4. INDUSTRY

4.1 Overall Trends

In 2000, the industrial sector in general benefited from healthy developments in the international economies, favourable domestic economic conditions and policies, advances in information technology and efficient management techniques. The overall industrial output, measured as the output of factory industries, grew by 11 per cent in 2000 compared to 4.5 per cent in 1999. The output of factory industries accounted for 81 per cent of the manufacturing sector and contributed 23 per cent to overall economic growth in 2000. The growth of industrial output during the first three-quarters of the year was 12.5 per cent, but moderated to 6.7 per cent in the last quarter, mainly reflecting the impact of changes in base as recovery started during the second half of 1999. Production capacity in the industrial sector increased by 4.6 per cent in 2000. A total of 131 new enterprises registered under the BOI and the Ministry of Industrial Development, commenced commercial operations during the year.

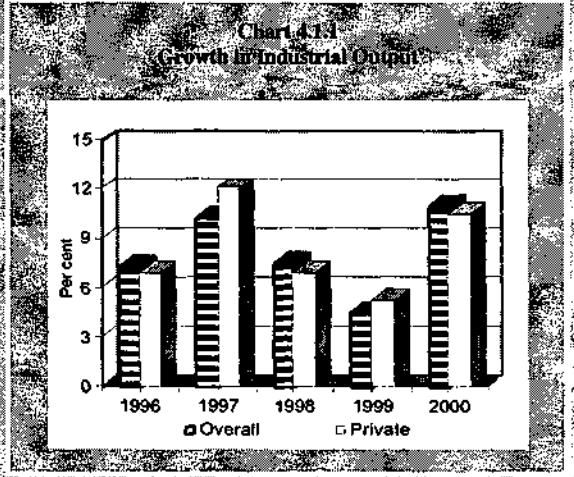
The main contributors to this healthy industrial growth were the export-oriented industries led by the apparel and textiles industry. The apparel and textiles sector, the largest sub sector in the export oriented industries, grew by 16.2 per cent in volume terms and contributed 59 per cent of the industrial sector growth in 2000. The average international price of apparel exported by Sri Lanka increased by 5.3 per cent during the year. Other export-oriented industries that registered a higher growth in 2000, were manufactured rubber, plastics, machinery, processed diamonds, electronic parts and processed tea.

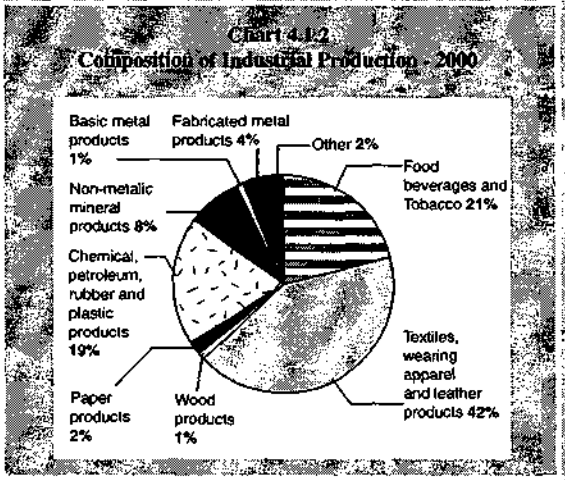
Industries catering to the domestic market showed a mixed performance. Output was higher in the sub-sectors of soft drinks, milk products, processed meat, biscuits, hard liquor, petroleum products, chemicals, fabricated metals, building materials and soap and detergent. The domestic demand for these products increased due to aggressive advertising, improved distribution methods, attractive packaging and improved quality. However, output in the sub-sectors of tobacco products, sugar, PVC products, batteries and metal products declined during the year.

Healthy economic growth in USA and the European countries in 2000, stimulated demand for major export items from Sri Lanka. Rapid recovery in East Asian countries and the subsequent appreciation of their currencies helped restore the international competitive edge which Sri Lanka's exports had enjoyed. Further, the favourable domestic economic environment that prevailed in early 2000, coupled with low inflation and low interest rates and improved labour productivity, helped improve the international competitiveness of Sri Lanka' s exports.

Export-oriented industries were able to increase access to international markets with improvements in information technology (IT) and utilisation of modern equipment. IT networks helped manufacturers to obtain market information faster from their trade representatives abroad enabling them to supply highly demanded products in time. Many firms

Chart 4.1
Growth and Composition of Industrial Production





in 2000 aimed at acquiring new technology and installing modern equipment. Fiscal incentives offered under the Advanced Technology Programme encouraged industrialists to modernise their production processes. Under this programme, 409 manufacturers had imported Rs.11.4 billion worth of machinery as at end December 2000. New technology and automated systems have minimised human error, maintained quality consistency, ensured higher productivity and enhanced worker motivation. Close working relationships with leading international buyers and the establishment of joint ventures helped to obtain more export orders.

On the domestic policy front, the government continued with its private sector led export oriented industrial policy while playing an aggressive role in facilitating international trade. The government operationalised the Indo-Lanka Free Trade Agreement in March 2000. The government also signed an agreement with EU during the latter part of the year which enabled Sri Lanka's exporters to enter the EU market without quota restrictions. This came in to effect from 1 January 2001. As brand marketing is becoming an important aspect in international trade, the Board of Investment of Sri Lanka (BOI) and the Export Development Board (EDB) organised several trade missions to explore new opportunities and establish contacts with reputed brand manufacturers, encouraging them to set up buying houses in Sri Lanka. This helped to reduce the degree of third party intermediation and created closer relations with leading international buyers.

Various incentives introduced in successive budgets have had beneficial effects on the development of the industrial sector. These include tariff and tax concessions for the importation of machinery and raw materials, development of specific infrastructure facilities in industrial parks and regional export processing zones and the improvement in the administration of apparel quotas. The government drafted a Master Plan for Industrialisation and Investment Promotion in collaboration with the Japan International Coorperation Agency (JICA) and the United

TABLE 4.1

Value of Industrial Production
(1990 Constant Prices)

	Categories	Rs. Million					Percentage Change	
		1996	1997	1998	1999	2000(a)	1999	2000(a)
1	Food, beverages and tobacco products	35,908	37,146	40,756	41,742	44,241	2.4	6.0
	Food and other	21,314	22,343	24,910	26,330	28,094	5.7	6.7
	Liquor	3,027	2,961	3,458	3,327	3,397	-3.8	2.1
	Beverages	5,104	6,032	6,590	6,432	7,210	-2.4	12.1
	Tobacco products	6,463	5,810	5,798	5,653	5,540	-2.5	-2.0
2	Textiles, wearing apparel and leather products	58,832	69,769	72,943	78,282	90,715	7.3	15.9
	Apparel	49,792	59,780	62,602	67,861	79,126	8.4	16.6
	Textiles	6,299	6,926	7,226	7,197	8,140	-0.4	13.1
	Leather	2,741	3,063	3,115	3,224	3,450	3.5	7.0
3	Wood and wood products	1,321	1,334	1,378	1,423	1,544	3.3	8.5
4	Paper and paper products	3,550	3,561	3,446	3,412	3,624	-1.0	6.2
5	Chemical, petroleum, rubber and plastic products	30,635	32,082	36,223	36,281	41,140	0.2	13.4
	Chemicals, paints and fertilisers	4,091	4,584	5,182	5,571	6,379	7.5	14.5
	Rubber	4,660	5,539	6,015	6,082	6,824	1.1	12.2
	Plastic & PVC	3,113	3,584	3,874	4,292	4,571	10.8	6.5
	Pharmaceuticals, detergent and other	7,784	8,797	9,853	10,336	10,956	4.9	6.0
	Petroleum	10,987	9,578	11,299	10,000	12,410	-11.5	24.1
6	Non metallic mineral products	13,360	13,914	14,619	15,740	16,092	7.7	2.2
	Diamond processing	4,842	4,753	4,360	5,049	5,175	15.8	2.5
	Ceramic products	1,838	1,926	1,991	2,029	2,053	1.9	1.2
	Cement	3,607	3,896	4,628	4,785	4,823	3.4	0.8
	Building material and other	3,073	3,339	3,640	3,877	4,040	6.5	4.2
7	Basic metal products	1,636	1,671	1,856	1,917	2,024	3.3	5.6
8	Fabricated metal products	6,252	7,437	8,235	8,680	9,071	5.4	4.5
9	Manufactured products not elsewhere specified	3,443	3,904	4,093	4,375	4,559	6.9	4.2
	Total	154,937	170,818	183,549	191,852	213,010	4.5	11.0

(a) Provisional

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

Nations Industrial Development Organisation (UNIDO) to reshape the industrial strategy and to expose Sri Lankan manufacturers to regional and global competition. Under this Master Plan, six industries were identified for future promotion and specific strategies were formulated to develop those industries. The need to rationalise investment incentives was emphasised in the budget proposals in 2000. Under this, a specific proposal was introduced to rationalise some of the concessions offered by BOI. The Budget 2001 proposed similar incentives and facilities for both BOI and non-BOI firms to harness the future growth potential of non-BOI industries and to remove distortions and create a level playing field.

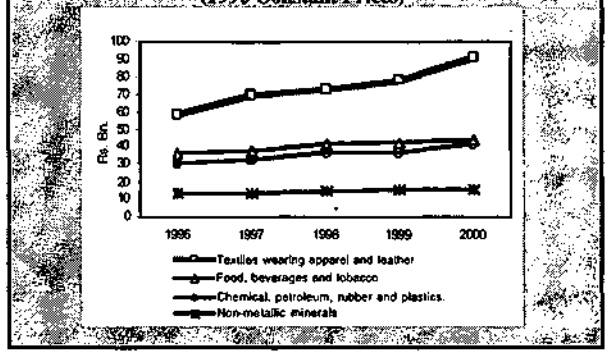
Manufacturers have introduced various measures to reduce the costs of production, such as sub-contracting, out-sourcing of production, enhancing the efficiency of working capital, reducing wastage, waste material recycling and saving energy. However, the cost escalation during the latter part of 2000, caused by the high cost of imported raw materials, increased fuel, electricity, telephone, and port charges and freight rates, imposed a burden on the industrial sector.

Industrial sector activities benefited from the continuous improvement in basic industrial infrastructure such as telecommunications, expansion in electricity generation, port facilities and the reduction in customs delays in the country. However, an inadequate road and transport network remains an impediment to growth in the industrial sector. The year was marked by a lower incidence of strikes and labour disputes, and improved labour relations. Many firms signed collective agreements with labour unions to maintain industrial peace in the working place. The pressure for wage increases was low mainly due to low inflation during the early part of the year.

Several large companies provided comprehensive in-house training at every stage of production to provide their employees with a knowledge of the latest technologies. However, further improvements in skills development are necessary for faster growth of industrial activities. The scarcity of both skilled and unskilled labour is also emerging as a major problem. A review of labour policy and subsequent changes are essential to ensure a more flexible labour market consistent with free market economic policies for the fulfilment of future labour requirements in the industrial sector.

Lack of proper legal provisions for easy and speedy liquidation or re-structuring of sick industries, and the environmental pollution created by industrial wastage especially in rubber, plastic, metal, wood and food processing industries, have become a cause for concern. Certain companies in the rubber manufacturing sub-sector have invested in environmental pollution control methods such as water treatment plants, air purification systems, sewerage disposal systems and recycling waste to minimise of pollution and increase the efficient management of waste generations.

Chart 4.2
Performance in Major Industrial Sub Sectors
(1990 Constant Prices)



4.2 Production

As in previous years, growth in factory industries in 2000, was estimated on the basis of the Industrial Production Survey-2000 of the Central Bank of Sri Lanka. This Survey covered 480 industrial enterprises outside the purview of BOI, production of public sector industries and export data relating to BOI enterprises. The Survey did not cover the other two sectors, viz., processing of tea, rubber and coconut and small industries, whose output was estimated separately using other information. The output of factory industries grew by 11 per cent in real terms and 16.8 per cent in nominal terms, resulting in an implicit price deflator of 5.2 per cent for the output of factory industries in 2000.

Public sector industries grew by 24.1 per cent, while private sector industries grew by 10.5 per cent during the year. The contribution of the public sector to industrial output was 12 per cent and that of the private sector was 88 per cent. Of this, BOI industries accounted for 65 per cent and non-BOI for 23 per cent. The impetus for growth in industrial output in 2000 came mainly from three of the nine industrial categories, viz., textiles, apparel and leather products; chemicals, petroleum, rubber and plastic products and food, beverages and tobacco products. These categories accounted for 94 per cent of the growth in the industrial sector in 2000.

Private Sector Industries

Output of private sector industries grew by 10.5 per cent in 2000 compared to 5.3 per cent in 1999. Private sector industries accounted for 94 per cent of industrial production in 2000. Output growth in BOI industries was estimated at 14 per cent in 2000, compared to 5.7 per cent in the previous year. Output in the non-BOI sector grew by 6.2 per cent compared to 5 per cent in 1999. The Industrial Production Survey-2000 of the Central Bank indicated an

Box 5

Industrial Re-Structuring and Enabling Facilitation

Introduction

Business failure is a common phenomenon in a dynamic market economy. Firms fail as a result of both external and internal factors. The most significant external factor is innovation in technology that results in 'creative destruction' described by Schumpeter (1934) and Aghion and Howitt (1992). Old firms are replaced by new firms as the economy discards old goods and services and old techniques in favour of new goods, services and techniques[1]. In the history of technological innovation, for example, the 'slide-rule' industry was replaced by the 'calculator' industry. Other external factors are market developments such as increased competition, relative cost of inputs, flexibility of labour markets and government policy changes. Internal factors are lack of managerial skills and labour disputes. When business failures are beyond the control of the firm and cannot be corrected within a reasonable time frame, the legal framework should enable the transfer of capital locked in those ventures to other productive activities. However, when the reasons for failure are temporary and can be corrected with the assistance of an outside organisation, those enterprises should be given opportunity to reorganise themselves.

