

## 4. INDUSTRY

### 4.1 Overall Trends

Industrial output grew by 10.2 per cent in 1995 and helped the manufacturing sector to takeover, for the first time, the predominant position held by the agricultural sector in the economy. The growth in the industrial sector in 1995 was supported by substantial increases in both export-oriented and domestic market-oriented industries. Factory industries, which accounted for 82 per cent of the total manufacturing output, contributed to 28 percent of the economic growth in 1995.

When compared with the performance in the recent past, 1995 registered a significant recovery in the industrial sector growth momentum, from the dip in 1994 which occurred mainly as a result of election related uncertainties and labour unrest following the change of government. This favourable growth is a reflection of strong domestic demand arising from the growth in private business activities and increased foreign demand following economic recovery in the major industrial countries. The relatively high depreciation of the rupee in 1995 also helped the industrial sector. Nevertheless, the industrial sector continued to experience difficulties in 1995 due to continuing labour unrest, increased pressure for higher wages, high financing costs, infrastructural constraints and a sharp reduction in foreign capital inflows. The enterprises resorted to increased bank credit in an environment where the stock market remained depressed partly due to a drop in foreign capital inflows.

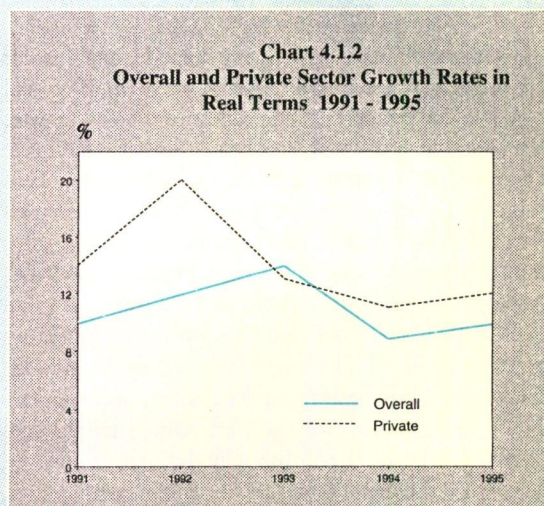
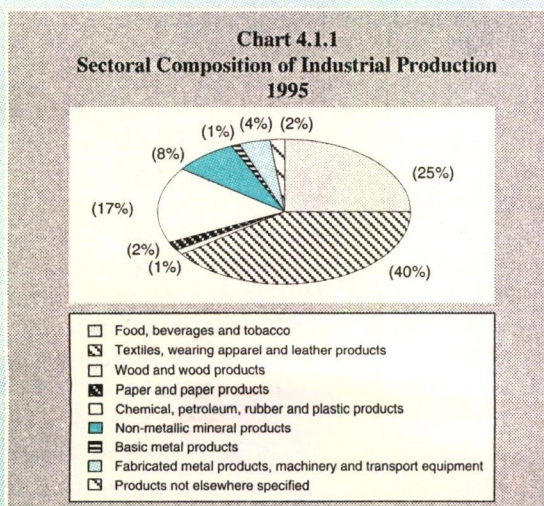
### 4.2 Production

On the basis of the Annual Survey of Industrial Production covering 350 non-BOI enterprises, industrial production of public sector enterprises and estimates based on export data for BOI enterprises, industrial output is estimated to have grown by 10.2 per cent in 1995. Total industrial output at current prices increased by 16.1 percent, thus yielding an implicit price deflator of 5.3 per cent for factory industries.

The impetus for the growth in industrial output in 1995 came from two major industrial categories, namely, the textiles, wearing apparel and leather products category and the food, beverages and tobacco category. These two categories contributed to 87 per cent of the growth in industrial output.

As in the previous year, the growth of the industrial sector in 1995 came entirely from the private sector. Private sector industrial production grew by 12 per cent as compared with an 11 per cent growth in 1994 and accounted for 91 per cent of the total industrial value added in 1995. The private sector has come to the forefront of industrial activities, as the importance of the public sector has diminished with the emergence of a dynamic entrepreneurial class and the gradual privatisation of state owned enterprises.

**Chart 4.1**  
**Composition and Growth of Industrial Production**





**TABLE 4.1**  
**Value of Industrial Production 1991 – 1995**  
**(1990 Constant Prices)**

Categories	Rs. Million					Percentage Change	
	1991	1992	1993	1994	1995 (a)	1994	1995 (a)
1 Food, beverages and tobacco	24,000	26,087	28,304	30,445	33,641	7.6	10.5
2 Textiles, wearing apparel and leather products	32,265	38,805	45,540	48,333	55,480	6.1	14.8
3 Wood and wood products	710	797	939	1,085	1,243	15.5	14.5
4 Paper and paper products	2,180	2,628	3,140	3,565	3,508	13.5	-1.6
5 Chemical, petroleum, rubber and plastic products	19,942	19,752	23,683	25,838	27,543	9.1	6.6
6 Non-metallic mineral products	7,850	9,451	10,349	11,643	12,516	12.5	7.5
7 Basic metal products	1,156	1,294	1,178	1,568	1,377	33.1	-12.2
8 Fabricated metal products, machinery and transport equipment	4,702	5,314	5,203	5,931	6,139	14.0	3.5
9 Products not elsewhere specified	1,978	2,124	2,366	2,617	3,005	10.6	14.8
<b>Total</b>	<b>94,783</b>	<b>106,252</b>	<b>120,702</b>	<b>131,025</b>	<b>144,462</b>	<b>8.6</b>	<b>10.2</b>

