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STRUCTURE AND GROWTH PERFORMANCE OF SMALLINDUSTRY IN SRI LANKA

by Hema Wijewardena

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STRUCTURE AND GROWTH PERFORMANCE OF SMALL INDUSTRY IN SRI LANKA

by

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Abstract:

Because of the inability of the agricultural sector, due to its physical limitations, in continuing as the major contributor to the economic development of Sri Lanka the need to promote the industrial sector has increased greatly in recent years. Small-scale industrial enterprises, in particular, deserve more encouragement since their labour intensive character is consistent with the relative abundance of labour and the scarcity of capital in the economy. However, statistics reveal that the growth performance of the small industry segment has not been satisfactory after the year 1977. The main reason for this seems to be the unfavourable effect of the 1977 policy reforms. It is necessary, therefore, that while protecting small enterprises from the harmful effects of the said policy reforms, steps be taken to promote small industry on the basis of a well planned longterm strategy as a complementary segment in the overall industrial sector, if Sri Lanka is to succeed in her industrialisation effort.

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STRUCTURE AND GROWTH PERFORMANCE OF SMALL INDUSTRY IN SRI LANKA

Introduction

Small industry accounts for more than half the industrial employment and contributes a large proportion of total industrial output in the developing world. Though its relative importance tends to vary inversely with the level of development, the contribution it makes remains significant even in the most advanced economies. Obviously, most of the characteristics of small industry are of great relevance to developing economies. Its labour intensive character, for instance, is consistent with the relative abundance of labour and the shortages of capital and foreign exchange characteristic of developing countries. Thus, small manufacturing units have the potential to play a vital role in the process of economic and social development of these countries provided they are integrated with the larger framework of growth which requires careful thought both in formulation and implementation (Marsden, 1981: 33; Vepa, 1971: 1).

The purpose of this paper is to present a case for the development of a policy which encourages both growth in and increased effectiveness of small manufacturing units in the light of the experience of Sri Lanka. Sri Lanka, like many other developing countries, experiences high unemployment and persistent balance of payment problems. Traditionally, agriculture has been the major contributor to the economic development of the country. However, physical limitations preclude that sector from sustaining significant contributions to economic growth in the future. In light of this, consideration should be given to encouraging sustainable growth in other sectors such as manufacturing, and the small industry segment in particular.

Inspite of the significance which small industry bears in many respects in the social and economic development of Sri Lanka, this sector of the economy and the possibilities of promoting it have not yet been intensively examined. The information

currently available deals mostly with financing aspect; systematic analyses of the overall problems and growth performance are absolutely minimal.

A significant portion of small industry in Sri Lanka includes a variety of very small enterprises of the cottage and household-types and their activities are often concealed from the state for a variety of reasons such as business registration, labour regulations, taxation and provident fund contributions. For this reason and also because of the well-known problem of data collection, the activities of this sector normally do not feature in official statistics. It is under such data constraints that this paper attempts to examine the structure, features and growth performance of small industry in Sri Lanka.

Definition of Small Industry

The term, small industry, is commonly used to cover a variety of enterprises ranging from cottage industry to small factory. It has been defined in many countries by a combination of qualitative and quantitative measures. Qualitative definitions use characteristics such as specialisation in productive activities, organisational relationships (face-to-face employee-owner relations), accessibility to capital funds and integration with the local community. Quantitative definitions, on the other hand, are based on criteria such as value of capital investment, number of employees, types of power utilised and value added.

Most governments seem to have officially or unofficially accepted one or more quantitative definitions because such definitions are required for administrative and taxation purposes (Meredith, 1977: 5). Accordingly, the most commonly used quantitative measure, particularly in industrial countries, is the number of workers. In industrial countries small scale often means less than 200-300 workers. In developing countries, however, the average plant size is smaller, and "small" is generally taken to mean 1-49 workers (Little, 1987: 204).

The quantitative measures, however, seem to vary more widely from country to country and from one decade to the other. The maximum investment in plant and machinery, for example, was US$ 16,500 in Bangladesh in 1950 whereas US$ 120,500 in Singapore in the early part of the same year (Clapham, 1985: 4). Sometimes, this variation is seen to be even greater within the same country with the passage of time as a result of several factors such as increased inflation, change of state policies, progress made in industrialisation, and economic growth. Malaysia, for instance, has increased the investment limit for small industry from US$ 100,000 to US$ 200,000 within a matter of only two years: from 1975 to 1977 (*ibid*: 4). Further, this limit can vary during the same period within the same country depending on the purpose for which it is set.

