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UNITED NATIONS
Centre for Industrial Development

Original in Hindi
December 1965

CID/CONF.1-64/Country Report 15
Restricted distribution



ORGANIZATION AND ADMINISTRATION OF INDUSTRIAL SERVICES
IN
CEYLON

D 01691

Technological Division
Industrial Institutions Section

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

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ORGANIZATION AND ADMINISTRATION OF INDUSTRIAL SERVICES IN CEYLON

The present report is one in a series of thirty-four country studies in Asia, Africa and Latin America, which attempt to identify those public and semi-public institutions important to the organization and administration of industrial development. This is not a study of the substantive aspects of the economy of Ceylon, but rather a review of the institutional framework for industrial development.

The study was undertaken by the Centre for Industrial Development after endorsement of this programme by the Committee for Industrial Development during its fifth session in May 1965.

To ensure some measure of uniformity in the country reports, the Centre for Industrial Development suggested a general outline for the use of the consultants responsible for the country reports. In accordance with these guidelines, the Ceylon report follows a functional breakdown of the institutions involved in industrial development, namely: (a) Objectives; (b) Planning; (c) Research and Standardization; (d) Promotion and Development; (e) Public Industrial Enterprises; (f) Finance; (g) Manpower and Training; (h) Extension Services, and (i) Legal and Regulatory Provisions.

This report has been prepared with the assistance of Dr. Kemper W. Merriam, who conducted the study in Ceylon in October 1965, as a consultant to the Centre for Industrial Development.

I. ECONOMIC BACKGROUND AND THE INDUSTRIAL SITUATION

1. The economy of Ceylon is based on the cultivation of three major crops; tea, rubber and coconuts along with their associated processing for export. The amount of fertile land being brought under cultivation is limited and alternative means must be found for absorbing approximately 125,000 additional persons in the labour force annually, and to raise per capita income to 67 rupees* per annum--the projected amount envisaged in the Ten-Year Plan of 1958.
2. A stated plan goal is to increase the contribution of industry to Ceylon's national income from 13 per cent (1961) to 23.5 per cent in 1968; while decreasing simultaneously the proportion (30 per cent) of national income spent on the import of foodstuffs and consumer goods.
3. The country's economic objectives may be summarized as follows:
 - (a) Increased output of major crops through improvements in productivity and the development of the pattern of agriculture to be less vulnerable to world market fluctuations;
 - (b) Reduction of imports of essential foodstuffs by both extending the acreage devoted to rice and other food crops and the increase of output through cultivation of higher yielding strains, the improvement of agricultural methods and processes and the development of irrigation facilities;
 - (c) Rapid development of industries to supply local requirements of consumer goods, thus reducing imports.
4. The chief obstacles in the way of achieving these objectives are similar to those that hinder development in the developing countries; a shortage of capital, low per capita income, a large surplus in relation to the population which is either under-employed or unemployed, a very acute shortage of management and technical skills, and modest natural resources.
5. The Public and Private Sectors of Industry. It is the intention of the Government to raise and sustain the rate of growth of national income as rapidly as possible. The policy of the Government is to enter the field of industrial development in order to expand output and employment. The Government has, in fact, done so and has taken the responsibility for industrial

* (14.3 rupees to one U.S. dollar)

growth in the economy by initiating both major and minor industries in recent years. It has also given impetus to small scale and cottage industries where the absorption of labour is high.

6. The public sector industries programme refers broadly to three categories of industrial activity. The first category relates to activities carried out by the Ministry of Industry and Fisheries in the fields of: hardboard, industrial estates, national small scale industries, iron and steel, cement, national textiles, ceramics, leather goods, paper, mineral sands, fertilizers, tyres and tubes, flour, hardware and small tools, bricks, chemicals, oils and fats, plywood, salt and others. The second category consists of those for which provision has been made in other ministries such as the condensed milk and spray drying projects of the Ministry of Agriculture, and the third comprises the industries carried out by the Gal Oya Board.