(a) Provisional

Sources: Central Bank of Sri Lanka  
Board of Investment of Sri Lanka

**TABLE 4.2**  
**Private Sector Industrial Production Index 1991 – 1995**  
**(1990 = 100)**

Categories						Percentage Change	
	1991	1992	1993	1994	1995 (a)	1994	1995 (a)
1 Food, beverages and tobacco	111	120	129	140	155	8.0	10.4
2 Textiles, wearing apparel and leather products	116	144	168	179	206	6.1	14.8
3 Wood and wood products	101	106	123	149	170	21.1	14.1
4 Paper and paper products	121	184	226	263	266	16.3	1.0
5 Chemical, petroleum, rubber and plastic products	97	121	132	159	196	20.0	23.6
6 Non-metallic mineral products	106	137	159	212	228	33.7	7.5
7 Basic metal products	145	167	225	266	305	18.0	15.0
8 Fabricated metal products, machinery and transport equipment	116	126	124	141	147	13.8	3.9
9 Products not elsewhere specified	122	127	152	168	193	10.6	14.8
<b>Total</b>	<b>114</b>	<b>137</b>	<b>155</b>	<b>172</b>	<b>192</b>	<b>10.9</b>	<b>12.1</b>

(a) Provisional

Sources: Central Bank of Sri Lanka  
Board of Investment of Sri Lanka

### Textiles, Wearing Apparel and Leather Products

The output of textiles, wearing apparel and leather products grew in real terms by 14.8 per cent in 1995 and contributed to 53 per cent of the industrial output growth. This category accounted for 47 per cent of the total industrial production. Despite an increase in the quota limits by about 9 per cent in the case of USA quotas in 1995, increased exports were mainly in non-quota garments. Total textiles and wearing apparel exports to the USA increased by 21 per cent. Apparel exports under quota rose by 6 per cent, while exports of non-quota apparel rose by 23 per cent. Similarly, exports of non-apparel under quota increased by 19 per cent while exports of non-apparel under non-quota increased by 81 per cent. In the case of the EEC, the ratio of quota limits was raised by 7 per cent and the quota utilisation rose by 11 per cent. Total exports of textiles and garments in rupee terms rose by 24 per cent in 1995. It is also noteworthy that Sri Lankan apparel exporters were able to establish a

foothold in highly competitive Japanese and Korean markets which are completely free of quotas. Overall, the share of non-quota items rose from 43 per cent in 1994 to 50 per cent in 1995.

According to the Ministry of Industrial Development and the Board of Investment of Sri Lanka (BOI), 629 garment factories were in operation at end 1995 including those coming under the Two Hundred Garment Factory Programme. These factories provided 232,000 direct employment opportunities. Under the Two Hundred Garment Factory Programme 160 enterprises were in commercial operation, providing employment opportunities to about 76,903 persons. Export earnings from these enterprises amounted to Rs. 32.9 billion in 1995.

With the establishment of the World Trade Organisation (WTO) in January 1995, all existing bilateral textile agreements that came under the Multi-Fibre Arrangements (MFA) were telescoped into the Uruguay Round Agreement

**TABLE 4.3**  
**Value of Industrial Production 1991 -1995**  
**(Current Prices)**

(Current Prices)						Rs. Million
Categories		1991	1992	1993	1994	1995 (a)
1	Food, beverages and tobacco	30,003	34,157	39,709	45,054	54,927
2	Textiles, wearing apparel and leather products	33,854	53,929	70,057	78,211	89,944
3	Wood and wood products	802	1,005	1,230	1,601	1,929
4	Paper and paper products	2,214	2,586	3,438	4,066	4,595
5	Chemical, petroleum, rubber and plastic products	20,140	23,817	28,876	34,017	38,321
6	Non-metallic mineral products	8,181	10,582	12,351	14,580	16,740
7	Basic metal products	1,264	1,424	1,497	1,909	1,736
8	Fabricated metal products, machinery and transport equipment	5,093	5,948	5,915	7,122	7,977
9	Products not elsewhere specified	2,373	2,658	3,402	4,083	5,271
Total		103,924	136,106	166,475	190,643	221,440

(a) Provisional

Sources : Central Bank of Sri Lanka  
Board of Investment of Sri Lanka

on Textile and Clothing (ATC). The ATC has developed a framework for the full integration of textiles and apparel into the multilateral trading system and to phase out quotas over a ten year period aimed at creating a completely free trade in textiles and clothing by the year 2005. Therefore, it is of paramount importance that Sri Lanka be prepared to face stiff competition following the complete abolition of quotas in the future.

The export oriented textile manufacturing industries which have a secured export market registered a significant growth in 1995. During the year, a number of export oriented textile manufacturing industries expanded their production capacity and modernised their factories to cope with increasing demand for yarn and gray and finished cloth, particularly from the EEC and Middle Eastern countries.

Meanwhile, some textile manufacturers who cater to the local market experienced a setback due to marketing problems. These problems were partly due to the inflow of smuggled textiles to the local market. In the past this sector operated under heavy protection. However, the recent reduction of tariffs has adversely affected their competitiveness. Labour disputes in major factories were also responsible for the sluggishness of the industry. The local textile industry need to invest in modern technology and become more dynamic to be cost effective and competitive in the current context. Meanwhile, enhanced surveillance at the ports through speedy implementation of the proposed pre-shipment inspection scheme would help the local textile industry while enhancing Customs revenues for the Government.

The leather products sector also reported a 17 per cent growth rate in 1995. However, the footwear sub-sector reported a 7 per cent decline.

### Food, Beverages and Tobacco

In response to increased domestic consumer demand, the food, beverages and tobacco sub-sector continued to expand during the year under review. This industrial category expanded in real terms by 10.5 per cent and contributed to 26 per cent of the growth in industrial output. Significant increases in output were shown in processed tobacco, leaf tobacco and beverages such as CTC teas and tea bags, wheat flour, dairy products, biscuits and meat products. The increased domestic demand for wheat flour based products, mainly owing to the wheat flour subsidy, contributed to this improved performance, but as mentioned elsewhere, at the expense of the agricultural sector. The output of tobacco products, which registered a marginal decline in the previous year owing to labour disputes, recovered in 1995. The cigarette manufacturing industry had to compete with smuggled cigarettes, particularly during the latter part of the year. The production of poultry feed, which recorded a decline in the previous year due to labour unrest, also reported a moderate growth, with uninterrupted production during the year. The domestic beer industry reached the limits of its production capacity towards end 1995 as a result of increased demand following the reduction of excise duties on beer in November 1995.