To address those issues, some countries have introduced a specific legal framework and legislation to facilitate easy and speedy adjustment and re-organisation of firms in financial difficulties. Important examples are the United States Bankruptcy Code, and the Sick Industrial Companies (Special Provision) Act, 1985, of India. These initiatives help enterprises to release capital locked in failed projects for re-investment in viable projects.

Legal Impediments for Reorganisation and Restructuring in Sri Lanka

The existing legislation in Sri Lanka hinders smooth business re-organisation and restructuring. The existing labour laws do not permit retrenchment of excess workers and discourage the restructuring of enterprises. The Termination of Employment of Workmen Act, No.45 of 1971, for example, prohibits firms with 15 or more employees from laying off workers even on the grounds of inefficiency, or lack of skills.[2] Recovery of Loans By Banks (Special Provisions) Act, No. 4 of 1990, and the loan recovery provisions in the statutes relating to the establishment or incorporation of banks in Sri Lanka do not contain sufficiently clear provisions for granting facilities for the reorganisation of sick industries.[3] According to this Act, the Board of Directors of a lending bank can sell by public auction any property mortgaged to the bank as security to recover the loan, interest payments and other cost. This 'parate execution' allows banks to recover secured loans by auctioning the mortgaged property without a court order.

International Initiatives in Dealing with Restructuring and Reorganisation

US Initiative

The Bankruptcy Code of the USA provides two distinct forms of relief, Liquidation (Chapter 7) and Reorganisation (Chapter 11).[4] The vast majority of bankruptcy filings in the United States involve liquidation governed by Chapter 7 of the Bankruptcy Code. Chapter 7 allows the US trustee to collect a debtor's non-exempt assets (assets that a debtor is not allowed to retain) and convert them into cash. The trustee then distributes the resulting funds to the creditors in order of priority described in the Bankruptcy Code. Creditors frequently receive only a portion, and sometimes none, of the money owed to them by the bankrupt debtor.

Chapter 11 of the United States Bankruptcy Code allows the debtor to continue its business operations under a plan of re-organisation. Thus, it gives a chance to a firm to restructure its finances so that it may continue to operate, provide its employees with jobs, pay its creditors, and produce a return for its stock holders. It also permits a liquidating plan, which often allows a firm to liquidate the business under more economically advantageous circumstances than a liquidation under

1 Schumpeter, Joseph A (1934), The Theory of Economic Development, Cambridge, MA, Harvard University Press. Aghion, Phillippe and Peter Howitt (1992), A Model of Growth through Creative Destruction, Econometrica, 60,2, March pp 323-351.

2 In a retrenchment situation the provisions of this Act require the employer to obtain either the consent of the employee or the Commissioner of Labour for termination and thus the termination procedures take considerable time.

3 The banks established under the statutes of Parliament were State Mortgage and Investment Bank, National Savings Bank, Bank of Ceylon, People's Bank, National Development Bank and DFCC Bank.

4 www4.law.cornell.edu/uscode/11

Box 5 (Contd.)

Chapter 7. It also permits the creditors to take a more active role in fashioning the liquidation of assets and the distribution of the proceeds than under Chapter 7. Chapter 11 also contains special provisions to deal with small businesses. A small business case is put on a 'fast track' and treated differently from a regular Chapter 11 case.

As a first step of reorganisation under Chapter 11, a written disclosure statement and a plan of reorganisation must be filed with the court. The disclosure statement is a document that contains information concerning the assets, liabilities, and affairs of the firm to enable a creditor to make an informed judgement about the plan. After the disclosure statement is approved, the firm can begin to solicit acceptance of the plan, and creditors may also solicit rejection of the plan.

Any party in interest may file an objection to confirmation of a plan. The Bankruptcy Code requires the court, after notice, to hold a hearing on the confirmation of a plan. If no objection to the confirmation is filed, the court may determine that the plan has been proposed in good faith and according to law. After the plan is confirmed, the debtor is bound by the provisions of the plan of re-organisation. The confirmed plan creates new contractual rights, replacing or superseding pre-bankruptcy contracts.

The United States trustee is responsible for monitoring the firm's operation of the business, submitting operating reports and fees, applications for compensation and reimbursement, plans and disclosure statements, and creditors committees. The United States trustee also imposes certain requirements on the firm concerning matters such as reporting its monthly income and operating expenses, the establishment of new bank accounts and the payment of current employee withholding and other taxes. By law, the firm must pay a quarterly fee to the United States trustee for each quarter until a plan is confirmed or the case is converted or dismissed. The amount of fee, which may range from US$250 to US$5,000 at present, depends upon the amount of disbursements during each quarter. If the firm fails to comply with the reporting requirements of the United States trustee or orders of the Bankruptcy Court or fails to take appropriate steps to bring the case to confirmation, the debtor's Chapter 11 case may be converted to a case under another Chapter of the Code or the case may be dismissed.

Indian Initiative

The Indian initiative came in the form of the Sick Industrial Companies (Special Provisions) Act (SICA), 1985, with the objectives of ensuring timely detection of sick and potentially sick industrial companies and to expedite the revival of potentially viable units or closure of non-viable units. Under this Act, the Board for Industrial and Financial Reconstruction (BIFR), consisting of a group of experts, was set up in January 1987 to determine and enforce preventive, remedial and other measures with respect to sick industrial companies.[5] SICA applies to both public and private sector industrial companies, excluding, small-scale industrial undertakings or ancillary industrial undertakings.

An industrial company is deemed 'sick' if the accumulated losses of the company are equal to or more than its net worth (paid up capital plus free reserves). To be eligible for facilities under SICA, the company has to have been in operation for at least five years after the incorporation under the Companies Act, it should have at least 50 workers on any day of the 12 months preceding the end of the financial year with reference to which sickness is claimed and it should have a factory licence.

Where an industrial company becomes a sick industrial company, the Board of Directors of the company could make a reference to BIFR for determination of the measures which shall be adopted with respect to the company. The other parties who could also make reference to BIFR are the central government, the Reserve Bank of India, a state government, a public financial institution, a state level institution or a scheduled bank.

BIFR may inquire to determine whether the company has become a sick industrial company upon receipt of any such information. BIFR could appoint one or more persons to the Board of Directors of the company for safeguarding the financial and other interests of the company

After making an inquiry, if BIFR is satisfied that a company has become sick, it then decides if it is practical for the company to enhance its net worth above the accumulated losses within a reasonable time, and allows sufficient time for the company to enhance its networth. If BIFR decides that it is not possible for the sick company to enhance its net worth above the

5 www.bifr.nic.in/

Box 5 (Contd.)

accumulated losses, it would take measures such as the financial reconstruction of the sick industrial company; changing the management of the sick industrial company; amalgamating the sick industrial company with any other company; the sale or lease of a part or whole of any industrial undertaking of the sick industrial company; rationalising managerial personnel, supervisory staff and workmen in accordance with law; and any other preventive, ameliorative and remedial measures as may be appropriate.

Where the scheme relates to preventive, ameliorative, remedial and other measures with respect to any sick industrial company, the scheme may provide for financial assistance to the sick company by way of loans, advances, or guarantees from the central government, a state government, any bank, a public financial institution or state level institution or any institution.

Guidelines for industrial reorganisation in Sri Lanka

A bankruptcy code should reinforce the working of the market to bring about efficient allocation of resources by providing a framework within which enterprises could restructure their business in such a way that maximises the value of the enterprises or where appropriate, undergo an orderly liquidation of their assets. The legal framework should not create or expose a presumption in favour of restructuring/reorganising all failing enterprises. The legal framework should ensure that enterprises which are viable in the long run survive.

Currently, there does not exist any mechanism in Sri Lanka to facilitate the re-organisation of financially troubled or sick enterprises. [6] Moreover, prevailing labour laws and parate execution do not permit financially troubled enterprises to reorganise and continue the business operation, but only result in closure of enterprises. Since the closure of enterprises causes great cost to the economy by way of loss of output and employment, default to creditors and low return to entrepreneurs, it is extremely important to have a sound mechanism in place to assist ailing enterprises to overcome their problems, provided that the enterprises are commercially viable and the problems are of temporary nature.

Government should consider enacting legislation to deal with the systematic reorganisation of financially troubled small, medium and large-scale enterprises that could be made financially viable. That legislation should provide for a moratorium on debts payable to creditors without interest on such debts, termination of employment within a short period of time for reasons such as inefficiency, and downsizing for reorganising purposes with reasonable compensation, and speedy reorganisation procedures and special provisions for systematic liquidation of non-viable business entities. The legal framework should also ensure that it is fair to all parties, including competitors and tax payers, responds promptly to the urgent needs of the entrepreneurs, is transparent in its operation, accessible to all who need to use it and, encourages entrepreneurs or managers to take timely or early action. It should ensure that returns to creditors are maximised and businesses that are viable in the long run are not liquidated.

If financial failure was caused by inefficient management, then the provisions of this legislation should empower the authority that administers the reorganisation of enterprises, to take over the management or to appoint a suitable and competent management to administer the enterprises for a certain period or until the enterprises turns out to be commercially viable again.

A separate body with wide ranging powers consisting of experts from both the private and public sectors should be established to administer and monitor the reorganisation of enterprises. Entrepreneurs could be charged a reasonable fee for the services provided by this body to cover its operational costs.

6 However, the Companies Act, No 17 of 1982, allows companies registered in Sri Lanka under the Act to initiate a process of reconstruction of a company through binding arrangements with creditors and shareholders, by making an application to court. This Act also allows companies to wind up either by a court order or voluntarily or subject to the supervision of the court.

expansion of production capacity by 4.6 per cent in the non-BOI sector. Production capacity in textiles, apparel, animal feed, food processing, rubber-based products, drugs and medicine and chemical and plastic industries expanded in 2000. The rate of capacity utilisation increased to 85 per cent in 2000 compared to 83 per cent in the previous year. Capacity utilisation increased in the industrial categories of textiles, wearing apparel and leather products; chemical, rubber and plastic products; food, beverages and tobacco products and fabricated metal products. Employment in BOI and non-BOI industrial sectors increased, by 12.5 per cent and 2.9 per cent, respectively. Labour productivity in the non-BOI industries increased by 3.6 per cent during the year.

expansion of up-market and non-quota items in EU. Timely delivery, production of items reflecting the latest fashions, offer of competitive prices in relation to product quality and penetration into new niche markets helped expand the EU market. This was supported by the appreciation of several East Asian currencies making Sri Lankan apparel more competitive in international markets. Rapidly improving information technology and closer relations with trade representatives in major markets helped obtain information on the latest developments in markets and technology, giving sufficient time for manufacturers to adjust to these changes. Export orders were received through parent companies or partners in the major markets and through domestic buying houses. The growing popularity of brand

TABLE 4.2

Private Sector Industrial Production Index

1990=100

	Categories	Index					Percentage Change	
		1996	1997	1998	1999	2000(a)	1999	2000(a)
1	Food, beverages and tobacco products	166	171	188	193	205	2.4	6.1
	Food and other	166	176	196	207	218	5.8	5.1
	Liquor	183	177	207	199	207	-3.8	2.1
	Beverages	180	207	226	221	250	-2.4	12.1
	Tobacco	135	121	121	118	115	-2.5	-2.0
2	Textiles, wearing apparel and leather products	217	258	269	289	334	7.3	15.9
	Apparel	235	284	297	322	376	8.4	16.6
	Textiles	174	191	199	198	226	-0.4	13.1
	Leather	172	193	196	203	221	3.5	7.1
3	Wood and wood products	165	165	163	168	178	3.3	5.9
4	Paper and paper products	279	287	289	286	314	1.0	7.7
5	Chemical, petroleum, rubber and plastic products	224	257	286	299	326	4.6	9.1
	Chemicals, paints and fertilisers	183	212	240	258	292	7.5	13.1
	Rubber	213	253	274	279	313	1.8	12.1
	Plastic & PVC	182	210	227	252	270	10.8	6.5
	Pharmaceuticals, detergent and other	235	265	297	312	330	4.9	6.0
6	Non metallic mineral products	243	254	267	288	294	7.7	2.2
	Diamond processing	270	260	237	274	281	15.8	2.5
	Ceramic products	181	189	195	199	202	1.9	1.2
	Cement	212	232	276	285	286	3.4	0.8
	Building material and other	204	221	241	257	276	6.5	4.2
7	Basic metal products	351	359	399	412	429	3.3	5.6
8	Fabricated metal products	150	178	197	208	217	5.4	4.5
9	Manufactured products not elsewhere specified	221	250	262	280	290	6.9	4.2
	All categories	205	230	246	259	286	5.3	10.5

(a) Provisional

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

Performance in Major Industrial Sectors

Textiles, wearing apparel and leather products

Output in the textiles, wearing apparel and leather products category, the largest sub sector in factory industries, grew by 15.9 per cent in 2000 compared to 7.3 per cent in 1999. This sub sector contributed 66 per cent to the growth of output in private sector industries in 2000. The textiles sub sector grew by 13.1 per cent, while leather products grew by 7.0 per cent in 2000.

