THE DEVELOPMENT OF SMALL SCALE INDUSTRIES IN SRI LANKA EXPERIENCE AND PROSPECTS

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This paper is one of the 18 papers, published under a special series of publications by the Sri Lanka Economic Association (SLEA) with financial assistance from the United States Agency for International Development (USAID). The objective of these publications is to provide economic literature on current and topical themes on the economy of Sri Lanka to a broad audience that is interested in economic issues, but has little or no background in theoretical economics, while maintaining high analytical standards. Hence, the papers have been written in simple language avoiding the use of sophisticated technical terms, mathematical equations and models etc. which are normally found in economic literature.

THE DEVELOPMENT OF SMALL SCALE INDUSTRIES IN SRI LANKA EXPERIENCE AND PROSPECTS

Any attempt to assess the prospects for the development of small industry in Sri Lanka in the present context must necessarily be in the historical perspective of the economic policies pursued in post Independence years when, for the first time, a deliberate policy of industrialisation was enunciated by the Government as a means of furthering the economic development of Sri Lanka. Prior to Independence in 1948, under British Colonial rule, the development of the plantation agricultural industries of tea, rubber and coconut was the policy priority. Manufacturing industry was largely a by-product of plantation agriculture - based on the processing of tea, rubber and coconut in large factories and fabrication of tea, rubber and coconut processing machinery in large engineering workshops. With the lapse of time however, the diffusion of this engineering technology and the establishment of a widespread network of engineering workshops and motor vehicle repair garages provided a sound basis for diversification of the industrial production of the country. Indeed, during the period of the Second World War, some diversification took place per force. The sheer inability to import requirements of manufactured products compelled the British colonial authorities to initiate moves to assist in the transfer of technology for local production of some manufactured goods essential to sustain the production of the plantations, and also for the support of the armed forces stationed in the island. For example, the Government established a factory to make acetic acid for the coagulation of rubber using coconut shell charcoal as the raw material. Again, technology was imparted to a local private Company through the good offices of the British Army to embark on the retreading of worn out motor vehicle tyres. The shortage of essential imported products gave a boost to a host of small domestic producers who responded to the incentive of scarcity prices. In addition, a new entrepreneurial class sprang up to supply the requirements of the British Armed Services encamped in the island. Thus, when the country gained its Independence in 1948, favourable conditions prevailed for the industrialization of the country through encouragement of private sector initiatives. Unfortunately, with Independence, a major policy decision was made by the Government to rely more on direct investment by the Government itself in setting up industrial ventures, rather than on private sector initiatives through the provision of incentives and subsidies. Sri Lanka was not alone in advocating state enterprise as a means of industrializing the country. Many developing countries that were not organised as Communist states and in fact were democratic states, adopted measures inspired by the ideology of socialism to modernize their societies.

In keeping with this policy, large State owned factories were set up in Sri Lanka to manufacture cement, paper, chlorine and caustic soda, cotton yarn and fabric, canned food products, construction steel, bricks and tiles, ceramic ware, boots and shoes, agricultural implements, petroleum products, fertilizer and a host of other products. Few incentives were given to induce private sector investment which had to face severe competition from imports in the context of relatively low rates of tariff protection inherited from British rule which were not revised upwards.

In 1960, however, there was a reversal of policy motivated by the need to balance foreign exchange outflows to inflows, in the context of a situation in which the country had lost its foreign exchange reserves, and annual foreign exchange earnings were adequate only for the import of essential food, raw materials and oil. Drastic import and exchange controls were introduced to conserve foreign exchange and stem capital flight abroad. Imports of most manufactured goods were banned or greatly reduced while raw material imports were restricted on the basis of a classification into three categories - essential, semi essential and luxury. While scarcity prices gave an inducement to expand local production and even set up new industries in substitution of imports, it was not possible for private entrepreneurs to respond to these incentives in the absence of the wherewithal of machinery and equipment, raw materials and know-how, which could be imported only on licenses issued by the Government. The requisite licenses, however, were issued charily because of the overriding need to conserve foreign exchange to keep the economy going and the wheels of industries already established turning. Besides, the bureaucratic procedures involved, measured in terms of the corruption and opportunity costs involved, created dis-incentives to private sector initiatives. Thus, it is not surprising that these 'siege' economic policies pursued for a period of 18 years form 1960 did little to change the industrial structure of the country, notwithstanding the establishment of the large state owned industrial enterprises. This conclusion is illustrated by Table 1 below giving the proportion of the Gross Domestic Product accounted for by agriculture and industry in 1979 in a few selected countries of the region.