### Chemical, Petroleum, Rubber and Plastic Products

The output of the chemical, petroleum, rubber and plastic products category grew by 6.6 per cent in 1995 as compared with an 9.1 per cent growth in the previous year. The drop in the growth rate was attributed to the temporary closure of the petroleum refinery for maintenance. Rubber products such as tyres, tubes, rubber gloves, poly bags, rubber bags, foam rubber mattresses, pvc pouches and pvc

**TABLE 4.4**  
**Availability and Utilisation of Quota 1994 -1995**

Description	Unit	Quota Availability		Utilisation		Utilisation Rate %	
		1994(a)	1995(b)	1994(a)	1995(b)	1994(a)	1995(b)
<b>U.S.A Quota</b>							
Play Suits etc.	Doz.	239,301	304,360	201,831	280,134	84.3	92.0
Fabric Poplin/Broad Cloths	Sme.	3,600,000	4,120,099	3,356,568	3,603,355	93.2	87.5
Gloves	Doz.	5,878,186	5,327,848	5,878,186	5,120,332	100.0	96.1
Suit -type coats M & B	Doz.	23,700	2,605	5	0	0.0	0.0
Coats, non-suit, M & B	Doz.	729,133	615,833	729,133	527,869	100.0	85.7
Coats W & G	Doz.	272,081	283,781	272,081	197,320	100.0	69.5
Dresses	Doz.	499,328	572,566	499,328	589,817	100.0	103.0
Knit Shirts & Blouses	Doz.	1,244,751	1,388,284	1,099,519	1,303,179	88.3	93.9
Shirts & Blouses, not - Knit W & G	Doz.	1,232,439	1,253,654	1,170,802	894,974	95.0	71.4
Shirts, not Knit, M & B	Doz.	1,136,441	1,346,490	1,136,441	1,185,016	100.0	88.0
Shirts & Blouses, not - Knit W & G	Doz.	1,769,513	1,930,467	1,753,318	1,289,444	99.1	66.8
Skirts	Doz.	442,964	584,835	290,336	730,985	65.5	125.0
Sweaters	Doz.	96,475	140,563	77,111	77,883	79.9	55.4
Trousers, etc.	Doz.	1,506,969	1,557,838	1,506,969	1,491,071	100.0	95.7
Dressing gowns, etc.	Doz.	56,875	116,046	56,875	65,314	100.0	56.3
Nightwear	Doz.	321,783	373,596	310,753	324,940	96.6	87.0
Underwear	Doz.	1,148,395	1,246,213	1,145,719	1,215,823	99.8	97.6
Coveralls & Overalls	Kgs.	866,644	1,343,928	669,973	1,144,057	77.3	85.1
Pillowcases	Doz.	88,398	126,049	88,398	65,453	100.0	51.9
Terry & Other pile towels	Doz.	555,966	349,552	279,723	362,316	50.3	103.7
Dish Towels	Kgs.	635,404	624,518	180,643	233,184	28.4	37.3
Shop Towels	Kgs.	614,081	487,779	462,115	336,790	75.3	69.0
Coats, non- Suit, M & B	Doz.	6,221	7,860	0	513	0.0	6.5
Coats. W & G	Doz.	15,750	15,933	15,135	7,093	96.1	44.5
Shirts & Blouses, not Knit	Doz.	8,887	11,735	0	4,325	0.0	36.9
Fabric: Spun Cell, Woven	Sme.	4,147,017	5,310,564	2,602,347	1,610,683	62.8	30.3
Coats. W & G	Doz.	389,586	383,861	389,586	315,834	100.0	82.3
Knit Shirts	Doz.	668,827	847,546	505,416	692,407	75.6	81.7
Shirts & Blouses, not Knit W & G	Doz.	1,141,088	1,207,271	624,162	394,470	54.7	32.7
Suits & W & G	Doz.	17,381	21,406	4,151	3,758	23.9	17.6
Sweaters	Doz.	25,943	87,331	7,219	953	27.8	1.1
Trousers, etc.	Doz.	669,747	991,211	637,802	671,771	95.2	67.8
Shirts & Blouses, not Knit	Doz.	230,884	157,671	230,884	146,471	100.0	92.9
<b>EEC Quota</b>							
Men's & Women's Trousers & Men's Shorts & Breeches	Pcs.	5,882,172	6,732,021	5,201,255	6,801,927	88.42	101.04
Women's & Girl's Woven & Knitted Blouses	Pcs.	11,355,160	11,721,360	11,161,138	11,800,567	98.29	100.68
Men's & Boy's Woven Shirts	Pcs.	8,151,072	8,242,000	7,694,681	7,669,036	94.40	93.05
Parkas , Anoraks,Windcheaters & the like Woven	Pcs.	6,789,610	7,675,983	2,859,067	3,602,337	42.11	46.93
<b>Canadian Quota</b>							
Coats, Jackets and Rainwear	Pcs.	888,061	894,492	752,950	757,412	84.79	84.68
Of which Coats	Pcs.	111,618	113,836	56,448	47,982	50.57	42.15
Winter Outerwear	Pcs.	219,883	210,159	219,883	207,099	100.00	98.54
Male Casual and Finewear	Pcs.	768,395	800,729	344,443	483,536	44.83	60.39
Fine Suits	Pcs.	23,532	25,297	0	0	0.00	0.00
Trousers, Overalls and Shorts	Pcs.	794,081	853,638	525,076	669,101	66.12	78.38
Tailored Collar Shirts MBC	Pcs.	708,598	761,742	576,047	504,825	81.29	66.27
T - Shirts, Sweat Shirts, Athletic Wear	Pcs.	1,451,648	911,808	994,279	447,930	68.49	49.13
Shirts and Blouses, Knitted & Woven	Pcs.	664,751	644,100	664,759	669,984	100.00	104.02
Underwear	Pcs.	1,013,543	1,130,232	845,182	344,893	83.39	30.52
Sleepwear & Bathrobes	Pcs.	588,300	632,423	345,156	106,417	58.67	16.83
Sweaters	Pcs.	186,686	112,867	18,744	42,377	10.04	37.55
Swimwear	Pcs.	503,366	632,423	99,199	159,041	19.71	25.15
Babies Garments	Pcs.	294,150	318,211	98,107	212,584	33.35	67.23
Bedsheets	Pcs.	543,008	658,374	34,052	179,217	6.27	27.22

(a) Revised  
(b) Provisional

Source: Ministry of Industrial Development

rainwear increased significantly, boosted by buoyant demand from the major importing countries, particularly those in the EEC and the Middle East. The output of soap and toiletries, pharmaceuticals, agro-chemicals, and plastic products registered a notable growth as a result of strong local demand induced by the price advantage over imported items and the improved quality of locally produced items.