The definition of small industry used in this paper is that adopted by the Ministry of Industries and Scientific Affairs (MISA) in Sri Lanka in its publication, Statistics of Private Sector Manufacturing Industries.(1982). MISA classified a manufacturing enterprise with a capital investment in plant and machinery not exceeding one million rupees as one falling into the medium scale while those whose investment was less than one hundred thousand were classed as small.[1] It is important to note, however, that even though industrial establishments of a country are sometimes classified into three levels as done by MISA for specific purposes, the term, "small industry" is often used in literature to mean both small and medium scales. Accordingly, for making the data comparable with those of the other countries, the "small" and "medium" scales shown in the MISA statistics have been combined and presented commonly under "small industry" in Table 2.

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1. Whilst recognising the superiority on conceptual grounds of qualitative definitions, this paper accepts quantitative definitions on the pragmatic grounds that available statistics use quantitative definitions.

However, like in many other countries, in Sri Lanka there is no uniformly accepted definition for this category of industry. Even the capital investment criterion stated above seems to be adopted differently by different statutory organisations for different purposes within the same period of time. For example, while the MISA retained its maximum capital investment limit for small-scale enterprises at one hundred thousand rupees in 1984, the Inland Revenue Department adopted a five hundred thousand rupee limit as the maximum issued capital for a small company in the same year for taxation puposes (IRD, 1986: 124).

According to a survey conducted by the ILO-ARTEP in 1987 for the Government of Sri Lanka in respect of 534 rural and semi-urban small enterprises, the number of employees including the owner-managers in almost 75 per cent of such enterprises has been below 6. Only 2 per cent of enterprises have reported having more than 30 employees. The same survey has revealed that the capital investment (excluding land) in 24 per cent of the above enterprises is below Rs. 10,000 and 58 per cent of them are below Rs. 50,000. Only about 13 per cent of enterprises have capital investment above Rs. 400,000. When both land and buildings are excluded from fixed capital because these items are in many cases primarily used for other purposes, nearly 60 per cent of all small enterprises show an investment of less than Rs. 10,000. From these figures it is seen that the capital investment of almost 90 per cent of small enterprises in Sri Lanka is much below the maximum delimitation level adopted by the government.

Industrial Structure and Small Enterprises

Since small industry is only a part of the total industrial structure, it seems appropriate at the outset to look at the overall level of industrialisation of the country to place the ensuing discussion in context. The degree of industrialisation is usually expressed by the percentage of Gross Domestic Product (GDP) accounted for the

manufacturing sector. In 1984 the contribution of the total manufacturing sector to GDP in Sri Lanka amounted to 14 per cent and this was exactly half the contribution of agriculture during the same year. As such, Sri Lanka is at a low level of industrialisation when compared with other countries in the region (Table 1).

Table 1

Contribution of Manufacturing Industry to GDP in Selected Countries of Asia: 1984

Country	Percentage contribution
Sri Lanka	14
India	15
Malaysia	19
Pakistan	20
Philippines	25
Singapore	25

Source: World Development Report: 1986, World Bank, pp.184-5

In order to examine the relative contribution of small industry to total manufacturing output in detail, a classification of data into scales of production is needed. The data available in that form are those compiled from the statistics published by MISA for the period from 1978 to 1982[2]. Therefore, the scale-wise analysis of the industrial structure has been confined to this particular set of data presented in Table 2.

Out of a total number of 1,932 firms which reported production data to the Ministry the large-scale firms were only 11.4 per cent, making the number of small

2. No such data are available from MISA or any other source to cover a more recent period.

Table 2

Some Characteristics of Sri Lanka's Industrial Structure: 1982

(Value in million rupees)

