4. INDUSTRY

4.1 Overall Trends

Industrial output grew by 7.5 per cent in 1998 as against 10.2 per cent in 1997, reflecting a strong performance of domestic market oriented industries, such as refined petroleum products, cement, building materials, wheat flour, animal feed, liquor, milk products, pharmaceuticals, beverages and chemicals. Export oriented industries experienced a mixed performance. Fish and rubber products maintained positive growth rates, while diamonds, gems and jewellery indicated export declines. Exports of the apparel industry, which continued to expand in the face of global competition, tended to slow down towards the end of the year. Factory industries, which accounted for 84 per cent of the manufacturing sector, contributed 28 per cent to the overall economic growth in 1998. Capacity in the industrial sector increased by 4 per cent in 1998. The labour productivity in the non-BOI sector is also estimated to have increased by 4 per cent in 1998.

The growth in the industrial sector was achieved in the midst of a depressed global trading environment where the growth of international trade had declined by about two thirds following the East Asian financial crisis and subsequent economic problems in many countries including Russia, Japan and South and Central America. The larger devaluations of East Asian currencies caused by the crisis, lower labour costs and moderate inflation in the rest of the world intensified competition. But the faster depreciation of the rupee helped to maintain the competitiveness of domestic industry. The economic downturn in the Asia-Pacific region depressed the demand for exports of processed diamonds, jewellery and ceramic products. However, several key export oriented industries continued to perform reasonably well, as the major buyers, who looked for product quality and reliable supply sources, continued to place orders with Sri Lankan manufacturers. Several large exporters had strong marketing links with the major international buyers through their joint ventures. Nevertheless, industrialists had to offer higher discounts to remain competitive.

The series of policy measures introduced by the successive budgets, including fiscal incentives for advanced technology in industries, provision of foreign currency loans to non-BOI exporters and the liberalisation of textile imports, together with relatively low interest rates compared to the high rates in the past, had a favourable impact on industrial growth. Production capacity has expanded and the industrial base has become more diversified. Benefiting from a removal of the duty on capital goods, imports of investment goods increased by 12 per cent to refurbish existing factories and to start new industries during the year. The increased spending on advanced technology has improved productivity in many industries, which has helped to offset a modest acceleration of wages and salaries.

Some industrialists have adopted strategies through awareness programmes, waste reduction methods and skills development programmes to improve productivity. The moderate depreciation of the Sri Lanka rupee, reduction of domestic inflation and the relatively low cost of bank borrowings have also helped to improve external competitiveness. As

Chart 4.1
Growth and Composition of Industrial Production

Chart 4.1.1
Growth in Industrial Output

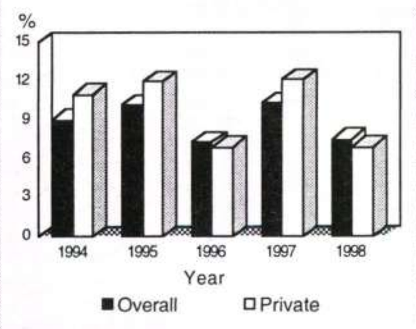
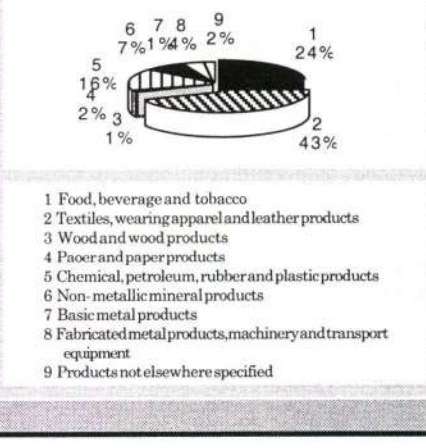


Chart 4.1.2
Composition of Industrial Production - 1998



considerable amounts of raw materials for manufacturing industries are imported from East Asian countries, the larger devaluation in some East Asian currencies has helped to reduce the cost of intermediate inputs. An improvement in labour relations in the manufacturing sector was also a favorable development in 1998. The significant improvements in basic industrial infrastructure such as electricity, telecommunication and port facilities and the progress made in improving infrastructure under the industrial parks programme encouraged new entrants to industrial activities. A total of 201 large enterprises registered under the BOI and Ministry of Industrial Development commenced commercial operations during the year. Meanwhile, 37 enterprises ceased commercial operations temporarily owing to management problems and various other difficulties. Further development of the road and transport systems, port facilities and the communication network, in addition to timely upgrading of human skills and equipment, would be necessary for faster growth in this sector. The mismatch between demand for and supply of labour, and rigidities in the labour market have been a constraint to faster industrial expansion.

4.2 Production

Based on the Industrial Production Survey - 1998 of the Central Bank of Sri Lanka (which covers 475 non-BOI enterprises), the industrial production of public sector enterprises and export data of BOI enterprises, the growth of industrial output in 1998 has been estimated at 7.5 per cent. According to the survey, the overall industrial output at current prices increased by 14 per cent. This gives an implicit price deflator of 6 per cent for factory industries. This reflected the rate of increase in cost of production in the industrial sector. The growth in industrial output in 1998 came mainly from the industrial categories of

Chart 4.2
Value of Industrial Production
(1990 Constant Prices)

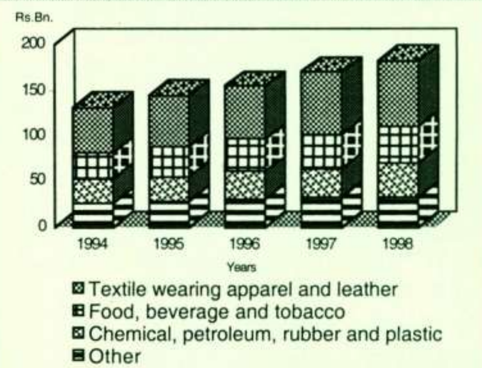


TABLE 4.1
Value of Industrial Production
(1990 Constant Prices)

Categories	Rs. Million					Percentage Change	
	1994	1995	1996	1997	1998(a)	1997	1998(a)
1 Food, beverage and tobacco products	30,445	33,641	35,908	37,146	40,729	3.4	9.6
Food and other	17,526	18,936	20,314	21,343	23,787	5.1	11.5
Liquor	2,251	2,630	3,027	2,961	3,458	-2.2	16.8
Beverage	5,023	5,961	6,104	7,032	7,686	15.2	9.3
Tobacco Products	5,645	6,114	6,463	5,810	5,798	-10.1	-0.2
2 Textile, wearing apparel and leather products	48,333	55,480	58,332	69,269	72,391	18.7	4.5
Apparel	40,353	46,702	49,292	59,280	62,050	20.3	4.7
Textile	5,509	6,202	6,299	6,926	7,226	10.0	4.3
Leather	2,471	2,576	2,741	3,063	3,115	11.7	1.7
3 Wood and wood products	1,085	1,243	1,321	1,334	1,378	1.0	3.3
4 Paper and paper products	3,565	3,508	3,550	3,561	3,446	0.3	-3.2
5 Chemical, petroleum, rubber and plastic products	25,838	27,543	31,135	32,582	36,841	4.6	13.1
Chemicals, paints and fertilisers	2,173	2,735	3,091	3,584	4,049	15.9	13.0
Rubber	3,091	3,956	4,660	5,539	6,004	18.9	8.4
Plastic & PVC	2,284	2,754	3,113	3,584	3,874	15.1	8.1
Pharmaceuticals, detergent and other	6,072	6,885	7,784	8,797	9,853	13.0	12.0
Petroleum	12,218	11,213	12,487	11,078	13,061	-11.3	17.9
6 Non metallic mineral products	11,643	12,516	13,360	13,914	14,629	4.1	5.1
Diamond processing	4,445	4,630	4,542	4,453	4,059	-2.0	-8.8
Ceramic products	1,688	1,867	2,138	2,226	2,302	4.1	3.4
Cement	3,039	3,316	3,607	3,896	4,628	8.0	18.8
Building materials and other	2,471	2,703	3,073	3,339	3,640	8.7	9.0
7 Basic metal products	1,568	1,377	1,636	1,671	1,856	2.1	11.1
8 Fabricated metal products	5,931	6,139	6,252	7,437	8,235	19.0	10.7
9 Manufactured products not elsewhere specified	2,617	3,005	3,443	3,904	4,093	13.4	4.8
Total	131,025	144,452	154,937	170,818	183,598	10.2	7.5