Table 1
Sectoral Shares in Gross Domestic Product at Market Prices - 1979
Selected Countries in South Asia

	1979			%	
	Sri Lanka	Burma	Thailand	Malaysia	Taiwan
Agriculture	24.3	36.6	25.9	24.0	10.4
Mining	3.5	1.2	1.6	5.0	1.1
Manufacturing	13.7	10.3	20.4	19.8	35.0
Construction	5.5	2.0	5.4	4.3	7.3
Utilities, Transport & Communications	10.3	6.3	7.3	8.5	8.4
Commercial & Financial Services	21.1	26.4	21.9	20.4	17.2
Rental and other services including Administration, Social & Defence	21.0	17.5	16.7	17.9	23.7
Less imputed interest					2.9
	100	100	100	100	100

It is seen from the Table that the shares of industry in GDP for Sri Lanka in 1979 compares with Burma which has followed more inward looking policies than Sri Lanka and has hardly embarked on any programme of industrialization. On the other hand, both Thailand and Malaysia have relied more on private sector initiatives while maintaining the predominance of the market in 'economic' decision making. Taiwan is an example par excellence of export led economic development in the context of a market economy.

The failure to develop small industry in post Independent Sri Lanka may hence be attributed in the main to this failure in economic policies of Government. But this is only part of the story. In a market economy, small industries develop alongside medium and large industries in competition with or complementary to the former. Small scale production can be competitive with large scale production because of the lower investment cost per worker and the use of a less sophisticated technology adapted to the skills of available supplies of educated but untrained and inexperienced labour. Sales of such production, however, would, as a rule, be confined to local markets. In the case of large scale production, using a more sophisticated but capital intensive technology, economies of scale in production gives significant cost reductions per unit of output, as compared with small scale production. Besides, more effective quality control enables such production to satisfy the needs of sophisticated markets centred in the cities.

Complementary production by small scale industries in support of large scale production is widely practised in developed countries such as Japan and the newly industrialized countries such as Korea and Taiwan. This may involve the manufacture of components and/or the sub assembly of components to be incorporated in the final products manufactured by the large scale enterprises. Hence, we have to explain the failure of either category of small industry to evolve in Sri Lanka on any significant scale.

The failure of the second category of complementary production by small industries is readily explained by the failure to industrialize the country itself. It is only with the rapid growth of investment and/or exports that mass markets are created for consumer products for the manufacture of which components could be supplied by small scale producers who could also undertake sub assemblies. Post 1960 Sri Lanka was characterised by relatively low levels of investment, and associated low rates of economic growth. Besides, the system of import and exchange controls discouraged private foreign investment which may have been induced to fill the breach, taking advantage of the low wage costs of the country and the annual influx into the labour market of qualified engineers, scientific personnel and technicians, as well as accountants and other professionals turned out by the Universities, the professional institutions and the technical colleges set up to complement the free primary and secondary education system instituted by the Government in 1946.