Scale of Industry	No. of reported units	Value of output Ex-factory	Value of raw materials, packaging materials & components consumed in production			Value of power & fuel used	Value added	Wages	No. of employees	Value of capital assets (plant & machinery)
			Foreign	Domestic	Total					
Large	221	4288.4	1202.9	698.0	1900.9	131.9	1909.8	331.3	27940	869.0
Small	1711	1953.7	642.0	405.9	1047.9	60.7	725.1	173.3	38525	217.0
Total	1932	6242.1	1844.9	1103.9	2948.8	192.6	2634.9	504.6	66465	1086.0
(Percentages)										
Large	11.4	68.7	65.2	63.2	64.5	68.6	72.8	61.1	42.0	80.0
Small	88.6	31.3	34.8	36.8	35.5	31.4	27.2	38.9	58.0	20.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Compiled from Table 3.8 in Ministry of Industries and Scientific Affairs (1982) Statistics of Private Sector Manufacturing Industries in Sri Lanka:1978-82, p.22

firms as high as about 89 per cent. This high percentage of small firms in the total industrial sector of Sri Lanka in 1982 was similar to the situation about twelve years before in Singapore (88% in 1970) (Fong & Tan, 1981: 161).

However, the degree of industrial concentration in the large-scale sector is obvious from Table 2. On average, the small establishments in 1982 accounted for only about 31 per cent of the total value of production in industry. This is quite similar to the situation in Singapore (i.e. 29%) in 1970 (*ibid*: 163).

Structural Features of Small Industry

With a view to seeing whether the promotion of small industry in Sri Lanka is a good means of contributing to employment generation and industrialisation which have been two main objectives of the state policies for many years, it seems necessary at this stage to examine some of the major structural features of this sector in relation to those of the large sector. This is possible through a comparison of some of the main inputs and outputs of industrial enterprises.

On the input side, only about 35 per cent of raw materials, packaging materials and components are consumed by small industry. The relative consumption of materials can be assessed by the materials/labour ratio which is 68.04 per worker in the large sector compared to 27.20 in the small sector (Table 3). The rise in materials/labour ratio from small to large could be taken as evidence for the difference in technology used at different scales of production.

Table 3

Material, Labour and Power Consumption
(In thousands of rupees)

Scale of Industry	Materials/Labour Ratio[1]	Wages/Labour Ratio[2]	Power/Labour Ratio[3]
Large	68.04	11.86	4720.83
Small	27.20	4.50	1575.60

Notes:
1. Cost of materials/number of employees
2. Wages/number of employees
3. Cost of power and fuel/number of employees

Source: Table 2

The wages/labour ratio in the small sector (4.50) is two and a half times lower than that in the large sector (11.86). The corresponding ratio in Thailand and Philippines is lower by only 1.3 times and 1.9 times respectively (Amjad, 1981: 27). This indicates a relatively wider wage gap between these two sectors in Sri Lanka.

The large-scale sector consumes about 68 per cent of the total power and fuel used in the manufacturing industry. According to the power/labour ratio, power and fuel consumption per employee in the large sector is Rs. 4,720.83 per year or three times that of the small sector, i.e. Rs. 1,575.60 per year. This difference is obviously due to the labour intensity and the use of more manual methods of production in small industry as against the capital intensity and the use of more machinery in large industry.

Table 4

Productivity of Labour and Capital[a]

Scale of Industry	Output/Labour Ratio[b]	Value added/Labour Ratio[b]	Output/Capital Ratio[c]
Large	153.49	68.35	4.93
Small	50.71	18.82	9.00

Notes: a. Capital represents plant and machinery only.
b. In thousands of rupees per employee
c. In pure numbers
Source: Table 2

The output/labour ratio is about three times lower in the small sector than in the large sector. Similarly, the value added/labour ratio is three and a half times lower, indicating a relatively low level of labour productivity in the small sector. This situation, however, seems to be consistent with the experience in other countries except that the productivity gap is considerably wider in Sri Lanka. This gap in Singapore, for example, is one and a half times (Fong & Tan, 1981: 162-163). The situation in Sri Lanka can be ascribed to the use of more unskilled labour and inefficient production methods in small industry.

Table 5

Indicators of Labour Intensity of Production

Scale of Industry	Capital/Labour Ratio[a]	Value added/Capital Ratio[b]
Large	31.10	2.20
Small	5.63	3.34

Notes: a. In thousands of rupees per employee
b. In pure numbers
Source: Table 2

It is natural that large-scale production, on average, tends to be biased towards capital than labour. As seen from Table 5, the capital/labour ratio of the large sector is about five and a half times higher than that of the small sector. In other words, the employment generation capacity in relation to capital investment seems to be considerably greater in the small sector. Similarly, the capital efficiency ratio (value added/capital) is 3.34 in the small sector compared to 2.20 in the large sector. Being consistent with some other countries such as Malaysia and Japan (Amjad, 26-28), this shows that small industry in Sri Lanka is more efficient in the utilisation of capital than large industry. The output/capital ratio (Table 4), being two times higher in the small sector, corroborates this view. Accordingly, both the labour intensity and capital efficiency characteristics of the Sri Lanka's small sector clearly show that the promotion of small industry can contribute greatly to the fulfilment of the country's employment generation and industrialisation objectives simultaneously.