(a) Provisional

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

TABLE 4.2
Private Sector Industrial Production Index

1990 = 100

Categories	Index					Percentage Change	
	1994	1995	1996	1997	1998(a)	1997	1998(a)
1 Food, beverage and tobacco products	140	155	166	172	188	3.4	9.7
Food and other	145	155	166	176	196	5.9	11.4
Liquor	137	160	183	177	207	-3.3	16.8
Beverage	148	175	180	207	226	15.2	9.3
Tobacco Products	118	128	135	121	121	-10.1	-0.2
2 Textile, wearing apparel and leather products	179	206	217	258	269	18.7	4.5
Apparel	193	223	235	283	297	20.3	4.7
Textile	151	171	174	191	199	10.0	4.3
Leather	156	162	172	193	196	11.7	1.7
3 Wood and wood products	149	170	165	165	163	-0.3	-1.1
4 Paper and paper products	263	266	279	287	289	2.8	0.8
5 Chemical, petroleum, rubber and plastic products	159	196	224	257	286	14.7	11.1
Chemicals, paints and fertilisers	129	162	183	212	240	15.9	13.0
Rubber	141	181	213	253	274	18.9	8.4
Plastic & PVC	134	161	182	210	227	15.1	8.1
Pharmaceuticals, detergent and other	166	204	235	265	297	12.8	12.0
6 Non metallic mineral products	212	228	243	254	267	4.5	5.0
Diamond processing	235	280	270	260	237	-3.7	-8.8
Ceramic products	143	158	181	189	195	4.1	3.4
Cement	182	199	212	232	276	9.4	18.8
Building materials and other	164	180	204	221	241	8.2	9.0
7 Basic metal products	266	305	351	359	399	2.3	11.1
8 Fabricated metal products	141	147	150	178	197	18.7	10.7
9 Manufactured products not elsewhere specified	168	193	221	250	262	13.1	4.8
All Categories	172	192	205	230	246	12.1	6.9

(a) Provisional

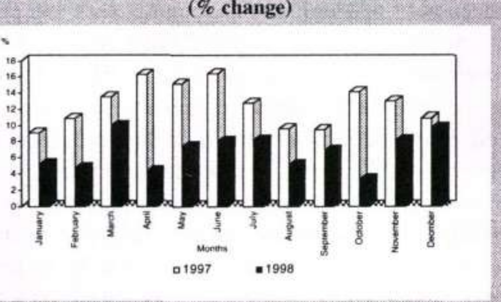
Sources: Central Bank of Sri Lanka
Board of Investment of Sri Lanka

food, beverage and tobacco; chemical, rubber, petroleum and plastic products and textiles, wearing apparel and leather products. These categories contributed 86 per cent of the growth in industrial output.

Private Sector Industries

Private sector industrial output grew by 6.9 per cent, down from the 12.1 per cent growth in the previous year and accounted for 93 per cent of total industrial production in 1998. The output growth of BOI industries is estimated at 6.4 per cent in 1998, compared to 19 per cent in the previous year. The domestic market oriented non-BOI industries expanded by 7.5 per cent compared to a 5.2 per cent growth in 1997. The expansion of private sector industries was in food beverage and tobacco; chemicals, rubber, petroleum and plastic products; textiles, apparel and leather products and fabricated metal products. Employment in the non-BOI sector increased by 2.7 per cent during the year. The capacity utilisation of this sector was around 84 per cent, as in the previous year, while profitability declined from 14.9 per cent in 1997 to12.5 per cent in 1998.

Chart 4.3
Private Sector Industrial Volume Index
(% change)



Textiles, Apparel and Leather Products

The growth of the textiles, wearing apparel and leather products category (TWLP) in 1998 is estimated at 4.5 per cent, a significant slowing down from the 18.7 per cent in the previous year. This category contributed to 24.4 per cent of the growth in private sector industrial production in 1998. Shipments in excess of quotas, in the case of some quota items, to the USA became a matter for concern in quota administration and some manufacturers had to defer their exports until 1999. Hence, there was a stock build up at the end of the year. Year end stocks with the BOI firms increased by 12 per cent. The BOI apparel and textile industries registered a moderate output growth of 4.6 per cent during the year. The availability of apparel and textile quotas increased by 4.5 per cent in 1998. The rate of quota utilisation increased from 73.6 per cent in 1997 to 74.1 per cent in 1998. The elimination of duties on imported textiles helped to reduce Customs delays and price increases of clothing in the domestic markets., but exposed the textile industry to open import competition. The problems of some factories were compounded, leading to the stoppge of operations and the redundancy of about 3,000 employees (Veytex and Pugoda). However, salaries continued to be paid to these employees.

Exports of textiles and apparel from Sri Lanka to the USA accounted for 2.1 per cent of the USA requirement and 60 per cent of total apparel and textile exports by Sri Lanka in 1998. Exports of apparel to the USA increased by 3.4 per cent from 322 million square meter equivalents (SME) in 1997 to 333 SME in 1998. Of these, 77 per cent are under quota. The value of these exports increased by 8.7 per cent, from US dollars 1,204 million in 1997 to US dollars 1,308 million in 1998. There was a price gain of 5.5 per cent. This is a favorable development compared with a decline in the overall import price of apparel to the USA from all countries. Manufacturers were moving to higher value added items and Sri Lanka's apparel attracted higher prices in the USA under a highly competitive market environment. Other textile exports to the USA increased from 157 SME in 1997 to 195 SME, indicating 24 per cent growth. Exports of non-quota items increased by 25 per cent.

The total availability of quotas in 1998 increased by 4.5 per cent with a 3.2 per cent increase in the US quota, 13.3 per cent increase in the EU quota and 7.8 per cent increase in the Canadian quota. The quotas in respect of shirts and blouses, nightwear, underwear, terry and other pile towels, shop towels and fabrics, such as spun cell, woven and poplin, to the USA increased significantly during the year. In the EU market, the availability of quotas, except for men's and boys' woven shirts, increased in 1998. The reduction of quotas in the men's and boys' woven shirt category did not have significant impact on apparel exports because the utilisation rate of this category has been below 50 per cent. There were significant increases in the quotas for coats, jackets and rainwear, underwear, sleepwear and bath robes and bed sheets to the Canadian market. However, the quota in respect of high value added items such as coats for women and men, dressing gowns and trousers, did not reflect an adequate growth in 1998.

As in the previous year, the rate of utilisation of quotas shifted from low value added items to higher value added items. The quotas in the US market were fully utilised in respect of some items of coats, men's and boys' non-suits, women's and gents' coats, dresses, knit shirts and blouses, men's and boys' not-knit shirts, trousers and dressing gowns. In the Canadian market, the utilisation rates were high in the case of quota items of trousers, overalls and shorts. The largest demand for other quota items in 1998 was in the categories of skirts, nightwear, underwear, shop towels and trousers. The utilisation rates in respect of low value added items such as pillowcases, dish towels, not-knit shirts and blouses were low as manufacturers shifted into high value added items. However, the lower utilisation rates in respect of parkas, anoraks, windcheaters and fine suits has been mainly due to the inadequacy of the necessary technology and skills in Sri Lanka to manufacture these items with the required quality at competitive prices.

When the quota system is fully phased out by 2005, international competition is likely to be intense. In order to face this future challenge successfully, the industry needs to invest in new technology and enhance its skills to improve productivity. Improved information systems, would help the industry respond quickly to changing market conditions, particularly in preferences and designs.

Food, Beverage and Tobacco

The food, beverage and tobacco sub-sector grew by 9.6 per cent and contributed 28 per cent to private sector industrial growth in 1998. Sub sectors such as food, liquor and beverage in this category registered higher output levels. The food sub sector grew further, reflecting higher production of wheat flour, milk products, animal feed, biscuits, sweets and desserts, sugar and processed meat products. The demand for wheat flour increased due to the increased price of rice and growth in food preparation industries. Improvement in quality and more effective distribution channels helped the milk products industry to grow. Some leading manufacturers in this industry operated three production shifts in order to meet the growing demand. The expansion of small scale poultry farming throughout the country increased the demand for animal feed. The introduction of a range of new products in chocolates, biscuits, confectioneries and processed meat were well received by the consumers. Effective advertising and improvements in packaging also helped to raise the demand for these products. With the expansion of capacity, the output of liquor grew by 9 per cent in 1998. A capacity expansion in the beer industry in 1998 enabled it to meet the growing demand effectively. Several new brands and varieties of beer were introduced during the year. Even though prices increased, this did not depress the demand for beer significantly. In Sri Lanka, beer consumption accounts for less than 10 per cent of the total alcohol consumption, whereas in developed countries this ratio is around 80 per cent. Hence, there appears to be untapped potential in the beer industry in Sri Lanka. The growth of this industry ca be facilitated by issuing more licences to increase the network for retail sales of beer.