The healthy growth in the apparel sector came from the consolidation of market position in USA and the marketing in international markets encouraged Sri Lankan manufacturers to supply their products to reputed brand name holders in international markets. The top 10 US branded apparel firms visited Sri Lanka in 2000, to establish contact with major manufacturers for future purchases from Sri Lanka. To improve product quality and value addition, the major apparel manufacturers commenced a large-scale programme for upgrading technology. The programme included automated systems for designing and grading, embroidery, machine smocking, pleating and screen printing. Centralised cutting plants that eliminated human

error and improved efficiency in cutting. However, manufacturers also turned to traditional methods such as hand smocking in view of the growing demand for those products in the European market. Some manufacturers produced a host of ancillary products and services that helped to reduce costs and ensure timely delivery of export orders. These, together with a network of supply services, enabled them to minimise the lead-time required to process and execute urgent export orders, thereby successfully integrating with the supply chain managed by major overseas buyers.

The availability of quota to USA, the EU countries and Canada increased by 12.2 per cent to 435.6 million pieces in 2000. The increase was 11.3 percent in the US market, 16.1 per cent in EU countries and 19.6 per cent in Canada. At present Sri Lanka exports 50 different apparel and textile items under quota restrictions to those markets. The quota availability increased by over 10 per cent in apparel categories such as knit-shirts and blouses, shirts and blouses not-knit, dressing gowns, underwear, terry and other pile towels, dish towels, coats, shirts and blouses not knit and sweaters, in the US market. However, the availability of quota in respect of coveralls and overalls, fabric poplin/ broadcloth, pillowcases, spun cell–woven, night wear, sweaters and dresses in the US market declined in 2000. In the EU market, the quota availability increased over 10 per cent in respect of woven shirts and parkas, anoraks and windcheaters in 2000. The quota availability in Canada increased by over 15 per cent in apparel categories such as coats, jackets and rainwear, winter outerwear, casual and fine wear, trousers, overalls and shorts, T-shirts and athletic wear, underwear, sleepwear and bathrobes, sweaters, swimwear, babies' garments and bed sheets. The availability of quota items such as coats and fine suits in the Canadian market declined by 12 per cent in 2000 owing to lower utilisation of quota in previous years.

Sri Lanka exported about 56 per cent of its textiles and garments to USA. This accounted for only 2.3 per cent of the total textiles and garment imports of that country. In 2000, the total textiles and apparel exports to USA increased by 17.1 per cent, from 560 million square meters equivalents (SME) in 1999 to 655.5 million SME in 2000. The corresponding increase in value terms was 14.1 per cent which indicated a drop in prices by about 3 per cent in 2000. This was a noteworthy development considering the fact that Sri Lanka had to compete with countries which received preferential tariff and market access into USA. The average price of textiles and apparel imported from all other countries to the US market declined by 2.3 per cent in 2000. Apparel exports to USA increased significantly by 21.2 per cent, to 408.6 million SME in 2000. Of this, 71 per cent was exported under quota. Exports of non-quota items registered a significant growth of 46.4 per cent, while quota items increased by 13.3 per cent in 2000. Exports of high value added non-quota items received relatively higher prices in the US market in a highly competitive market environment. Exports of other textile items to the US market also increased, from 222.9 million SME in 1999 to 246.8 million SME in 2000, registering an increase of 10.8 per cent, and accounted for over 95 per cent of non-quota category exports in 2000.

The rationalisation of quota allocation procedures and the introduction of the Electronic Visa Information System (ELVIS) in 1999, helped achieve a higher utilisation rate of 80 per cent during the year. ELVIS replaced the existing manual systems and improved the efficiency of quota administration through speedy and accurate data

TABLE 4.3

Value of Industrial Production (a)

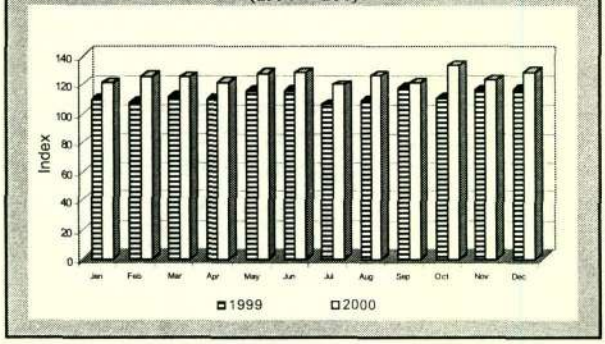
	Categories	Rs. Million					Percentage Change	
		1996	1997	1998	1999	2000(b)	1999	2000(b)
1	Food, beverages and tobacco products	68,209	75,713	86,994	94,687	105,671	8.8	11.6
2	Textiles, wearing apparel and leather products	117,539	146,500	165,443	178,844	215,666	8.1	20.6
3	Wood and wood products	2,171	2,299	2,511	2,715	3,084	8.1	13.6
4	Paper and paper products	5,069	5,462	5,593	5,854	6,516	4.7	11.3
5	Chemical, petroleum, rubber and plastic products	46,936	50,682	59,724	62,590	74,670	4.8	19.3
6	Non metallic mineral products	18,997	21,403	23,830	26,830	28,198	12.6	5.1
7	Basic metal products	2,248	2,439	2,841	3,046	3,378	7.2	10.8
8	Fabricated metal products, machinery, and transport equipment	8,807	11,327	13,241	14,305	15,678	8.0	9.6
9	Manufactured products not elsewhere specified	6,183	7,324	8,137	9,002	9,839	10.6	9.3
	Total	276,159	323,149	368,314	397,873	462,720	8.0	16.3

(a) Value of production is estimated on the basis of ex-factory value of production
(b) Provisional

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

transmission, simplification of export documentation and speedy import clearance process in USA. The utilisation rate of 23 quota items in the US market exceeded 85 per cent in 2000. The quota items in respect of dresses, knit shirts and blouses, sweaters, trousers, pillowcases and suits for women and girls were fully utilised in the US market during the year. The utilisation rate was over 90 per cent in respect of gloves, non-knit shirts, skirts, dressing gowns, terry and other pile towels, coats and knit shirts in the US market. In the EU market, quota utilisation rates were high in respect of trousers for men and boys, shorts and breeches and knitted blouses. However, as in the previous years, the rate of quota utilisation was below 30 per cent in quota items of suit type coats and parkas, anoraks and windcheaters, underwear, sleepwear and bathrobes and swimwear in 2000. The most popular quota items in the Canadian market were winter outerwear, trousers, overalls, shorts and baby garments. The utilisation of quota in respect of fabric poplin/broad cloth, coats, non suits, jackets and rainwear, T-shirts and athletic wear, dish towels and sweaters was below 30 per cent due to the inability of manufacturers to supply these products in the required quality.

Chart 4.3
Private Sector Industrial Production Volume Index
(1997 = 100)



Further improvements in product quality, reductions in cost and speed of delivery and shipments are essential to face the competition in the international market for apparel. Advanced systems that can automate complex and time consuming tasks such as pocketing, eye buttonholing and blanket stitching and attaching buttons are essential for cost effective manufacture of garments of high quality. Future competition in the international market will be increased further by factors such as the proposed abolition of the quota system by 2005, under the phasing out of the Multi Fibre Agreement (MFA), growing popularity of preferential trade, the e-commerce revolution and the emergence of low cost manufacturers. China, with the possibility of becoming a fully-fledged WTO member, and Mexico, with geographical proximity to the US market and the advantageous position conferred to it under NAFTA, will be the major competitors for Sri Lanka's apparel exports in the US market. The recent initiative to grant quota free access to Sub Saharan African countries by USA and the special bi-lateral trade agreements between USA and several West Asian countries could erode the market share of Sri Lanka in the US market. Domestic market constraints, such as the non-availability of machine operators and helpers, lack of proper training, limited domestic market for apparel products, limited product range and sub-contracting also act as impediments to the growth of the industry. Easy access to changing fashion trends in Europe and USA is also essential for product development. Therefore, a change in marketing strategies with diversification of markets reducing dependence on the US market, consumer oriented marketing strategies, availability of quality fabrics in the domestic market, skills development, market research, rapid improvement in trading through e-commerce and image building will be crucial factors for the development of the apparel industry.

Under the Textile Restructuring Programme introduced in the 1998 Budget, 111 firms submitted modernisation proposals for up-dating technology in the textile industry. Of them, 103 were approved by their banks for receipt of new loans for modernisation of factories. At end December 2000, 30 factories had commenced implementation of re-structuring projects. The liberalisation of textile imports in 1998, forced domestic market oriented manufacturers to up-grade technology and install modern machinery to face import competition.

The output of the footwear sector grew by 7.0 per cent in 2000. The domestic oriented manufacturers were able to consolidate their market share by introducing attractive new designs at relatively low prices. The durability and quality of these products have also increased substantially over the years. However, production of export oriented footwear registered a marginal decline due to higher competition in international markets.

Food, beverages and tobacco

The food, beverages and tobacco category, the second largest industrial category, grew by 6.1 per cent contributing 13 per cent to the growth of factory industries in 2000. In this category, output of the beverages and food sub sectors grew by 12.1 per cent and 5.1 per cent, respectively. The liquor sub sector grew moderately by 2.1 per cent, while the output of tobacco products declined by 2.0 per cent.

In the food sub sector, growth was higher in sub-sectors such as processed meat, milk products, processed fruits and vegetables, animal feed, coconut products, wheat flour processing, processed food, biscuits, chocolates, toffee and sweets. The domestic demand for most of these products increased due to effective advertising and efficient distribution methods that enhanced the popularity of these products among the urban population. Continuous research

carried out by major manufacturers to assess consumer needs helped to improve product quality. Manufacturers also introduced a range of new products on the basis of those research findings. These industries invested substantially in upgrading technology and installing new machines. The processed meat and fish product industry continued to grow to meet rising demand, especially from the urban population. The biscuit industry registered a 12 per cent growth in 2000 due to increased domestic and international demand. Domestic demand increased due to the introduction of new products and mini packs and improvements in packing.

The milk powder packing industry grew by 8.8 per cent in 2000 to meet increased demand in the domestic market. However, growth of the domestic milk powder manufacturing industry was constrained by inadequate milk for processing. The fruit and vegetable processing industry registered a 6.1 per cent growth in 2000. The processing of cashew, pineapple and mango has high growth potential in international markets. In addition to the processing of cashew nuts, the shell is used as a raw material for producing items such as alcohol, brake lining, lacquer, paints and antibacterial and anti-fungal products. The fibre of the pineapple leaf is used for manufacturing high priced clothing material. However, the commercial cultivation of fruit for such industries is constrained by the non-availability of large extents of land, insufficient storage and transport facilities, non-availability of high quality seeds and low productivity. The demand for poultry feed increased owing to the increased rearing of chicken during the year. The demand for chicken, as a preferred source of protein by the public, has increased gradually, with prices favourable compared to those of other products. Domestic demand for coconut milk powder grew due to aggressive advertising and reduced prices following low input prices. The convenience of using dried coconut milk powder has stimulated demand.

The soft drink industry recovered well and grew by 12.1 per cent in 2000 as against the 2.2 per cent decline experienced in 1999. Effective marketing and distribution efforts and the introduction of new products, coupled with the dry weather conditions that prevailed in certain parts of the country during the year, boosted the demand for soft drinks. The processed and packeted tea industry showed an improvement with increased demand for these products from EU, Russia, and West Asian countries.

The output of liquor spirits rose by 6.5 per cent growth in 2000, due to increased demand and a reduction of illicit liquor production as a result of the strict enforcement of excise laws. The major manufacturers introduced new shapes of bottles, new labelling and new bottle caps to attract consumers and to prevent counterfeiting. After several years of continuous growth, the beer industry grew only marginally in 2000, mainly due to the reduction of demand in response to a price increase as a result of a rise in excise duty. During the year, some beer manufacturers improved bottling by introducing canned beer to the domestic market, which was well received by the consumers because of easy disposability, storage, and the elimination of the risks of breaking and spilling.

The output of processed tobacco products declined by 2 per cent in 2000 despite various promotional activities. The excise driven price increases and the anti-tobacco campaign reduced the demand for cigarettes. The export of cigarettes to West Asia has also declined due to high excise duty on tobacco imports imposed by those countries. However, the processed tobacco manufacturing BOI firms showed higher performance during the year. In order to popularise the image of specific brands among the market segment of the affluent and urban adult consumers, manufacturers launched various promotional campaigns to introduce new brands with attractive designs in packing that met international standards. The effective enforcement of customs laws substantially reduced smuggling of cigarettes into the country during the year.

Chemicals, petroleum, rubber and plastic products

The output of the chemicals, petroleum, rubber and plastic product category, the third largest category in private sector industries, grew by 9.1 per cent compared to 4.5 per cent in 1999. This category contributed 13 per cent to the growth in private sector industries in 2000. In this category the major sub-sectors that showed significant growth were rubber based industries (12.1 per cent), chemicals, paints and fertiliser (13.1 per cent), pharmaceuticals, detergents and other products (6.0 per cent) and plastic and PVC products (6.5 per cent).