Growth Performance

A comprehensive analysis of growth performance in the small sector focusing on the different product categories as well, is not possible because of data limitations. In fact, as MISA in its Sectoral Plan for Industries: 1978-82 has emphasized, "the inadequacy of available data makes it difficult to state precisely the contribution small-scale industries make to total industrial production. This is further complicated by the fact that small industry consists of a range of activities from the traditional handicrafts and cottage industry to modern factory-type units" (MISA, 1981: 76). No organisation has published annual data to represent all three manufacturing sectors (large, medium and small) in accordance with the MISA classification. As such, the only data available and relevant for the purpose are those appearing in the Central Bank tables under the column heading, "Small Industry and Other". Therefore, a comprehensive analysis of growth performance in the small sector is possible only on the basis of these Central Bank data.

It is important to note here that the reliability of Central Bank data on the small sector is relatively low because of the fact that the informal units ("unregistered" industrial units in official usage) which obviously constitute an important segment of the small sector normally do not report financial and operational data to any outside organisation for a variety of reasons as mentioned earlier in this paper. According to a census conducted by the Industrial Development Board (IDB) on the unregistered industrial units in Sri Lanka, a total of 15,599 such units had been operating in 1976. Despite the above limitation, it is not inappropriate to use Central Bank data for calculating growth rates in the small sector because those units which provided data to the Central Bank have done so for a number of years on a regular basis. Therefore, all computations concerning the growth of small industry as shown in Tables 6 and 7 are based on these Central Bank data. Though the category of "Factory Industry" should necessarily include medium-scale enterprises as well, it is commonly treated henceforth as "Large Industry" for the purpose of our comparative analysis. Such a treatment is unavoidable since the Central Bank data are not divided as between large and medium scales.

As depicted in Table 6, during the period from 1973 to 1982[3] the average growth in the total manufacturing sector was 4.63 per cent while the average annual growth of GDP amounted to 4.8 per cent, making the average ratio of manufacturing growth to GDP growth lower than one (0.96). However, the data show a higher rate of growth in the small sector in relation to the total manufacturing sector. The average annual growth rate of small industry amounted to 10.22 per cent during this period. When compared with the 4.63 per cent average annual growth of the total manufacturing sector, the growth performance of the small sector is a significant achievement. This relatively high average growth rate was basically a result of the very high growth performance achieved by the small sector in the early years of 1970. According to Table 6, the years 1973 and 1974 have recorded the highest growth rates

3. The period was selected only upto 1982 because after that year manufacturing sector was affected by ethnic disturbances.

Table 6

Manufacturing Indicators: 1973-82

	1973-82[a]	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
GDP[b]											
Rs. million	17316	14138	14585	14987	15431	16078	17401	18501	19575	20706	21756
Growth	4.8	3.72	3.16	2.76	2.96	4.19	8.23	6.32	5.81	5.78	5.07
Total manufacturing[b,c] contribution as a percentage of GDP	9.65	9.97	9.20	9.55	9.79	9.54	9.78	9.63	9.66	9.51	9.88
Growth	4.63	2.62	-5.07	6.63	5.59	1.52	10.80	4.76	6.06	4.18	9.14
Ratio of manufacturing growth to GDP growth	0.96	0.70	-1.60	2.40	1.89	0.36	1.31	0.75	1.04	0.72	1.80
Small industry contribution as a percentage of GDP	1.91	1.48	1.84	1.81	1.93	1.91	1.95	1.97	2.05	2.03	2.13
Growth	10.22	16.76	28.8	1.01	9.06	3.00	10.04	7.07	10.01	4.07	10.00
Ratio of small industry growth to GDP growth	2.13	4.51	9.11	0.40	3.24	0.72	1.26	1.22	1.74	0.81	1.97

Notes: a. Annual average
b. At constant (1970) factor cost prices
c. Excluding value added in plantation crop processing

Source: Central Bank of Ceylon, Annual Reports (1970 and 1983)

(16.76 per cent and 28.8 per cent respectively) during the above ten-year period. A sudden and sharp drop in growth in 1975 is not explainable by rational argument except that it could be a statistical deficiency.