The beverage sub sector grew by 9 per cent, reflecting the growth of the tea processing and soft drinks industries. The tea processing industry benefited from attractive prices, particularly during the first half of the year. The output of the soft drink industry grew by 29 per cent. Effective advertising campaigns, introduction of new products and improvements in product packaging led to increased demand. The industry also saw improvements in productivity and in the distribution network. Improvements in refrigeration facilities and an increase in the vehicle fleet strengthened the distribution network. An improvement in the supply of fruits due to favorable weather conditions helped the fruit processing industry. With the introduction of new technology and the expansion of production capacity, the production of cordials, canned fruits and jams for export markets increased in 1998. However, the growth potential of this sector has not been fully exploited due to insufficient storage facilitates, lack of commercial cultivation, quality seeds and closer integration between agriculture and industry. Tobacco processing remained sluggish for the second consecutive year. Smuggled cigarettes continued to be a major threat to this industry. The legal restrictions on advertising tobacco products and the greater awareness of tobacco related health problems also reduced the demand for cigarettes especially among the youth. The value of cigarette sales declined by 3.7 per cent, while production declined by 1.5 per cent in 1998.

Chemical, Petroleum, Rubber and Plastic Products

The chemical, rubber and plastic products industry continued to grow, with an 11 per cent increase in output in 1998. Both BOI industries and domestic market oriented industries in this sector grew appreciably. In pharmaceuticals, the high quality and lower prices of domestic products helped the domestic industry to maintain its advantage over imports. Improvements in quality, better packaging and aggressive advertising campaigns helped to increase the demand for consumer products such as detergents, soaps, cosmetics and toothpaste.

The expansion of construction activities in 1998 raised the demand for paints, varnish, PVC and chemical products. The plastic products industry grew as an ancillary industry, supplying packaging materials to the other growing industries and trade. In addition, the domestic production of plastic furniture also increased in 1998. The demand for ayurvedic drugs continued to increase during the year.

Other Products

The fabricated metal product category grew by 11 per cent. Despite the price competition in international markets, BOI manufacturers were able to sell their products in western markets due to the strong marketing links they had with major buyers. The domestic oriented industries, such as those manufacturing furniture and light engineering products, grew further in 1998. The increased substitution of steel based furniture for wooden items due to the scarcity of supply and high price of wood helped the steel furniture industry. Similarly, in construction activity, the use of aluminum instead of wood for products such as door and window frames and partitions increased owing to advantages of price, durability and appearance. The output of building materials increased by 9 per cent in 1998. The demand for electrical items and cables also increased with the growth in construction activities. The manufacture of boats and boat repair activities continued to increase in 1998 owing to increased orders placed by the government. However, as in the previous year, the fabrication of motor coaches and lorries and the manufacture of bulbs declined owing to competition from imports.

The output of non-metallic mineral products increased by 5 per cent, a slightly higher rate than the 4.4 per cent in 1997. The output of processed diamonds, gems and diamond studded jewellery and some ceramic products continued to decline due to depressed demand for these products from the Asia-Pacific region. The output of cement, concrete works, terra-cotta products, ceramic products and asbestos roofing and ceiling sheets increased in 1998. The production capacity of the cement industry expanded in 1998. The growth in building construction increased the demand for asbestos, concrete products and ceramic products such as wall and floor tiles, mosaic wall tiles, sanitary ware and insulators. Productivity in the ceremic sector improved with the use of new machinery. The domestic sales of ceramic tiles increased with intensified sales promotion. Sri Lanka at present supplies less than 2 per cent of the total requirement in the world market. There is substantial growth potential in this industry and attempts should be made to improve Sri Lanka's market share by improving its capacity to meet the requirements of a growing and competitive market.

The output of paper and paper products showed a significant growth owing to growing demand for printed materials, labels, exercise books and calendars, the increase in the circulation of newspapers and the introduction of new magazines. The expansion of other industries stimulated the

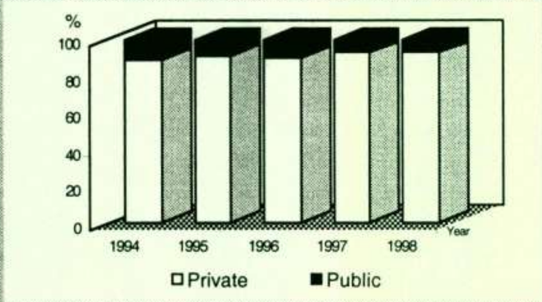
TABLE 4.3
Value of Industrial Production
(Current Prices)

Categories	Rs. Million					Percentage Change	
	1994	1995	1996	1997	1998(a)	1997	1998(a)
1 Food, beverage and tobacco products	45,054	54,927	68,209	75,713	86,994	11.0	14.9
2 Textile, wearing apparel and leather products	80,845	99,602	112,539	142,249	160,543	26.4	12.9
3 Wood and wood products	1,601	1,929	2,171	2,299	2,511	5.9	9.2
4 Paper and paper products	4,066	4,595	5,069	5,462	5,593	7.8	2.4
5 Chemical, petroleum, rubber and plastic products	34,017	38,321	46,936	50,682	59,724	8.0	17.8
6 Non metallic mineral products	14,580	16,740	18,997	21,403	23,830	12.7	11.3
7 Basic metal products	1,909	1,736	2,248	2,439	2,841	8.5	16.5
8 Fabricated metal products, machinery, and transport equipment	7,122	7,977	8,807	11,327	13,241	28.6	16.9
9 Manufactured products not elsewhere specified	4,083	5,271	6,183	7,324	8,197	18.5	11.1
Total	193,277	231,098	271,159	318,898	363,414	17.6	14.0

(a) Provisional

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

Chart 4.4
Private and Public Sector Share in Industrial Production



demand for labels, corrugated cartons and paper boxes. Despite the increased supply of imported items, exercise book production increased owing to the improvement of quality as well as the price advantage over imported exercise books. The output of the wood and wood product category showed a slight decline in 1998, despite the total elimination of import duty on timber in 1996. The export oriented manufacturers were not able to reap the full benefit of this measure owing to increased competition in the international market for wood products. Although the domestic oriented wood products category registered a moderate growth during the year, the growth potential of the industry is severely constrained by the shortage in the domestic supply of timber.

Public Sector Industries

The public sector industrial output grew by 16 per cent in 1998 compared to a contraction of 15 per cent in 1997. The higher growth reflected the contribution from the Ceylon Petroleum Corporation, which accounts for over 90 per cent of total public sector industrial output. The uninterrupted operation of the petroleum refinery resulted in an 18 per cent increase in the output of the Ceylon Petroleum Corporation in 1998. All public sector manufacturing enterprises, except Lanka Salt Ltd. and the National Paper Co. Ltd., have registered higher output levels during the year. Non-metallic mineral products registered the highest growth (30 per cent) followed by wood and wood products (23 per cent), chemical, petroleum, rubber and plastic products (18 per cent) and food, beverages and tobacco (5 per cent). However, production in the public sector paper and paper products category declined by 23 per cent.

With the establishment of latex collecting centers in rubber growing areas in 1997, the Sri Lanka Rubber Manufacturing and Exports Corporation Ltd. was able to purchase an increased volume of raw rubber, which enabled it to increase its output by 10 per cent in 1998. The output of the State Timber Corporation rose by 23 per cent. The Forest Department allocated more forest areas for felling operations during the year. The output of Sevanagala Sugar Industries Ltd. rose by 16 per cent in 1998, reflecting the increased supply of sugarcane. The area harvested by the Sevenagala factory increased to 2,422 hectares in 1998 from 2,377 hectares in 1997, while the quantity of cane crushed rose to 197,000 metric tons from 169,000 metric tons. The output of Lanka Mineral Sands Ltd. rose by nearly 51 per cent owing to the availability of more storage facilities and uninterrupted production in 1998, compared to the previous year in which production had been suspended for more than seven months due to the security related problems in the East. The output of Lanka Phosphate Ltd. increased by 24 per cent, mainly due to growing demand for phosphate, particularly from the domestic agricultural sector.

