4. INDUSTRY

4.1 Overall Trends

Industrial output, measured as the output of factory industries, showed a moderate growth of 4.5 per cent in 1999. Industrial output accounted for 84 per cent of the manufacturing sector output and contributed 17 per cent to overall economic growth in 1999. In the latter part of 1999, the industrial sector showed a significant recovery marked by a 7.7 per cent output growth in the fourth quarter. The recovery was more prominent in export-oriented industries resulting from robust growth of the USA and EU and recovery in Japan and East Asian countries. Growth in the USA and EU and the recovery in Japan generated greater demand for Sri Lanka's exports, while the appreciation of some of the East Asian currencies enhanced Sri Lanka's competitiveness.

The thrust of industrial policy in 1999 was on the development of private sector-led, export oriented industries, with sufficient diversification in relation to both products and geographical location. To develop a transparent and simplified industrial policy, the Budget for 2000 emphasises the need to unify incentives granted to BOI and non-BOI industries. Incentives granted to the private sector to develop a skilled labour force were continued in 1999. Recognising the catalytic roles played by 'thrust' industries, such as electronics and components for electronic assembling, ceramics, glassware and mineral based products, rubber based industries and light and heavy engineering industries in economic growth, development incentives granted to them were continued. Fiscal incentives granted to develop advanced technology industries were also continued in 1999. The Budget 2000 proposed further measures to strengthen information technology.

The apparel industry, the largest of Sri Lanka's industries, registered an 8.4 per cent volume growth during the year, despite the decline of export prices by 9.2 per cent. The apparel industry contributed 63 per cent to industrial sector growth in 1999. Other export oriented industries, such as processed diamonds, footwear, plastics, processed fruits and machinery and equipment, also recovered significantly in the latter part of 1999. Industries catering mainly to the domestic market showed a mixed performance with high output growth in the production of wheat flour, meat, plastics and PVC, pharmaceuticals, detergents, cement, building materials, basic metal products and fabricated metal products. There was a decline in the output of liquor, spirits, tobacco and petroleum products. Labour productivity in 1999 increased by 1.9 per cent in the non-BOI industrial sector. Capacity expanded by 2.1 per cent in 1999.

The improved performance in the latter part of 1999 is also attributed to the modernisation of some industries. The modernisation was facilitated partly by fiscal incentives offered under the Advanced Technology Programme. Under this programme, 356 manufacturers had imported machinery worth Rs. 9,520 million by end 1999. Many industrialists sought ways of cost reduction such as sub-contracting, out-

Chart 4.1
Growth and Composition of Industrial Production

Chart 4.1.1
Growth in Industrial Output

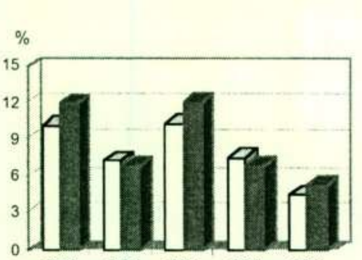
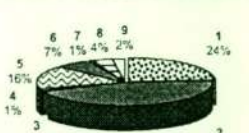


Chart 4.1.2
Composition of Industrial Production - 1999



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

sourcing, waste reduction, waste recovery, labour re-organisation and more efficient procurement procedures. The global trend of declining raw material prices also helped to lower the cost of production. Lower production costs helped manufacturers to offer higher discounts to buyers to remain competitive. Several large manufacturers continued to receive export orders as they had established strong marketing links with major international buyers. Establishing joint ventures and adhering to stipulated delivery dates and product standards contributed to the inflow of export orders. Domestic market conditions were favourable as inflation declined, interest rates remained relatively stable and the real effective exchange rate depreciated by about 4 per cent against competitor countries.

Further stimulus to industrial growth came from developments in telecommunications and the development of other infrastructure facilities under the regional industrial parks programme, the improvement of apparel quota administration, availability of foreign currency loans to non-BOI firms, and the textile sector restructuring programme. A total of 153 new enterprises registered under the BOI and the Ministry of Industrial Development commenced commercial operations during the year. The pressures for wage increases in 1999 were relatively low due to the prevalence of lower inflation and reduced profitability in many industries. Nevertheless, structural problems in the industrial sector, such as labour market rigidities, inadequate development of infrastructure such as roads and security related problems persisted during the year. The introduction of free market oriented labour reforms is necessary to further enhance productivity and to create employment. The scarcity of skilled and non-skilled labour is also emerging as a major impediment to faster industrial growth. The environmental pollution created by industrial waste, particularly in the rubber, plastics, metal, wood and food processing industries has also become a cause for serious concern.

4.2 Production

The basis for estimating industrial growth in 1999 was a combination of three sources i.e., the Annual Industrial Production Survey-1999 conducted by the Central Bank of Sri Lanka covering 475 non-BOI enterprises, the output of public sector industries and export data on BOI industries. The estimate covers only one component of the manufacturing sector, i.e., factory output, and does not cover the other two sectors of processing of tea, rubber and coconut and small industries. Industrial output grew by 4.5 per cent in real terms and 8 per cent in nominal terms, resulting in an implicit price deflator of 3.4 per cent.

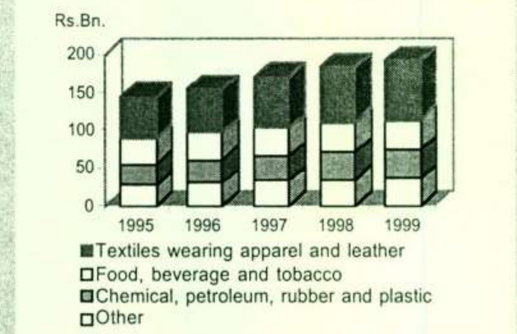
TABLE 4.1
Value of Industrial Production
(1990 Constant Prices)

Categories	Rs. Million					Percentage Change	
	1995	1996	1997	1998	1999(a)	1998	1999(a)
1 Food, beverage and tobacco products	33,641	35,908	37,146	40,756	41,742	9.7	2.4
Food and other	19,936	21,314	22,343	24,910	26,330	11.5	5.7
Liquor	2,630	3,027	2,961	3,458	3,327	16.8	-3.8
Beverage	4,961	5,104	6,032	6,590	6,432	9.3	-2.4
Tobacco products	6,114	6,463	5,810	5,798	5,653	-0.2	-2.5
2 Textiles, wearing apparel and leather products	55,980	58,832	69,769	72,943	78,282	4.5	7.3
Apparel	47,202	49,792	59,780	62,602	67,861	4.7	8.4
Textiles	6,202	6,299	6,926	7,226	7,197	4.3	-0.4
Leather	2,576	2,741	3,063	3,115	3,224	1.7	3.5
3 Wood and wood products	1,243	1,321	1,334	1,378	1,423	3.3	3.3
4 Paper and paper products	3,508	3,550	3,561	3,446	3,412	-3.2	-1.0
5 Chemical, petroleum, rubber and plastic products	27,043	30,635	32,082	36,223	36,281	12.9	0.2
Chemicals, paints and fertilisers	3,735	4,091	4,584	5,182	5,571	13.0	7.5
Rubber	3,956	4,660	5,539	6,015	6,082	8.6	1.1
Plastic & PVC	2,754	3,113	3,584	3,874	4,292	8.1	10.8
Pharmaceuticals, detergent and other	6,885	7,784	8,797	9,853	10,336	12.0	4.9
Petroleum	9,713	10,987	9,578	11,299	10,000	18.0	-11.5
6 Non metallic mineral products	12,516	13,360	13,914	14,619	15,740	5.1	7.7
Diamond processing	4,930	4,842	4,753	4,360	5,049	-8.3	15.8
Ceramic products	1,567	1,838	1,926	1,991	2,029	3.4	1.9
Cement	3,316	3,607	3,896	4,628	4,785	18.8	3.4
Building material and other	2,703	3,073	3,339	3,640	3,877	9.0	6.5
7 Basic metal products	1,377	1,636	1,671	1,856	1,917	11.1	3.3
8 Fabricated metal products	6,139	6,252	7,437	8,235	8,680	10.7	5.4
9 Manufactured products not elsewhere specified	3,005	3,443	3,904	4,093	4,375	4.8	6.9
Total	144,452	154,937	170,818	183,549	191,852	7.5	4.5

(a) Provisional

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

Chart 4.2
Value of Industrial Production
(1990 Constant Prices)



The growth in industrial output arose mainly in textiles, wearing apparel and leather products; non-metallic mineral products; food, beverages and tobacco products and fabricated metal products. These categories accounted for 95 per cent of the growth in industrial output.

Private Sector Industries

Private sector industrial output increased by 5.3 per cent in 1999 compared to 6.9 per cent in 1998 and accounted for 94 per cent of total industrial production in 1999. BOI industries grew by 5.7 per cent, compared to a 6.4 per cent growth in the previous year. Output in the non-BOI sector grew by 5.0 per cent in 1999, compared to 7.5 per cent in 1998.

Although capacity increased, capacity utilisation of the non-BOI sector declined marginally from 84 per cent in 1998 to 83 per cent in 1999. Profitability declined from 13.3 per cent in 1998 to 12.2 in 1999. Overall employment in the industrial sector increased by 9 per cent. Employment in the BOI and non-BOI industries increased by 11 per cent and 2 per cent, respectively, in 1999.