It is, however, more difficult to explain the failure of small scale industries to make any significant contribution to industrial production in this country, notwithstanding 18 years of tight import controls that shut out or limited the supply of a wide range of manufactured goods. One obvious explanation is the unavailability of supplies of essential imported raw materials except at 'black' market prices. This, undoubtedly, was a key factor, given that the production of most manufactured products required imported raw materials besides the machinery and equipment. This however, is only part of the explanation. In the context of scarcity prices, small industries based on substituted raw materials and improvised machinery was feasible. For example, fabrication of agricultural and other implements as well as cast metal products using scrap metal became highly feasible. While undoubtedly production did expand, the expansion was in no way related to the availability of scrap metal, the export of which had been banned as part of the effort of import substitution. It would seem that this failure had much to do with the failure of the Government to set up a suitable institutional framework in support of small industry development. The Industrial Development Board (IDB) was established only in 1969. While the objectives of the IDB included the promotion and support of small industry, its efforts in this direction were frustrated by the policy decision of the Government to rely on small industrial projects sponsored by Divisional Development Councils (DDC) that were set up as part of the state investment effort in 1971/72 that was subsequently incorporated in the Five Year Plan for 1973-77. Thus, even in small industry development the emphasis was shifted from private sector initiative to direct investment by the Government. Besides, no effort was made to get the banking system to play a special role in financing private sector small industry projects, as was done in neighbouring India and indeed, even in advanced countries such as Japan and in the NICS such as Taiwan and Korea. The net result was that small entrepreneurs seeking financial assistance from the banking system were subjected to more rigorous collateral requirements than large borrowers. The need to set up specialised financial institutions and specially devised lending schemes to assist small industry has been recognised by many countries around the world, both developed and developing. In the absence of such institutional arrangements in Sri Lanka, the IDB attempted to substitute for the banks by initiating lending schemes of its own, utilising a credit line made available to the Government of Sri Lanka by the Government of India to import machinery. In 1975, a credit guarantee scheme for small industries was instituted by the Central Bank to provide limited guarantees to the Bank of Ceylon and the people's Bank to provide term finance in support of small industries projects identified by the IDB. This effort met with limited success because the two banks involved were not happy with the arrangement whereby projects were appraised for their credit worthiness by the IDB, while the lending risks were borne by the two participating banks, which had no right to appraise these projects on their own. While the credit guarantees of the Central Bank underwrote part of the risk, the major share of the risk of a project had to be carried by the bank concerned. Because of this reliance on the IDB for the appraisal of projects, the role of the IDB in the promotion of small industry and the transfer of technology was gradually lost sight of.

The budget for the year 1978, presented in November 1977 by the newly elected Government is a land mark in the economic development of Sri Lanka. It began a reversal of economic policies pursued by the Government of Sri Lanka since 1948, when the country gained its Independence. In 1978 import controls were abolished while exchange controls were greatly relaxed. Thus the stage was set for the progressive liberalization of the economy, with the objective of reintergrating Sri Lanka into the world trading system of which it had been an integral part under British colonial rule until the outbreak of the Second World War when import and exchange controls had perforce to be introduced. It is ironic that in the two decades from 1960, when Sri Lanka pursued inward looking import substituting policies, world trade increased by leaps and bounds giving opportunities to countries like Japan, Taiwan, South Korea, Hongkong and Singapore to successfully expand their economies through rapid export led industrialization. The relaxation of controls has been progressive, enabling Sri Lanka to reintegrate itself not only with the world trading system, but also into the world financial system. Simultaneously, laws restricting and regulating investment by both local and foreign private investors have been relaxed while the stock market has been revived and strengthened through regulation to function effectively as a source of risk capital for entrepreneurs and project promoters having confidence in the future of the economy of the country. The Company Law of the country has been revised while new banking legislation was also introduced to facilitate and speed up debt recovery by commercial and development banks. To top this transition to a market driven economy, state owned enterprises are being rapidly privatized by sale of these enterprises to local and foreign investors. It is no exaggeration to say that the reintegration of the Sri Lanka economy with the global economy has created highly favourable conditions for the successful industrialization of the country through investment in large, medium and small enterprises. The more important favourable conditions are outlined below :-

1) The adjustment of the structure of internal prices to fall in line with international prices through the operation of market forces and the adjustment of the exchange rate which has been allowed to float. Thereby incentives have been created to induce investment in response to the forces of supply and demand operating on an international scale, making it possible to embark on export led industrialization.