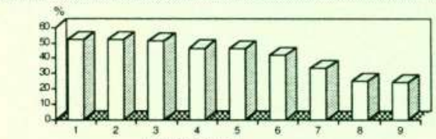
The output of Lanka Salt Ltd. declined by 22 per cent in 1998 mainly due to bad weather conditions. Output of the National Paper Co. Ltd. declined by 23 per cent due to the disruption to the power supply in the Valachchenai mill and the frequent break down of machinery at Empilipitiya.

4.3 Value Added and Capacity Utilisation

The value added in the industrial sector increased in nominal terms by 15.4 per cent in 1998 owing mainly to a reduction in the cost of imported raw materials. Value added, in real terms, increased by 7.5 per cent during the year. The value addition, as a percentage of total value of production, increased marginally to 37.5 per cent in 1998. The value added ratios in wood and wood products, non metallic mineral products and fabricated metal products were above 50 per cent. In the chemicals, petroleum, rubber and plastic products it was 24 per cent. In basic metal products it was 25 per cent. The value added ratios were relatively high in food, beverages and tobacco products; paper and paper products and other industrial products. Domestic value addition in the textiles, wearing apparel and leather products was 34 per cent. This has been increasing over the last five years.

The installed capacity of the non-BOI industrial sector expanded by a further 4.0 per cent in 1998. Benefitting from the removal of import duties on machinery and equipment under the Advanced Technology Incentive Programme and the continuation of the policy of a lower National Security Levy (0.5 per cent), the non-BOI industries have imported a considerable

Chart 4.5
Value Added Percentages in Industrial Production-1998



1 Wood and wood products
2 Non-metallic mineral products
3 Fabricated metal products
4 Food, beverage and tobacco products
5 Paper and paper products
6 Products not elsewhere specified
7 Textile, wearing apparel and leather products
8 Basic metal products
9 Chemical, rubber, petroleum and plastic products

TABLE 4.4
Public Sector Major Industry Output Index

1977 = 100

Categories	1994	1995	1996	1997	1998(a)	Percentage Change 1997	Percentage Change 1998(a)
1 Food, beverage and tobacco products	9.3	10.2	9.2	8.6	9.4	-6.2	9.0
2 Textile, wearing apparel and leather products	-	-	-	-	-		
3 Wood and wood products	22.0	26.3	31.7	34.0	41.7	7.4	22.8
4 Paper and paper products	187.8	173.2	152.2	136.2	104.4	-10.5	-23.4
5 Chemical, petroleum, rubber and Plastic products	126.3	118.0	132.0	116.8	137.7	-11.5	17.9
Petroleum products	134.2	124.2	138.9	122.8	144.8	-11.6	17.9
6 Non metallic mineral products	5.5	5.9	6.8	4.7	6.0	-31.7	29.6
7 Basic metal products	130.8	95.0	116.5	-	-		
8 Fabricated metal products, machinery, and transport equipment	-	-	-				
All Categories	83.8	78.0	86.2	72.2	83.5	-16.3	15.6
Excluding Petroleum	27.7	24.5	25.1	13.5	12.2	-46.4	-9.7

(a) Provisional. Source: Central Bank of Sri Lanka

TABLE 4.5
Value Added in Industry
(Current Prices)

Categories	Rs. Million					Percentage Change	
	1994	1995	1996	1997	1998(a)	1997	1998(a)
1 Food, beverage and tobacco products	24,373	29,507	32891	35585	40452	8.2	13.7
2 Textile, wearing apparel and leather products	20,660	24,859	31184	40714	47494	30.6	16.7
3 Wood and wood products	1,081	1,177	1250	1257	1312	0.6	4.4
4 Paper and paper products	2,301	2,458	2580	2633	2578	2.1	-2.1
5 Chemical, petroleum, rubber and plastic products	5,758	6,898	8957	10745	14274	20.0	32.8
6 Non metallic mineral products	9,272	9,726	10537	11600	12463	10.1	7.4
7 Basic metal products	356	347	450	598	710	32.9	18.7
8 Fabricated metal products, machinery, and transport equipment	4,344	4,547	4809	5924	6779	23.2	14.4
9 Manufactured products not elsewhere specified	1,838	2,319	2763	3157	3426	14.3	8.5
Total	69,983	81,838	95,421	112,213	129,488	17.6	15.4

(a) Provisional Sources: Central Bank of Sri Lanka

amount of machinery. As in the previous year, the highest capacity expansion (of 5.5 per cent) was in the textile, apparel and leather product sub sector. The installed capacity in many industrial categories showed improvements during the year. The major improvements were in food, beverage and tobacco products (3.9 per cent); paper and paper products (4.3 per cent); chemical, petroleum, rubber and plastic products (2.8 per cent); non-metallic mineral products (2.3 per cent) and basic metal products (3.1 per cent). The overall capacity utilisation ratio of the industrial sector remained unchanged at 84 per cent in 1998.

4.4 Cost of Production, Profitability and Employment

The average ex-factory profit ratio (profits as a percentage of ex-factory value of industrial production) of the 475 non-BOI firms declined from 14.9 per cent in 1997 to 12.5 per cent in 1998. This is due to the increase in cost of production as well as slow growth or decline in output prices. In absolute terms, wages, energy, raw material and other costs increased in 1998. The cost of imported raw materials as a percentage of total cost of production, declined marginally to 42.5 per cent in 1998 from 43.0 per cent in 1997. Many exporters had offered higher discounts to retain their export orders. The increase in the electricity cost following the imposition of GST also affected the profitability of the industrial sector. The profitability declined in many industrial categories during the year. Improvements in labour productivity in many industrial categories helped to avoid larger decline in profitability in the face of increased costs. The highest profitability was in the textile, apparel and leather product category (20.7 per cent). However, this was a decline from the 23.9 per cent in 1997. Profitability of the non-metallic mineral products category declined from 14.8 per cent in 1997 to 9.4 per cent in 1998. The profitability of the paper and paper products category improved from 10.9 per cent in 1997 to 11.5 per cent in 1998 owing to a reduction of cost.

TABLE 4.6

Ex-Factory Profit Ratios of Non-BOI Private Sector Industries (a)

Categories	Total Cost of Production (Rs. Mn.)		Total Value of Production (Rs. Mn.)		Factory Profit Ratio (percentage)	
	1997	1998	1997	1998	1997	1998
1 Food, beverage and tobacco products	45,713	52,611	52,604	59,180	13.1	11.1
2 Textile, wearing apparel and leather products	14,571	17,329	19,147	21,866	23.9	20.7
3 Wood and wood products	881	977	1,011	1,097	12.9	10.9
4 Paper and paper products	3,080	3,372	3,457	3,810	10.9	11.5
5 Chemical, petroleum, rubber and Plastic Products	13,078	15,377	14,828	17,067	11.8	9.9
6 Non metallic mineral products	8,903	12,043	10,450	13,292	14.8	9.4
7 Basic metal products	1,035	1,221	1,192	1,389	13.2	12.1
8 Fabricated metal products, machinery, and transport equipment	7,070	7,648	8,230	8,740	14.1	12.5
9 Manufactured products not elsewhere specified	2,867	3,285	3,240	3,642	11.5	9.8
Total	97,198	113,863	114,159	130,083	14.9	12.5

(a) Based on information received from 475 non-BOI private sector firms.