In Table 7 the data have been rearranged with additional computations with a view to highlighting differences in growth performance of small industry before and after 1977. Such a division based on the year 1977 is important because the outward-oriented economic policy package introduced by the United National Party government in that year constituted a drastic departure from the autarkic policies pursued during the previous two decades.

Table 7

Periodic Indicators of Manufacturing Growth[a] : 1973-82

	1973-77[b]	1978-82[b]	1973-82[b]
GDP			
Rs. million	15,044	19,588	+ 4,544
Growth	3.36	6.24	+ 2.8
Large Industry:			
Percentage of GDP	7.82	7.66	- 0.16
Growth	0.73	6.60	+ 5.87
Ratio of growth to GDP growth	0.22	1.06	+ 0.84
Small Industry:			
Percentage of GDP	1.79	2.03	+ 0.24
Growth	11.86	8.58	- 3.28
Ratio of growth to GDP growth	3.53	1.38	- 2.15

Notes: a. At constant (1970) factor cost prices, excluding value added in plantation crop processing
b. Annual averages
Source: Central Bank of Ceylon, Annual Reports, 1980 & 1983

The average annual growth rate of this sector during 1973-77 was 11.86 per cent compared to 8.58 per cent during the subsequent period. The average ratio of small

industry growth to GDP growth for this period was much above one (3.53), reflecting a very impressive result in relation to the growth of GDP. This high ratio of growth of the small-scale sector is particularly remarkable when compared with extremely low ratio (0.73) of the large-scale sector during the same period. One basic reason

for this high level of growth, of course, is the well known fact that during the period from 1973 to 1977 the severe import controls imposed by the government, particularly on consumer goods, had created a well protected ready-made market for locally manufactured goods. In such a hungry local market even sub-standard local products could be sold for excessive prices. This extra-ordinary market situation in the early 1970s led to the emergence of many small production units. Another factor which had some favourable effect on the development of small industry during this period was the nature of industrialisation policy pursued by the government during the period. The Five Year Plan had assigned an important role to the small sector in view of (a) the need to expand employment opportunities and (b) the lack of foreign exchange for the importation of machinery (MPE, 1971). More importantly, according to this plan the industrial sector as a whole was expected to grow at 8 per cent per annum, but this would be obtained through a 15 per cent annual rate of growth of the state sector (state corporations) and the small-scale sector whereas the private large-scale sector was expected to grow at 1 per cent only (Betancourt, 1981: 33). Although most of the policies concerning manufacturing sectors were not carried out strictly as had been stated in the plan, they undoubtedly had some favourable effect on the small-scale sector.

The major development scheme launched in accordance with the policy guidelines of the Five Year Plan was the establishment of District Development Councils (DDCs) for the development of small and medium-scale industries on a regional

basis. Under this scheme, approved manufacturing projects were to be financed by the government. During the period from 1971 to 1976 the Ministry of Planning and Plan Implementation had approved 2,619 DDC projects (MPPI,1976). Unfortunately, most of these manufacturing units were inefficiently managed and could not survive for long. As a consequence, only a minute percentage of these enterprises had been operating viably by the end of 1976 (Randeni, Sirisena & Pattiarachchi, 1978: 87). Even though the DDC scheme was a failure in the long-run, its contribution to the small sector's growth performance during the initial few years was significant.

Compared with the impressive growth record of the small-scale sector during 1973-77, the large-scale sector, on the other hand, showed a very poor growth performance for the same period. The average annual growth rate of this most important sector was only 0.73 per cent with a ratio of manufacturing growth to GDP growth very much below unity (0.22). Several factors seem to have attributed to this dismal position of the large sector. The protected market which encouraged the small sector could not cause expansion in the large sector primarily because the latter sector was severely affected by the import restrictions on machinery and raw materials which were desperately needed for improving quality and quantity of output particularly for meeting the export market requirements. In addition, the Business Acquisition Act which was enacted in December 1970 for the purpose of detering exploitative and unethical commercial pursuits created consternation among some large-scale industrialists. Under this Act, the government was empowered to take over the activities of any private enterprise by gazette notification. By the middle of 1977, eight private enterprises had been taken over by the state under this Act. Consequently, uncertainties created among large-scale industrialists resulted in a postponement of their investment decisions. As such, the general climate for large investments in manufacturing was bleak. Moreover, the economy was under a severe attack of the world energy crisis during this period and the large sector was more vulnerable to that situation.