2) The integration of the economy with the commodity and financial markets makes it possible to attract private and institutional capital from abroad to supplement domestic

savings mobilized for investment in industries that are import substituting as well as export oriented and in fact may be both.

3) The creation of a free market economy greatly facilitates the flow of information and the transfer of technology which are essential inputs for the successful working of a market driven economy.

Thus the stage was set for the rapid economic growth of Sri Lanka. The impact of the new economic policies is best measured by the rate of increase in capital formation and the associated increase in the rate of economic growth. In the decade of the 1960's gross domestic capital formation (GDCF) as a proportion of the gross domestic product (GDP) at current prices averaged 16 per cent, achieving any significant higher rate only in 1969 when it was 20 per cent. In the decade of the 1970's average GDCF as a proportion of GDP was marginally higher than in the decade or the 1960's with the rate exceeding 20 per cent in 1970, and significantly in 1978 and 1979 when the rates were 20.3 and 25.2 per cent respectively. 1978 was the first year of liberalization of the economy and in 1979 the pace of liberalization was accelerated. The greatly increased ratio of gross domestic capital formation to GDP in the context of a free market economy is readily seen in the decade of the 1980's when the ratio was above 25 per cent in every year upto 1987, and indeed was significantly above 30 per cent in the four years 1980-83. In the years 1988-91 capital formation declined to an average 24.5 per cent of GDP because of the civil unrest in the country and the diversion of resources to fight separatist rebels in the North East of the country.

The accompanying average rates of growth in real GDP in these three decades shows similar trends. In the 1960's average real GDP growth was a little over 4 per cent per annum, but in the 1970's the rate declined to just marginally above 3.0 per cent notwithstanding the slightly higher rate of investment, perhaps reflecting the lower utilization of installed capacities in the private sector in the context of a general shortage of foreign exchange. In the 1980's the rate of growth had an average of well over 5 per cent in the years up to 1986, notwithstanding the ethnic violence of 1983 and after. The disruptions caused by the induction of the Indian Army with the Accord of 1987 and the civil unrest that prevailed in the country in 1988 and 1989, resulted in severe decline in investment, and the associated rate of growth. Real GDP increased to 6.2 percent in 1990 but declined to 4-6 and 4.3 percent in 1991 and 1992 respectively.

The changes in economic policies of Government after 1977 helped the development of small industries in the following significant ways:

1) The massive increase in investment, both of the Government and the Private Sector, created a demand for a wide range of products which could be met by the rapid expansion of small industries in competition with imports and the products of large local enterprises. In particular, the rapid expansion in the demand for building materials for the construction industry, wood products and furniture, and for prepared foods, with the surge in employment and wages, gave much scope to small scale producers to meet the demand.

2) Adjustment of the exchange rate gave rise to a rapid increase in tourist arrivals, creating a rapid increase in

demand for a wide range of handicrafts made mostly from local raw materials.

3) Adjustment of the exchange rate created new markets for more traditional exports such as jewellery, pre packaged spices, leather products as well as the traditional export of tea packaged in a wide range of containers made of paper, wood, reeds and ceramic made in small factories and workshops.

4) The continued depreciation of the rupee also encouraged import substitution, particularly because of the continued magnification of the rupee price of imported manufactures at the prevailing rates of tariff protection which though relatively low as compared with the rates prevailing prior to 1978 were still significant.

Data compiled by the National Development Bank (NDB) since it was established in 1979, indicates a progressive increase in investment in small and medium industries (SMI). In the year 1992, total investment in SMI projects was Rs 3555 m as compared with total private sector gross fixed capital formation of Rs 68626 m in industry, agriculture, construction, services etc. SMI project investment accounts for a little over 5 per cent of (GDCF) in 1992. Unfortunately, no reliable data is available on the share of industry alone in the total GDCF. Nor do we have data on investment in small industry financed without assistance made available through the NDB under its Small and Medium Industries Loan Scheme (SMILS).