### Other Industrial Products

The increased export demand for dolomite products, porcelain figurines and granite slabs helped the non-metallic mineral products category to achieve a 7.5 per cent growth in 1995. Despite labour disputes in some firms, the cut and polished diamond industry also realised a growth rate of 4 per cent in 1995. The manufacture of glass and glass products and asbestos also achieved a significant growth. This favourable performance was largely attributed to the growing local demand for these items, arising from the construction industry. Despite the increased demand, cement production reported a marginal decline due to delays in the availability of imported inputs for Ruhunu Cement Co. Ltd. The output of ceramic products, which declined in 1994 due to labour unrest, recovered marginally in 1995.

The paper and paper products category registered a drop in output of 1.6 per cent. This decline was due to a drop in the output of the National Paper Company by 10 per cent. However, the printing and manufacture of paper and paper products and labels by the non-BOI private sector rose by 14 per cent during the year. This was mainly due to increased domestic demand arising from the growing manufacturing and services sectors.

The output of fabricated metal products showed a marginal improvement of 3.5 per cent. In this category higher output growth rates were reported in the manufacture of fabricated metal products, batteries, bulbs, cables and agricultural machinery. The output of the industries engaged in the fabrication of coachwork of buses and lorries that reported a high growth in the previous year, showed a further expansion in 1995 due to increased local demand.

Among the other industries, moderate output growth rates were reported in coir fibre products, fishing gear and nylon nets. The soft toys industry improved mainly due to higher export demand.

The production trends in BOI industries are estimated on the basis of export performance. In addition to the favourable foreign demand, the increased number of investment approvals in the last few years under Section 17 of the BOI Law for export oriented industries and expansion of capacity in existing industries contributed to the improved performance of this sector. The output of BOI industries in real terms is estimated to have increased by 16 per cent in 1995 over the levels in 1994. Gross export earnings of BOI enterprises, including the Two Hundred Garment Factory Programme, grew by 28 per cent from Rs. 88 billion (SDR 1,244 million) in 1994 to Rs.113 billion (SDR 1,453 million) in 1995. Industrial sub-sectors under the BOI that recorded increases were food, beverages and tobacco (23 per cent), textiles, wearing apparel and leather products (13 per cent), wood and wood products (65 per cent), chemical, petroleum, rubber and plastic products (40 per cent), non-metallic mineral products (24 per cent), fabricated metal products (85 per cent) and manufactured products not elsewhere specified (27 per cent).

**TABLE 4.5**  
**Public Sector Major Industry Output Index 1991 - 1995**

Categories	1991	1992	1993	1994	1995 (a)
1 Food, beverages and tobacco	18.3	13.4	8.1	9.3	10.5
2 Textiles, wearing apparel and leather products	66.6	27.5	10.3	-	-
3 Wood and wood products	12.3	20.3	25.4	22.0	26.7
4 Paper and paper products	137.4	156.6	174.1	187.8	169.2
5 Chemical, petroleum, rubber and plastic products	111.9	86.9	121.8	126.3	115.9
Petroleum products	131.1	91.8	129.4	134.2	123.1
6 Non-metallic mineral products	143.5	143.4	120.0	5.5	5.4
7 Basic metal products	111.5	125.7	92.4	130.8	95.0
8 Fabricated metal products	17.4	-	-	-	-
All Categories	91.6	73.3	87.9	83.8	76.2
Excluding petroleum products	67.6	52.7	41.7	27.7	24.1

(a) Provisional.

Source: Central Bank of Sri Lanka

Public sector industrial output, in real terms, declined by 9 per cent in 1995 when compared with a 5 per cent decline in 1994. This was mainly due to a significant drop in production (8 per cent) of the Ceylon Petroleum Corporation, which accounted for 85 per cent of the total public sector industrial output, owing to the closure of the refinery for routine maintenance purposes in early 1995. Public sector industrial output, excluding petroleum also declined by 13 per cent.

Public sector enterprises that recorded increases in output in 1995 were Lanka Salt Ltd. (78 per cent), State Timber Corporation (20 per cent), Lanka Phosphate Ltd. (12 per cent), Sri Lanka Rubber Manufacturing and Export Corporation Ltd. (10 per cent) and Sevanagala Sugar Industries Ltd. (1 per cent).

Favourable weather conditions that prevailed during the year and the use of new machines and pumps were the main factors that contributed to the increased output of Lanka Salt Ltd. The higher level of production following increased demand for centrifuged latex was the major reason for the increase in production of the Sri Lanka Rubber Manufacturing and Export Corporation Ltd.

Public sector industrial enterprises that recorded decreases in output during the year were Ceylon Steel Corporation Ltd. (27 per cent), Lanka Mineral Sands Ltd. (19 per cent), Ceylon Petroleum Corporation (8 per cent) and National Paper Company Ltd. (10 per cent).

An inadequate supply of raw materials, labour disputes and the closure of the factory for maintenance purposes resulted in a decline in the output of the Ceylon Steel Corporation Ltd. A shortage of raw material due to a reduced level of raw material extraction was responsible for the decline in output of Lanka Mineral Sands Ltd. The decrease in output of the National Paper Company Ltd. was largely due to a shortage of raw materials and interruption to the power supply at the Valachchenai factory.