Sources: Central Bank of Sri Lanka

TABLE 4.7

Domestic Cost Structure of Non-BOI Private Sector Industries (a)
(As a percentage of total cost of production)

Categories	Domestic Cost (percentage)							
	Power & Fuel		Wage		Raw Material		Interest	
	1997	1998	1997	1998	1997	1998	1997	1998
1 Food, beverage and tobacco products	2.5	2.7	9.3	9.0	41.3	41.0	2.1	1.7
2 Textile, wearing apparel and leather products	4.6	4.6	16.7	16.2	15.4	16.7	2.8	2.1
3 Wood and wood products	8.1	8.4	17.9	18.1	36.6	37.9	4.9	3.9
4 Paper and paper products	2.0	2.1	12.4	12.4	14.1	13.8	5.1	4.7
5 Chemical, petroleum, rubber and Plastic Products	3.9	4.1	12.4	12.5	31.5	29.7	3.9	3.3
6 Non metallic mineral products	16.4	16.1	16.1	15.4	20.1	20.8	4.4	4.4
7 Basic metal products	7.8	7.9	10.1	10.8	34.6	33.9	4.2	3.8
8 Fabricated metal products, machinery, and transport equipment	2.8	3.1	9.8	10.5	22.3	21.9	4.1	3.8
9 Manufactured products not elsewhere specified	4.7	4.8	12.5	11.9	38.2	39.1	3.2	2.0
Total	4.5	4.7	11.8	11.6	31.7	31.4	3.0	2.5

(a) Based on information received from 475 non-BOI private sector firms.

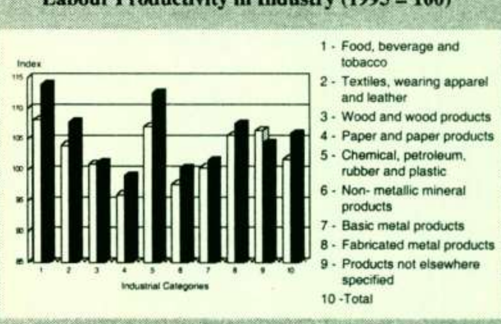
Sources: Central Bank of Sri Lanka

The labour cost, as a percentage of total cost of production, declined slightly from 11.8 per cent in 1997 to 11.6 in 1998. The share of energy costs increased from 4.5 per cent in 1997 to 4.7 per cent in 1998. The energy cost, in nominal terms, increased by 24.2 per cent during the year. Energy formed the principal element in the total cost of production of non-metallic mineral products; wood and wood products and basic metal products. The share of energy in the total cost of production is low in food, beverage and tobacco products and paper and paper products. The proportion of expenditure on interest declined slightly in 1998, from 3.0 per cent in 1997 to 2.5 per cent in 1998. Some companies however had obtained capital for investment in new projects at comparatively high costs and this share of interest cost in the total cost of production was relatively higher.

Labour Productivity in Industry

The industrial production survey of the Central Bank of Sri Lanka indicated an improvement of labour productivity by 4.1 per cent. Increases were seen in all major industrial categories. Measures have been put in place to improve labour productivity. These took the form of skills development programmes for workers. Upgrading of machinery, improved work conditions and improved management which have contributed to labour

Chart 4.6
Labour Productivity in Industry (1995 = 100)



productivity. The labour productivity improved in food, beverage and tobacco products (5.3 per cent); textile, apparel and leather product (3.7 per cent); non-metallic mineral products (5.0 per cent) and paper and paper products (3.1 per cent).

Employment in Industry

Employment in the industrial sector increased by 10.5 per cent in 1998, reflecting increased labour absorption in BOI and non-BOI industries. Employment in BOI industries increased by 14 per cent, while the employment in the non-BOI sector increased by 2.7 per cent. According to BOI sources, although employment opportunities for skilled labour were available in the export processing zones, the vacancies could not be filled due to shortage of workers with the required skills. Some industries were able to reduce their casual labour without affecting the production during the year. The introduction of capital intensive new technology also helped to reduce the less productive workers. Employment in the industrial categories of wood and wood products and fabricated metal products increased by over 7 per cent. Employment increases were also seen in food, beverage and tobacco products (3.4 per cent), textile, apparel and leather products (3.7 per cent), and basic metal products (4.5 per cent). There has been a reduction of employment in non-metallic mineral products by 2.3 per cent in 1998.

TABLE 4.8

Labour Productivity Index in the Non-BOI Private Sector (a)

1995 = 100

Categories	1997	1998	% Change
1 Food, beverage and tobacco products	108.2	113.9	5.3
2 Textile, wearing apparel and leather products	104.0	107.8	3.7
3 Wood and wood products	101.0	101.3	0.3
4 Paper and paper products	96.0	99.0	3.1
5 Chemical, petroleum, rubber and plastic products	107.1	112.5	5.0
6 Non metallic mineral products	97.7	100.3	2.7
7 Basic metal products	100.4	101.6	1.2
8 Fabricated metal products, machinery, and transport equipment	105.7	107.5	1.7
9 Manufactured products not elsewhere specified	106.4	104.4	-1.9
Total	101.8	106.0	4.1

Source: Central Bank of Sri Lanka

(a) Based on information received from 475 non-BOI private sector firms

Investment

Foreign Investment

The international environment for foreign private investment in the Asian region remained depressed. Nevertheless, Sri Lanka continued to attract a slightly higher amount of foreign private investment in 1998. The Board of Investment of Sri Lanka (BOI), which functions as the main government agency for the promotion of foreign investment, undertook several investment promotion missions, to the USA, India, Singapore, Germany, Italy, Thailand and Belgium, in 1998. Business delegations from the Indian Chamber of Commerce and Industry, and the Confederation of Asia Pacific Chambers of Commerce visited Sri Lanka to search for new investment opportunities. Special missions from Australia, Germany and China also visited Sri Lanka to look for investment opportunities. The realised investment of the BOI industries increased by 17.6 per cent in 1998, from Rs. 27,375 million in 1997 to Rs.32,209 million in 1998.

The BOI, under Section 17 of the BOI Law, approved 400 new investment projects, as compared to 328 projects approved in the previous year. The total investment commitment of approved projects increased from Rs.73,607 million in 1997 to Rs.158,107 million in 1998. Of the projects approved in 1998, 82 were entirely foreign owned, 108 were joint ventures and 210 were entirely domestically owned. The expected employment generation of these projects was estimated at 92,012 persons. The foreign component of these projects was about 72 per cent of the total approved investment in 1998. Australia, China, France, Hong Kong, Japan, Korea, the Netherlands, and the USA were the source countries for this investment. Among the approved projects in 1998, 131 projects were in the textile, apparel and leather product category, 34 in the food, beverage and tobacco category and 25 in the chemical, petroleum, rubber and plastic product category, while the balance was in various other categories including services.

As in the previous year, the number of contracted projects also registered a considerable improvement. The BOI signed agreements in respect of 229 projects with an investment commitment of Rs.48,635 million in 1998 compared to 185 projects with an investment commitment of Rs 39,820 million in 1997. The foreign component was estimated at Rs.25,847 million or 53 per cent of the total investment of the contracted

TABLE 4.9

Employment in Private Sector Industries

Categories	1997	1998	% Change
(i) Non-BOI Private Sector (a)			
1 Food, beverage and tobacco products	25,282	26,132	3.4
2 Textile, wearing apparel and leather products	34,599	35,865	3.7
3 Wood and wood products	2,166	2,334	7.8
4 Paper and paper products	6,135	6,261	2.1
5 Chemical, petroleum, rubber and Plastic Products	20,815	21,215	1.9
6 Non metallic mineral products	13,293	12,991	-2.3
7 Basic metal products	783	818	4.5
8 Fabricated metal products	5,968	6,538	9.6
9 Manufactured products not elsewhere specified	5,624	5,590	-0.6
Sub Total	114,665	117,744	2.7
(ii) BOI Enterprises	258,185	294,381	14.0
Total	372,850	412,125	10.5

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

(a) Based on information received from 475 non-BOI private sector firms

TABLE 4.10

Realised Investments in BOI Enterprises (a)

Categories	No. of Enterprises		Foreign Investment (Rs. Mn.)		Total Investment (b) (Rs. Mn.)	
	1997(c)	1998(d)	1997(c)	1998(d)	1997	1998(d)
1 Food, beverage and tobacco products	92	149	4,253	5,200	7,923	11,392
2 Textile, wearing apparel and leather products	287	386	15,456	16,819	21,843	25,021
3 Wood and wood products	21	26	514	671	689	935
4 Paper and paper products	14	22	438	461	688	649
5 Chemical, petroleum, rubber and plastic products	76	101	5,920	7,121	7,173	9,370
6 Non metallic mineral products	48	66	1,035	3,044	1,985	4,841
7 Fabricated metal products, machinery, and transport equipment	25	35	1,185	2,832	1,817	3,616
8 Manufactured products not elsewhere specified	122	171	4,207	5,646	6,179	8,853
9 Services	300	402	45,679	58,438	70,700	86,529
Total	985	1,358	78,687	100,232	118,997	151,206