The rubber-based industry regained its competitiveness with the appreciation of East Asian currencies, lower cost of production and improvements in product quality. A noteworthy increase in export orders was registered for rubber gloves and industrial and agricultural tyres from USA, Europe and the West Asia. The market share for locally produced bicycle and commercial vehicle tyres increased despite the availability of various brand of imported tyres. During the year, manufacturers introduced new high quality tyres for trucks, prime movers and trailers used for heavy load transportation. There was an increased demand for bicycle tyres and tubes, especially from the rural areas. The export of rubber-based products such as resin rubber shoes and soling sheets to India took place under the concessions offered in the Indo-Lanka Free Trade Agreement.

In the chemicals, paints and fertiliser subsector, the high growth industries were fertiliser mixing, activated carbon, mosquito coils, chemicals, weedicides and

insecticides. Fertiliser production benefited from increased use of fertiliser in the tea sector. Technical and extension services offered by major manufacturers, better crop prices and favourable weather helped stimulate the demand for fertiliser. For the first time, mosquito coils manufactured in Sri Lanka received large export orders from Pakistan, South Africa and Kenya. The domestic demand for mosquito coils also increased substantially during the year. The activated carbon industry recovered significantly with increased export orders received from USA. Increased coconut production and improvements in the desiccated coconut industry resulted in an increased supply of coconut shells used in the activated carbon industry. The cost of production in this industry also decreased with the introduction of steam turbines, which utilise waste. The soap and detergent industry performed well due to continuous improvement in product quality, aggressive promotional campaigns and relative price advantage over imported items. Market segmentation through introduction of mini-packs with special prices increased the demand for tooth paste, shampoo and perfumes, especially among low-income consumers. The growing popularity of herbal products, coupled with improvements in product quality and packaging, stimulated the demand for domestic aryurvedic products. The industry was able to withstand the pressures of imports from India. In 2000, aryurvedic products were exported to markets in USA and East Asian countries. However, the quality of products can be further improved through research and product development to meet the requirements of Western markets.

The plastics industry grew by 6.5 per cent in 2000. The increasing trend to substitute plastics for wood products such as furniture, household items, building materials and packing materials continued in 2000. The completion of major telecommunication projects in the country reduced the demand for PVC pipes. BOI industries manufacturing lamps and plastic components, camping tents, travelling bags and haversacks, PVC rain wear and bags and plastic headers registered relatively high growth during the year.

Non-metallic mineral products

This category registered a marginal growth of 2.6 per cent, reflecting slower growth in the industrial items of ceramic products, cement and processed diamonds. The sub-category of building materials grew by 4.2 per cent in 2000. Reduction in demand for ceramic tiles from East Asian countries, affected by the slowing down in the construction industry following the financial crisis in those countries, has not reversed fully to its pre-recession level. However, demand for ceramic products from UK, USA, Canada and Australia increased substantially during the year. Some exporters found high value added niche markets in the Netherlands and Belgium. The ceramic tile industry invested a significant amount of funds to improve product quality, human resources and adopt modern technology. The domestic demand for wall and floor tiles continued to increase with the growing popularity of ceramic tiles in the construction industry. Glazed porcelain tiles, which are stronger than traditional ceramic tiles and more suitable for domestic and industrial applications, are becoming popular among consumers. Some of the exclusive designs manufactured especially for export markets were successfully introduced to the domestic market during the year. There is high potential for the ceramic industry to expand its share in the Indian market, as they do not manufacture porcelain products on a large scale.

The output of cement grew only marginally in the face of competition from imports. To protect the domestic cement manufacturing industry, the import duty on cement was increased from 10 per cent to 25 per cent in June 2000. However, the import duty on cement imported from India remained at 9.5 per cent under the Indo-Lanka Free Trade Agreement.

The growth in the construction industry stimulated by tax concessions and availability of loan financing, created a higher demand for building materials such as asbestos, concrete products, roofing sheets and glass. Production of asbestos, roofing and ceiling sheets grew at 14 per cent in 2000. The glass industry has invested significantly to improve efficiency in production and has taken measures to improve quality.

Fabricated metal products

The output of fabricated metal products grew by 4.5 per cent in 2000 compared to 5.4 per cent growth achieved in 1999. This category contributed 2.1 per cent to the growth of factory industries in 2000. The sub-categories that contributed to the growth are refrigerators, electrical items, kitchen appliances, television sets, agricultural machinery, fabrication of motor coaches, manufacturing and repairing of ships and boats, aluminium products, cables, transformers, and light fittings.

The expansion of rural electrification and the improvement of rural income boosted the demand for television sets, electrical items and kitchen appliances. The expansion of agricultural activities also created a greater demand for agricultural machinery such as water pumps and sprayers. The manufacturers of refrigerators introduced new models with modern features improving quality and new designs keeping with market trends. The demand for deep-freezers has increased with the expansion of trade outlets that sell frozen foods in rural areas. The expansion of the soft drinks industry and the growing popularity of food outlets, in both urban and rural areas, stimulated the demand for bottle coolers. The output of electronic parts, ferrite cores, computer parts and transformers manufactured by BOI firms grew due to higher international demand.

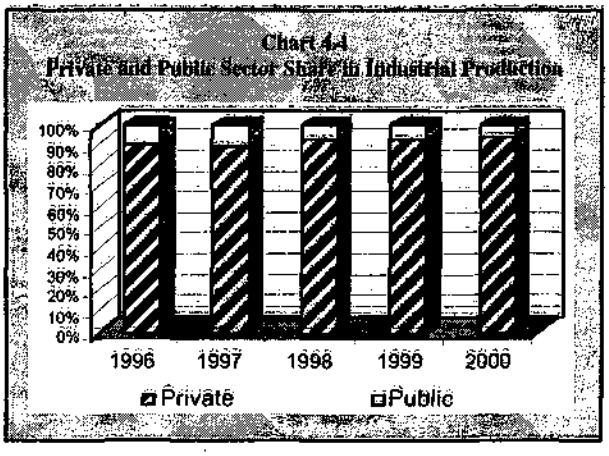
The fabrication of motor coaches registered a higher growth in 2000 with an increased number of orders placed by the regional bus companies and the private sector. The boat and ship building industry also grew with an increased number of orders received from the government and from neighbouring countries. The continuous improvement in product quality helped the electric cables and light fitting industry to attract higher demand from the growing construction industry. Exports of used scrap bronze, aluminium, nickel, lead, and zinc metal caused a raw material shortage for the local welding industry. Hence, the government imposed an export duty of 25 per cent on exports of those scrap materials.

Paper and paper products

The paper and paper products industry grew by 7.7 per cent in 2000. Items that performed well in this category were newspapers, books and magazines, corrugated cartons, packing materials, labels, posters, exercise books and diaries. In 2000, technology in the paper industry improved significantly and new machinery was added. The printing of newspapers increased by 6 per cent during the year. Several magazines and tabloids, especially in fields such as sports, politics, the English language, business and leisure activities, were introduced during the year. The export-oriented manufacturers showed a tendency to use domestically manufactured corrugated cartons, labels and paper boxes for packing. The output of products such as photo albums, books and periodicals and paper sacks manufactured by BOI firms, registered a higher growth during the year.

Wood and wood products

The domestic demand for wood based furniture and other items was sluggish due to the growing trend of utilising steel and plastic furniture in place of wood products. The availability of imported furniture also reduced the demand for domestically manufactured furniture. The industry suffered from the lack of raw materials and skilled labour. Wood and wood products for the export market registered a better performance especially in the case of sports and allied goods, wooden educational items, wooden toys, handicrafts and gift items manufactured by BOI firms. Several major manufacturers modernised their technology by installing new machines to replace most manual work in the wood manufacturing industry.



Public Sector Industries

The output of public sector industries increased by 24 per cent in 2000 in real terms, as compared to a drop of 12 per cent in 1999. The output of the Ceylon Petroleum Corporation, which accounts for over 90 per cent of the public sector industrial output, increased by 24 per cent in 2000. Uninterrupted production at the Ceylon Petroleum Corporation throughout the year (unlike in 1999 when the refinery was closed for about two months in the early part of the year for routine maintenance) was the primary reason for the substantial increase in the output of public sector industries. Public sector industrial output, excluding petroleum products, increased by about 21 per cent.

The output of the State Timber Corporation increased by 68 per cent in 2000, mainly due to an increased level of felling that resulted from the allocation of a large extent of forest areas for felling operations by the Forest Department and leasing out of more private sector forest plantations for felling operations. The output of Sevanagala Sugar Industries Ltd. increased by 46 per cent in 2000, with the availability of good quality sugarcane. The output of Lanka Phosphates Ltd. grew by 16 per cent to meet higher demand for fertiliser. Sri Lanka Rubber Manufacturing and Exports Corporation Ltd. ceased the production of pale crepe in the latter part of 1999 and converted some of its factories to facilitate the production of final consumer goods such as moulded products, bicycle tyres and tubes and three-wheeler tyres for the export market. One of these factories commenced commercial production in January 2000, and the rest have now commenced trial production.

Rainy weather conditions that prevailed in major salt manufacturing areas during the second half of the year adversely affected salt production in 2000. As a result, the output of Lanka Salt Ltd. declined by 25 per cent during the year. The output of the National Paper Company Ltd. continued to decline in the face of intense competition from imported paper and the lack of raw materials. The Valaichchenai paper mill, which uses waste paper as its main raw material, is now faced with a problem of a shortage of raw materials, with increased exports of waste paper to India.

4.3 Value Addition and Capacity Utilisation

Value added in the industrial sector in nominal terms increased by 16.8 per cent in 2000. In real terms, the growth of value added was estimated at 11 per cent during

TABLE 4.4

Public Sector Major Industry Output Index

1997=100

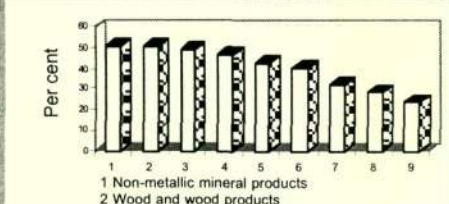
	Categories	Index					Percentage Change	
		1996	1997	1998	1999	2000(a)	1999	2000(a)
1	Food, beverages and tobacco products	107.0	100.0	54.4	54.9	72.0	0.9	31.2
2	Textiles, wearing apparel and leather products	-	-	-	-	-	-	-
3	Wood and wood products	93.2	100.0	93.9	99.7	168.1	6.2	68.6
4	Paper and paper products	111.7	100.0	74.3	38.2	29.6	-48.6	-22.4
5	Chemical, petroleum, rubber and plastic products	113.1	100.0	97.8	83.8	104.2	-14.3	24.4
	Petroleum products	113.1	100.0	98.3	84.4	104.9	-14.1	24.3
6	Non metallic mineral products	144.7	100.0	54.7	27.0	31.3	-50.6	15.9
7	Basic metal products	-	-	-	-	-	-	-
8	Fabricated metal products, machinery, and transport equipment	-	-	-	-	-	-	-
	All categories	90.5	100.0	91.8	78.0	96.8	-15.0	24.1
	Excluding petroleum	97.6	100.0	51.1	37.4	45.2	-26.8	20.8

(a) Provisional

Source:Central Bank of Sri Lanka

Chart 4.5

Value Added Percentages in Industrial Production - 2000



the year. Value added, as a ratio of total value of production, increased marginally from 36 per cent in 1999 to 36.2 per cent in 2000. The improvement of the total productivity in the industrial sector with the introduction of modern technology and various measures adopted by manufacturers, such as the efficient utilisation of raw materials, reduction of waste and re-use of waste materials and energy-saving methods for cost reduction, had a beneficial effect on value addition. However, the increase in the cost of imported raw materials and power and fuel, particularly during the latter part of the year, reduced potential growth of value addition to some extent. The value added ratios in 2000 increased in the industrial categories of textiles, wearing apparel and leather products; chemicals, rubber and plastic products and non-metallic

TABLE 4.5

Value Added in Industry
(Current Prices)

	Categories	Rs. Million					Percentage Change	
		1996	1997	1998	1999	2000(a)	1999	2000(a)
1	Food, beverages and tobacco products	32,891	35,515	40,452	44,503	49,031	10.0	10.2
2	Textiles, wearing apparel and leather products	31,148	40,581	47,482	55,263	69,451	16.4	25.7
3	Wood and wood products	1,250	1,258	1,313	1,390	1,554	5.9	11.8
4	Paper and paper products	2,580	2,633	2,578	2,664	2,808	3.3	5.4
5	Chemical, petroleum, rubber and plastic products	8,957	10,745	14,274	13,832	17,771	-3.1	28.5
6	Non metallic mineral products	10,537	11,600	12,463	13,817	14,240	10.9	3.1
7	Basic metal products	450	598	710	777	959	9.4	23.4
8	Fabricated metal products, machinery, and transport equipment	4,809	5,924	6,779	7,367	7,714	8.7	4.7
9	Manufactured products not elsewhere specified	2,763	3,157	3,426	3,799	3,965	10.9	4.4
Total		95,385	112,011	129,477	143,412	167,494	10.8	16.8

(a) Provisional

Source: Central Bank of Sri Lanka

mineral products. Reductions in value added ratios were observed in the industrial categories of food, beverages and tobacco; fabricated metal products, paper and paper products and wood products. The value added ratios were above 45 per cent in the industrial categories of food, beverages and tobacco products; wood and wood products; non-metallic mineral products and fabricated metal products. The value added ratio in the textiles, wearing apparel and leather product category increased from 30.9 per cent in 1999 to 32.2 per cent in 2000. The lowest value added ratio of 23.8 per cent was in the industrial category of chemicals, rubber and plastic products.