7. The Government has run into some problems in its efforts to speed the industrialization programme envisaged in 1958. These include the failure of actual investment to rise to expected levels and the shortage of managerial personnel, the difficulty of determining priorities for government investment to ensure that the choice made would bring increased production, good profits, provide employment and save foreign exchange compared with other possibilities available.

8. The Government attaches great importance to its activities concerning the private sector. There are many industrial fields in which private enterprise could profitably participate. Recent import restrictions have tended to give some impetus to the growth of industries in the private sector and there is evidence showing that many articles which cannot be imported are now being produced locally. The trend is being encouraged by many incentives which are being introduced by the Government in favour of the private sector, but it is the opinion of the Government that a better response could be obtained if management in this sector had, or were able to obtain, good basic training in management skills.

9. Background of Industrial Development. In Ceylon, "modern" industry as such is of recent origin. Although some existing industries commenced their commercial operations as far back as the late 19th century, the question of laying the foundation for a broad-based industrial structure was taken up following World War I and more intensively after Ceylon gained independence from colonial rule.

10. Although circumstances tended to favour greatly the fortunes of Ceylon's export crops, with the onset of the second World War, there was a serious shortage of essential commodities, particularly food and manufactured goods which had hitherto been imported. The Government was, therefore, obliged to take the following measures:

- (a) Promote the cultivation of food crops on a systematic basis either in direct State farms or by compulsory measures on large-scale plantations;
- (b) Adopt measures to set up a system of State financed and supervised Co-operative stores;
- (c) Organize food subsidies, rationing, price controls and compulsory deliveries.
- (d) Organize, where possible, a number of industries in order to make available at least a fair proportion of the essential commodities.

11. These measures created the initial push which resulted in the adoption of a series of concerted and concrete measures in the direction of planning. On the basis of surveys carried out prior to 1939, a "rough plan" was drawn up for the establishment of several factories largely designed to utilize indigenous raw materials, but without commitment to heavy capital expenditure on complicated machinery and equipment. The following factories were set up consequently:

- (a) Plywood and Saw Mill Factory
- (b) Steel-Rolling Mill
- (c) Leather Factory and Tannery
- (d) Quinine and Drugs Factory
- (e) Coir Yarn Factory (Coconut Fibre)

- (f) Ceramics Factory
- (g) Acetic Acid Factory
- (h) Glass Factory
- (i) Semi-mechanized Paper Factory

12. These factories were established under the Department of Industries functioning with the Ministry of Commerce and Trade. The importance of these industries lay not only in the fact that a beginning had been made for a modicum of planned thinking on industrial development, but also, and more significantly, in the fact that it did emphasize the increasing role which the Government had to play in the field of industrial investment if the recommendations of the Select Committee on Industry (1946) were to be implemented. It also meant the setting up of the necessary institutions within the Department of Industries, the training of adequate skills for these institutions and the establishment of a scientific laboratory for conducting research and organizing pilot projects for the purpose of building up data on the technical and economic feasibility of industrial projects. It was also during this period that a separate Planning Division was set up within the Department of Industries to handle these activities.

13. The most important measure taken by the Government immediately after the war was the setting up of the Planning Secretariat. Industry, however, did not as yet receive important consideration. Emphasis was placed on increased food production and agriculture rather than on industry which it was hoped could be advantageously developed through the autonomous operation of the market mechanism. For the period of 1954-1960 the Government planned the setting up of six new factories. On the whole, however, the policy of the Government did not place much emphasis on the promotion of industrial undertakings in the public sector since it expected much of the industrial investment to be promoted by the private sector.

II. THE PLANNING MACHINERY

14. The first step taken in the direction of overall planning for social and economic development was the establishment of the National Planning Council in 1956 by Parliamentary statute. The Government's attitude towards planning in general was reflected in the emphasis on laying down clear principles for a broad programme of economic development within the framework of social and political objectives. During the formulation of the general plan for development, special emphasis was laid on sectoral planning. The Government had at that time, the minimum statistical and other data necessary for the formulation of such plans for individual sectors, and possessed a number of trained economists, statisticians, and other technical personnel.