When compared with the previous period, the 1978-82 period showed a relatively weak situation with regard to the growth performance of small industry. The average annual growth rate in this sector moved from 11.86 per cent of the previous period to 8.58 per cent during this period with a drop of 3.28 per cent. The ratio of small industry growth to GDP growth in turn declined from 3.53 to 1.38 within a matter of 5 years, signalling an unpleasant trend. The average growth rate of this sector, however, remained above that of the large-scale sector following the pattern experienced in the previous period.

Several adverse factors emanated from the import liberalisation policy of 1977 provide explanation to this unsatisfactory situation in the small sector. The most harmful among them was the severe competition from imported goods. Relatively smaller units (mostly cottage-type industries) in the product categories of textile, jaggery, pottery, blacksmith's products and sugar-cane syrup were extremely vulnerable to this situation (Athukorala, 1986: 89). For example, according to a tentative estimation of the Ministry of Textile Industries, out of about 111,000 handlooms which existed in the country, about 30,000 had ceased to function by 1980 (People's Bank Economic Review, 6(1): 29). Similarly, during 1978 out of 1,300 firms in the textiles and wearing apparel sector which were in the mailing list of the Central Bank's annual industrial survey, 200 firms informed of their closing down of business (CBC ROE, 1980). These business failures show that the small-scale textile manufacturers were among the worst affected by the liberalisation policy. Unfortunately, no statistical data are available to make an analysis of other product categories with a view to examining the impact of policy changes on each of them.

A survey conducted by the Industrial Development Board in 1980 on the basis of case studies of 68 closed down small manufacturing units has highlighted the following problems faced by small industrialists during the post-liberalisation period.

First, although the liberalisation policy has removed the regulatory barriers and permitted free importation of machinery and raw materials which were badly needed by certain small enterprises as well, small manufacturers have to depend on middlemen (established importers) because of the small volumes of purchase. This aggravates their major problem of high production costs. Even when resources are available, the high cost of production prevents them from undertaking product and quality improvements because of the severe competition from low-priced imports. Secondly, under the liberalised import system, large-scale buyers including government organisations (e.g. CWE) have shown a preference for imported products, even when quality differences are not significant, because of the economies of mass scale purchases. Thirdly, as a result of abolishing the previouly adopted system of issuing quotas for raw material imports by the Ministry of Industries, large-scale local manufacturers of certain products (i.e. soap, paints, safety matches) have succeeded in pushing the small-scale competitors out of the market by taking the advantage of economies of scale (IDB, 1980).

Another important reason for the weakening of this sector during the post-liberalisation period was that many potential entrepreneurs, in view of the increasing high cost of production, inflationary pressures, and severe competition from imports, started moving from manufacturing into trading business as the latter proved to be less risky and more profitable particularly in the short run.

The post-1977 industrialisation policy included several promotional steps which, if properly implemented, would have counterbalanced the unfavourable effects of trade liberalisation. The most important of them was the SMI loan scheme introduced in 1979 through the National Development Bank (NDB) under a line of credit from the World Bank. Under this scheme the NDB was empowered to extend refinance to the four major commercial banks (People's Bank,. Bank of Ceylon, Hatton National Bank, and Commercial Bank of Ceylon) and the Development Finance Corporation of

Ceylon in respect of loans granted to SMI borrowers. The main objective of the SMI loan scheme was to provide concessionary finance to remedy the shortcomings existed in the earlier schemes and to assist in developing a dynamic small industry sector in the economy. However, this scheme has not been successful to the extent anticipated by the planners due to a number of shortcomings such as the rejection of even most viable projects because of the inability of entrepreneurs to contribute from their own funds at least 20 per cent of the total project cost, non-availability of financing under the scheme for working capital needs and the lack of a proper monitoring and control system to prevent deliberate defaulting of repayments and using loan funds for non-business purposes by some industrialists (Jayasuriya, 1987: 49).