Performance in Major Sectors

Textiles, wearing apparel and leather products

The textiles, wearing apparel and leather products category (TWLP) accounted for nearly 41 per cent of the total industrial production and grew by 7.3 per cent in 1999. This growth compares well with a 4.5 per cent growth in the previous year. The competition for lower end market items continued during the early part of the year owing to strenuous export efforts made by new apparel exporting countries. The major apparel manufacturers managed to secure sufficient export orders for winter clothes, particularly with the recovery of world trade in the second half of the year. The gradual shift towards up market items had beneficial effects in securing a large number of export orders in competitive markets. In those markets the low-

TABLE 4.2
Private Sector Industrial Production Index

1990 = 100

Categories	Index					Percentage Change	
	1995	1996	1997	1998	1999(a)	1998	1999(a)
1 Food, beverage and tobacco products	155	166	171	188	193	9.7	2.7
Food and other	155	166	176	196	207	11.4	5.6
Liquor	160	183	177	207	199	16.8	-3.9
Beverage	175	180	207	226	221	9.3	-2.2
Tobacco	128	135	121	121	118	-0.2	-2.5
2 Textiles, wearing apparel and leather products	206	217	257	269	289	4.5	7.4
Apparel	223	235	284	297	322	4.7	8.4
Textiles	171	174	191	199	198	4.3	-0.5
Leather	162	172	193	196	203	1.7	3.6
3 Wood and wood products	170	165	165	163	168	-1.1	3.1
4 Paper and paper products	266	279	287	289	286	0.8	-1.0
5 Chemical, petroleum, rubber and plastic products	196	224	257	286	299	11.2	4.5
Chemicals, paints and fertilisers	162	183	212	240	258	13.0	7.5
Rubber	181	213	253	274	279	8.3	1.8
Plastic & PVC	161	182	210	227	252	8.2	11.0
Pharmaceuticals, detergent and other	204	235	265	297	312	12.1	5.1
6 Non metallic mineral products	228	243	254	267	288	5.1	7.9
Diamond processing	280	270	260	237	274	-8.8	15.6
Ceramic products	158	181	189	195	199	3.4	2.1
Cement	199	212	232	276	285	18.8	3.3
Building material and other	180	204	221	241	257	9.1	6.6
7 Basic metal products	305	351	359	399	412	11.1	3.3
8 Fabricated metal products	147	150	178	197	208	10.7	5.4
9 Manufactured products not elsewhere specified	193	221	250	262	280	4.8	6.9
All Categories	192	205	230	246	259	6.9	5.3

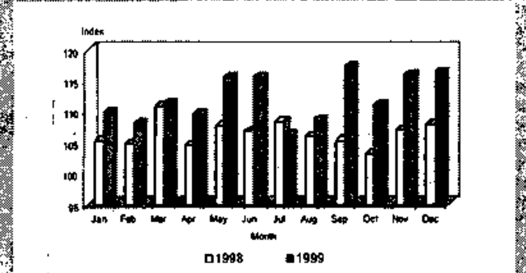
(a) Provisional

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

priced apparel segment is dominated by low-cost producers including Bangladesh, Vietnam and China.

During the latter part of the year, the quota utilisation rate increased as a result of a decision by the Textile Quota Board (TQB) to issue the remaining unutilised quota of slow moving categories on a first-come-first-served-basis. The rate of quota utilisation increased from 74 per cent in 1998 to 80 per cent in 1999. The availability of quota increased from 372.7 million pieces in 1998 to 388.3 million pieces in 1999. During the year, the TQB also introduced the 'Electronic Visa Information System (ELVIS)' for issuing export visas for exports to the USA. This increased speed and accuracy in transmission of data, simplification of export documentation, reliability of transmitted information and a speedy import clearance process in the USA. The elimination of import duties on fabrics in 1998 helped reduce customs delays.

Chart 4.3
Private Sector Industrial Volume Index



Total apparel and textile exports to the USA amounted to 560 square meters equivalent (SME) million, worth US dollars 1,470 million in 1999. This amounts to 2 per cent of the total requirement in the US market. Exports of apparel and textiles to the USA in 1999 increased by 6.1 per cent in volume and declined by 1.2 per cent in value, indicating a 7.3 per cent drop in prices. Prices of textile and apparel exports to US market from other countries declined by 4.9 per cent in 1999. Apparel exports from Sri Lanka to the US market increased from 332.5 SME million in 1998 to 337.2 SME million in 1999, indicating 1.4 per cent growth. Of these, 76 per cent were exported under quota. Exports of quota items declined by 1 per cent while non-quota apparel items increased by 9.4 per cent in 1999. Other types of textile exports to the USA increased by 14.2 per cent from 195.2 SME million in 1998 to 223 SME million in 1999. Of these, 94 per cent were non-quota exports.

Overall availability of quota increased by 4.2 per cent in 1999. There was an increase of 3.8 per cent in the US market, 7.3 per cent in the EU countries and 1 per cent in Canada. At present, Sri Lanka exports 50 different apparel and textile items under quota to those markets. The quota availability increased over 10 per cent in apparel categories such as coats, non-suits, dresses, knit-shirts and blouses, skirts, coveralls and overalls, dish towels, sweaters, poplin fabrics and non-knit shirts and blouses in the USA. In the EU, the availability of quota increased by 15 per cent in the categories of trousers, shorts and breeches, parkas, anoraks and windcheaters in 1999. However, the amount of quota in respect of men's and boy's woven shirts declined by 13 per cent in 1999 owing to low utilisation in the previous year. The quota availability in Canada remained unchanged in 1999 except for winter outerwear, which increased by 54 per cent.

The trend for higher utilisation of quota in respect of up-market items such as non-suit coats for men and boys and suits for men and boys continued during 1999. The quota utilisation rate in the US market increased from 78 per cent in 1998 to 85 per cent in 1999. In respect of 13

TABLE 4.3
Value of Industrial Production
(Current Prices)

Categories	Rs. Million					Percentage Change	
	1995	1996	1997	1998	1999(a)	1998	1999(a)
1 Food, beverage and tobacco products	54,927	68,209	75,713	86,994	94,687	14.9	8.8
2 Textiles, wearing apparel and leather products	104,602	117,539	146,500	165,443	178,844	12.9	8.1
3 Wood and wood products	1,929	2,171	2,299	2,511	2,715	9.2	8.1
4 Paper and paper products	4,595	5,069	5,462	5,593	5,854	2.4	4.7
5 Chemical, petroleum, rubber and plastic products	38,321	46,936	50,682	59,724	62,590	17.8	4.8
6 Non metallic mineral products	16,740	18,997	21,403	23,830	26,830	11.3	12.6
7 Basic metal products	1,736	2,248	2,439	2,841	3,046	16.5	7.2
8 Fabricated metal products, machinery and transport equipment	7,977	8,807	11,327	13,241	14,305	16.9	8.0
9 Manufactured products not elsewhere specified	5,271	6,183	7,324	8,137	9,002	11.1	10.6
Total	236,098	276,159	323,149	368,314	397,873	14.0	8.0

(a) Provisional

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

quota items, over 85 per cent was utilised during 1999. Quotas in respect of skirts, trousers and dresses were fully utilised during the year, while the utilisation rate was over 90 per cent in respect of knit shirts and blouses, shirts and gowns (non-knit), terry and other pile towels and shop towels in the US market. In the EU market, quota utilisation rates were high in respect of men's and women's trousers, men's shorts and breeches and knitted and woven blouses. However, the quota utilisation rate was below 30 per cent in quota items of parkas, anoraks and windcheaters during the last three years. The most popular quota items in the Canadian market were winter outerwear, trousers, overalls and shorts and knitted and woven shirts and blouses. The utilisation of quota in respect of coats, jackets and rainwear, fine suits, T-shirts, athletic wear, sleepwear and bathrobes, and swimwear were below 25 per cent due to the inability of manufacturers to supply these products in the required quality.

Sri Lanka will continue to face increased competition due to the opening up of the economies in Eastern Europe, increased exports from new entrants, phasing out of the Multi Fibre Agreement and growing preferential trade in the world. In particular, exports to the USA will face stiff competition from Mexico due to geographical proximity, lower labour costs and duty advantages conferred under NAFTA. New entrants are also posing a threat to the expansion of Sri Lanka's apparel exports to the US market, in particular the lower end of the market. Thus, it is necessary for Sri Lanka to move away from the export of quota category garments and to capture niche markets. This will require the introduction of new technology, improvements in information technology and increased use of e-commerce, development of marketing relationships with buyers of non-quota items and timely delivery of export orders. If the industry responds promptly to the changing global trading environment, the Sri Lankan apparel industry could foresee a higher growth potential.

The textile industry has not recovered fully to face import competition. Liberalisation of textile imports and reduction of textile prices in the world market following the depreciation of Asian currencies, in addition to inherent problems such as the use of old machinery, high cost of production and low quality of final products, aggravated the difficulties faced by manufacturers. However, under the textile restructuring programme, 98 enterprises submitted modernisation proposals, of which 73 enterprises were endorsed by their banks for financial facilities required for the implementation of modernisation proposals. Nearly 25 manufacturers had commenced implementing restructuring projects.