The installed capacity of non-BOI industries increased further by 4.6 per cent in 2000, facilitated by the fiscal incentives offered under the Advanced Technology Incentive Scheme, Textile Restructuring Programme and lower National Security Levy for the importation of machinery. Better prices received for exported items, growing markets and the relatively lower interest rates that prevailed in the first half of the year also helped expand the existing capacity. Capacity expansion was relatively high in the industrial categories of food, beverages and tobacco, (3.9 per cent), textiles, wearing apparel and leather products (5.8 per cent), paper and paper products (4.8 per cent) and fabricated metal products (4.2 per cent). Overall capacity utilisation in the industrial sector increased from 83 per cent in 1999 to 85 per cent in 2000.

4.4 Cost of Production, Profitability and Employment.

The average ex-factory profit ratio (profit/ex-factory value of production) of non-BOI firms increased from 12.2 per cent in 1999 to 13.7 per cent in 2000. Profitability was estimated using data from 480 firms surveyed in 2000. The factors that helped improve profitability were waste reduction, better management of working capital, energy saving, optimal use of raw materials and outsourcing of production by manufacturers. Effective pricing policies and improvement in prices in international markets gave a further boost to improve profitability. This was achieved amidst increases in the cost of imported materials, fuel, electricity, gas and telephone bills in the second half of the year. Increases in the cost of production were significant in milk products, chemicals and fertiliser and paper and paper products due to the increase in raw material prices in international markets and depreciation of the Sri Lankan rupee by 9.9 per cent in 2000. Profitability in the non-BOI industrial sector ranged from 19.8 per cent in the textiles, wearing apparel and leather product category to 10.2 per cent in the basic metal product category. Profitability in the industrial sub-sectors of soap and detergents, food, apparel, fabricated metal export oriented electronic items, rubber based industries, ayurvedic drugs, food and tea processing and tobacco processing increased significantly during the year.

The wage bill in the industrial sector, in absolute terms, increased by 10.9 per cent in 2000 reflecting a 6.6 per cent growth in output, a 2.9 per cent growth in the labour force and a 3.6 per cent growth in labour productivity. The share of the wage bill in the total cost of production increased marginally from 12.2 per cent in 1999 to 12.4 per cent in 2000. The wage bill, as a percentage of the total cost of production, increased in the industrial categories of textiles, wearing apparel and leather products, chemicals, rubber and plastic products and paper and paper products, reflecting an increase in the labour force and higher production. A decline in the wage share was observed in the industrial categories of fabricated metal and non-metallic mineral products. The share of labour costs was over 15 per cent in the industrial categories of textiles, wearing apparel and leather products, wood and wood products and non-metallic mineral products. The

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)	
	1999	2000(b)	1999	2000(b)	1999	2000(b)
1 Food, beverages and tobacco products	49,660	54,444	56,240	62,851	11.7	13.1
2 Textiles, wearing apparel and leather products	15,873	17,298	19,240	21,568	17.5	19.8
3 Wood and wood products	1,018	1,117	1,150	1,280	11.5	12.7
4 Paper and paper products	3,440	3,796	3,870	4,303	11.1	11.8
5 Chemical, petroleum, rubber and plastic products	17,679	19,670	20,065	22,714	11.9	13.4
6 Non metallic mineral products	14,807	15,469	16,254	17,245	8.9	10.3
7 Basic metal products	1,169	1,319	1,321	1,469	11.5	10.2
8 Fabricated metal products, machinery, and transport equipment	7,576	8,304	8,531	9,589	11.2	13.4
9 Manufactured products not elsewhere specified	3,257	3,433	3,722	3,675	12.5	11.4
Total	114,479	124,850	130,393	144,694	12.2	13.7

(a) Based on information received from 480 non-BOI private sector firms
(b) Provisional

Source: Central Bank of Sri Lanka

labour cost was relatively low in the industrial categories of food, beverages and tobacco and fabricated metal products. The relatively low inflation rate that prevailed during the first half of the year reduced the pressure for salary increases and thereby contained any excessive growth in the wage bill. Many companies adopted a strategy of out-sourcing production to reduce the total wage bill of the company. The stringent labour laws and seasonal production requirements encouraged manufacturers to recruit contract and casual labour, further reducing the upward pressure on the wage bill.

The total energy cost in the non-BOI industrial sector, in absolute terms, increased by 16.1 per cent in 2000. Energy costs as a percentage of the total cost of production, increased to 4.9 per cent in 2000 compared to 4.5 per cent in the previous year. The increased utilisation of electricity with the expansion of capacity utilisation and the upward adjustment of electricity, gas and petroleum prices were responsible for the increase in energy costs in 2000. The share of electricity costs in the total cost of production increased in many industrial categories in 2000. The share of energy costs in the total cost of production in the non-metallic mineral product category increased from 15.8 per cent in 1999 to 17.1 per cent due to the increase in the prices of furnace oil, gas and electricity. Energy costs represent a significant proportion of the total cost of production in cement and ceramic industries. The share of energy costs is low in the industrial categories of food, beverages and tobacco and paper and paper products. Interest cost, as a percentage of the total cost of production, declined to 2.7 per cent in 2000 from 2.9 per cent in the previous year. Reduced short-term borrowings from banks as a result of the efficient management of working capital, improved cash flows in many companies and relatively lower interest rates that prevailed during the first half of 2000, reduced the total interest cost in the industrial sector. The reduction of interest cost was prominent in the industrial categories of wood and wood products; non-metallic mineral products; textiles wearing apparel and leather products; paper and paper products; chemicals, rubber and plastic products and fabricated metal products.

Labour Productivity in Industry

Labour productivity, estimated on the basis of the change in the real value added per man hour in the 480 non-BOI enterprises, increased by 3.6 per cent in 2000. Growth of labour productivity in the previous year was 1.9 per cent. The improvement of labour productivity was seen in many industrial categories. Labour productivity improved significantly in the industrial categories of food, beverages and tobacco (4.0 per cent); textiles, wearing apparel and leather (3.1 per cent); chemicals, rubber and plastic (6.7 per cent) and fabricated metal (4.4 per cent). The installation of automated systems and the adoption of modern technology in recent years helped improve labour productivity through reduction of human error, lower wastage and improvement of personal motivation. The adoption of better management techniques, training in skills development and a reduction of excess labour also contributed to the improvement of labour productivity. Improvements in the working environment in factories and welfare facilities such as free medical care, meals and transport facilities, especially in the apparel, food, beverages and tobacco industries had beneficial effects on the improvement of labour productivity.

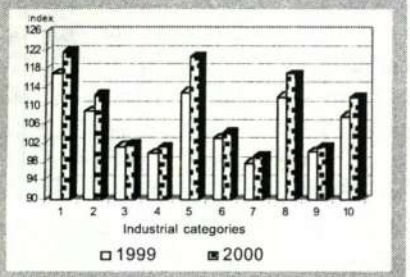
TABLE 4.7
Domestic Cost Structure of Non - BOI Private Sector Industries (a)
(As a percentage of total cost of production)

	Categories	Domestic Cost (percentage)							
		Power & Fuel		Wage		Raw Materials		Interest	
		1999	2000(b)	1999	2000(b)	1999	2000(b)	1999	2000(b)
1	Food, beverages and tobacco products	2.3	2.4	9.2	9.3	41.2	39.5	2.0	2.0
2	Textiles, wearing apparel and leather products	2.9	3.2	16.5	16.9	12.9	15.1	2.6	2.6
3	Wood and wood products	8.2	8.1	16.2	15.9	36.8	37.1	4.8	4.2
4	Paper and paper products	2.3	2.5	12.8	13.8	16.0	16.9	4.8	4.2
5	Chemical, petroleum, rubber and plastic products	4.4	4.8	12.7	13.0	27.1	29.3	3.8	3.4
6	Non metallic mineral products	15.8	17.1	16.4	16.8	21.5	21.6	4.2	3.8
7	Basic metal products	7.6	7.9	10.6	10.2	33.8	34.2	3.9	3.2
8	Fabricated metal products, machinery, and transport equipment	2.6	2.9	11.2	11.1	23.1	24.5	3.7	3.2
9	Manufactured products not elsewhere specified	3.0	4.1	14.1	14.5	34.5	34.5	3.3	3.0
	Total	4.5	4.9	12.2	12.4	30.3	30.4	2.9	2.7

(a) Based on information received from 480 non-BOI private sector firms
(b) Provisional

Source: Central Bank of Sri Lanka

Chart 4.6
Labour Productivity in Industry (1995=100)



1 - Food, beverages and tobacco
2 - Textiles, wearing apparel and leather
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
9 - Products not elsewhere specified
10 - Overall

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

1995 = 100

	1999	2000(b)	% Change
1 Food, beverages and tobacco products	117.1	121.8	4.0
2 Textiles, wearing apparel and leather products	109.0	112.4	3.1
3 Wood and wood products	101.4	101.7	0.3
4 Paper and paper products	100.0	101.2	1.2
5 Chemical, petroleum, rubber and plastic products	113.0	120.6	6.7
6 Non metallic mineral products	103.2	104.2	1.0
7 Basic metal products	98.0	99.3	1.3
8 Fabricated metal products, machinery, and transport equipment	112.1	117.0	4.4
9 Manufactured products not elsewhere specified	100.2	101.2	1.0
Total	108.0	111.9	3.6

Source: Central Bank of Sri Lanka

(a) Based on information received from 480 non-BOI private sector firms.
(b) Provisional

Employment

Employment in the industrial sector increased by 9.9 per cent in 2000 reflecting the creation of more employment opportunities mainly in the export oriented BOI industries. Employment in BOI and non-BOI industries rose by 12.5 per cent and 2.9 per cent, respectively, during the year.

BOI industries created 40,790 new employment opportunities in 2000. The textiles, apparel and leather product category alone created 25,735 employment opportunities, while chemical, rubber and plastic industries created 5,441 new employment opportunities during the year. New factories established under the Fifty-Garment Factory Programme, Mini Export Processing Zones and Industrial Parks/Estates programmes created most of these employment opportunities. The apparel manufacturers in the export processing zones and urban areas were not able to fill all the vacancies in their factories due to the lack of skilled and non-skilled labour.

Employment creation in the non-BOI sector was higher in the industrial categories of textiles, wearing apparel and leather products; wood and wood products and fabricated metal products. Employment in the apparel industries increased by 4.8 per cent reflecting the expansion of capacity and capacity utilisation. In the chemicals, rubber and plastic product category, more employment opportunities were created in fertiliser mixing plants, plastics, chemicals and rubber product industries. The growth of employment by 7.6 per cent in the fabricated metal products industry was marked by the higher absorption of labour in industries in the sub sectors of fabrication of bus bodies, electrical cables and electrical machinery. Employment in the food, beverages and tobacco category declined marginally due to the voluntary retirement scheme introduced by a major manufacturer in the tobacco and beverage industry. The modernisation of factories with automated systems in the food processing industry also contributed to reduce labour requirements during the year. A marginal decline in employment in the fruit processing and sugar manufacturing industry was seen in 2000.

TABLE 4.9
Employment in Private Sector Industries

Categories	1999	2000(a)	% change
(I) Non-BOI private sector (b)			
1 Food, beverages & tobacco products	25,400	25,210	-0.7
2 Textiles, wearing apparel and leather products	30,540	31,998	4.8
3 Wood & wood products	1,920	2,015	4.9
4 Paper & paper products	5,490	5,772	5.1
5 Chemicals, petroleum, rubber and plastics products	25,400	26,240	3.3
6 Non metallic mineral products	11,882	11,815	-0.6
7 Basic metal products	1,078	1,093	1.4
8 Fabricated metal products	11,511	12,390	7.6
9 Manufactured products (n.e.s.)	5,015	5,120	2.1
Sub total	118,236	121,653	2.9
(ii) BOI enterprises	327,059	367,849	12.5
All categories	445,295	489,502	9.9

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

(a) Provisional
(b) Based on information received from 480 non-BOI private sector firms.

4.5 Investment

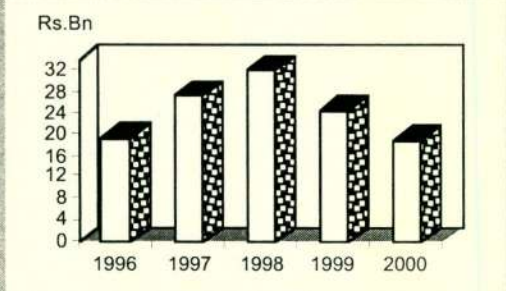
Foreign Investment

Foreign investment inflows to Sri Lanka declined in 2000, despite intensive promotional campaigns undertaken by BOI. The main reason for the decline in investment may be deteriorating investor confidence owing to several war-related incidents in 2000. With the declaration of a ' war footing' condition in Sri Lanka in 2000, investors may have adopted a 'wait and see' approach by withholding

investment projects. The uncertainty created by the general election also contributed to the lower investment flows in 2000.