(a) Cumulative as at end year
(b) Projects approved under Section 17 of the Board of Investment Law
(c) Revised
(d) Provisional

Source: Board of Investment of Sri Lanka

TABLE 4.11

Employment and Export Earnings of BOI Enterprises

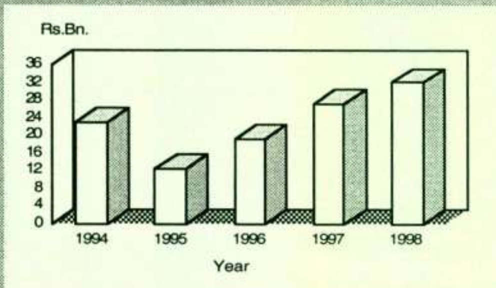
Categories	Employment (End Dec)		Gross Export Earnings (Rs.Mn) (F.O.B)	
	1997	1998(a)	1997	1998(a)
1 Food, beverage and tobacco products	8,625	11,699	5,653	9,333
2 Textile, wearing apparel and leather products	161,321	189,395	98,203	114,721
3 Wood and wood products	3,147	2,723	396	380
4 Paper and paper products	1,011	871	1,144	1,133
5 Chemical, petroleum, rubber and plastic products	22,319	25,699	17,260	20,300
6 Non metallic mineral products	9,709	10,920	6,496	5,657
7 Fabricated metal products, machinery, and transport equipment	1,681	2,503	1,685	3,424
8 Manufactured products not elsewhere specified	31,563	31,538	15,143	16,649
9 Services (b)	18,809	19,033	8,908	9,884
Total	258,185	294,381	154,888	181,480

(a) Provisional.
(b) Excluding Air Lanka Ltd.

Source: Board of Investment of Sri Lanka

projects. Of the 1,693 projects contracted up to end 1998, 927 enterprises with an investment commitment of Rs.118,207 million were in commercial operation at end 1998. The foreign investment component of these projects was estimated at Rs.73,836 million or 62 per cent of the total investment. The potential employment of these projects is estimated at 254,505 persons. By the end of 1998, there were 96 projects in the Export Processing Zone (EPZ) in Katunayake, 58 in the Biyagama EPZ, 11 in the Koggala EPZ, 2 in the Mirigama EPZ, 4 in the Malwatta Export Processing Park, 4 in the Kandy Industrial Park and 752 enterprises outside the export processing zones, of which most are in the garment sector.

Chart 4.7
Realised Investment of the BOI



During 1998, the BOI had approved 90 projects under Section 16 of the BOI Law (normal Law). The total investment commitment of these projects amounted to Rs.5,205 million, while the foreign component was Rs.2,645 million or 50 per cent. The estimated employment of these projects was 3,164 persons, compared to 4,046 persons in the projects approved in the previous year. Of the total approved projects, 42 projects were entirely foreign owned and 47 projects were joint ventures.

Under Section 16 of the BOI Law, 397 projects were in commercial operation at end 1998. The total estimated investment in these projects was Rs.18,416 million, of which Rs.9,689 million or 52 per cent was from foreign sources.

Local Investment

The domestic investment commitment of the 400 projects approved under Section 17 of the BOI Law during 1998 was Rs.44,122 million and accounted for 28 per cent of the total investment commitment. The estimated local investment of the projects that signed agreements in 1998 was Rs.19,787 million or 40 per cent of the total investment. The share of the local investment in 927 commercially operated projects under the BOI amounted to Rs.44,370 million or 38 per cent of the total investment at end 1998. A significant portion of the investments was in enterprises located outside the EPZs.

The total investment in 1,731 enterprises registered under the Ministry of Industrial Development amounted to Rs. 89,728 million as at end 1998. The employment potential of these industries is estimated at 292,841 persons. These investments were mainly in the industrial categories of textile, apparel and leather products; chemical, rubber and plastic products; food, beverage and tobacco products and non-metallic mineral products.

4.6 Availability of Credit to the Industrial Sector

The amount of credit available to the industrial sector from commercial banks and long-term lending institutions increased during the year. The National Development Bank (NDB) and DFCC Bank continued to provide long-term financial facilities in the form of direct loans and equity participation, while the commercial banks provided mostly short-term financial facilities as working capital. In addition, the NDB provided refinance under the Small and Medium Enterprise Assistance Project (SMAP), which was launched in 1997, using the funds raised by the NDB jointly from foreign commercial sources and the Asian Development Bank (ADB).

During 1998, the NDB and DFCC Bank together have approved financial facilities amounting to Rs.22,016 million to the industrial sector compared to Rs.15,575 million approved in 1997, an increase of 41 per cent. The food, beverages and tobacco product category and chemical, petroleum, rubber and plastic products category received a large portion of these financial facilities. Rs.3,864 million has been approved in respect of 439 projects in the food, beverages and tobacco category, while Rs.2,743 million has been approved in respect of 277 projects in the chemical, petroleum, rubber and plastic products category. During the first nine months of the year, commercial banks provided credit facilities amounting to Rs.27 billion to the industrial sector, as against Rs.25 billion lent during 1997. The rate of growth of industrial credit granted by commercial banks during the first three quarters of 1998 was approximately 12 per cent.

During the year, the NDB approved Rs.1,336 million of refinance under the SMAP in respect of 1,313 projects. Of this, credit amounting to Rs.263 million was approved in respect of 225 projects in the food, beverages and tobacco products category, Rs.170 million in respect of 127 projects in the chemical, petroleum, rubber and plastic products category and Rs.107 million in respect of 97 projects in the wood and wood products category. The NDB provided equity finance amounting to Rs.1,229 million for 12 projects in 1998, compared to Rs.418 million for 8 projects last year. Of this Rs.1,229 million, about Rs.530 million was provided for 3 projects in the chemical, petroleum, rubber and plastic products category. Direct financial assistance remains the major source of industrial credit from the NDB. During the year, the NDB approved Rs.14,963 million worth of direct financial assistance in respect of 809 projects,

Chart 4.8
Approved and Contracted BOI Projects

Chart 4.8.1
Approved and Contracted Projects

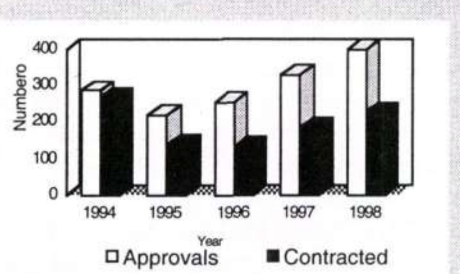


Chart 4.8.2
Approved and Contracted Investments

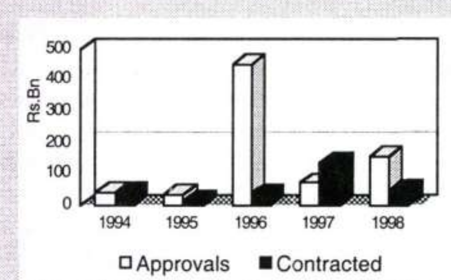


TABLE 4.12

Financial Assistance to the Industrial Sector by the NDB and DFCC Bank - 1998 (a)

Categories	Refinance Approved under SMAP		NDB						DFCC						Grand Total	
			Direct Finace Assistance(b)		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.
1 Food, beverage and tobacco products	225	263	65	1,982	1	60	291	2,305	148	1,559	-	-	148	1,559	439	3,864
2 Textile, wearing apparel and leather products	70	70	52	663	1	75	123	808	66	1,039	-	-	66	1,039	189	1,847
3 Wood and wood products	97	107	41	102	-	-	138	209	42	50	-	-	42	50	180	259
4 Paper and paper products	-	-	27	499	-	-	27	499	25	100	-	-	25	100	52	599
5 Chemical, petroleum, rubber and plastic products	127	170	94	1,219	3	530	224	1,919	53	824	-	-	53	824	277	2,743
6 Non metallic mineral products	-	-	2	17	-	-	2	17	13	429	-	-	13	429	15	446
7 Basic metal Products	-	-			-	-	-	-	9	51	-	-	9	51	9	51
8 Fabricated metal products, machinery, and transport equipment	-	-	-	-	-	-	-	-	74	436	-	-	74	436	74	436
9 Manufactured products not elsewhere specified	794	726	528	10,481	7	564	1,329	11,771	-	-	-	-	-	-	1,329	11,771
Total	1,313	1,336	809	14,963	12	1,229	2,134	17,528	430	4,488	-	-	430	4,488	2,564	22,016

(a) Provisional
(b) Projects and Equipment Finance Loans only

Sources: Development Finance Corporation of Ceylon Bank
National Development Bank

up from Rs.11,647 million approved in respect of 733 projects in the previous year. The amount of loans approved increased by 29 per cent over the previous year, while the number of projects approved increased by 10 per cent. A large number of projects in the food, beverages and tobacco products category and chemical, petroleum, rubber and plastic products category have absorbed a significant amount of this financial assistance.