The output of the footwear industry increased by 3.5 per cent in 1999 owing to the increased domestic and export demand. Manufacturers introduced attractive new designs to the domestic market during the year and those products were well received by consumers despite the availability of imported products in the market. Footwear exports expanded with increased orders received from USA and Middle Eastern countries.

Food, Beverage and Tobacco

Output of the food, beverage and tobacco industries, the second largest in the industrial sector, grew by 2.4 per cent. This category contributed 12 per cent to industrial sector growth in 1999. The food sub sector grew by 5.7 per cent and liquor production declined by 3.8 per cent, beverages by 2.4 per cent and tobacco by 2.5 per cent. Output increased in wheat flour, milk products, fruit processing, biscuits, packeted tea, coconut products, sugar, beer and meat products. The processed meat product industry grew by 11 per cent. The introduction of new technologies in production processes enabled manufacturers to produce and offer various new varieties to the market. There was a significant demand for these new products as the fish supply was insufficient and prices were high in 1999. The growing popularity of processed meat among the urban population, attractive packaging, advertising and ease of preparation helped stimulate demand for these products. Changes in eating habits, a gradual increase in the urban population and the introduction of new small sized packets boosted demand for biscuits in 1999. Encouraged by the incentives provided by government, the export oriented fruit processing industry invested in advanced technology and modernised factories to meet growing international demand. However, the growth of this industry is still constrained by the non-availability of suitable land for commercial cultivation and high quality seeds.

Milk powder packing and manufacturing industry grew by 4 per cent during the year. The demand for domestically manufactured milk powder increased owing to the relative price advantage over imported milk products as well as due to quality improvements. This industry has high growth potential as over 80 per cent of the total milk powder requirement of the county is imported at present. Supported by the recent capacity expansion and strong domestic demand, the beer industry continued to grow despite the increase of excise duty on liquor in 1998. The improvement in the tourism industry also contributed to increase demand for beer. New brands of beer were well received by consumers. Major producers in this industry invested heavily in advanced technology and relocated their plants to meet the growing demand. As the consumption of beer in the total alcohol consumption in Sri Lanka is low, compared to other countries, there is potential for this industry to grow in the future. Production of liquor spirits declined in 1999 due to recent price increases as well as the increased availability of illicit liquor.

The beverage sub sector declined due to unusual wet weather in 1999 which lowered the demand for soft drinks. The production of cigarettes, especially low priced cigarettes, also declined following the recent increase of excise duty on tobacco and an increase in imported brands. Generally, the demand for cigarettes has declined or stagnated in the recent past as a result of the greater awareness of tobacco related health problems, especially among the youth.

Chemical, petroleum, rubber and plastic products

Production of chemical, petroleum, rubber and plastic goods increased by 4.6 cent in 1999. Relatively high growth was seen in the output of industries catering largely to the domestic market, such as soap, cosmetics, toothpaste and detergent, pharmaceuticals, paints, varnish, fertiliser, poly bags, rubber tyres and tubes, adhesives, plastic products, PVC products, aryurvedic drugs and polythene. Among the factors responsible for higher growth were the strengthening of the distribution network, attractive packaging and low raw material prices. The output of pharmaceuticals registered substantial growth owing to competitive prices compared to imported items. Quality improvements also helped stimulate demand. The ayurvedic drug manufacturers improved their production technologies, product quality and packaging. They also introduced several new products during the year. The growing demand for natural products, especially among the urban population, stimulated the demand for ayurvedic drugs.

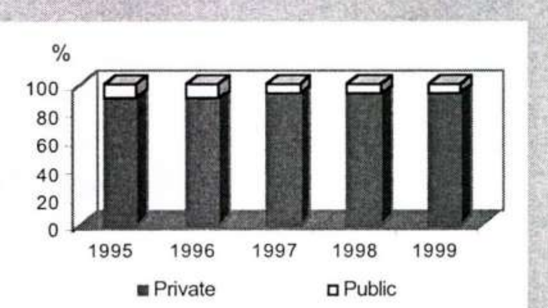
As in the previous year, the plastic industry registered significant growth in 1999 due to increased domestic demand. Substitution of plastic products for wood products boosted the demand for plastic furniture, household items, ceiling sheets, other building materials and boxes used for packaging. The output of PVC and pipe fittings grew due to increased demand from the construction industry. Rubber tyres and tubes manufactured for the domestic market registered a relatively higher growth despite the increased availability of imported items in the market due to lower prices. The export oriented activated carbon industry, which faced difficulties during the last two years, declined further due to increased competition. Increased freight rates to major markets such as USA during the year aggravated the difficulties faced by this industry.

Other Products

The non-metallic mineral product category grew by 7.9 per cent, contributing 14 per cent to industrial sector growth in 1999. The output of processed diamonds, cement, asbestos and glass and concrete products registered a higher growth in 1999. The diamond processing industry showed a significant growth of 15.2 per cent with the recovery of world trade during the second half of the year. Manufacturers received more export orders form Japan, Thailand, USA, Hong Kong and Belgium. The continuous expansion of the construction industry stimulated the demand for cement, asbestos roofing and ceiling sheets, concrete and terracotta products. Processed silica quartz and granite slabs also registered a higher growth in 1999. Despite the intensified competition in the global market, certain ceramic products have carved out niche markets in the world market due to high quality. An increased level of building renovation and the growing popularity of tiles stimulated the domestic demand for floor and wall tiles. Some manufacturers withdrew themselves from BOI status in order to increase domestic sales that were earlier restricted under agreements with the BOI. In the recent past the productivity of the industry has increased significantly with the introduction of modern plant and machinery and modern management techniques. However, the depletion of stocks of an essential raw material, china clay, may become a major problem for the ceramic industry in the long-run.

The output of fabricated metal products grew by 5.4 per cent reflecting better performance in the sector catering to the domestic market. Major products of this sector were electrical and agricultural machinery, cables, metal furniture, filing cabinets and office cupboards, solar water heating panels, metal spandrels, corrugated roofing sheets, cans, automotive batteries, light fittings, transformers, antennae, buzzers and receivers and kitchen sinks. The demand for office and household furniture registered a considerable growth in 1999 mainly due to the switch over from wood

Chart 4.4
Private and Public Sector Share in Industrial Production



furniture to metal furniture. Improved quality and growing popularity of television sets stimulated the demand for antennae, buzzers and receivers. In the construction industry, there is a shift toward the use of aluminium from wood for windows, doorframes and partitions. Lower prices, durability and appearance were the major reasons. Continuous expansion of the construction industry also boosted the demand for light fittings and electric cables. The shipbuilding and repairing industry has improved its infrastructure facilities, technology and skills over the years.

However, output increased only marginally in 1999 due to the reduction of orders placed by government. The output of automotive batteries showed a substantial increase indicating an expansion of domestic demand despite the greater availability of imported batteries.

The output in the paper and paper products industry declined by 1 per cent due to the drop in output of some BOI industries manufacturing corrugated cartons and printing materials. Meanwhile, the paper product industry catering to the domestic market expanded by 5.5 per cent with the expansion of demand for newspapers, magazines, children's books and maps, computer paper, diaries, posters and calendars. The circulation of newspapers increased by 5 per cent in 1999 compared with 2 per cent in 1998. Several new magazines and tabloid papers were published during the year. The growing reading habits of school children and inclusion of additional reading material in school syllabi stimulated the demand for children's books. The demand for calendars and diaries increased as a large number of business organisations presented diaries and calendars to their customers to mark the dawn of the new millennium. The growing popularity of using posters for advertising purposes boosted the demand for these products. The output of exercise books grew moderately during the year owing to improved quality despite the availability of imported substitutes in the market. Output in the wood and wood product industry grew by 3.3 per cent in 1999 to meet demand in both export and domestic markets. The furniture and other wood product industries benefited from the duty waiver on the import of timber until end 1999. Several manufacturers in the wood and furniture industry installed new machinery during the year. However, faster growth of the wood and furniture industry is constrained by the scarcity and high cost of raw materials, lack of skilled workers and shifting of consumer demand from wood based items to steel, plastic and fiber glass based furniture.

Public Sector Industries

The output of the public sector industrial enterprises, in real terms, declined by 12 per cent in 1999, in contrast to the 14 per cent growth in 1998. The reduction of output of the Ceylon Petroleum Corporation, due to the closure of the oil refinery for about two months in the first half of the year for routine maintenance, was the major reason for this decline. The output of the Ceylon Petroleum Corporation accounts for over 90 per cent of the total output of public sector industries. Public sector industrial output, excluding petroleum products, also decreased by 26 per cent owing to the reduction of output in the State Rubber Manufacturing and Export Corporation Ltd. (78 per cent), the National Paper Co Ltd. (47 per cent), Lanka Phosphate Ltd. (17 per cent) and Sevanagala Sugar Industries Ltd. (2 per cent).