The realised investment of BOI industries in 2000, declined by 35 per cent, from Rs. 28,814 million in 1999 to Rs.18,709 million in 2000. Investment commitments in the approved and contracted projects also declined in 2000. BOI, which functions as the main government agency for the promotion of foreign investments, made substantial efforts to attract investment. It organised several investment promotion missions to USA, India, UK, Sweden, Norway and France in 2000. Several foreign delegations also visited Sri Lanka in 2000 in search of new investment opportunities. These delegations included a 12-member delegation from the Chamber of Commerce and Industry in UK, a 10-member delegation from the Trade Development Board in Singapore and a delegation from the Leicestershire Chamber of Commerce, UK. A large number of delegations from reputed companies in UK, Belgium, Spain, France, Italy and India also visited Sri Lanka in 2000 to study the possibilities of commencing various investment projects in Sri Lanka.

Chart 4.7
Realised Investment of the BOI



New investments in 2000 included, Rayon of India with an envisaged investment of Rs.1,515 million, a metal recycling project with an envisaged investment of Rs.53 million a steel tank project with an envisaged investment Rs.22 million and a new air cargo project of Bidport Aviation of UK with an envisaged investment of Rs.758 million. Several large-scale projects commenced construction work on their factories. These projects included AES Kelanitissa (Pvt.) Ltd. with an investment commitment of Rs.7,480 million, Linea Intimo (Pvt.) Ltd. with an investment commitment of Rs.5,224, Nivasi Developers (Pvt.) Ltd. with an investment commitment of Rs.2,056 million, TSG Lanka Ltd. with an investment commitment of Rs.6,317 million and Textured Jersey Lanka (Pvt) Ltd. with an investment commitment of Rs.3,010 million.

The number of projects approved by BOI and investment commitments of these projects declined in 2000 compared to the previous year. BOI approved 329 new investment projects in 2000, with investment commitments of Rs.87,992 million under Section 17 of the BOI Law, compared to 350 projects with investment commitment of Rs.104,851 million approved in 1999. The total number of projects approved was 3,332 as at end 2000. The foreign component of approved investments in 2000 was Rs.23,478 million or 27 per cent of the total approved investment. Of the approved projects in 2000, 59 were entirely foreign owned, 111 were joint venture collaborations and 159 were entirely domestic owned ventures. The expected employment generated by these projects was estimated at 59,375 persons. A category wise breakdown of approved projects in 2000 reveals that 70 projects were in the textiles, apparel and leather product category, 17 in the food, beverages and tobacco category and 15 in the chemical, petroleum, rubber and plastics category. The number of projects approved in the service sector was 173, a majority of which were software development projects. This could

TABLE 4.10
Realised Investments in BOI Enterprises (a)

Categories	No. of Enterprises		Foreign Investment (Rs. Mn)		Total Investment (b) (Rs. Mn)	
	1999 (c)	2000 (d)	1999(c)	2000 (d)	1999(c)	2000 (d)
1 Food, beverages and tobacco products	147	141	5,475	4,301	11,801	10,612
2 Textiles, wearing apparel and leather products	417	439	18,248	20,463	28,630	30,779
3 Wood and wood products	25	22	578	458	973	830
4 Paper and paper products	21	22	489	521	698	755
5 Chemical, petroleum, rubber and plastic products	100	121	7,930	8,340	10,329	12,414
6 Non metallic mineral products	63	61	4,081	3,581	6,999	6,631
7 Fabricated metal products, machinery, and transport equipment	38	41	4,703	3,873	5,661	5,093
8 Manufactured products not elsewhere specified	158	159	5,105	6,253	8,225	8,937
9 Services	430	497	70,363	84,025	102,704	118,675
Total	1,399	1,503	116,972	131,814	176,020	194,727

(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

Chart 4.8
Approved and Contracted BOI Projects

Chart 4.8.1
Approved and Contracted Investments

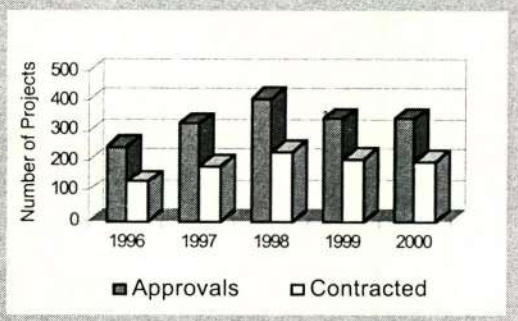
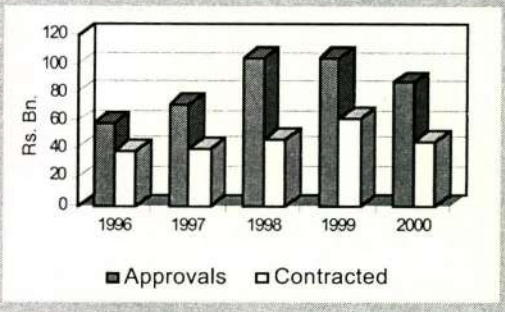


Chart 4.8.2
Approved and Contracted Investments



be attributed to the recognition of IT as a priority sector by government and the attractive incentives granted in the budget proposals both in 1999 and 2000.

Investment in contracted projects also declined in 2000. During the year, BOI signed agreements in respect of 201 projects with investment commitments of Rs.44,962 million compared to 205 projects with investment commitment of Rs.62,085 million in 1999. The total number of contracted projects, as at end 2000 was 2,088. The foreign component of the contracted investment was Rs.16,779 million or 37 per cent of the total investment of contracted projects. The employment generation capacity of these projects was estimated at 43,267 persons. The major industrial categories that would absorb these investments are textiles, wearing apparel and leather products; chemical, petroleum, rubber and plastic products and the service sector. Of the total contracted projects up to end 2000, 1,227 projects with an investment commitment of Rs.188,927 million were in commercial operation. The foreign investment commitment of these projects was Rs.108,314 million or 57 per cent of the total investment in projects in commercial operation. The employment generation capacity of these projects was estimated at 332,844 persons. The majority of these projects were in textiles, wearing apparel and leather products (255 projects), food, beverages and tobacco products (130 projects) and chemical, rubber and plastic products (115 projects). There were 415 projects in the service sector including power, telecommunications, trading houses and software development projects. There were 96 enterprises located in the Katunayake Export Processing Zone (EPZ),

TABLE 4.11
Employment and Export Earnings of BOI Enterprises

	Categories	Employment (End Dec.)		Gross Export Earnings (Rs.Mn) (fob)	
		1999	2000(a)	1999	2000(a)
1	Food, beverages and tobacco products	11,571	15,207	8,256	12,413
2	Textiles, wearing apparel and leather products	216,700	242,435	127,008	162,583
3	Wood and wood products	2,148	1,822	344	409
4	Paper and paper products	969	1,618	941	1,250
5	Chemical, petroleum, rubber and plastic products	24,234	29,675	21,956	28,583
6	Non metallic mineral products	12,559	13,061	7,901	8,605
7	Fabricated metal products, machinery, and transport equipment	3,998	4,182	1,832	1,949
8	Manufactured products not elsewhere specified	32,958	33,394	18,966	24,056
9	Services(b)	21,922	26,455	13,020	18,772
	Total	327,059	367,849	200,224	258,620

(a) Provisional
(b) Excluding SriLankan Airlines

Source: Board of Investment of Sri Lanka

60 in the Biyagama EPZ, 11 in the Koggala EPZ, 5 in the Malwatta Export Processing Park, 10 in the Mirigama EPZ, 4 in the Kandy Industrial Park, 8 in the Seethawaka Industrial Park, 8 in the Wathupitiwala EPZ and 1,189 outside export processing zones.

In addition to these, BOI approved 138 projects under Section 16 of the BOI Law (normal law) in 2000, the same number as in the previous year. These investments were in the industrial categories of textiles, wearing apparel and leather products; food, beverages and tobacco products; chemical, petroleum, rubber and plastics products and non-metallic, mineral products. The total investment commitment in these projects amounted to Rs.2,566 million, compared to Rs.3,439 million in the previous year. The foreign investment component of these projects was Rs.2,021 million or 79 per cent of the total investment. The employment generation capacity of these projects was estimated at 5,776 persons. Of the total approved projects, 54 projects were entirely foreign owned and 84 projects were joint ventures. Of the approved enterprises, 436 projects were in commercial operation at end 2000. The total estimated investment of these enterprises was Rs.19,389 million, of which Rs.11,089 million or 56 per cent was from foreign sources. The total employment generation capacity of these projects was 36,657 persons.

Local Investment

The share of local investment in projects approved under Section 17 of the BOI Law increased substantially from 45 per cent in 1999 to 73 per cent in 2000. The local investment commitment of these projects during 2000 was Rs.64,444 million, compared to the Rs.47,352 million in the previous year. The local investment commitment of the contracted projects also increased by 30 per to Rs.28,182 million in 2000. The share of local investment in the 1,227 commercially operated projects under BOI amounted to Rs. 80,612 million or 43 per cent of total investment at end 2000. The local investment component of the projects approved under Section 16 of the BOI Law (normal law) amounted to Rs 544 million or 21 per cent of total investment.

The total investment in 1,795 enterprises registered under the Ministry of Industrial Development, amounted to Rs.114,680 million at end 2000. The employment generation capacity of these industries is estimated at 311,616 persons. These investments were in the categories of textiles, wearing apparel and leather products; chemicals, petroleum, rubber and plastic products and fabricated metal products.

4.6 Availability of Credit to the Industrial Sector

The industrial sector continues to receive credit facilities from commercial banks and development banks to meet working capital requirements as well as medium and long-term investment requirements. Commercial banks mainly provided short and medium-term credit facilities, while development banks provided medium and long-term credit facilities in the form of direct loans, equity participation and

TABLE 4.12

Financial Assistance to the Industrial Sector by the NDB and DFCC Bank - 2000 (a)

Categories	Refinance Approved under SMAP &SMILE		NDB						DFCC Bank						Grand Total	
			Direct Finance 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, beverages and tobacco products	38	5	164	419	-	-	202	424	91	965	-	-	91	965	293	1,389
2 Textiles, wearing apparel and leather products	26	4	89	1,288	-	-	115	1,292	44	741	-	-	44	741	159	2,033
3 Wood and wood products	3	1	62	183	-	-	65	184	24	116	-	-	24	116	89	300
4 Paper and paper products	5	1	3	6	-	-	8	7	20	148	-	-	20	148	28	155
5 Chemical, petroleum, rubber and plastic products	12	2	105	963	1	100	118	1,065	33	725	-	-	33	725	151	1,790
6 Non metallic mineral products	15	2	-	-	-	-	15	2	6	281	-	-	6	281	21	283
7 Basic metal products	8	1	62	573	-	-	70	574	12	89	-	-	12	89	82	663
8 Fabricated metal products, machinery, and transport equipment	-	- -	-	-	-	-	-	-	72	558	1	500	73	1,058	73	1,058
9 Manufactured products not elsewhere specified	11	2	631	2,172	3	346	645	2,520	-	-	-	-	-	-	645	2,520
Total	118	18	1,116	5,604	4	446	1,238	6,068	302	3,623	1	500	303	4,123	1,541	10,191

(a) Provisional
(b) Project and equipment finance loans only

Sources: DFCC Bank
National Development Bank

credit facilities under sector specific credit programmes. During the year, credit extended by commercial banks to the industrial sector increased substantially. However, long and medium-term credit granted by development banks decreased significantly mainly due to the exhaustion of funds obtained from international agencies in the previous years to finance micro, small and medium scale industrial projects. Major development banks such as National Development Bank (NDB) and DFCC Bank continued to provide long and medium-term financial facilities to the industrial sector. NDB continued to provide refinance under sector specific credit projects such as the Small and Medium Enterprises Assistance Project (SMAP) and the Small and Micro Industries Leader and Entrepreneur Promotion Projects (SMILE). However, the amount of credit approved under these credit projects declined substantially in 2000. The interest rates on loans, which were relatively low in the early part of the year, rose in the fourth quarter of the year, thus increasing the cost of funds.

According to the Quarterly Survey of Commercial Banks' Advances and Deposits conducted by the Central Bank of Sri Lanka, commercial bank credit to the industrial sector during the first nine months of 2000, increased substantially to Rs.27.4 billion from Rs.21.9 billion in 1999. NDB approved direct financing amounting to Rs.5,604 million for 1,116 projects in 2000, compared to Rs.8,103 million approved for 1,201 projects in 1999. Textiles, wearing apparel and leather product category and chemical, petroleum, rubber and plastic products category absorbed a major portion of this credit facility. NDB also approved refinance amounting to Rs.18 million in 2000 under the SMAP and SMILE programmes in respect of 118 projects, as against Rs.2,557 million approved in 1999 in respect of 3,292 projects.

DFCC Bank approved financial facilities amounting to Rs.4,123 million in respect of 303 industrial projects in 2000, as compared to Rs.4,638 million in respect of 773 projects approved in 1999. These financial facilities consisted of Rs.3,623 million loan financing and Rs.500 million equity financing. Equity finance was given to a single project in the fabricated metal product category. Of the credit facilities approved under the direct loan scheme, Rs.965 million was approved in respect of 91 projects in the food, beverages and tobacco products, Rs.741 million in respect of 44 projects in textiles, wearing apparel and leather products and Rs.725 million in respect of 33 projects in chemical, petroleum, rubber and plastic products categories.