Earlier in this paper, it was observed that a major reason for the lack of development of small scale industries, amongst others, was the failure to institute any integrated scheme to provide financial assistance as well as support services to further the development of small industries. It was also mentioned that even many developed countries as well as developing countries have such schemes because reliance on market forces alone is not a sufficient condition for the robust and healthy development of small industries. The primary objective of most of these special schemes is to ensure that adequate financial resources are made available to finance small industry projects through the banking system. As was pointed out above, commercial banks tend to insist on unrealistic collateral requirements as a condition of financing small projects since they are not geared to undertake project lending using project appraisal techniques specially devised for the purpose. In Sri Lanka, there was a severe failure in this regard until the establishment of the IDB in 1969. While the IDB had been established in 1969, there was a failure in effort in furthering small industry development. Though there was provision in the Act establishing the IDB for it to provide loans as part of its assistance to small industries, the fact is that without access to sources of long term capital little could be done by the IDB in this regard. Besides, almost from the inception of the IDB, it came to be looked upon as an agency of Government to implement its programme of setting up DDC projects. In 1979, however, the Government established the National Development Bank with a large equity contribution financed from the budget. The primary objective of the NDB is to provide project finance for large industry, agriculture and commerce. Nevertheless, it was also required as an important secondary objective, to ensure that small industrialists are given access to project finance on the same terms and conditions as afforded to large borrowers. Accordingly, the Small and Medium Industries Loan Scheme was initiated on 1st October 1979 when the Bank opened for business. Also

NDB to fulfil this objective, the Government successfully negotiated with the World Bank for a line of credit earmarked for financing SMI projects only.

In Sri Lanka, the Government had many good reasons for placing small and medium industries financing on a priority footing. Amongst the more important considerations that prompted this effort were;

1) The high levels of unemployment and underemployment that had prevailed throughout the 1960s and 1970s and created economic and social conditions that alienated the youth of the country, particularly the educated youth, who were being increasingly attracted to extremist organisations advocating the violent overthrow of the Government.

2) The need to discourage mass migration from the rural areas to the cities in search of employment.

3) Advantage of utilizing less capital intensive and less sophisticated technologies for the rapid expansion of production of a wide range of raw materials, intemediate, consumer and even capital goods essential to sustain the development effort without too great a reliance on imports.

4) The need to give opportunities to persons with entrepreneurial talent to contribute to the development of the country while enhancing their own personal wealth.

A question that arises in evaluating performance under the SMILS is the definition of small and medium industries. Under the SMI Credit Line 1 of the World Bank,with which the NDB initiated the SMILS, an existing SMI project which was eligible to borrow under the Scheme was defined as one in which fixed assets, excluding land and buildings, did not exceed RS 1.0 m at original cost (book value) while the total cost of the project on completion of the expansion funded with an SMI loan was not to exceed Rs 2.0 m. The maximum eligible loan was limited to Rs 1.0 m. In the case of a new project too, maximum investment was not to exceed Rs 2.0 m on completion of the project. With each successive SMI Credit Line extended by the World Bank, and subsequently jointly by the World Bank and the Asian Development Bank. this definition was revised, in keeping with the increase in costs and prices of fixed assets resulting from inflation, and the need to enlarge the scope of the SMILS with the experience gained by the staff of participating banks in the operation of the SMILS. Under SMI Credit Line IV, total investment in fixed assets excluding land and buildings, in an existing project should not exceed Rs 8.0 m before financing. Maximum loan size is limited to Rs 8.0 m which means that on completion of the project, total cost should not exceed Rs 16.0 m.

It may be inferred from these definitions that the SMILS was really devised to promote medium scale rather than small industries. This has, however, not been the case. It must be emphasized that no minimum loan size was prescribed for loans given under the Scheme. Annex 1 gives the size distribution of refinance loans under the SMILS since its inception in 1979 and also for the year 1992 only, separately. Refinance loans below Rs 1.0 m given in the 13 year period in 1992 accounts for almost 50 per cent of the total. In the year 1992, the proportion has dropped to 47 per cent approximately. If all refinance loans below Rs 2.0 m are taken to be indicative of small industries financed under the SMILS, it will be observed that 72 per cent of the total is accounted for in the 13 year period and in 1992 alone 66 percent is accounted for. Hence, we may infer that by far, the SMILS has financed small industry rather than medium sized industry. The drop in the ratio in 1992 is to be expected as more small industries move upto the category of medium with expansion of the initial projects.