The output of Lanka Salt Ltd. increased by about 86 per cent in 1999, mainly due to favourable weather conditions that prevailed during most of the year. The relative price advantage over the competitive products in the market, attractive packaging and gradual improvements of quality over the years helped to increase the market share of Lanka Salt Ltd. The output of the State Timber Corporation increased by 4 per cent after the allocation of more forest areas by the Forest Department for felling operations. The output of furniture and building materials such as door and window frames manufactured by the corporation increased during the year owing to the increased demand from government departments and corporations.

The output of the Sri Lanka State Rubber Manufacturing and Export Corporation Ltd. declined mainly due to the suspension of production for installation of new

TABLE 4.4
Public Sector Major Industry Output Index

1977 = 100

Categories	Index					Percentage Change	
	1995	1996	1997	1998	1999(a)	1998	1999(a)
1 Food, beverage and tobacco products	10.2	9.2	8.6	8.3	9.2	-3.5	10.8
2 Textiles, wearing apparel and leather products	-	-	-	-		-	
3 Wood and wood products	26.3	31.7	34.0	45.1	46.9	32.6	4.0
4 Paper and paper products	173.2	152.2	136.2	100.7	54.9	-26.1	-45.5
5 Chemical, petroleum, rubber and plastic products	118.0	132.0	116.8	136.4	120.5	16.8	-11.7
Petroleum products	124.2	138.9	122.8	143.5	126.9	16.9	-11.6
6 Non metallic mineral products	5.9	6.8	4.7	6.0	3.7	29.0	-38.3
7 Basic metal products	95.0	116.5	-	-		-	
8 Fabricated metal products, machinery and transport equipment	-	-	-	-		-	
All Categories	78.0	86.2	72.2	82.5	72.3	14.3	-12.4
Excluding Petroleum	24.5	25.1	13.5	11.6	8.7	-13.9	-25.0

(a) Provisional. Source: Central Bank of Sri Lanka machinery under the on-going modernisation programme. Since July 1999, the corporation has stopped the production of pale crepe due to the lower demand and high cost of production of this product. Under the modernisation programme, the production lines are now being converted to produce rubber based final products. The National Paper Co Ltd. experienced marketing difficulties in the face of greater competition from imports, high cost of production and relatively poor quality of final products arising from outdated production processes. The output of Lanka Phosphate Ltd. declined in 1999, mainly due to lower demand for phosphates from the plantations sector during the early part of the year. The output of Sevanagala Sugar Industries Ltd., declined marginally by about 2 per cent in 1999 due to the short supply of sugarcane in 1999. It declined to 192,000 metric tons in 1999 from 197,000 metric tons in 1998. The poor quality of the sugarcane was also responsible for the reduction of output.

4.3 Value Addition and Capacity Utilisation

The value added in the industrial sector in nominal terms increased by a 10.8 per cent in 1999. Value added, as a percentage of value of production in the industrial sector, increased from 35.2 per cent in 1998 to 36.0 per cent in 1999. The improvements in value addition during 1999 was attributed to the reduction of raw material costs and efficient pricing policies of the enterprises. In real terms, the value added increased by 4.5 per cent during the year. Improvements in value addition were in the industrial categories of textiles, wearing apparel and leather products and wood and wood products due to the application of advanced technologies and the reduction of cost of production. Value added ratios were above 45 per cent in the industrial categories of wood and wood products; non-metallic mineral products; fabricated metal products; food, beverage and tobacco products and paper and paper products. The value added ratio of the textiles, wearing apparel and leather product category was 30.9 per cent in 1999. The lowest value added ratio of 22.1 per cent was in the chemical, petroleum, rubber and plastic products categories.

The existing capacity of the non-BOI industries expanded further by 2.1 per cent in 1999. Encouraged by the fiscal incentives for utilisation of advanced technologies, such as lower duty rates and lower national security levy for importation of machinery, many industries expanded their production capacity during the year. The capacity in the non-metallic mineral product category expanded by 5.3 per cent reflecting the expansion of capacities in the cement and ceramic product industries. Capacity in the textile industry increased during the year with the expansion of capacities of textile factories under the textile restructuring programme. Capacity expansion was relatively high in the industrial categories of paper and paper products (4.1 per cent), fabricated metal products (5.0 per cent), chemical, rubber and plastic products (3.5 per cent), and food,

Chart 4.5
Value Added Percentages in Industrial Production-1999

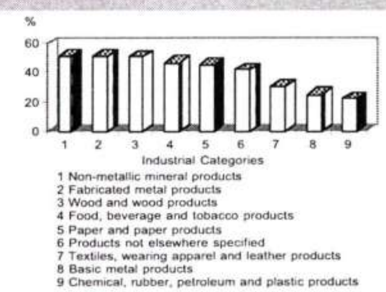


TABLE 4.5
Value Added in Industry
(Current Prices)

Categories	Rs. Million					Percentage Change	
	1995	1996	1997	1998	1999(a)	1998	1999(a)
1 Food, beverage and tobacco products	29,507	32,891	35,515	40,452	44,503	13.9	10.0
2 Textiles, wearing apparel and leather products	24,859	31,184	40,514	47,494	55,263	17.2	16.4
3 Wood and wood products	1,177	1,250	1,257	1,312	1,390	4.4	5.9
4 Paper and paper products	2,458	2,580	2,633	2,578	2,664	-2.1	3.3
5 Chemical, petroleum, rubber and plastic products	6,898	8,957	10,745	14,274	13,832	32.8	-3.1
6 Non metallic mineral products	9,726	10,537	11,600	12,463	13,817	7.4	10.9
7 Basic metal products	347	450	598	710	777	18.7	9.4
8 Fabricated metal products, machinery and transport equipment	4,547	4,809	5,924	6,779	7,367	14.4	8.7
9 Manufactured products not elsewhere specified	2,319	2,763	3,157	3,426	3,799	8.5	10.9
Total	81,838	95,421	111,943	129,488	143,412	15.7	10.8

(a) Provisional

Source: Central Bank of Sri Lanka

beverage and tobacco products (1.2 per cent). The overall capacity utilisation of the industrial sector declined marginally from 84 per cent in 1998 to 83 per cent in 1999 mainly due to the slower industrial production in the early part the year.

4.4 Cost of Production, Profitability and Employment

The average profit ratio of the non-BOI sector declined from 13.3 per cent in 1998 to 12.2 per cent in 1999. The profit ratio of the non-BOI sector was estimated on the basis of the difference between the value of production and total cost of production of the 475 firms surveyed in 1999. The reduction of profitability is attributed to the slower growth of prices in the international and domestic markets. The manufacturers offered higher discounts to international buyers to remain competitive, while the output prices in the domestic market declined due to the availability of imported items particularly from East Asian countries at lower prices. However, the negative impact of lower output prices on profitability was partly offset by the reduction of raw material prices in the depressed global market. The cost of raw material as a percentage of total cost of production declined by 2.5 percentage points in 1999. The introduction of cost reduction methods and improvements in efficiency in many industrial categories reduced the downward pressure on profitability in the face of lower output prices. The cost reductions were most apparent in the industrial categories of food, beverage and tobacco; textiles, wearing apparel and leather products and chemical, rubber and plastic products. Profitability varies from 17 per cent in the textiles, wearing apparel and leather product category to 8.8 per cent in the non-metallic mineral product category. Profitability in the food, beverage and tobacco category, the largest sub sector in the non-BOI industries, increased from 12.5 per cent in 1998 to 12.8 per cent in 1999, reflecting prudent pricing policies as well as the reduction in the cost of raw materials. Profitability in the miscellaneous industrial category also increased marginally from 10.4 per cent in 1998 to 11.8 per cent in 1999. Profitability in all other industrial categories declined in 1999. The largest decline of 3.9 percentage points was in the textiles, wearing apparel and leather products category due to declining export prices. However, the profitability ratio of 17 per cent in this category in 1999 was the highest profit ratio among all other categories.

The total labour cost in the non-BOI industries increased by 11.8 per cent in absolute terms in 1999. This increase is a result of the expansion of output by 5.2 per cent, increases in the general price level by 4.9 per cent, expansion of the labour force by 2.1 per cent and improvement in labour productivity by 1.9 per cent. The labour cost as a percentage of total cost of production remained unchanged at 12.2 per cent in 1999. The relatively stable wage rates that prevailed in the context of lower inflation in 1999 contained the growth of the wage bill in the non-BOI industries. The wage bill, as a percentage of total cost of production declined in the industrial categories of food, beverage and tobacco; wood and wood products; paper and paper products and fabricated metal products. However, the share of labour cost increased in the industrial categories of textiles, wearing apparel and leather products; chemical, rubber and plastic products; non-metallic mineral products and basic metal products mainly due to the increase in the labour force. The share of labour cost in the total cost of production is relatively high in the industrial categories of textiles, wearing apparel and leather products; wood and wood products and non-metallic mineral products. The share of labour in the total cost of production is low in the industrial categories of food, beverage and tobacco products; basic metal products and fabricated metal products.