4.7 Industrial Policy

The industrial policy of the government assigns a greater role to the private sector to achieve rapid and sustainable industrial development in the country within the framework of an export-oriented industrialisation strategy. The main objectives of the industrial policy are expansion, diversification and upgrading of both the industrial base and the export base; efficient management of physical and manpower resources; employment and income generation in both rural and urban areas; export orientation; regional industrialisation and fostering environment friendly and sustainable industrial development. In order to achieve these objectives, the government has offered a wide range of incentives to encourage both local and foreign investments in specific industrial sub sectors. These incentives include tax concessions, tax holidays, tariff concessions and duty free imports of machinery, equipment and raw materials. In addition, the government introduced several other measures including a National Productivity Decade Programme, Advanced Technology Incentive Programme and Textile Restructuring Programme aimed at enhancing industrial sector productivity and global competitiveness of industrial exports.

Although these measures contributed to the development of the industrial sector, the export structure is still dependent on a few industrial products, particularly textiles and apparel. In order to increase the diversification of the industrial export structure with a view to reducing high dependence on a few products and promote industries in a selective and strategic manner, the government formulated a Master Plan for Industrialisation and Investment Promotion also known as the Rainbow Plan in collaboration with JICA and UNIDO, covering the ten year period 2000-2010. The main objective of this plan is to shift from labour intensive industries to knowledge based and technology-intensive industries in the coming decade. This plan identified key industries such as apparel, leather, rubber, plastics, machinery, electric/electronics and information technology as priority industries to be promoted in a selective and strategic manner. The time period of the plan is divided into two stages, i.e., from 2000-2004 and 2005-2010. The first half of the plan period is designated as a consolidation period, while the second half will be a period for acceleration of the industries. According to the Master Plan, the manufacturing sector is targeted to grow at 10-11 per cent per annum during 2000-2010. The Master Plan has given high priority to develop small and medium scale industries by setting up a new organisation known as the Small and Medium Scale Enterprise Development Corporation (SEMEDEC). This organisation is expected to provide technical/management advice for technological upgrading of SMIs, management and information services, and venture and incubation promotion to support new venture industries and a credit guarantee organisations to facilitate fund flows to SMIs.

With a view to attracting more foreign investment to the industrial sector and aiming at diversification and

expansion of export structures, through the promotion of Sri Lanka as an export platform to Indian markets and also providing local manufacturers with a wider market in the region, the government signed the Indo-Lanka Free Trade Agreement (ILFTA) on 28 December 1998. The agreement came into force on 1 March 2000. The ILFTA provides market access to Sri Lankan products in India, while allowing duty free imports of raw materials and machinery from India. Under this agreement, India will gradually remove its custom tariffs over a period of three years, subject to a negative list, which contains 429 items. In return, Sri Lanka will remove tariffs on imports from India over a period of eight years, subject to a negative list containing 1,180 items. The inclusion of products in the negative list is to provide protection to local industries. Although garments remain in the negative list of India, a 50 per cent tariff concession has been given on a fixed basis by India, subject to an annual quota of 8 million pieces, of which 6 million pieces should be produced only of Indian fabrics, provided that no single category of garments exceeds 1.5 million pieces per annum. The Board of Investment has decided not to extend import duty concession for items in the negative list under the ILFTA in order to provide protection to local industries producing such items. Duty free imports of such items will be permitted only in cases where an item cannot be manufactured in Sri Lanka to the required quality standard, on a time bound basis.

As availability and quality of infrastructure facilities is one of the key factors that determine investment flows to the industrial sector, the government continues to embark on development of infrastructure facilities, while encouraging private sector participation on a BOO/BOT basis. Those infrastructure facilities include power generation, telecommunications, port development, highways, industrial parks/estates, industrial townships and skill development. As information technology has been identified as one of the thrust areas for industrial development, special incentives were introduced in the Budget 2000 to encourage the establishment of 50 training institutes in major population centres covering all districts. These institutes will be linked to proposed IT parks at Malabe, Kesbewa and Pugoda. The initial expenditure on setting up such facilities, including the cost of training, renovating and refurbishing premises and setting up infrastructure facilities will be met by BOI. A five year tax holiday is available for such institutes, if they locate outside the Colombo District, and have a capacity to train a minimum of 300 persons per year. As there exists considerable potential for local manufacture of non-combat military items such as belts, boots, uniforms, tents etc., for the use of the armed forces, the police, prisons and for export, the Budget 2000 proposed to establish a separate zone for this purpose. This zone will attract investors who will produce both for the local and the export market.

The Government of Sri Lanka and the European Commission signed a Memorandum of Understanding (MOU) on 5 December 2000 for quota free apparel and textile trade in EU countries. This agreement will suspend all quantitative restrictions on Sri Lankan exports of textiles and apparel to the European Union with effect from 1 January 2001, four years ahead of the scheduled complete removal of quota restrictions on world textiles and apparel exports. Prior to the signing of this MOU, apparel exports to EU, such as mens' and boys' woven breeches, shorts, trousers and shirts, womens' and girls' woven trousers, slacks, blouses and shorts, parkas, anoraks, windcheaters, waist jackets were under quota restrictions. The exhaustion of quotas in respect of certain categories led EU buyers to place their orders with manufacturers in other countries. Since this MOU suspends all quota restrictions, apparel exports to EU are estimated to grow significantly in 2001. In addition, this MOU is expected to facilitate the inflow of more foreign investment and new technology to the textiles and apparel industry.

Incentives to the Industrial Sector

As there were anomalies in BOI incentives, the Budget 2000 proposed to correct those anomalies with a view to rationalising BOI incentives and ensuring that incentives were offered only for priority sector investment activities. Non-export oriented BOI enterprises, which signed agreements with BOI prior to 1994, were exempt from customs duty on project related capital goods imports, for an indefinite period. However, the current practice is that such exemptions are available until the commencement of commercial operations of the enterprises. Hence, the Budget 2000 proposed to withdraw the exemption given for an indefinite period to non-export oriented enterprises, with effect from 1 April 2001.

Budget 2000 also proposed to impose minimum investment limits on all incentive categories given under Section 17 of the BOI Law in order to ensure that incentives are given only for priority sector investments. An incentive package was introduced in the 1998 Budget including a tax holiday of 5 years and 8 years to promote geographical dispersion of industries. It has now been proposed to limit tax holidays only to enterprises locating within designated industrial parks or Export Processing Zones classified as 'preferred' or 'most preferred'. A 10 year tax holiday given under the 1996 Budget proposal to large scale projects that invest a minimum of Rs.500 million irrespective of export orientation, has now been replaced with a concessionary tax rate of 15 per cent for non-export oriented projects under the 2000 Budget proposals. Non-export oriented projects with a total

Box 6

Guidelines for an Effective Industrial Policy

Introduction

Industry, being an important sector in our economy, needs to be promoted through a set of conscious policies. This was first recognised by the Japanese government which launched a series of policies for the promotion of industrial development (Inoue, 1993).[1] Due to the remarkable growth, achieved by the Japanese industry in the 1960s and the 1970s, the concept gained international attention. Based on the Japanese experience, industrial policy was successfully adopted in East Asia from the 1960s, with periodical revision of the policy in line with the changing global economic environment. In many developed countries in the OECD group (Organisation for Economic Co-operation and Development), industrial policy began to be seriously integrated into economic policy in the post-war era, as evidenced from the policy debates that took place in Europe and USA in the1970s.

World experience has shown that active support to selected industry by the government has been of limited success. Instead, it is the overall industry facilitation by the government that has promoted industry on a sustainable basis. These measures include economic liberalisation, research and development, skills and human capital development that contribute to raising competitiveness of a country's industrial products.

New Dimensions in Industrial Policy

In the past, many countries pursued policies to expand industrial production in specific sectors to foster national or regional economic development, expand or protect employment, improve the balance of payments or stimulate domestic technological innovation. During the extended period of low economic growth that began in the mid-1970s in most developed countries, the traditional national industrial policies became less effective. Enterprises began to adopt alternative policies and global strategies and their investments flew to places where they found attractive market opportunities and favourable inputs such as skilled labour, efficient infrastructure and favourable regulatory regimes. The liberalisation of trade and investment across the world made markets more open to both internal and external competition. The policies based on notions such as 'government knows best' became too costly and unsustainable as government budgets were squeezed. By and large, it became apparent that governments were not good at 'picking winners' and were operating in an environment, of liquidity constraints. As a result, attention has now shifted towards policies that improve the business environment while removing impediments to trade and investment.

The focus of industrial support has also changed, with sectoral support giving way to economy-wide measures, such as support for research and development, infrastructure development, environmental protection and start-up and growth of new businesses. Subsidies and industrial support increasingly targeted investment and acquiring skills and knowledge. Under competitive pressure, successful firms had withdrawn from activities in which they were less competent and had focussed, instead, on their 'core capabilities'. They collaborated with other firms on product development, production, purchasing and marketing, and purchased a growing range of business services from outside suppliers. In order to ensure the smooth flow of crucial information within the firm as well as with outside partners and subcontractors, firms have shown a tendency to relying increasingly on knowledge based information networks.

Small and Medium Enterprises (SME), which have a number of advantages, particularly in developing countries, are facing typical problems such as a lack of economies of scale, a small domestic market, insufficient management depth and professionalism, weak entrepreneurial culture and insufficient exploitation of technology. To counter such problems, competitive countries like Singapore have adopted special policy measures.[2] The lack of economies of scale is remedied by helping SMEs to form economic groupings, developing electronic data interchange systems to link them with other members of the value chain and assisting them to establish high standards and productivity. The problem of a small domestic market is resolved by encouraging SMEs to enter into business partnerships with foreign partners and other multinational firms, go for brand enhancements and negotiate for greater market access. Special programmes are offered to overcome management deficiencies and improve professionalism. Measures such as developing business incubator systems and upgrading secondary and tertiary

1 Inoue, Ryuichiro 1993, An East Asian Industrial Policy Model in Industrial Policy in East Asia, eds. Hirohisa Kohama and Shujiro Urata, Japan External Trade Organisation, Tokyo, Japan.

2 Report of the Committee on Singapore's Competitiveness, November 1998, Singapore

Box 6 (Contd.)

education curricula are adopted for developing a favorable entrepreneurial culture.

Sri Lanka's Experience

The focus of Sri Lanka's industrial policy since independence has varied according to the socio-political and economic ideology of successive governments and changes in the international economic environment. There was a major shift in industrial policy when the State Industrial Corporation Act No. 48 was enacted in 1957. This Act empowered the government to set up and carry out any industrial undertaking under state ownership. During the 1960-65 period, the emphasis of the industrial policy was placed on import substitution industrialisation in the face of declining foreign reserves. However, the government that came into power in 1965, placed greater emphasis on export promoting industries within the framework of a general import substitution industrialisation.

The industrial policy of the government in the 1970s relied heavily on state sector led development through promotion of import substitution industries. During this period, government intervention and direct state participation in industry increased substantially. The government also nationalised several private enterprises under the Business Undertaking (Acquisition) Act of 1970. The emphasis on import substitution strategies and greater government involvement in industrial activities gradually intensified during 1970-1977.

Under the economic policy reforms initiated in 1977, there was a complete turn-around in economic policy, focusing mainly on the export market and relying more on the private sector. The degree of tariff protection offered to local industries was reduced, gradually exposing them to international competition. The simplification of the tariff system, unification of the exchange rate, abolition of many foreign exchange restrictions and opening of sectors hitherto primarily allocated to the public sector to the private sector, had a significant impact on industrial sector activities.

Guidelines

Traditional, physical resource based industries have become relatively less important, while high-tech and high value added industries and services, especially manufacturing related business services that capitalise on information technology, have expanded fast in the last decade or so. At the same time, the actual outcome of technical progress has been determined by the extent to which technology could be diffused and exploited throughout the economy. The mastering of information and the introduction of knowledge intensive means of production have become key to competitiveness and even survival. A government's role in this context is to facilitate global trade; improve the business environment and enhance competitiveness of markets, including the use of regulatory reform; spur improved corporate governance; enable firms to better harness the benefits of investment in knowledge and human capital; and meet the special needs of small and medium scale enterprises. The essential features of industrial policy and policy strategies can be summarised as follows.

Overall Policy Direction

- Industrialists should be encouraged to face global competition as the state cannot guarantee protection in the long run. The government should provide essential infrastructure and public goods, ensure macroeconomic stability with well announced, transparent, predictable and credible macroeconomic policies.
- The government should adopt proper external commercial policies such as facilitating bilateral and multilateral trade agreements, anti-dumping policies, and simplified tariff policies.
- Specific social and regional policies should be brought in to address unacceptable social and regional consequences.
- Advancement of knowledge, human capital and technology.
- Given the fact that the availability of natural resources is no longer the major source of economic growth and that the basis for international competitiveness is knowledge and human capital, the industrial sector should move away from 'resource based' industries to 'knowledge based' and 'technology intensive' industries. The industrial policy should create an environment conducive to building up strong technological capability and a vibrant entrepreneurial culture that thrives on creativity, agility and good business sense.
- The policy should ensure the advancement of infrastructure in information and communication technology for industrialists to acquire current information on technology and encourage them to be electronically linked with the rest of the world.