The number of projects and the amount of credit approved by DFCC Bank increased considerably in 1998. During the year, DFCC Bank approved credit amounting to Rs.4,488 million in respect of 430 industrial projects compared to Rs.3,380 million approved in respect of 337 projects in 1997. Of the Rs.4,488 million, Rs.1,559 million was approved in respect of 148 projects in the food, beverages and tobacco products category, Rs.1,039 million was approved in respect of 66 projects in the textiles, wearing apparel and leather products category and Rs.824 million was approved in respect of 53 projects in the chemical, petroleum, rubber and plastic products category.

4.7 Industrial Policy

The main objectives of the industrial policy of the government are expansion, diversification and upgrading of the domestic industrial base, efficient management of physical and manpower resources, creation of new employment opportunities in both rural and urban sectors, export promotion and the promotion of industrialisation at the regional level. These objectives are expected to be achieved by making the macro economic environment conducive to rapid industrial growth, encouraging private sector participation, promoting direct foreign investment, facilitating the expansion of small and medium sector industries, promoting regional industrialisation, encouraging commercialisation of research and development and promoting linkages between large and small firms.

A Presidential Trade and Tariff Commission was appointed to rationalise the existing tariff structure. The Commission recommended a reduction of the prevailing tariff rates and a move towards a two band tariff structure in two stages. The government Budget for 1999 also indicated that a two band tariff structure would be introduced in the year 2000. The standard duty rates of 10, 20 and 35 per cent were replaced with 5, 10 and 30 per cent, respectively. Accordingly, all imported industrial raw material and machinery were brought under a duty rate of 5 per cent. This measure is expected to reduce the cost of production and thereby enhance the competitiveness of Sri Lankan products.

The Presidential Trade and Tariff Commission has also recommended a complete review of the Customs Ordinance and systems and procedures to improve Customs administration. The improvement of the efficiency of the Customs would assist export oriented industries by way of timely delivery of finished products and quick access to raw materials, which are crucial to maintaining competitiveness in the global market. In this regard, the 1999 Budget proposed the appointment of a committee of experts from both the public and the private sector to undertake a complete review of the Customs Ordinance and systems and procedures. The 1999 Budget also proposed extending the servicing hours of Sri Lanka Customs and the Ports Authority without any additional cost to the exporters.

The government took several measures to improve industrial and social infrastructure facilities. The expansion of telecommunication services, power generation, port development, industrial parks and industrial townships are expected to encourage industrial investment. In order to overcome the problem of a lack of skilled labour, the 1999 Budget proposed to set up a Skills Development Fund to encourage employers to conduct job entry training, upgrading and retraining of their employees, as well as to improve enterprise based training. In addition, measures are needed to make the labour market more flexible. This would include the introduction of necessary reforms to the existing labour laws, which are often viewed as discouraging private investment.

The duties on textiles and other related raw materials were abolished in the 1998 Budget to overcome the Customs related problems faced by the export oriented garment manufacturers who rely heavily on imported raw materials. Accordingly, the import of yarn, fabrics and all related intermediate and capital goods was made duty free from November 1997. This measure is expected to eliminate Customs delays, smuggling and under invoicing and also to reduce the lead time of exports. A 10 per cent Customs duty was imposed on imports of ready-made garments to encourage the domestic garment industry, while a restructuring programme for the textiles industry was launched to assist the industry to modernise its mills and to introduce new generation technology.

Incentives to the Industrial Sector

The fiscal incentives offered through the 1996 Budget were extended for a further period of two years in the 1998 Budget in order to encourage the use of advanced technology. This scheme offers duty free importation of approved machinery and equipment for new enterprises investing over Rs.4 million and Rs.1 million for existing enterprises and a five year tax exemption on incremental profits. The minimum investment requirements relating to the importation of approved machinery and equipment were removed in the 1999 Budget with a view to encouraging small scale enterprises to acquire advanced technology. However, income tax concessions are extended only if the investment proposals are above the prevailing minimum level of investment. Under this scheme, approvals have been given for 142 new enterprises with a total investment commitment of Rs.10,883 million, and for 378 existing enterprises with a total investment commitment of Rs.23,270 million as at end 1998. During this period, Rs.22,465 million worth of machinery and equipment has been imported under this scheme. The potential employment of these projects is estimated to be 31,771 persons.

With a view to encouraging private sector involvement in training facilities in priority sectors such as gems and jewellery, electronics, computer software and garments, the 1999 Budget proposed to amend the BOI incentives to grant a 5 year tax holiday, provided that each training institute undertakes training for a minimum of 300 persons. Prior to this amendment, the BOI provided a preferential tax rate of 15 per cent and a duty free facility to establish training facilities. It was also proposed to provide financial assistance to expand and improve existing training institutions and to establish new training facilities. The proposed Skills Development Fund is expected to support employers to conduct job entry training, upgrading and retraining of their employees as well as to improve enterprise based training.

Following the recommendations made by the Development Review Committees of the Advisory Councils for Industry, certain industries such as electronics and components for assembling, ceramics and glassware, rubber based industries, light and heavy engineering, cutting and polishing of gems, diamonds and manufacture of jewellery were declared as 'thrust industries'. Special incentives were made available to promote such industries in 1998. New enterprises, which establish such industries in designated zones with a minimum investment of Rs.50 million, create 50 new employment opportunities and export over 90 per cent of output, are eligible for a 10 year tax holiday with other BOI incentives and concessions. Non-BOI enterprises that have already engaged in a thrust industry are permitted to import plant and machinery on a duty free basis to modernise existing factories. In addition to these duty free concessions, a 5 year tax holiday is granted to those enterprises which reach the 50 per cent export requirement within a period of 5 years, while a 10 year tax holiday and full BOI status would be granted to those enterprises which comply with the 90 per cent export requirement. Further, investors investing their undisclosed accumulated income in thrust industries were declared eligible for a tax/exchange control amnesty. Those engaged in the gold, gem and jewellery industry were also given a host of other incentives, including exemption from income tax and National Security Levy and duty free import of gems and gold.

The 'Restructuring Programme for the Textile Industry', introduced after the liberalisation of textile imports in 1998, is expected to encourage domestic textile manufacturers in introducing new generation technology to increase efficiency and competitiveness. A special fund known as the Textile Debt Recovery Fund was set up to transfer all outstanding loans, together with accrued interest of the textile manufacturers. Upon transferring the outstanding debt to the Fund the enterprises become eligible to obtain new financial assistance for modernisation and restructuring of the mills against the collateral/mortgage already furnished as security for previous loans. By end 1998, about 128 entrepreneurs had submitted applications to avail themselves of relief offered under this restructuring programme. Of these, 101 applications have been considered favorably and their total debt outstanding, amounting to Rs.3,781 million, has been transferred to the Textile Debt Recovery Fund (TDRF). Of the claims relating to these 101 entrepreneurs, five have already been finalised and the rest are being processed. The government has already paid Rs.204.2 million to the banks, (Rs.97.6 million principal and Rs.106.7 million interest) in respect of the debts transferred to the TDRF. By the end of 1998, one entrepreneur had already undertaken a modernisation project and it is expected that more will start modernisation of their factories, once the relevant agreements

TABLE 4.13

Projects Approved under the Advanced Technology Incentive Scheme as at end 1998 (a)