Energy cost increased by 8.1 per cent during the year. Energy costs, as a percentage of total cost of production,

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)	
	1998	1999	1998	1999	1998	1999
1 Food, beverage and tobacco products	47,355	52,337	54,120	60,019	12.5	12.8
2 Textiles, wearing apparel and leather products	14,665	16,588	18,540	19,986	20.9	17.0
3 Wood and wood products	1,018	1,109	1,150	1,235	11.5	10.2
4 Paper and paper products	3,210	3,534	3,640	3,975	11.8	11.1
5 Chemical, petroleum, rubber and plastic products	18,038	19,561	20,065	21,710	10.1	9.9
6 Non metallic mineral products	13,660	16,171	15,540	17,731	12.1	8.8
7 Basic metal products	1,103	1,197	1,256	1,346	12.2	11.1
8 Fabricated metal products, machinery and transport equipment	7,379	8,447	8,531	9,512	13.5	11.2
9 Manufactured products not elsewhere specified	3,235	3,401	3,611	3,857	10.4	11.8
Total	109,663	122,345	126,453	139,371	13.3	12.2

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

Source: 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	
	1998	1999	1998	1999	1998	1999	1998	1999
1 Food, beverage and tobacco products	2.3	2.2	9.5	9.3	39.2	38.5	1.8	1.8
2 Textiles, wearing apparel and leather products	3.4	3.2	15.7	16.1	16.4	16.2	2.1	2.0
3 Wood and wood products	8.5	8.1	17.0	16.4	38.6	39.1	4.9	4.1
4 Paper and paper products	2.3	2.4	13.2	12.6	15.3	16.1	5.1	4.7
5 Chemical, petroleum, rubber and plastic products	4.5	4.2	12.5	12.9	29.1	28.1	3.8	4.1
6 Non metallic mineral products	16.0	16.0	16.2	16.5	20.1	19.1	4.1	4.2
7 Basic metal products	7.8	7.6	10.1	10.8	34.6	33.9	4.2	3.8
8 Fabricated metal products, machinery and transport equipment	3.0	2.6	11.9	11.1	23.1	21.5	4.1	3.8
9 Manufactured products not elsewhere specified	4.2	3.0	14.7	14.1	33.4	33.1	3.3	3.3
Total	4.7	4.6	12.2	12.2	30.1	29.3	2.8	2.8

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

Source: Central Bank of Sri Lanka

declined marginally from 4.7 per cent in 1998 to 4.6 per cent in 1999. The share of energy cost in the total cost of production declined in many industrial categories including textiles, wearing apparel and leather products; food, beverage and tobacco products and chemical, rubber and plastic products. The share of energy in the total cost of production is over 15 per cent in the non-metallic mineral products category. Energy also forms the principal elements in the total cost of production in wood and wood products and basic metal products. The share of energy costs in the total cost of production was low in the industrial categories of food, beverage and tobacco products and paper and paper products.

Interest cost in the non-BOI industrial sector increased by 11 per cent in 1999. The share of interest cost in the total cost of production remained unchanged at 2.8 per cent. The capacity expansion in existing enterprises and establishment of new projects under the advanced technology incentive programme stimulated the demand for credit during the year. The share of interest cost in the total cost of production is over 4 per cent in the industrial categories of wood and wood products; paper and paper products; non-metallic mineral products and chemical, rubber and plastic products. The share of interest cost is lower in the industrial categories of food, beverage and tobacco products and textiles, wearing apparel and leather products.

Labour Productivity in Industry

Labour productivity, estimated on the basis of the change in the real value added per man-hour, increased by 1.9 per cent in 1999 in the non-BOI industries. The introduction of new technology and modern machinery, the greater awareness among middle and low level management of the advantages of improving labour productivity, a gradual increase of capital per worker, provision of training, adoption of superior management techniques and in some cases retrenchment of excess labour, enhanced labour productivity in the industrial sector. The various strategies adopted by manufacturers, such as waste reduction programmes, energy saving methods, improvement of the working environment and creation of good relations among employees, also helped improve labour productivity. However, the industrial sector was not able to reap the full benefit of those measures due to the reduction on capacity utilisation in many industries owing to depressed market conditions in the early part of the year. In many industrial categories there was a positive correlation between the increase in value addition and productivity improvements. Labour productivity improved in the industrial categories of food, beverage and tobacco products (2.8 per cent), fabricated metal products (4.3 per cent), non-metallic mineral products (2.9 per cent) and textiles, wearing apparel and leather products (1.1 per cent). The labour productivity declined in the industrial categories of basic metal products and other manufactured products.

Chart 4.6
Labour Productivity in Industry (1995 = 100)

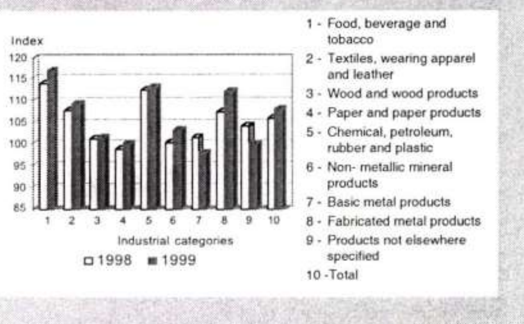


TABLE 4.8
Labour Productivity Index in the Non-BOI Private Sector (a)

1995 = 100

Categories	1998	1999	% Change
1 Food, beverage and tobacco products	113.9	117.1	2.8
2 Textiles, wearing apparel and leather products	107.8	109.0	1.1
3 Wood and wood products	101.3	101.4	0.1
4 Paper and paper products	99.0	100.0	1.0
5 Chemical, petroleum, rubber and plastic products	112.5	113.0	0.4
6 Non metallic mineral products	100.3	103.2	2.9
7 Basic metal products	101.6	98.0	-3.5
8 Fabricated metal products, machinery and transport equipment	107.5	112.1	4.3
9 Manufactured products not elsewhere specified	104.4	100.2	-4.0
Total	106.0	108.0	1.9

Source: Central Bank of Sri Lanka

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

Employment in Industry

Industrial sector employment in 1999 increased by 9 per cent signifying the creation of more employment opportunities in export oriented industries. Employment in the BOI and non-BOI industries rose by 11 per cent and 2 per cent respectively. In the BOI sector, more labour was absorbed by the apparel industry with the implementation of the Fifty Garment Factory Programme and expansion of existing industries. Apparel manufacturers in the export processing zones and urban cities were not able to fill all the vacancies in their factories due to the non-availability of skilled and non-skilled labour. Employment in all industrial categories in the non-BOI sector increased during the year. Labour absorption is higher in the industrial categories of paper and paper products; textiles, wearing apparel and leather products and basic metal products. Employment in the food, beverage and tobacco industry grew by 1.9 per cent due to higher labour absorption in the meat processing, biscuits and milk product industries despite the reduction of excess labour following the introduction of new machinery. Employment in the tobacco processing sector declined substantially due to the voluntary retirement scheme introduced by a major manufacturer. Employment in the fruit processing and sugar manufacturing industry also declined during the year. Employment in the paper and paper products industry grew by 4.6 per cent reflecting higher labour absorption in the printing and packaging industries. In the category of chemical, rubber and plastic products more employment opportunities were created in the sub sectors of drugs and medicine, plastics and rubber products.

TABLE 4.9
Employment in Private Sector Industries

Categories	1998	1999	% Change
(i) Non-BOI Private Sector (a)			
1 Food, beverage & tobacco products	26,477	26,981	1.9
2 Textile, wearing apparel and leather products	32,150	32,950	2.5
3 Wood & wood products	2,164	2,214	2.3
4 Paper & paper products	6,971	7,291	4.6
5 Chemicals, petroleum, rubber and plastics products	20,866	21,175	1.5
6 Non metallic minerals products	12,224	12,317	0.8
7 Basic metal products	789	835	5.8
8 Fabricated metal products	9,990	10,095	1.1
9 Manufactured products (n.e.s.)	5,751	5,941	3.3
Sub Total	117,382	119,799	2.1
(ii) BOI enterprises	294,381	327,059	11.1
All Categories	411,763	446,858	8.5

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

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

4.5 Investment

Foreign Investment

Sri Lanka continued to attract a substantial amount of foreign investment in 1999. The amount of foreign direct investment, defined as net foreign equity inflow into new projects and advances by foreign shareholders, increased by 68 per cent from Rs.9,689 million in 1998 to Rs.16,261 million in 1999, the highest amount recorded in a single year. The Board of Investment of Sri Lanka (BOI), the key government organisation responsible for promotion of investment, has been successful in attracting considerable investment from Australia, the UK, Japan, India, Indonesia, and the USA in 1999. The BOI organised several investment promotion missions to the Republic of Korea, India, Sweden, Norway, Singapore, Australia, the USA, Taiwan, Italy and Switzerland in 1999. These missions were successful in promoting investment in a number of large scale projects including new projects such as Sun Micro Systems of the USA with an envisaged investment of Rs.1,408 million, three mini hydro projects at Maduruoya with an envisaged investment of Rs.70 million and Mast Industries expansion project with an envisaged investment of Rs.2,816 million. The realised investment of BOI industries increased by 17.2 per cent in 1999 from Rs.176,020 million in 1998 to Rs.151,206 million in 1999.