Box 6 (Contd.)

- The policy should promote greater diversification and innovation among and within key industry clusters and promote knowledge driven activities across the value chain of these industries.
- The development of human resources should be a key strategy for industry to transform itself to 'knowledge based industry'. The labour force should be trained to optimise the use of new technology and materials and to combine them effectively with creativity and innovation.
- Existing labour market regulations would require modification to improve the free flow of labour to newly expanding sub sectors, facilitating labour market flexibility and labour productivity.
- An appropriate local workforce should be developed and foreign talent with necessary skills be attracted to support industry needs.

Investment

- The policy should encourage industrialists to look for global and regional hubs for capital, new technology, ideas, resources and markets.
- The policy should encourage more investment in assets such as technology, knowledge and skills, business organisation and software. Such assets drive performance of firms, as against investment in traditional physical assets such as buildings, machinery and equipment.

Competition policy and improving corporate governance

- Legal systems should be introduced for intervention in market mechanisms that are not functioning well.
- The policy should move away from protection, as in the long run, traditional tools of protection such as high tariffs and subsidies cannot provide sufficient shelter.
- Domestic legislation should be strengthened by bringing in to force legislation on anti-dumping countervailing duties and anti-trust, while the institutional framework for such legislation should be established and strengthened.
- Enhance transparency in corporate governance.
- Introduce special legislation for business re-organisation and liquidation.

Research and Development (R & D) Policy.

- Provide incentive to encourage R & D in industries.
- Encourage joint R&D projects among universities, research institutions and the private sector for product development, promotion of brands and innovation of new products.
- Encourage information technology incubator facilitation linking universities, IT training institutions and multinational companies.

Develop Small and Medium Scale Enterprises

- Provide venture capital support and credit guarantee schemes for SMEs for supply of seed capital.
- Develop infrastructure for international market access.
- Develop secondary and tertiary education curricula to enhance managerial skills, professionalism, and entrepreneurial culture.

investment of over Rs.3,500 million, which are called 'flagship' projects, and large scale export oriented projects will continue to enjoy the tax holiday. The extension of duty free facilities to BOI enterprises for the replacement of vehicles was also withdrawn in the 2000 Budget. Under the new regulations, the duty free facility for vehicles will be granted to enterprises only on the establishment of new projects in terms of BOI investment guidelines.

Encouraged by the positive response of entrepreneurs to the fiscal incentive scheme introduced in 1996, to promote the use of advanced technology by domestic manufacturers, the scheme was extended for a further period of two years in the Budget 2000. Several manufacturers have imported advanced and sophisticated machinery under this scheme and modernised their production processes. This helped domestic manufacturers to reduce unit costs of production and improve both product quality and productivity. This scheme offers the duty free import of approved machinery and equipment and a five year tax exemption on incremental profits. Under this scheme, approvals were given to 18 new projects and 26 existing projects in 2000, with a total investment commitment of Rs.1,156 million and Rs.1,306 million, respectively. These approved projects are estimated to create new employment

TABLE 4.13

Projects Approved under the Advanced Technology Incentive Scheme as at end 2000 (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, beverages and tobacco products	28	2,623	2,486	77	7,210	4,811	105	9,833	7,297
2 Textiles, wearing apparel and leather products	14	761	1,178	47	1,895	2,948	61	2,656	4,126
3 Wood and wood products	8	283	665	11	565	574	19	848	1,239
4 Paper and paper products	11	721	818	39	2,171	1,790	50	2,892	2,608
5 Chemical, petroleum, rubber and plastic products	60	2,963	3,725	138	5,936	7,407	198	8,899	11,132
6 Non metallic mineral products	12	2,654	1,232	13	1,411	753	25	4,065	1,985
7 Basic metal products	7	1,066	798	19	1,188	1,190	26	2,254	1,988
8 Fabricated metal products, machinery, and transport equipment	23	1,091	1,537	53	2,815	3,179	76	3,906	4,716
9 Manufactured products not elsewhere specified	22	1,779	1,843	25	837	1,005	47	2,616	2,848
10 Services	14	585	901	26	4,077	1,581	40	4,662	2,482
Total	199	14,526	15,183	448	28,105	25,238	647	42,631	40,421

(a) Provisional

Source: Ministry of Industrial Development

opportunities for 1,839 persons. Since the commencement of this scheme in November 1995 approvals have been given for 199 new projects and 448 existing projects, up to end December 2000. The investment commitment of these projects was Rs.14,526 million and Rs.28,105 million, respectively. These projects are estimated to create new employment opportunities for 40,421 persons. Under this scheme, 409 projects have imported Rs.11,430 million worth of machinery and equipment at end December 2000. Of the 647 total projects approved up to end December 2000, 45 per cent were in the Colombo District, 30 per cent in the Gampaha District and 7.0 per cent in the Kalutara District.

With the liberalisation of textile imports in 1998, the government introduced the 'Restructuring Programme for the Domestic Textile Industry' to encourage domestic manufacturers to modernise their mills and to introduce a new generation technology in their production process. This measure aimed at both increasing the product quality of domestic mills to international standards and to increase the productivity of local mills. Under this scheme, a total of 130 manufacturers had applied for relief at end 2000. Of these, 126 applications had been considered for relief measures, while the other 4 applications were under consideration. At end December 2000, the total outstanding debt amounting to Rs.4,004 million, had been identified for transfer to the Textile Debt Recovery Fund (TDRF). Upon finalisation of the Tripartite Agreement for Debt Recovery, the total debt outstanding of 90 manufacturers amounting to approximately Rs.3,106 million, had been transferred to TDRF by end December 2000. In respect of this debt transfer, the government has paid approximately Rs.953 million to banks and financial institutions. Under this scheme, 111 enterprises had submitted restructuring/ modernisation proposals to their banks/financial institutions and to the General Treasury. Of these, 103 enterprises have received endorsement for their proposed projects from banks/financial institutions and 30 enterprises have commenced implementing their restructuring/modernisation projects. The Domestic Textile Quota Allocation Committee, functioning under the Ministry of Industrial Development, commenced procurement in 1999, and allocated textile quota in 2000, for the second consecutive year. During the year quotas were allocated to six domestic textile manufacturers for about 3.6 million meters of fabrics. Textile manufacturers who do not qualify for any relief under the restructuring programme were permitted to import project-related machinery, spare parts and accessories duty free. In addition, textile and ancillary industries undertaking domestic or export market oriented projects are eligible for BOI status by meeting the minimum investment requirement. The minimum investment requirement for small-scale projects has been lowered to Rs.5 million.

National Productivity Decade Programme

The Decade of National Productivity Programme (1997-2006) launched in 1997 with the objective of enhancing productivity in both private and public sectors, continued during 2000. This programme has been focusing more on creating awareness of the productivity concept and techniques of raising productivity among all sections of the community and for this purpose radio programmes, TV programmes, lectures, seminars and workshops were organised by the National Productivity Secretariat. During 2000, 63 English, 62 Sinhala and 22 Tamil radio programmes were broadcast and 76 T.V programmes were telecast. During the period under review 23 workshops and lecture programmes were conducted for officials of ministries and other public sector organisations and 3 programmes were organised for schools on the concept of

productivity. In addition, 15 National Productivity Steering Committee meetings and 13 Liaison Officers' meetings were held during this period to monitor and review productivity activities. During the year, 2 programmes were organised for the supervisory staff and junior executives employed at Katunayake and Biyagama Export Processing Zones. In addition, monthly lectures on productivity were organised for private sector managers, where hands on experiences on the application of productivity concepts were shared among participants. Under this monthly lecture programme, 6 lectures were held during the year on various topics on productivity.

4.8 Industry Location

The government has taken several policy measures and granted fiscal incentives in recent years to encourage setting-up of industries in backward areas of the country. By end 2000, 76 per cent of the enterprises registered under Sections 16 and 17 of the BOI Law and industries registered in the Ministry of Industrial Development were located in the Gampaha and Colombo districts. Excessive concentration of industries in these two districts has created problems of labour scarcity, road congestion, escalation of real estate prices and environmental pollution in major cities in the province. Inadequate infrastructure facilities in other districts were a major reason for manufacturers to locate their factories in the Colombo and Gampaha districts. Therefore, the government took steps to improve infrastructure facilities in the districts situated in remote areas under the Industrial Parks/estates Development Programme, Dedicated Economic Centre Programme, Fifty Garment Factory Programme, Industrial Township Programme, and mini-EPZs programme.

The Seethawaka Industrial Park, located in Avissawella provided facilities to 71 factory lots including 10 international standard factories. At end 2000, 64 factory lots have been allocated among investors and 22 factories were in commercial operation, providing direct employment to about 6,000 persons. Another 20 projects were in various stages of implementation at end 2000. The Seethawaka Industrial Park attracted substantial foreign investments from UK, Belgium, Japan, India, Hong Kong, Canada, the Netherlands, Korea, and France. The projects located in the Seethawaka Industrial Park produce medical gloves, soft toys, high value garments, steel products, knitted fabrics, zip fasteners, rubber products, wood products, processed minerals, pharmaceuticals and sewing thread. The total employment potential of this park is estimated at about 50,000 persons.

Under the Regional Industrial Estate Development Programme, 11 industrial estates were in operation at end December 2000 and two other estates were nearing completion. Development work of 6 more industrial estates has commenced in 2000. According to the Ministry of Industrial Development, 8 more locations have been earmarked to be developed as industrial estates in the near future. By end 2000, nearly 186 blocks of land had been allocated to potential investors to set up their industrial units in Dankotuwa, Makandura Noorani, Kuruwita, Dambadeniya, Karandeniya, Udukawa, Minuwangoda, Homagama, Beliatta, Madawaala-Ulpatha, Bata-atha, Badulla, Lakshauyana, Nawagampura, Kolonnawa, and Ratmalana industrial estates. By the end of the year, 56 industrial projects were in commercial operation in various industrial estates providing employment to 6,791 persons and another 57 factories were in various stages of construction. The Dedicated Economic Centre Programme (DEC), which was launched with the aim of expanding and promoting an area of specific economic activity while building up other linkages, continued into 2000. According to the Ministry of Industrial Development, Stage II of the Dambulla DEC programme commenced in 2000 and the construction work of the Keppetipola DEC has been completed. Preliminary studies are being undertaken to explore the possibility of setting up DECs in Emblipitiya, Monaragala, and Pammunuwa. It has also been decided to set up a DEC in Moratuwa to help the furniture industry in that area.

Under the Two Hundred Garment Factory Programme, 164 garment factories were in commercial operation in 21 districts at end December 2000. Of these 164 factories, 143 factories (or 87 per cent) were located outside Colombo and Gampaha districts. The notable feature of this programme was the step taken to establish factories in difficult areas such as Vavuniya, Battticaloa, Trincomalee, Ampara, and Polonnnaruwa. At end December 2000, there were 14 factories each in the Anuradhapura and Colombo districts, 16 factories in the Ratnapura district and 11 factories each in the Puttlam, Kurunagala and Nuwara Eliya districts. Under the Fifty Garment Factory Programme introduced in the 1998 Budget, approval had been given for 67 garment factories, by end 2000. Approved projects under this programme were provided with apparel quota and BOI incentives. The criteria for the selection of these projects were based on the degree of unemployment in the area where the projects were to be located. There were 25 eligible projects in the Southern Province and the rest were in districts other than Colombo and Gampaha. The total investment in projects under this programme was estimated at Rs.2,927 million. These projects are estimated to create both direct and indirect employment for about 72,000 persons. Under this programme, 50 factories were in commercial operation in 18 districts, providing direct employment to about 20,014 persons and 9 factories were under construction at end 2000.

BOI continues to establish mini-EPZs outside Colombo to promote regional industrialisation and provide investors

with alternative locations. BOI has set up mini EPZs in Horana, Polgahawela, Mawathagama, and Wathupitiwela and Industrial Parks in Mirijjawila and Hanwella. The infrastructure development under Stage-I of the Horana EPZ, covering an extent of 70 acres has commenced and the work is expected to be completed by June 2001. Industrial plots have been allocated to set up seven projects and construction of factories is planned to commence in early 2001. The infrastructure development work of Stage 1 of the Polgahawela EPZ covering an area of 22 acres has already been completed and factory lots have been allocated to six investors. Construction work in factories is in progress and these factories are expected to commence commercial operation during second quarter of 2001 providing employment to about 1,125 persons. Infrastructure facilities have already been developed in Stage 1 of the Mawathagama EPZ consisting of 20 acres of land. The construction work on five factories is in progress and those factories will commence commercial operation in the second quarter of 2001, providing employment to about 1,350 persons. In the Wathupitiwela EPZ, development of Block B area by providing internal roads, water disposal facilities and the construction of a perimeter fence has commenced. Infrastructure development at the Koggala EPZ continued with land development and factory construction work under a Special Incentive Scheme implemented by BOI. In this zone 12 new investment projects were under implementation in 2000. BOI has identified 50 acres of land at Salawa Estate, Hanwella to set up an industrial park to locate enterprises that manufacture defence related items. Infrastructure development work of this park is planned to commence in 2001.