Annex II gives the districtwise classification of SMILS refinance. It is seen that in the 13 year period, the Districts of Colombo and Gampaha accounts for almost 50 per cent of refinance loans and for 1992 only, 48 per cent. The overwhelming dominance of these two districts has much to do with the availability of superior infrastructure facilities in these two districts as well as the proximity to the markets in the cities of the Western seaboard centred on Colombo. The fact that the proportion has declined marginally in 1992 may be considered a plus factor in so far as it indicates an effort on the part of the institutions co-operation in the SMILS to fund projects outside these two districts. In the absence of such an effort, concentration in these two districts would have increased over time. With the improvement in infrastructure such as roads, electricity and telecommunications in the outlying districts, we can expect a greater dispersion of loans in future.

Annex III gives a sectoral classification of refinance loans, Food, beverages and tobacco accounts for almost 25 per cent of all SMI refinance loans. The spread of industries financed indicates a healthy diversification between sectors.

Annex IV gives refinance approvals of the NDB on an annual basis from 1977 to 1992, together with data on total investment associated with the total of projects approved annually, as compiled by the NDB. It is seen that total investment is more than double the refinance loans given in the 13 year period. In 1992 the proportion has increased to more than three times the refinance total. We may infer from this data that there has been a marked increase in SMI projects in 1992 with the return of political stability. We may further infer that the increase in the ratio of total investment to refinance to over three times in 1992 indicates a greater reliance on equity funds in financing these projects.

With the continued progress towards the establishment of a market driven economy integrated with the commodity and financial markets of the world economy, the Government has announced the objective of achieving the status of a newly industrialized country by the year 2000. This implies a greater reliance on export led growth and hence on foreign investment than in the past. Nevertheless, the Government will have to step up investment in the provision of infrastructure of roads, ports, power, telecommunications etc. - if private investment, both local and foreign - is to be mobilized on the scale envisaged. Hence we can expect a continued upward trend in investment and the associated rates of economic growth. We may therefore, infer that there will be good prospects for market led growth of small industries provided the SMILS is expanded to keep pace with the demand for funds.

A feature of SMI lending in the more recent past, has, however, been the saturation of investment opportunities in the sectors that expanded rapidly in the decade of the 1980s.

Hence, if investment levels in small industries are to be sustained, it will be necessary to open out new investment opportunities. While new investment opportunities in small industries are likely to continue to increase with the continued growth of the economy, we cannot expect this increase to be as rapid as in the past, given the limitations of Sri Lanka's domestic market size arising from population size and the low levels of disposable incomes in the context of a relatively low level of average per capita income . Hence it would seem that there is an urgent need to strengthen the SMI project by taking steps to widen demand and by creating new demand for the products of small industries . Widening of demand can be achieved by improvement in quality, thereby improving possibilities of import substitution. New demand is best created by production for export . Hence there is are urgent need to link the growth of small industries to the expansion in export trade. Such a link becomes increasingly feasible with the continued depreciation of the Sri Lanka rupee vis a vis the currencies of the developed countries, the NICs and the oil rich countries. The major constraint to export of the products of small industries is the handicap in regard to marketing as compared with large enterprises having access to large volumes of credit on favourable terms. Hence the most advantageous marketing strategy would be to channel the production of small industries to markets abroad through large enterprises by integrating production of the small industrial units with the assembly, quality control and marketing efforts of the latter. Indeed this has been the path followed by Japan and the NICS in embarking on export led growth.

