased from 37 per cent in 1991 to 40 per cent of total employment in BOI enterprises in 1992. Chemicals, petroleum, coal, rubber and plastic products; paper and paper products and food, beverages and tobacco products were among the industrial categories which recorded the highest rate of employment generation.

The total envisaged investment of projects approved in 1992 was Rs. 17,610 million. Foreign investors came from a number of countries such as Japan, Korea, Singapore, Hongkong, Italy, Taiwan, Malaysia, Germany, Pakistan, Bermuda, Netherlands and Dubai. The projects approved by the BOI in 1992 included the manufacture of Ayurvedic drugs, picture frames, motor spare parts, rubber products, non-cotton fabrics, coir briquettes, false eye lashes, stuffed toys, gem studded jewellery, footwear, paper products, electrical appliances, tobacco products and cutting and polishing of diamonds.

The BOI has also approved 78 projects in 1992, under the Inland Revenue Act and the Tax Related Laws (general incentives scheme). The total envisaged investment in these projects amounted to Rs. 1,766 million, of which the foreign component was Rs. 863 million and the local component Rs. 903 million. The employment potential of these enterprises was 6,417 persons.

Gross exports earnings of BOI enterprises were Rs. 43,264 million (SDR 701 million) in 1992 showing an increase of 96 per cent over the previous year. In SDR terms, the increase was 79 per cent. Export earnings from textile and ready-made garments were 84 per cent higher than the previous year's level and continued to be the major foreign exchange earner, accounting 62 per cent of the total export earnings of BOI

enterprises. Export earnings per employee in the textile and garment sector stood at Rs. 407,683 as compared with Rs. 267,108 in the previous year. The value of exports of non-garments enterprises increased by 118 per cent during the year under review.

**TABLE 1.24**  
**Investment Promotion Zones**  
**Employment and Export Earnings 1991 – 1992**

Category	1991		1992(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	2,168	1,235	2,536	2,361
2. Textile, wearing apparel and leather products	54,214	14,481	65,465	26,689
3. Wood and wood products (including furniture)	52	10	58	17
4. Paper, paper products, printing & publishing	127	9	150	41
5. Chemicals, petroleum, coal, rubber and plastic products	5,390	1,088	7,537	2,985
6. Non-metallic mineral products (except petroleum and coal)	6,069	1,871	6,940	4,401
7. Fabricated metal products, machinery and transport equipment	1,465	687	4,652	1,250
8. Products not elsewhere specified	11,055	1,768	10,711	4,452
9. Services (b)	4,917	944	6,171	1,068
Total	85,457	22,093	104,220	43,264

(a) Provisional

(b) Excluding Air Lanka Ltd.

Source : Board of Investment of Sri Lanka.

During the year, promotional activities were undertaken in India, Netherlands, South Korea, Hongkong, Japan and Singapore. A number of investment promotion seminars were also held in Sri Lanka with a view to promoting a wide range of investment projects in the country during the year.