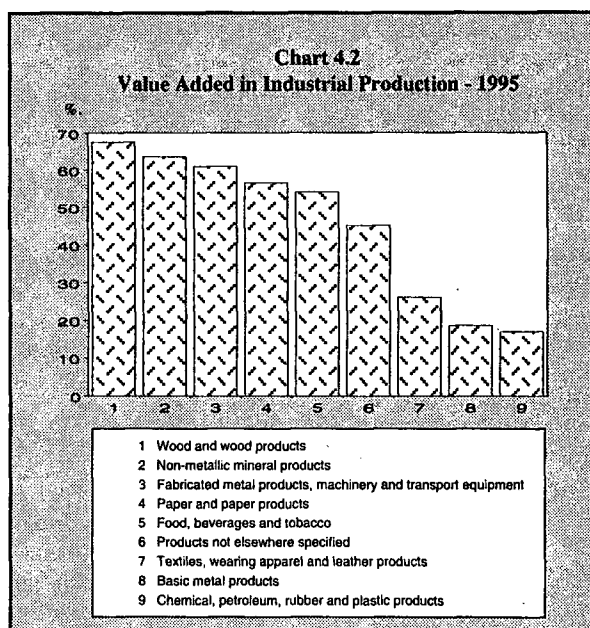
In terms of the sectoral classification of public sector enterprises, the wood and wood products and food, beverages and tobacco categories recorded output increases of 21 per cent and 13 per cent, respectively. The industrial categories that recorded decreases in output were basic metal products (27 per cent), paper and paper products (10 per cent), chemical, petroleum, rubber and plastic products (8 per cent) and non-metallic mineral products (2 per cent).

### 4.3 Value Added

In nominal terms, the value added in industry increased by 17 per cent in 1995 compared with a 15 per cent growth

in the previous year as a result of an increase in the ex-factory value. In real terms the growth of value added was 10 per cent.

Total value added in manufacturing industry in 1995 amounted to Rs. 82 billion. As a percentage of the value of industrial production, the value added ratio was 37 per cent in 1995, similar to the level that prevailed in 1994. The industrial categories with value added ratios above 50 per cent were wood and wood products (67 per cent), non-metallic mineral products (65 per cent), fabricated metal



products (61 per cent), paper and paper products (57 per cent) and food, beverages and tobacco (54 per cent). The value added ratios were below 50 per cent in the industrial categories of manufactured products not elsewhere specified (42 per cent), textiles, wearing apparel and leather products (26 per cent), basic metal products (17 per cent) and chemical, petroleum, rubber and plastic products (16 per cent).

### 4.4 Credit and Other Inputs

#### Credit

The industrial sector continued to receive medium and long term credit under the Small and Medium Scale Industries Credit Scheme (SMI) channeled through the National Development Bank (NDB) and co-funded by assistance from the IDA and ADB. It was the major financing programme under which industries received financial assistance in 1995. In addition, the Development Finance Corporation of Ceylon (DFCC), the NDB and

**TABLE 4.6**  
**Value Added in Industry 1991 - 1995**  
**(Current Prices)**

					Rs. Million
Categories	1991	1992	1993	1994	1995(a)
1 Food, beverages and tobacco	15,070	18,668	21,704	24,373	29,935
2 Textiles, wearing apparel and leather products	8,542	14,630	18,994	20,660	23,385
3 Wood and wood products	571	677	831	1,081	1,292
4 Paper and paper products	1,167	1,397	1,912	2,301	2,600
5 Chemical, petroleum, rubber and plastic products	3,199	3,989	4,723	5,758	6,515
6 Non-metallic mineral products	4,905	5,918	7,163	9,272	10,546
7 Basic metal products	248	263	279	356	324
8 Fabricated metal products, machinery and transport equipment	3,247	3,629	3,608	4,344	4,865
9 Products not elsewhere specified	1,092	1,196	1,532	1,838	2,373
Total	38,041	50,367	60,746	69,983	81,836

(a) Provisional

Source: Central Bank of Sri Lanka

commercial banks provided direct financial facilities to industrial ventures in the form of loans and equity participation.

During the year the NDB approved 431 projects with an outlay of Rs. 6,519 million for direct financial assistance in comparison to 352 projects serviced with an outlay of Rs. 5,417 million in 1994. The NDB participated in 10 projects by providing Rs.477 million worth of equity. The industrial categories that received a major share of these credit facilities were food, beverages and tobacco, fabricated metal products, products not elsewhere specified, chemical, petroleum, rubber and plastic products and textiles, wearing apparel and leather products.

Industrial credit extended and equity participation by the DFCC, which reported a marginal decline in 1994, increased significantly in 1995. The DFCC approved 480 projects in 1995 with a credit outlay of Rs.3,424 million, as compared with 311 projects with an outlay of Rs.2,501 million in 1994. The industrial categories that received major shares of these facilities were food, beverages and tobacco, chemical, petroleum, rubber and plastic products and fabricated metal products.

During 1995, commercial banks too continued to provide financial facilities. Commercial bank advances to the industrial sector during the first nine months of the year increased by 25 per cent from Rs.19.5 billion at end