Categories	New			Existing			Total		
	No	Investment Rs.Mn	Potential Employ-ment	No	Investment Rs.Mn	Potential Employ-ment	No	Investment Rs.Mn	Potential Employ-ment
1 Food, beverage and tobacco products	20	2,204	1,468	67	6,152	3,810	87	8,356	5,278
2 Textile, wearing apparel and leather products	13	705	1,007	40	1,832	2,640	53	2,537	3,647
3 Wood and wood products	5	220	432	9	203	505	14	423	937
4 Paper and paper products	11	664	838	36	1,437	1,425	47	2,101	2,263
5 Chemical, petroleum, rubber and plastic products	38	1,642	2,241	110	5,039	5,688	148	6,681	7,929
6 Non metallic mineral products	7	1,408	531	9	428	645	16	1,836	1,176
7 Basic metal Products	5	1,004	824	15	1,044	840	20	2,048	1,664
8 Fabricated metal products, machinery, and transport equipment	12	665	897	50	2,452	2,553	62	3,117	3,450
9 Manufactured products not elsewhere specified	20	1,838	1,827	20	689	803	40	2,527	2,630
10 Services	11	533	609	22	3,994	1,574	33	4,527	2,183
Total	142	10,883	10,674	378	23,270	20,483	520	34,153	31,157

(a) Provisional

Source: Ministry of Industrial Development

are signed. A full interest subsidy for those textile manufacturers who are classified as good customers of the banks was also introduced. These manufacturers were also allowed to import project related machinery, equipment, parts and inputs, including raw materials and accessories for the textile industry, on a duty free basis. The government has also decided to procure from these manufacturers the requirements of fabric materials for school uniforms, uniform requirements of service personnel and items such as bandages and gauze for the health sector and uniform requirements of the Postal and Railway Departments etc., commencing from January 1999, until their products reach the quality standards demanded by international markets. For the purpose of implementing this procurement plan, a Domestic Textile Allocation Committee (DTAC) has been set up in the Ministry of Industrial Development to assess the fabric requirements of government institutions and to identify the manufacturers eligible to receive these orders on a quota basis.

To promote regional industrialistion the government has also introduced an incentive scheme aimed at promoting geographical dispersion of industries. Accordingly, any BOI or non-BOI enterprise in commercial operation would be entitled to receive incentives offered by the BOI, provided that such enterprise sets up an expansion unit or relocates in a zone designated as a 'difficult area' or a 'most difficult area' before 31 December 1998, employs a minimum of 150 persons and exports a minimum of 50 per cent of the output. The minimum export requirement will be 90 per cent in the case of the garments industry. An enterprise in commercial operation setting up an expansion unit or relocating to 'difficult area' or a 'most difficult area' will be entitled to 5 year and 8 year tax holiday periods, respectively, along with other BOI incentives. It was also proposed to grant an additional 5 year tax holiday and other incentives to existing BOI enterprises currently located in difficult and most difficult areas for expansion at the same location for the manufacture of garments, ancillary products or other related items for the garment industry and for setting up of specialised training centres in advanced technology, provided that such enterprises are commissioned before 31 December 1998 and the enterprise provides employment for a minimum of 100 persons. Although this incentive scheme was to expire in 1998, it has been extended till 31 December 1999, in the 1999 Budget.

National Productivity Decade Programme

The National Productivity Decade Programme, launched in 1997 with the objective of improving productivity in both the private and public sectors, continued in 1998. The year 1998 was considered an important year in the implementation of the productivity programme, in view of the emphasis placed on productivity improvement in the public sector, carrying the message of productivity to peripheral areas and formulating a strategic Five Year Plan for productivity improvement. The Five Year Plan aims to improve productivity in the public, private and non-corporate sectors through leadership improvement, human resource development, information technology (IT) improvement, improvement of utilisation of finances and introduction of reforms to rules, regulations and procedures. According to the Ministry of Industrial Development, the Five Year Plan will be implemented from 1999. The Ministry of Industrial Development paid special attention to popularising worker participation techniques and enhancing awareness on productivity themes among employees, manufacturers and the general public. Productivity cells have been set up in almost every ministry and liaison officers have been appointed to co-ordinate the productivity improvement activities of the respective ministries, departments and public sector organisations. Radio discussion programmes that stressed the need for awareness creation among the public on productivity improvement themes were given priority. During 1998, 50 English programmes, 50 Sinhala programmes and 52 children's programmes were broadcast.

4.8 Industry Location

Many industrialists prefer to locate their factories in the Colombo and Gampaha districts, owing to the availability of relatively better infrastructure facilities in these districts and the close proximity to the sea and air port. The concentration of industries in these districts has created several economic and social problems, including congestion in the capital city, scarcity of labour for industries, environmental pollution and escalation of real estate prices. The government has taken several policy measures in the recent past to minimise excessive concentration of industries in these areas and to discourage migration of people to those areas for employment and investment purposes. The most important measures taken by the government in this regard include the introduction of the Two Hundred Garment Factory Programme and the Fifty Garment Factory Programme, the establishment of mini Export Processing Zones or Parks in Kandy, Malwatta, Watupitiwala, and Mirigama, the introduction of the regional industrial parks, industrial estates and industrial township programme, the implementation of the Southern Development Programme and the provision of fiscal incentives to set up industries in designated difficult and most difficult areas of the country.

To overcome inadequate infrastructure facilities in the regions, the government launched the regional industrial parks programme. The Seethawaka Industrial Park established under this programme has completed its construction work in 1998 by providing infrastructure facilities such as factory buildings, access roads, electricity, water, telecommunication and waste disposal facilities. Selling of factory lots in the Seethawaka Industrial Park commenced in July 1998. The more environment friendly industries such as food processing, gems and jewellery, garments, electronic and electronic products, wooden furniture, rubber based industries and assembling of electronic components are encouraged in this park. A preliminary report on the construction of the Matugama Industrial Park, covering 300 acres, has already been prepared. State land, 105 acres in extent in Bata-atha in the Southern province, is being developed to set up an industrial park for the tanning industry, with the necessary infrastructure facilities including waste water disposal plant, chrome recovery units and a solid waste disposal system.

The BOI has taken steps to set up mini Export Processing Zones in Malwatta, Mirigama and Watupitiwala by providing the required infrastructure facilities. The Malwatta mini EPZ will accommodate 11 industries, after completion of its construction work. The potential employment of this project is estimated at 5,000 persons. The Mirigama mini EPZ, extending over 40 hectares has a capacity for 15 industrial units. The first phase of the construction of this park is expected to be completed in mid 1999. The Watupitiwala mini EPZ consists of 27 hectares for 20 industrial plots.

Under the regional industrial estate development programme, construction work in twelve industrial estates at Homagama, Minuwangoda, Karandeniya, Beliatta, Pannala, Udukawa, Matale, Dankotuwa, Ampara, Kuruwita, Kalutara, and Thamankadawa commenced in 1997 and 1998. These parks will cover 324 acres and will have the capacity to accommodate around 225 industrial units. At end 1998, 80 blocks of land had been allocated to potential investors and 17 industrial projects in these sites were in commercial operation, employing 3,460 persons. Setting up of 15 more industrial estates in the Kurunagala, Anuradhapura, Nuwara-Eliya, Ampara, Trincomalee, Batticaloa, Vavuniya, Jaffna, Moneragala and Kandy districts was being considered. The total extent of land to be developed under this programme has been estimated at 335 acres. The envisaged employment opportunities in these industrial estates were estimated at 15,000 persons. The 1999 Budget also proposed to set up several 'Dedicated Economic Centres' in regions in order to promote economic activities giving more consideration to area specific problems. The construction of the Divulapitiya and Damdulla Dedicated Economic Centres commenced in 1998.

There were 160 garment factories registered under the Two Hundred Garment Factory Programme in 21 districts at the end of the year. The location of these factories shows wide regional distribution with 138 factories or 86.2 per cent of the total of 160 factories being located in districts other than Colombo and Gampaha. There were factories in difficult districts such as Moneragala, Batticaloa, Trincomalee and Ampara. Under this programme, the Ratnapura and Anuradhapura districts had 15 factories each, while the Puttalam and Kandy districts had 12 factories each. However, of the 1,274 enterprises registered under Section 16 and 17 of the BOI Law, 939 or 73 per cent were located in the Colombo and Gampaha districts. Of the 1,747 factories registered with Ministry of Industrial Development under the Industrial Promotion Act of 1990, 1,511 factories were also located in these two districts.