The large-scale sector which had fallen to an extremely low level of growth in the previous period achieved a considerable degree of improvement during the 1978-82 period. The average annual growth rate increased from 0.73 per cent to 6.60 per cent. The ratio of manufacturing growth to GDP growth moved upward from its most alarming low level of 0.22 to 1.06 but remained close to unity reflecting an insignificant growth relative to the GDP growth.

After 1977, the emphasis was placed on large-scale industries, those with foreign capital participation in particular. Setting up of the Katunayake Investment Promotion Zone (KIPZ) in 1978 was the major step taken in this direction. Numerous incentives were offered mostly for the promotion of export-oriented industries, and it was the large-scale industrialists who benefitted from these incentive schemes because of their advantageous position in facing the threat from import competition. Thus, the overall atmosphere created in the manufacturing sector during this period pushed it towards more and more concentration and centralisation of capital, allowing a large number of small scale labour intensive industries to lose their place to a small

number of large-scale capital intensive industries (Athukorala, 1986: 100; Lakshman, 1986: 33).

Concluding Remarks

Our analysis of the growth of small industry during the 1973-82 period reveals that it has declined significantly after 1977. A number of unfavourable factors stemed from the liberalised trade policy of 1977, particularly the severe competition from low-priced imports, seem to have hampered the growth of small-scale enterprises while imposing a serious threat even to their survival in certain cases. This corroborates the view that external factors (environmental factors) dominate in the determination of growth and direction in industry at the small-scale level in Sri Lanka (Wijewardena, 1982: 227). Despite all the facilities, incentives and encouragement given under the liberalised economic policy package, the large-scale sector too has not been able to reach a satisfactory level of growth. As is evident from a recent policy report, "this situation was not entirely anticipated by the policy makers in determining the development strategy for the economy" (MISA, 1981: 11). In a developing country like Sri Lanka with severe shortages of capital and foreign exchange and very imperfect market structure which is dominated by a business community still preferring trade sectors as more favourable fields of investment, it is unrealistic to expect a satisfactorily high level of industrialisation through the emergence of large-scale manufacturing enterprises while the small-scale sector is left to die or stagnate.

The unsatisfactory growth performance of the overall industrial sector was, at least partly, due to the absence of an integrated longterm strategy towards realising the potential of the small sector. In fact, many large industrial enterprises even in developed countries have had their small beginning. Undoubtedly, entrepreneurship is an essential element of industrial development of a country and small enterprises often act as a "breeding ground" for entrepreneurs (Marsden, 1981: 34). Moreover,

the labour intensive character of small enterprises makes them ideally relevant to the Sri Lankan economy because of its labour abundance and capital scarcity characteristic. Another factor worth emphazising here is the low import dependence of small industries, a feature which is important from the view points of balance of payment implications as well as greater backward linkages (through the greater use of local raw materials) in the economy. This view is confirmed by the data presented in Table 5 according to which small firms have used less than one-fifth of capital per worker in relation to their larger counterparts while maintaining the ratio of value added to fixed assets equal to one and a half times that of the large sector. There is also the possibility of raising capital and labour productivities in small firms through proper entrepreneurial development and small business management training programmes for small industrialists as has been done in several other countries. Columbia, Ghana and Malaysia, for example, have shown substantially higher ratios of value added to fixed assets in small firms than in large (Marsden, 1981:33). Another desirable characteristic of small enterprises is that they make use of financial and other resources that may otherwise not be drawn into the development process. They have the ability to mobilize the small savings of proprietors and also, to some extent, even those of their close relatives and friends who would not deposit them in banks but who will invest in their own firms. Similarly, they are capable of utilizing scattered local raw materials of certain types that would otherwise be left to go in waste. Also, small firms can be complementary to the activities of large firms through subcontracting arrangements, thus benefitting both sectors.

In addition to these desirable characteristics of small enterprises, perhaps even more important to the country from the point of view of social development, is their ability to moderate the relative distributional inequalities which are usually intensified by large-scale capital intensive enterprises. Given these characteristics, it is important that the small sector should not be allowed to lag behind or stagnate. Instead, it should be safeguarded and promoted on the basis of a well planned longterm strategy

as an essential complementary segment in the overall industrial sector, if Sri Lanka is to succeed in her industrialisation effort. In doing so what is urgently needed is to introduce suitable measures to protect small enterprises from the harmful effects of the liberalised trade policies while, at the same time, removing the major barriers that prevent them from making use of the facilities and incentives available under these policies.

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