**TABLE 4.7**  
**Financial Facilities to the Industrial Sector by the NDB and DFCC – 1995**

Categories	NDB								DFCC								TOTAL	
	Refinance Approvals SMI IV		Direct Financial Assistance		Equity		Total		Loan Approvals		Equity		Total					
	No.	Amount Rs.Mn	No.	Amount Rs.Mn	No.	Amount Rs.Mn	No.	Amount Rs.Mn	No.	Amount Rs.Mn	No.	Amount Rs.Mn	No.	Amount Rs.Mn	No.	Amount Rs.Mn	No.	Amount Rs.Mn
1. Food, beverages and tobacco	254	164	43	1,025	-	-	297	1,189	134	1,127	-	-	134	1,127	431	2,316		
2. Textiles, wearing apparel and leather products	97	72	54	510	3	86	154	668	83	398	4	35	87	433	241	1,101		
3. Wood and wood products	72	42	7	79	-	-	79	121	38	98	-	-	38	98	117	219		
4. Paper and paper products	66	76	11	59	-	-	77	135	31	182	-	-	31	182	108	317		
5. Chemical, petroleum, rubber and plastic products	63	94	32	560	-	-	95	654	78	790	1	5	79	795	174	1,449		
6. Non-metallic mineral products	-	-	40	391	-	-	40	391	26	155	2	56	28	211	68	602		
7. Basic metal products	96	91	-	-	-	-	96	91	8	28	-	-	8	28	104	119		
8. Fabricated metal products	465	259	71	813	3	112	539	1,184	74	535	1	15	75	550	614	1,734		
9. Products not elsewhere specified	730	637	173	3,082	4	279	907	3,998	-	-	-	-	-	-	907	3,998		
Total	1,843	1,435	431	6,519	10	477	2,284	8,431	472	3,313	8	111	480	3,424	2,764	11,855		

Sources: Development Finance Corporation Of Ceylon  
National Development Bank

**TABLE 4.8**  
**Value of Raw Materials Used In Industry 1991-1995**

Categories					
	1991	1992	1993	1994	Rs. Million 1995 (a)
1 Food, beverages and tobacco	13,432	14,768	17,869	17,978	20,872
2 Textiles, wearing apparel and leather products	23,280	33,223	43,435	53,640	60,498
3 Wood and wood products	199	258	320	408	522
4 Paper and paper products	671	827	1,100	1,196	1,351
5 Chemical, petroleum, rubber and plastic products	16,740	17,589	23,678	27,579	30,618
6 Non metallic mineral products	1,558	2,194	2,841	2,684	3,081
7 Basic metal products	890	969	1,012	1,305	1,187
8 Fabricated metal products, machinery, and transport equipment	1,642	1,903	1,893	2,279	2,544
9 Products not elsewhere specified	902	983	1,327	1,510	1,950
<b>Total</b>	<b>59,314</b>	<b>72,714</b>	<b>93,475</b>	<b>108,579</b>	<b>122,623</b>

(a) Provisional

Source : Central Bank of Sri Lanka

December 1994 to Rs. 24.5 billion at end September 1995. The rate of growth of industrial credit granted by commercial banks during the first three quarters of 1994 was 6 per cent.

### Raw Materials

The total cost of raw materials used in the manufacturing sector in nominal terms rose by 13 per cent, from Rs.109 billion in 1994 to Rs. 123 billion in 1995. The largest cost increases were reported in the industrial categories of wood and wood products and manufactured products not elsewhere specified. The raw material component of the value of industrial production varied from 18 per cent in the non-metallic mineral products category to 80 per cent in the chemical, petroleum, rubber and plastic products category. The raw material component in the textiles, wearing apparel and leather products category was 67 per cent. The cost of raw materials amounted to 55 per cent of the total value of industrial production in 1995. Increases in raw material costs of private sector industries in 1995 was largely evident in respect of manufactured rubber products due to marked increases in international prices of natural rubber, synthetic rubber and nylon.

### Power and Fuel

The cost of power and fuel used in the industrial sector increased by 17 per cent in nominal terms as compared with the previous year. The share of energy (electricity, fuel and other) in the cost of industrial output in 1995 was 6 per cent. Energy formed a principal element in the total cost of production of non-metallic mineral products, while it had the lowest share in chemical, petroleum, rubber and plastic products.

### 4.5 Investment

#### Foreign Investment

Foreign capital flows have played an important role in the economic growth of Sri Lanka by bridging the gap between domestic savings and investment, and providing the impetus for economic growth. Over the last few years, Sri Lanka has been able to attract substantial foreign capital mainly from Japan, South Korea, Hong Kong, Singapore, Germany, Australia, Italy, India and the USA, despite competition from other developing countries.

**TABLE 4.9**  
**Cost of Power and Fuel Used In Industry 1991 -1995**

Categories					
	1991	1992	1993	1994	Rs. Million 1995 (a)
1 Food, beverages and tobacco	1,500	2,049	2,383	2,703	3,296
2 Textiles, wearing apparel and leather products	2,031	2,446	3,503	3,911	4,515
3 Wood and wood products	32	70	86	112	135
4 Paper and paper products	376	362	481	569	643
5 Chemical, petroleum, rubber and plastic products	201	212	578	680	765
6 Non metallic mineral products	1,718	1,781	2,223	2,624	3,013
7 Basic metal products	126	184	193	248	226
8 Fabricated metal products, machinery, and transport equipment	204	416	414	499	556
9 Products not elsewhere specified	380	478	612	735	849
<b>Total</b>	<b>6,568</b>	<b>7,998</b>	<b>10,473</b>	<b>12,081</b>	<b>14,098</b>

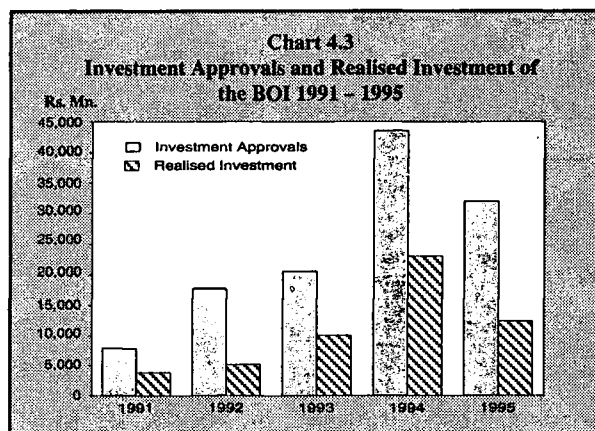
(a) Provisional

Source : Central Bank of Sri Lanka



The BOI, which is the main institution responsible for promoting foreign investment in Sri Lanka, functioned as a 'one stop investment promotion centre', facilitating the flow of foreign investment into the country. A highlight of BOI promotional activities in 1995 was the investment forum held in Colombo. This helped to facilitate one-to-one business meetings on prepared project proposals for joint ventures and technical co-operation in the fields of agri-materials, textiles, leather, rubber, ceramics, electronics and information technology.