15. For the first time since independence, special emphasis was placed on the development of a sizeable industrial sector. For the sake of time, the Government decided upon the partial programming of certain manufacturing sectors simultaneously with the preparation of the overall development plan. In keeping with this procedure the Government also set up Planning Committees within each Ministry. In 1959, a Ten Year Perspective Plan was drawn up and placed before Parliament, constituting a major step forward in the history of planning in Ceylon. Approximately 30 per cent of the total planned investment was earmarked for large scale and small scale industries.

16. The National Planning Council was formed by Parliamentary Statute in September 1956. The Planning Secretariat, which had been set up earlier, continued to function under the National Planning Council. Working Groups were set up by the Council for each sector of development. These working groups were assisted by various committees in the public sector. The Committee of the Planning Secretariat undertook simultaneously detailed investigations of existing development proposals. The Secretariat was assisted by special Research Officers and Senior Research Officers responsible for different sectors of the economy. A panel of foreign experts, including some well-known international economists, was obtained on short-term assignments to assist the Secretariat in the preparation of the broad guidelines for development programming. These groups were further assisted by economists and engineers from the Development Committees. One such Committee functioned within the Ministry of

Industries. Detailed evaluation of individual projects was undertaken at the Department level of the Ministry where responsibility for the implementation of the proposals would lie. These evaluations were subject to further examination by the Planning Secretariat which primarily determined investment priorities. After the determination of priorities, they were further examined in the context of the 'over-all' plan and finally submitted to the Treasury for purposes of inclusion in the Budget.

The Development Division of the Ministry of Industry

17. In 1961, with the approval of the Cabinet, the Government set up a Development Division within the Ministry of Industries; superseding the Department of Industries to handle the work originally done by the Ministry Planning Committee. The Division was staffed with Development Officers, Economists, Engineers, and Accountants. This Division assists in the preparation of the short term implementation programmes in the industries sector within the framework of the national Ten Year Plan of development. At present the Government is taking steps to get approval for setting up panels of experts within the Ministry of Industries for various groups of industries in the public sector. They will be responsible for examining the possibilities for development and growth in each particular sector and planning the development of each of these sectors. Industries in the private sector are co-ordinated by a Director of Development working in close co-operation with the public sector. The work of the panels will be conducted under the Ministry Planning Unit which will undertake final co-ordination of their studies.

18. It is likely that the institutional framework for sectoral planning, particularly at the level of Ministries, will not be substantially altered by the anticipated changes proposed by the new Government. Within a month of the formation of the new Government an important decision was taken by the Cabinet to strengthen the structure of economic planning by forming a Cabinet Sub-Committee for economic affairs with an economic secretary who is to co-ordinate planning, budgeting, and economic aid. Procedures in regard to matters pertaining to labour relations and finance management in the public sector have

been laid down by special study groups. These study groups were composed of specialists from the various corporations. These recommendations have now been presented to the Government for final approval. The ultimate objective of the Government is apparently to ensure that both the private and the public sectors will carry out their programming in terms of the approval of the Ministry Planning Unit and the set financial provisions. The supply of raw materials and capital goods will be controlled on the basis of the overall approvals granted by the Ministry Planning Unit. Periodical checks in regard to the achievements of output and targets laid down by the Government will be made by the Ministry Planning Unit.

Evaluation of New Projects

19. The detailed evaluation of new projects is undertaken primarily at the level of the departments and other institutions such as the State Corporations (which are responsible for development of various industries), the Ceylon Institute for Scientific and Industrial Research, the Salt Department, and the Department of Mineralogy. On completion of detailed investigation they are presented to the Development Division of the Ministry of Industries. The new proposed changes envisage the setting up of a Ministry Planning Unit which will process the information derived from an investigation and then determine the priorities of investment according to Government policy. At present, the Development Division handles the programmes which are subsequently sent to the National Planning Department for further examination and consideration by the various panels and committees. At the committee level, representatives of the Departments and the Ministry discuss various matters, and, upon approval, the Treasury is informed of the sectoral programmes so that provision could be included in the National Budget. Before presentation of the proposals in the Budget form to the House of Representatives, further discussions are held at the level of the Treasury, presided over by the Secretary to the Treasury, after which, all aspects which are subject to dispute are finally discussed at the meeting presided over by the Prime Minister.