The BOI approved 342 new investment projects in 1999 with an investment commitment of Rs.103,915 million under Section 17 of the BOI Law, compared to 405 projects with an investment commitment of Rs.104,024 million approved in the previous year. The total number of projects approved was 3,003 at end 1999. The foreign component of approved investment in 1999 was Rs.57,142 million or 55 per cent of the total approved investment. Of the approved investments in 1999, 82 enterprises were entirely foreign owned, 100 were joint venture collaborations and

TABLE 4.10

Realised Investments in BOI Enterprises (a)

Categories	No. of Enterprises		Foreign Investment (Rs. Mn.)		Total Investment (b) (Rs. Mn.)	
	1998(c)	1999(d)	1998(c)	1999(d)	1998(c)	1999(d)
1 Food, beverage and tobacco products	149	147	5,200	5,475	11,392	11,801
2 Textiles, wearing apparel and leather products	386	417	16,819	18,248	25,021	28,630
3 Wood and wood products	26	25	671	578	935	973
4 Paper and paper products	22	21	461	489	649	698
5 Chemical, petroleum, rubber and plastic products	101	100	7,121	7,930	9,370	10,329
6 Non metallic mineral products	66	63	3,044	4,081	4,841	6,999
7 Fabricated metal products, machinery and transport equipment	35	38	2,832	4,703	3,616	5,661
8 Manufactured products not elsewhere specified	171	158	5,646	5,105	8,853	8,225
9 Services	402	430	58,438	70,363	86,529	102704
Total	1,358	1,399	100,232	116,972	151,206	176,020

(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)	
	1998	1999(a)	1998	1999(a)
1 Food, beverage and tobacco products	11,699	11,571	9,329	8,274
2 Textiles, wearing apparel and leather products	189,395	216,700	114,794	127,007
3 Wood and wood products	2,723	2,148	380	344
4 Paper and paper products	871	969	1,137	941
5 Chemical, petroleum, rubber and plastic products	25,699	24,234	20,270	21,956
6 Non metallic mineral products	10,920	12,559	5,742	7,886
7 Fabricated metal products, machinery and transport equipment	2,503	3,998	3,425	1,829
8 Manufactured products not elsewhere specified	31,538	32,958	16,718	18,966
9 Services (b)	19,033	21,922	9,963	13,002
Total	294,381	327,059	181,758	200,205

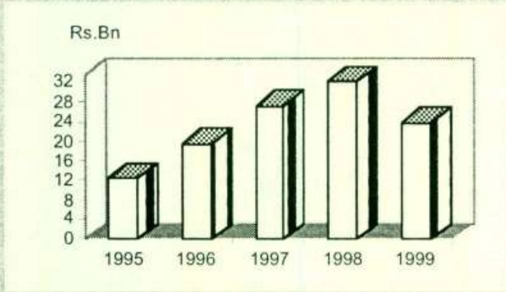
(a) Provisional.
(b) Excluding Air Lanka Ltd.

Source: Board of Investment of Sri Lanka

160 were entirely domestic owned ventures. The employment generation capacity of these approved projects was estimated at 60,950 persons. The number of projects approved in the textiles, wearing apparel and leather products category declined from 132 in 1998 to 51 in 1999. The number of projects approved in the services sector was 185, a majority of them being software development projects. The software development industry was given special incentives by the government in 1999. A significant portion of investments were approved in chemical, petroleum, rubber and plastic products; food, beverage and tobacco products and non-metallic mineral products industries.

Investments in projects contracted with BOI increased by 45 per cent in 1999. During the year, the BOI signed agreements in respect of 207 projects with a total investment commitment of Rs. 67,998 million compared to the 230 projects with total investment commitments of Rs.46,772 million in 1998 bringing the total number of agreements to 1,887 by end of 1999. The average contracted investment per project increased from Rs.203 million in 1998 to Rs.328 million in 1999. The foreign components of contracted investments was Rs.42,350 million or 62 per cent of the total investment in the contracted projects. The potential employment generation of these contracted projects was estimated at 42,838 persons. The major industrial categories that would absorb these investments are textiles, wearing apparel and leather products; chemical, petroleum, rubber and plastic products; food, beverage and tobacco products and the service sector including 34 projects in software development. There were 11 projects with total investment commitments of over Rs1,000 million. These projects include South Asia

Chart 4.7
Realised Investment of the BOI



Gateway Terminal Pvt. Ltd. (Rs.15,363 million), Colombo Power Pvt Ltd. (Rs.4,863 million), and Sithma Development Pvt Ltd. (Rs.3,949 million). Of the total contracted projects up to end 1999, 1,070 enterprises with investment commitments of Rs.145,795 million were in commercial operation. The employment potential of these enterprises has been estimated at 294,957 persons. There were 96 enterprises located in the Katunayake Export Processing Zone (EPZ), 60 in the Biyagama EPZ, 11 in the Koggala EPZ, 4 in the Malwatte Export Processing Park, 4 in the Mirigama EPZ, 4 in the Kandy Industrial Park, 6 in the Seethawaka Industrial Park, 5 in the Watupitiwala EPZ and 880 outside export processing zones.

Under Section 16 of the BOI Law (normal law), the BOI approved 136 projects in 1999 with an investment commitment of Rs. 3,391 million compared to 93 projects with an investment commitment of Rs.5,856 million in the previous year. Of the approved total investment in 1999, Rs.2,481 million or 73 per cent will come from foreign sources. Of these, 72 enterprises were entirely foreign owned and 64 are joint venture collaborations. The number of enterprises that were in commercial operation as at end 1999 was 471. The total estimated investment of these enterprises was Rs.19,668 million, of which Rs.10,561 million or 54 per cent was from foreign sources. The estimated employment generation capacity of these projects is 38,889 persons. The areas of investment were mainly in textiles, wearing apparel and leather products; food, beverage and tobacco products; chemical, petroleum, rubber and plastic products and fabricated metal products.

Local Investment

The share of local investment in projects approved under Section 17 of the BOI Law increased marginally from 42 per cent in 1998 to 45 per cent in 1999. The local investment commitment of these projects approved during 1999 was Rs.46,773 million compared to the Rs.43,303 million in the previous year. Meanwhile, the estimated local investment commitment of the projects signed during the year was Rs.25,648 million compared with Rs.20,924 million in the previous year. The share of the local investment in the 1,070 commercially operated projects under the BOI amounted to Rs. 63,652 million or 44 per cent of the total investment as at end 1999. The local investment component of the projects approved under Section 16 of the BOI Law (normal law) amounted to Rs.909 million or 27 per cent of the total investment.

The total investment in the 1,763 enterprises registered under the Ministry of Industrial Development amounted to Rs.116,344 million at end 1999. The employment potential of these industries is estimated at 308,627 persons. These investment were in textiles, wearing apparel and leather products; food, beverage and tobacco products; chemical, rubber and plastic products and fabricated metal products.

Chart 4.8
Approved and Contracted BOI Projects

Chart 4.8.1
Approved and Contracted Projects

Chart 4.8.2
Approved and Contracted Investments

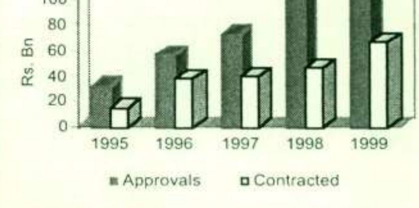


TABLE 4.12

Financial Assistance to the Industrial Sector by the NDB and DFCC Bank - 1999 (a)

Categories	Refinance Approved under SMAP & SMILE		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	1,056	794	207	1,122	-	-	1,263	1,916	102	423	1	100	103	523	1,366	2,439
2 Textiles, wearing apparel and leather products	329	219	99	1,454	-	-	428	1,673	33	249	-	-	33	249	461	1,922
3 Wood and wood products	203	188	86	176	-	-	289	364	29	47	-	-	29	47	318	411
4 Paper and paper products	200	188	6	92	-	-	206	280	-	-	-	-	-	-	206	280
5 Chemical, petroleum, rubber and plastic products	1,011	674	223	3,260	-	-	1,234	3,934	42	384	-	-	42	384	1,276	4,318
6 Non metallic mineral products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7 Basic metal products	-	-	-	-	-	-	-	-	7	8	-	-	7	8	7	8
8 Fabricated metal products, machinery and transport equipment	493	494	5	23	-	-	498	517	52	1,160	-	-	52	1,160	550	1,677
9 Manufactured products not elsewhere specified	-	-	575	1,976	-	-	575	1,976	507	2,267	-	-	507	2,267	1,082	4,243
Total	3,292	2,557	1,201	8,103	-	-	4,493	10,660	772	4,538	1	100	773	4,638	5,266	15,298

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

Sources: Development Finance Corporation of Ceylon Bank
National Development Bank

4.6 Availability of Credit to the Industrial Sector

During the year, more funds were available than in 1998 to the industrial sector at relatively low interest rates. Several international credit lines operated through the development banks granted low cost credit. Improvement of liquidity in the commercial banks also resulted in supplying industries with relatively low cost credit. Commercial banks continued to provide short-term as well as medium and long-term credit facilities to the industrial sector while the two development banks, National Development Bank (NDB) and DFCC Bank provided long and medium-term credit facilities in the form of direct loans, equity participation and credit facilities under certain special projects. During the year, NDB provided refinance facilities under the Small and Medium Enterprise Assistance Project (SMAP) launched in October 1997, using funds obtained from foreign commercial sources and the Asian Development Bank. In addition to this, NDB also provided refinance under another credit programme introduced in June 1998, namely the Small and Micro Industries Leader and Entrepreneur Promotion Project (SMILE) with financial assistance amounting to US dollars 46 million from the Overseas Economic Co-operation Fund of Japan.