Yet, the mere provision of finance through the SMILS is unlikely to be a sufficient condition for the continued development of small industries. Increasingly, identifying and choosing technology is taking on importance as a determinant of the confidence of entrepreneurs in investing in small industries, particularly for export production. Indeed the NDB has recognized this need and set up the Technology Transfer Fund (TTF) utilizing funds made available from a World Bank line of credit to finance the costs of technology identification and transfer as a further measure of assistance in helping small industrialists. The problem of technology transfer, however, is a much bigger one than providing access to financing on special terms. What is required is a new market oriented institution actively committed to the transfer of technology sourced abroad as its principal objective. The Ministry of Industries and Scientific Affairs has decided to set up an Industrial Technology and Market Information Network (ITMIN) as a sub unit of the Ceylon Institute for Scientific and Industrial Research. (CISIR) ITMIN will provide information from its own data bases and through access to data bases in Sri Lanka and abroad using electronic software and hardware, as well as modern communication technology. While this is a step in the right direction, it would seem that a new institution is required to operate in the field to actively promote technology transfer by marketing it as a service integral to small industry development . The IDB was in fact set up with technology transfer as one of its major objectives. It has, however, failed to perform effectively in this area. Indeed, it is unlikely to function effectively in this area because the IDB is a state bureaucracy set up to meet the demands of a command economy an d has now acquired a culture that is averse to the thinking and disciplines required of a market driven institution for the transfer of technology that is the most urgent priority for continued growth of the small industrial sector.

The next stage in the development of small industry is likely to be crucially dependent on the effective transfer of technology from abroad. While foreign investors setting up industries in Sri Lanka are likely to play a vital role in effecting such transfers, there is a vital need to help local investors to identify and induct suitable technology. A good example of what can be done is the Technology Initiative for the Private sector (TIPS) programme of the United States Agency for International Development. This programme is not confined to small industries, and in fact has been devised mainly to serve medium and large scale industries. TIPS operates with a small staff of dedicated individuals who help private businessmen to identify their needs of technology and then also helps them to secure the required technology while at the sametime providing some financial assistance. The TIPS programme, however, is to help existing enterprises and not new ones that are to be set up. For the future development of small industries in Sri Lanka, an institution that helps to identify and transfer the requisite technology to set up new projects, as well as to expand existing ones, is a priority. The C I S I R was established in 1957. As its name implies, it was set up as an institution to undertake research as a means of futhering the use of domestic resources in the industrialisation of the country. Presently, its dominant function is to help industrial units to achieve quality standards through the use of its laboratary facilities and testing services. It is doubtful that the CISIR can be redirected to become a vehicle for the transfer of foreign technology. Indeed it is not at all certain this would be desirable even if it was possible. For, there is a great need to have an effective institution that helps local industries to achieve and maintain high quality standards in the face of increasing competition from imports. We are therefore left with the conclusion that a special institutional mechanism for the transfer of technology to small enterprises is an imperative need to ensure the continued success of the SMI project.

Annex I

Size-wise Classification of Refinance Facilities Approved for SMI I, II, III & IV

Size ('000)	Gross Approvals 1992		Cumulative Net of Cancellations 1979 - 1992	
	No.	Rs.Mn	No.	Rs. Mn
0 - 500	1606	310.5	7681	1202.6
500 - 1000	255	173.1	1439	891.2
1000 - 2000	135	187.8	776	970.8
2000 - 4000	84	224.4	436	1083.3
4000 - 8000	26	128.5	26	128.5
Total	2106	1024.3	10358	4276.4

Annex II

Districtwise Classification of Refinance Facilities Approved for SMI I, II, III & IV