There has been a setback in the number of projects and volume of investment approved by the BOI in 1995. Under



**TABLE 4.10**  
**Realised Investments In BOI Enterprises (a)**

Categories	No. of Enterprises		Foreign Investment (Rs. Mn)		Total Investment (b) (Rs. Mn)	
	1994	1995 (c)	1994	1995 (c)	1994	1995 (c)
1 Food, beverages and tobacco	43	53	667	1,290	1,183	1,974
2 Textiles, wearing apparel and leather products	101	109	11,585	11,064	12,675	12,821
3 Wood and wood products	15	17	449	488	479	551
4 Paper and paper products	7	9	167	167	270	362
5 Chemical, petroleum, rubber and plastic products	50	52	4,687	4,945	5,193	5,633
6 Non-metallic mineral products	38	39	652	774	2,189	2,346
7 Fabricated metal products, machinery and transport equipment	16	19	472	615	621	978
8 Manufactured products not elsewhere specified	79	91	2,981	2,919	3,635	4,068
9 Services	165	217	20,221	28,108	33,564	43,487
<b>Total</b>	<b>514</b>	<b>606</b>	<b>41,881</b>	<b>50,370</b>	<b>59,809</b>	<b>72,219</b>

(a) At end year.

(b) Projects approved under Section 17 of the Board of Investment Law.

(c) Provisional.

Source: Board of Investment of Sri Lanka

Section 17, the BOI approved 224 projects with an investment commitment of Rs.32 billion, as compared with 291 projects with investment commitments of Rs.43 billion approved in 1994, bringing the total number of projects approved to 1,773 by end 1995. During 1995, Sri Lanka attracted several established international companies to invest in the country, bringing with them the potential of large future investments. The foreign component of approved investment in 1995 was Rs.14 billion or 43 per cent of total approved investment during the year. Of the total approved projects upto end 1995, agreements had been signed in respect of 1,132 projects with the BOI. Among these, 756 enterprises, including 150 projects in the Two Hundred Garment Factory Programme, had invested Rs. 77 billion by end 1995. The foreign component of this investment was Rs. 52 billion or 68 per cent of the total investment. The major

industrial categories that absorbed these investments were textiles, wearing apparel and leather products, chemical, petroleum, rubber and plastic products and manufactured products not elsewhere specified.

Under the Inland Revenue and Tax Related Laws (General Incentive Scheme), the BOI approved 62 projects in 1995. The total envisaged investment in these projects amounted to Rs. 3.2 billion, of which the foreign component was Rs.1.5 billion or 46 per cent.

Despite the reduction in new approvals in foreign investment in the BOI, employment in BOI enterprises including the Two Hundred Garment Factory Programme increased by 13 per cent during 1995 compared to 10 per cent in 1994. The increase in the capacity of existing

**TABLE 4.11**  
**Employment and Export Earnings of BOI Enterprises 1994 -1995**

Categories	1994		1995 (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	4,105	2,929	8,159	3,957
2 Textiles, wearing apparel and leather products	144,131	60,820	153,664	73,007
3 Wood and wood products	1,074	158	2,500	288
4 Paper and paper products	459	616	519	574
5 Chemical, petroleum, rubber and plastic products	13,378	7,903	19,020	12,200
6 Non-metallic mineral products	8,146	4,502	9,160	6,120
7 Fabricated metal products, machinery and transport equipment	887	354	1,252	722
8 Manufactured products not elsewhere specified	23,433	7,200	23,761	9,166
9 Services (b)	10,047	3,553	15,332	6,919
<b>Total</b>	<b>205,660</b>	<b>88,035</b>	<b>233,367</b>	<b>112,953</b>

(a) Provisional.

(b) Excluding Air Lanka Ltd..

Source: Board of Investment of Sri Lanka

industries and increased production levels contributed to the rise in employment.

### Local Investment

There was a substantial volume of local investment in projects approved by the BOI. The share of local investment in 756 projects operated under the BOI amounted to Rs.25 billion or 32 per cent of the total investment at end 1995. These investments were mainly in the production of soft toys, yarn and gray cloth, wooden handicrafts, processing of fruits and vegetables, kitchen utensils, telecommunication equipment and garment accessories. Of the Rs.32 billion investment commitment in 1995, Rs.18 billion or 57 per cent is expected to be generated from local sources. Furthermore, in BOI projects under the General Incentive Scheme, the local investment component accounted for Rs.1.7 billion or 54 per cent of the total investment.

Meanwhile, total investment in 1,578 enterprises which were registered under the Ministry of Industrial Development at end December 1995, amounted to Rs. 81.1 billion. The main categories that absorbed these investments were chemical, petroleum, rubber and plastic products, textiles, wearing apparel and leather products and food, beverages and tobacco. These enterprises have generated employment for 300,036 persons.

### 4.6 Industrial Location

The distribution of industrial location shows that industrial development has been concentrated in a few districts. Therefore, recent government policy has emphasised regional industrialisation. The main objectives of regional

industrialisation are to bring economic development to the regions, reduce congestion in major industrial areas, discourage migration to the centre and increase employment opportunities for the rural unemployed.

Among industries registered under the Ministry of Industrial Development, 77 per cent or 1,211 enterprises were located in the Colombo district while 11 per cent or 171 enterprises were in the Gampaha district.

By the end of 1995, out of the 534 industries that were in commercial operation under Section 17 of the BOI Law, 35 per cent or 187 enterprises were located in the Colombo district and 45 per cent or 239 enterprises in the Gampaha district mainly due to the availability of improved infrastructure facilities in the Biyagama and Katunayake Investment Promotion Zones.