According to the Quarterly Survey of Commercial Banks Advances and Deposits, commercial bank credit to the industrial sector during the first nine months of 1999 increased by 7.3 per cent to Rs.28.7 billion from Rs.26.7 billion in 1998. NDB and DFCC Bank approved financial facilities amounting to Rs.15,298 million to the industrial sector in 1999. Although this was a reduction from the Rs.22,016 million approved in 1998, the number of projects approved in 1999 increased to 5,266 from 2,564 projects approved in 1998. This was mainly a result of providing refinance facilities by NDB exclusively to micro, small, and medium-scale industries under the SMAP and SMILE credit schemes. Of the approved credits, a sum of Rs.4,318 million was given in respect of 1,276 projects in the chemical, petroleum, rubber and plastic products; Rs.2,439 million in respect of 1,366 projects in the food, beverage and tobacco products and another Rs.1,922 million in respect of 461 projects in the textiles, wearing apparel and leather products categories.

Under various credit schemes, NDB approved Rs.8,103 million in respect of 1,201 projects in 1999. Of this, Rs.3,260 million was approved in respect of 223 projects in the chemical, petroleum, rubber and plastic products category, Rs.1,454 million in respect of 99 projects in the textiles, wearing apparel and leather products category and another Rs.1,122 million in respect of 207 projects in the food, beverage and tobacco products category. NDB also approved Rs.2,557 million refinance under the SMAP and SMILE schemes in respect of 3,292 projects in 1999. Of this, Rs.794 million was approved in respect of 1,056 projects in the food, beverages and tobacco products category, Rs.674 million in respect of 1,011 projects in the chemical, petroleum, rubber and plastic products category and another Rs.494 million in respect of 493 projects in the fabricated metal products, machinery and transport equipment category.

Financial facilities approved by DFCC Bank in 1999 increased to Rs.4,638 million from Rs.4,488 million in 1998, indicating an increase of 3.3 per cent. These facilities consist of Rs.4,538 million direct loans and Rs.100 million equity finance. During the year, DFCC Bank provided equity finance amounting to Rs.100 million for a single project in the food, beverage and tobacco products category. The number of projects approved in 1999 increased to 772 from 430 projects in 1998. Under the direct loan scheme, Rs.1,160 million was approved in respect of 52 projects in the fabricated metal products, Rs.423 million in respect of 102 projects in food, beverage and tobacco products and Rs.384 million in respect of 42 projects in chemical, petroleum, rubber and plastic products categories.

4.7 Industrial Policy

The government continued with its policy of private sector led export oriented industries. Its aim was the expansion, diversification and upgrading of the domestic industrial base, creation of new employment opportunities, efficient management of physical and manpower resources and the promotion of regional industrialisation. With a view to attracting investment, enhancing productivity and improving competitiveness, the government offered a wide range of incentives to both local and foreign investors. The National Productivity Decade Programme launched in 1997 and the fiscal incentive scheme for the introduction of advanced technology introduced in 1996 helped increase productivity in the industrial sector and reduce unit cost of production. These policy measures, combined with the relatively low interest and inflation rates, helped mitigate the adverse spillover effects of the recent crises in the external economy to some extent.

In order to accelerate industrial sector growth and to diversify the industrial base the government took initiatives to prepare a Master Plan for Industrialisation and Investment Promotion in 1999 with the assistance of the JICA and UNIDO. The Ministry of Industrial Development was entrusted with the responsibility of the formulation of the Master Plan for the period 2000-2010 in collaboration with these two institutions. The Master Plan is expected to be finalised in mid 2000. The field work of the study on the Master Plan commenced in February 1999 and Stage I of the Master Plan has been completed. A total of six sectors, namely agro-based industry, apparel industry, leather and footwear industry, rubber and plastic processing industry, general machinery industry, electric/electronic industry and information technology service industry have been identified for detailed studies as target industries. In Stage II of the Master Plan, national industrialisation programmes and strategies and programmes for development of selected target industries will be formulated.

A committee of experts from both the public and the private sector was appointed to undertake a complete review of the Customs Ordinance and systems and procedures, as proposed in the Budget for 1999. While the duties on textiles and other related materials were abolished to overcome the Customs related problems faced by the export oriented garment manufacturers, the duty on all imported industrial raw materials and machinery was placed at 5 per cent to assist domestic producers to reduce the cost of production and enhance the competitiveness of Sri Lanka's products.

Deficiencies in commercial and social infrastructure facilities have been a major impediment to the growth of the industrial sector as well geographic diversification. Having recognised the importance of efficient and quality infrastructure facilities, the government encouraged the private sector involvement in developing infrastructure facilities such as power generation, telecommunications, port development, highways, industrial parks, and industrial townships on BOO/BOT basis. To overcome the deficiency of skilled labour in some major industries the Skills Development Fund was established in 1999. The objectives of this Fund are to encourage employers to conduct job entry training, upgrading and retraining of their employees, and to improve enterprise based training. With a view to encouraging private sector involvement in setting up training facilities in priority sectors such as gems and jewellery, electronics, computer software and garments, a 5 year tax holiday was granted, provided that each training institute undertakes training for a minimum of 300 persons. Identifying information technology as one of the thrust areas for industrial development, a 5 year tax holiday and other BOI incentives were granted to the software development industry in the 1998 Budget. In order to provide further incentives for skills development in this sector, the 1999 Budget provided tax exemptions for a 5 year period for software training institutions which have a minimum investment of Rs.15 million and the capacity to train a minimum of 300 persons per year.

Incentives to the Industrial Sector

The fiscal incentive scheme introduced in 1996 to promote the use of advanced technology by domestic manufacturers was extended for a further two year period in the 1999 Budget. This scheme offers duty free import of approved machinery and equipment for new enterprises investing over Rs.4 million, for existing enterprises investing over Rs.1 million and a five year tax exemption on incremental profits. The minimum investment requirements with respect to the importation of approved machinery and equipment were removed in 1999 to encourage utilisation of advanced technology in small-scale enterprises. Under this scheme, approvals were granted by the Ministry of Industrial Development for 40 new projects with an investment commitment of Rs.1,914 million and for 40 existing projects with an investment commitment of Rs.1,121 million, in

TABLE 4.13

Projects Approved under the Advanced Technology Incentive Scheme as at end 1999 (a)

Categories	New			Existing			Total		
	No	Investment Rs.Mn	Potential Employment	No	Investment Rs.Mn	Potential Employment	No	Investment Rs.Mn	Potential Employment
1 Food, beverage and tobacco products	25	2,558	1,981	74	6,771	4,557	99	9,329	6,538
2 Textiles, wearing apparel and leather products	14	761	1,520	44	1,876	2,829	58	2,637	4,349
3 Wood and wood products	7	268	567	10	210	520	17	478	1,087
4 Paper and paper products	11	662	914	38	1,871	1,588	49	2,533	2,502
5 Chemical, petroleum, rubber and plastic products	50	2,500	2,825	126	5,575	6,430	176	8,075	9,255
6 Non metallic mineral products	10	1,714	811	11	697	803	21	2,411	1,614
7 Basic metal products	6	1,012	824	18	1,086	951	24	2,098	1,775
8 Fabricated metal products, machinery and transport equipment	20	1,069	1,455	52	2,726	2,837	72	3,795	4,292
9 Manufactured products not elsewhere specified	22	1,768	2,015	22	804	818	44	2,572	2,833
10 Services	14	575	776	23	4,054	1,628	37	4,629	2,404
Total	179	12,887	13,688	418	25,670	22,961	597	38,557	36,649

(a) Provisional

Source: Ministry of Industrial Development

1999. The total number of new and existing projects approved since the commencement of this scheme amounts to 179 and 418 respectively, with a total investment commitment of Rs.38,557 million. These projects were estimated to generate direct employment for about 36,649 persons. Under this scheme, machinery worth Rs.9,520 million, relating to 356 approved projects, had been imported up to end 1999.