District	Gross Approvals 1992			Cumulative Net of cancellations 1979 - 1992		
	No.	Rs. Mn	%	No.	Rs. Mn	%
1. Ampara	04	1.6	0.2	27	6.6	0.2
2. Anuradhapura	96	31.8	3.1	411	106.6	2.5
3. Badulla	54	18.3	1.8	314	61.0	1.4
4. Batticaloa	01	0.5		27	5.8	0.1
5. Colombo	432	332.4	32.5	2559	1502.9	35.1
6. Galle	115	58.8	5.7	732	342.9	8.0
7. Gampaha	261	157.6	15.4	1385	617.4	14.4
8. Hambantota	54	17.1	1.7	245	73.7	1.7
9. Jaffna	-	-	-	60	17.0	0.4
10. Kalutara	87	52.5	5.1	415	219.6	5.1
11. Kandy	158	48.6	4.7	643	181.0	4.2
12. Kegalle	68	14.1	1.4	287	88.1	2.1

Annex II (Contd)

District	Gross Approvals 1992			Cumulative Net of Cancellations 1979 - 1992		
	No.	Rs. Mn	%	No.	Rs. Mn	%
13. Kilinochchi	-	-	-	-	-	-
14. Kurunegala	298	62.5	6.1	1011	228.8	5.4
15. Matara	184	77.3	7.5	617	238.4	5.6
16. Mannar	-	-	-	03	1.3	-
17. Matale	45	17.8	1.7	172	41.9	1.0
18. Moneragala	18	5.3	0.5	71	15.0	0.4
19. Mullaitivu	-	-	-	03	0.4	-
20. Nuwara Eliya	39	11.8	1.2	118	50.5	1.2
21. Polonnaruwa	46	20.0	2.0	209	63.1	1.5
22. Puttalam	79	49.5	4.8	683	242.7	5.7
23. Ratnapura	57	44.0	4.3	321	162.8	3.8
24. Trincomalee	10	2.8	0.3	28	7.7	0.2
25. Vavuniya	-	-	-	07	1.2	-
Total	2105	1024.3	100.0	10358	4276.4	100.0

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Annex III

Sectoral Classification of Refinance Facilities Approved for SMI I, II, III & IV

Sector	Gross Approvals 1992 No.	Gross Approvals 1992 Rs. Mn	Gross Approvals 1992 %	Cumulative Net of Cancellations 1979 - 1992 No.	Cumulative Net of Cancellations 1979 - 1992 Rs. Mn	Cumulative Net of Cancellations 1979 - 1992 %
Food Beverage & Tobacco	447	221.9	21.7	2550	1044.8	24.5
Construction Material	108	42.2	4.1	891	273.1	6.4
Agriculture,Agro Business and Fisheries	127	64.9	6.3	803	283.6	6.6
Textiles and Garments	176	140.1	13.7	996	578.5	13.5
Wood & Paper Products	206	92.8	9.1	1129	437.7	10.2
Rubber and Leather Products	43	21.7	2.1	308	166.8	3.9
Metal, Chemical and Plastic Products (including manufacture of fabricated metal products, Machinery and Equipment)	205	121.7	11.9	206	495.8	11.6
Hotels	-	-	-	-	-	-

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Annex III (Cont.)

Sector	Gross Approvals 1992 No.	Gross Approvals 1992 Rs. Mn	Gross Approvals 1992 %	Cumulative Net of Cancellations 1979 - 1992 No.	Cumulative Net of Cancellations 1979 - 1992 Rs. Mn	Cumulative Net of Cancellations 1979 - 1992 %
Services Industries (including Financial Services, Civil Construction, Storage, Transport & Communication)	602	244.0	23.8	1497	546.5	12.8
Miscellaneous	192	75.0	7.3	1044	449.6	10.5
Total	2106	1024.3	100.0	10358	4276.4	100.0

Annex IV

Capital Formation as a Result of the SMI Scheme

Year	Refinance Amt. Rs. Mn	Total Investment Rs. Mn
1980	118.5	246.6
1981	102.5	213.5
1982	27.8	57.7
1983	20.2	37.0
1984	104.3	203.7
1985	285.8	580.7
1986	336.7	733.3
1987	347.4	746.6
1988	238.2	496.2
1989	424.8	874.0
1990	612.1	1266.8
1991	758.0	1586.2
1992	1024.3	3555.0
Total	4400.6	10597.3

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Office Bearers for 1992/93

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