Out of 333 enterprises that were in commercial operation by end 1995 under Section 16 of the BOI Law, 193 or 58 per cent were located in the Colombo district, while 22 per cent or 73 were located in the Gampaha district mainly due to infrastructural considerations. A notable feature of the BOI enterprises under Section 16 was the location of some enterprises in less developed areas such as Moneragala, Trincomalee, Hambantota and Matara.

Under the Two Hundred Garment Factory Programme, 160 garment factories were in operation in 21 districts by end 1995. Of these, 86 per cent or 137 garment factories were located outside the Colombo and Gampaha districts. The number of garment factories that were in operation in less developed areas such as Anuradhapura, Ratnapura, Puttalam and Kurunegala were 14, 14, 12 and 11 respectively.

**TABLE 4.12**  
**Regional Distribution of Industrial Enterprises<sup>(a)</sup>**

District	Industries Under Ministry of Industrial Development	Industries Under BOI			Numbers
		Section 17	200 Garment Factory Programme	Section 16	Total
1 Colombo	1,211	187	16	193	1,607
2 Gampaha	171	239	7	73	490
3 Kalutara	45	18	10	14	87
4 Galle	26	22	6	14	68
5 Kandy	30	15	12	8	65
6 Puttalam	17	16	12	10	55
7 Kurunegala	9	12	11	7	39
8 Matara	22	2	4	1	29
9 Hambantota	18	1	7	1	27
10 Ratnapura	1	6	14	3	24
11 Nuwara Eliya	3	6	11	3	23
12 Badulla	9	3	7	3	22
13 Anuradhapura	5	1	14	1	21
14 Kegalle	2	3	8	0	13
15 Matale	4	2	5	0	11
16 Ampara	4	0	3	0	7
17 Moneragala	1	0	5	1	7
18 Polonnaruwa	-	1	4	0	5
19 Vavuniya	-	0	2	0	2
20 Trincomalee	-	0	1	1	2
21 Batticaloa	-	0	1	0	1
Total	1,578	534	160	333	2,605

(a) At end 1995.

Sources: Ministry of Industrial Development  
Board of Investment of Sri Lanka

The industrial estate development programme was launched in 1995 towards promoting industrial activities in rural areas and minimising the pressures and problems associated with environmental pollution, health, etc. due to the excessive concentration of industries in a few locations. This programme includes two international standard industrial estates in Seethawaka and Katana. The initial work with regard to these two industrial estates commenced in 1995 with assistance from the Japanese government. In addition, 21 regional industrial estate sites have been identified and initial development work was undertaken by the private sector in 1995. The number of proposed industrial estates located in the Anuradhapura, Puttalam, Moneragala, Badulla and Hambantota districts were 4, 4, 2, 2 and 2 respectively.

## 4.7 Industrial Policy

The main objective of the industrial policy of the Government announced in 1994 was to achieve sustainable industrial growth through market orientation, increased efficiency, stimulation of foreign and local investment and industrial diversification. The Government expects to achieve macroeconomic stability to provide a sound basis for sustainable industrial development. Within this framework, foreign investment is to be encouraged to make a vital contribution to the process by providing capital and continuous access to new technology and export markets.

Since several manufacturing enterprises in the domestic sector have developed and operated behind tariff and non-tariff barriers, the Government has taken steps through trade liberalisation and tariff reform to increase the efficiency of these firms and bring them into the mainstream of industrial growth as the country moves towards lower levels of protection. In this regard, the import duty on several items was reduced from higher tariff bands in 1994 to lower bands in 1995. The Government is moving towards a uniform 15 per cent import tariff rate by 1998. Further, in order to avoid multi-point taxation in respect of turnover at different stages of the production process by different firms, a Goods and Services Tax (GST), which is computed on the basis of the value addition, has been proposed.

Recognising the importance of providing basic infrastructure facilities for industrial development, the Government has taken several positive steps to develop this sector. In providing infrastructure facilities for industries the Government expect to continue investing in areas such as health, education, vocational training, environment and rural infrastructure while the financing of power, telecommunications, highways and water supply is to be with private sector participation on the basis of Build, Operate and Own (BOO) or Build, Operate and Transfer (BOT) arrangements. The Secretariat for Infrastructure Development and Investment (SIDI), which was merged with the BOI in September 1995 to strengthen the BOI's role as a single

service centre in promoting infrastructure projects, is expected to handle large projects in power, communications, transportation, ports, water supply and drainage, waste disposal, construction of shopping complexes and establishment of industrial estates, while encouraging BOO and BOT arrangements. In this regard, consideration will be given to the setting up of an Infrastructure Development Fund.

In the field of technology improvement and skills development, the Ministry of Science and Technology has initiated action through the Human Resources Development Council to rectify the shortcomings of technology and skills development among research scientists, engineers, technicians, etc. Further, the Government in the 1996 Budget announced a package of incentives consisting of attractive tax and import duty concessions to investors who would utilise advanced technology towards diversification into a range of higher value added high-technology industries. Under this enhanced incentive scheme, a five year tax holiday was granted to new companies in the manufacturing and services sectors utilising new technology and investing a minimum of Rs.10 million in productive capital and employing more than 50 employees. The same package for

encouraging advanced technology was extended to existing companies in the manufacturing and services sectors on the basis of their incremental profits adjusted annually for inflation. Duty free imports and corresponding turnover tax exemption will be granted to new companies investing over Rs.10 million in equipment. Similar incentives were given to existing companies investing over Rs.2.5 million in machinery and equipment. In addition to the existing concessions, a five year tax holiday was granted to BOI export oriented companies which utilise advanced technology and invest at least Rs.50 million in machinery and equipment and employ more than 50 persons. Large scale development projects were given a 10 to 20 year tax holiday period depending on the amount of investment and the employment generated.

With a view to providing more flexibility to BOI enterprises and promoting Sri Lanka as a popular international shopping centre and discouraging the smuggling of textiles and clothing into the country, in January 1995, the Government decided to permit 10 per cent of the output of garment industries operating under the BOI to be released to the domestic market.