The 'Restructuring Programme for the Domestic Textile Industry' introduced in 1998 to encourage domestic textile manufacturers to undertake modernisation of their textile mills and to introduce a new generation of technology continued into 1999. According to the Ministry of Finance and Planning, a total of 128 applications had been received under this programme, by end December 1999. Of these, 124 applications had been considered for relief measures, while 4 applications were being processed. At end December 1999, the total outstanding debt, amounting to approximately Rs.3,998 million, had been identified for transfer to the Textile Debt Recovery Fund (TDRF) and upon the finalisation of the Tripartite Agreement for Debt Recovery, the total debt outstanding of 65 manufacturers, amounting to approximately Rs.2,910 million, has been transferred to the TDRF, in 1999. As at end December 1999, the government had paid approximately Rs.517 million to the banks and other financial institutions in respect of the debts transferred to the TDRF. By end December 1999, 98 enterprises had submitted restructuring/modernisation proposals. Of these 73 enterprises had been endorsed by their banks/financial institutions for financial facilities required for the implementation of restructuring/modernisation proposals. Of these 73 enterprises, 25 have commenced implementing their restructuring projects. The Treasury, the Ministry of Industrial Development and the BOI have already discussed the modality of implementing the second phase of the Restructuring Programme. A decision has been made to form a Monitoring Committee and arrangements are now being made for the constitution of the Committee. Domestic textile manufacturers who do not qualify for any relief under the restructuring programme are permitted to import project related machinery, equipment, spare parts and accessories for the textile industry on a duty free basis. In addition, textile and ancillary industries undertaking domestic or export market oriented projects are permitted to obtain BOI status by meeting the minimum investment requirement, which has been lowered to Rs.5 million for small-scale projects. The Domestic Textile Quota Allocation Committee, functioning under Ministry of Industrial Development, commenced the implementation of the procurement plan in 1999. Although the procurement plan aimed to procure fabric materials for several government departments and security personnel, in 1999 the quota had been allocated only in respect of fabric requirements of the Ministry of Education and Higher Education. During the year quota had been allocated to six domestic textile manufacturers for about 3.9 million meters of fabric materials.

In order to diversify both industrial and export bases, certain industries such as electronics and electronic components for assembling, ceramics and glassware, rubber and rubber based industries, light and heavy engineering, cutting and polishing of gems, diamonds and manufacture of jewellery have been declared as 'thrust industries' and special incentives were introduced to promote such industries. New enterprises which establish such industries in a designated zone 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 the 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. A tax/exchange control amnesty was also declared for those who invest their undisclosed accumulated income in such thrust industries.

An incentive scheme for promoting the geographical dispersion of industries introduced in the 1998 Budget was extended until 31 December 1999. Under this scheme, any enterprise in commercial operation would be entitled to receive incentives offered under 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 1999, employs a minimum of 150 persons and exports a minimum of 50 per cent of the output. The minimum export requirement in the case of the garment industry is 90 per cent. Under this scheme, an enterprise setting up an expansion unit or relocating to a 'difficult area' or 'most difficult area' is entitled to receive a 5 to 8 year tax holiday along with other BOI incentives. BOI enterprises already located in 'difficult' or 'most difficult' areas and manufacturing garments, ancillary or other related products for the garment industry and operating specialised training centres are eligible for an additional 5 year tax holiday provided that such expansion units are commissioned before 31 December 1999 and provide employment for a minimum of 100 persons.

National Productivity Decade Programme

The Decade of National Productivity Programme (1997-2006) which was declared in 1997 with the objective of improving productivity in both private and public sectors, continued during 1999. The theme for the year 1999 was 'Productivity Through Employer Employee Co-operation'. This was identified as being of critical importance for creating peace and harmony in the workplace. A number of radio discussions, panel discussions and TV discussion programmes were organised, highlighting the importance of employer-employee co-operation in productivity improvement. Further, meetings of employers, employees, trade union leaders, officials of Chambers of Commerce, business leaders and ILO and Labour Department officials were organised to discuss the issues involved in creating sound employer-employee co-operation. In addition, a workshop was organised to educate public sector trade union officials on the concept. Radio discussions on productivity were conducted in all three languages. A total of 51 English, 52 Sinhala and 10 Tamil programmes and 52 children's programmes were conducted. A TV series on productivity was started during 1999 and 4 English and 20 Sinhala programmes were telecast. During the year, 6 seminars were organised to educate senior public officers at the provincial and district levels, including regional political authorities on the subject of productivity and its applications. Workshops and lecture programmes were also organised to educate officers of Ministries and affiliated organisations during 1999.

4.8 Industry Location

Generally, industrialists prefer to locate their factories in close proximity to sea and airports to reduce transport cost and save time. This reason, together with the availability of relatively better infrastructure facilities and incentives provided under the Katunayake and Biyagama EPZs, encouraged industrialists to locate their factories in the Gampaha and Colombo districts. By the end of 1999, approximately 75 per cent of the enterprises registered under Sections 16 and 17 of the BOI Law and the Ministry of Industrial Development were located in these two districts. Excessive concentration of industries in these two districts has created problems such as scarcity of labour, road congestion and poor quality roads, escalation of real estate prices, environmental pollution and congestion in the main cities in the Western Province. Although government in the past had taken several measures to disperse the industries throughout the country, inadequacy of infrastructure facilities outside the western province has become a major obstacle to attract investors to other regions. Having identified the urgent need of solving this issue, the government has recently launched several key programmes such as the Industrial Parks Development Programme, Fifty Garment Factory Programme, Southern Development Programme and mini-EPZs programmes in regions. During the year the government allocated approximately Rs.1,400 million for development of infrastructure in EPZs, industrial parks and township at regional level. Government also provided various fiscal and financial incentives to promote the setting up of industries in the difficult areas.

The BOI established regional mini-EPZs in Malwatte, Mirigama, Watupitiwala, Polgahawela, Mawathagama and Horana by providing regional infrastructure facilities. The total area coverage in the Mawathagama mini-EPZ is 48 acres, and it has the capacity for setting up 16 investment plots. The Polgahawela mini-EPZ will accommodate 12 factories in an area of 36 acres. The Horana mini-EPZ extends over 412 acres and has a capacity for 60 investment projects. The employment generation capacity of these projects is estimated at 25,000 persons. The Horana industrial township project consists of housing schemes, a commercial complex, banks, hotels and recreational facilities in addition to the factories. The Malwatta mini-EPZ will accommodate 11 industries after completion of construction work. The potential employment of this project is estimated at 5,000 persons. The Mirigama mini-EPZ extending over

90 acres has the capacity for 15 industrial units. The first phase of construction of this park was completed in mid 1999. The Watupitiwala mini-EPZ consist of 67 acres for 20 industrial plots.

Under the industrial estates/parks development programme government established several industrial parks by providing basic infrastructure facilities. According to the Ministry of Industrial Development, the development work in respect of nine industrial estates has been completed and the development work on another six sites is nearing completion. Nine additional sites have been earmarked for development in the near future. When all these industrial estates are completed, they will accommodate around 390 industrial units and provide both direct and indirect employment for about 121,200 persons. The allocation of blocks of land to potential investors to set up their industrial units has already been commenced in the industrial estates at Dankotuwa, Makandura, Kuruwita, Karandeniya, Udukawa, Minuwangoda, Homagama, Beliatta, Madawala-Ulpatha, Lakshauyana, Nawagampura and Kolonnawa. At end 1999, nearly 106 blocks had been allocated to potential investors. Forty industrial projects in these industrial estates are in commercial operation providing around 5,500 employment opportunities. A further 23 factory buildings were on the construction stage at end December 1999. In addition to these programme, the Ministry of Industrial Development has established Dedicated Economic Centres (DEC) to promote economic activities in the regional centres. Under this programme, the first DEC was established at Divulupitiya and the second at Dambulla, while preliminary studies are being undertaken to explore the possibility of setting up DECs in Embilipitiya, Monaragala, Keppetipola and Pamunuwa. Ninety per cent of the construction work at Keppetipola has been completed and the balance is expected to be completed before the end of March 2000. This Centre will provide 100 vegetable stalls and two open buildings for farmers to sell their products.

The Seethawaka Industrial Park extending over 415 acres, provides facilities for 71 factories. The direct employment capacity of this project is estimated at 20,000 persons, while the indirect employment capacity is 25,000 persons. As at end 1999, 62 lots were allocated among the investors and 6 factories were in commercial operation. There were 25 projects at various stages of implementation as at end 1999. The Seethawaka Industrial Park attracted projects from the UK, Japan, Germany, Canada, Malaysia, India, Korea, Hong Kong, France, Belgium and Sri Lanka with a total investment of Rs.6,812 million generating employment for 17,000 persons by end 1999.

Showing wider regional dispersion, 167 garment factories were in commercial operation under the Two Hundred Garment Factory Programme in 21 districts at end 1999. Of these, 145 (87 per cent) were located outside the Colombo and Gampaha districts. There were 11 factories in most difficult districts such as Monaragala, Ampara, Trincomalee and Batticaloa. At December 1999, there were 16 factories in the Ratnapura District, 14 in the Anuradhapura District and 12 factories in the Nuwara Eliya District. Under the Fifty Garment Factory Programme introduced in the 1998 Budget, 51 garment factories were in commercial operation in 18 districts, mostly in the Southern Province at end 1999. Of these, 21 factories (42 per cent) were located in the Galle, Matara and Hambantota districts. Meanwhile, the Southern Development Authority of Sri Lanka, which was established in 1996 with a view to developing existing and new industries in the area, had approved 246 enterprises by end 1999. Of these enterprises, 205 were in commercial operation at end 1999. With a view to re-locating all the tanneries in a single industrial complex, the Ministry of Industrial Development has initiated an Industrial Park at Bata-atha in the Southern Province. The Central Environment Authority (CEA) has granted clearance for the implementation of this complex. The Government of Norway in 1999 agreed to provide finical assistance of Rs.65 million to set up a Central Effluent Treatment Plant at Bata-atha. The UNDP started a study on an Integrated Leather Development Programme for Sri Lanka in August 1999, to explore possibilities for promoting the leather products industry.