20. Once the programme has been approved by the Treasury and accepted by Parliament and financial provision granted, the departments and the corporations responsible are authorized to proceed with implementation. The plans which include detailed aspects of programming are from time to time reviewed by the planning authorities so that a check is maintained on the progress of the work.

Integration of the Private Sector in Planning

21. In 1957, the Government's policy in respect to industrial development was enunciated by the Minister of Industries in the House of Representatives. In the statement, the Minister emphasized the fact that direct Government investment in industry had been increased from 7 per cent prior to 1957 to 18 per cent to 20 per cent subsequently. The statement further demarcated the basic industries which were reserved for development in the public sector, industries which were open both to the public and private sectors, and industries which were left entirely for development by the private sector. In regard to the industries left for the private sector, it was further stated that if no interest was shown within a reasonable period of time, the Government would withdraw such industries and place them in the public sector reserve.

22. The scheduling of industries was as follows:

(a) Schedule A - (State Reserve)

- (i) Iron and Steel
- (ii) Cement
- (iii) Chemicals
- (iv) Fertilizers
- (v) Salt and its by-products
- (vi) Mineral sands; and
- (vii) Sugar, power alcohol and Rayon

(b) Schedule B - (Jointly by both State and Private Enterprise)

- (i) Textile spinning and weaving
- (ii) Tyres and tubes
- (iii) Tiles
- (iv) Asbestos products
- (v) Bicycles
- (vi) Industrial Refining

- (vii) Acetic acid
- (viii) Sugar brown - small scale
- (ix) Vegetable oil refining
- (x) Ceramic ware
- (xi) Kaolin
- (xii) Glass ware
- (xiii) Leather products
- (xiv) Plywood
- (xv) Paper
- (xvi) Electric bulbs and lighting equipment
- (xvii) Dry cell batteries
- (xviii) Accumulators
- (xix) Barbed wire
- (xx) Lumber industry
- (xxi) Agricultural implements
- (xxii) Wood-working, furniture and cabinetry
- (xxiii) Concrete products

Schedule C - (Private enterprise)

- (i) Motor car assembly
- (ii) Bicycle Tyres and tubes
- (iii) Boats and launches
- (iv) Foundry products
- (v) Steel Products
- (vi) Sewing machines
- (vii) Aluminum ware
- (viii) Aluminium linings
- (ix) Metal containers
- (x) Hurricane lanterns
- (xi) Razor blades
- (xii) Kerosene stoves
- (xiii) Weighing scales
- (xiv) Crown corks
- (xv) Tin printing
- (xvi) Cutlery
- (xvii) Wire drawing
- (xviii) Wire nails
- (xix) Paper clips
- (xx) Pins
- (xxi) Hair clips
- (xxii) Solder and Soldering wire
- (xxiii) Zip fasteners
- (xxiv) Metal fittings
- (xxv) Bolts, nuts, rivets and screws
- (xxvi) Brass nails, screws, hinges and nails
- (xxvii) Galvanising
- (xxviii) Galvanising buckets
- (xxix) Enamelling

- (xxx) Hollow bricks
- (xxxi) Sanitary ware
- (xxxii) Earthenware
- (xxxiii) Insulators
- (xxxiv) Electric fans
- (xxxv) Gas mantles
- (xxxvi) Assembly of radio receivers
- (xxxvii) Readymade garments
- (xxxviii) Panians, knitting and weaving
- (xxxix) Water-proof clothing
- (xl) Hosiery
- (xli) Ball thread
- (xlii) Spectacle frames
- (xliii) Umbrellas
- (xliv) Suit cases
- (xlv) Pharmaceuticals
- (xlvi) Milk foods
- (xlvii) Biscuits
- (xlviii) Chocolate
- (xlix) Confectionery
- (l) Boiled sweets
- (li) Margarine
- (lii) Cured meats
- (liii) Sauces and fruit juices
- (liv) Toothpaste
- (lv) Perfume
- (lvi) Face powders
- (lvii) Soap
- (lviii) Hardboard
- (lvix) Tanning of leather
- (lx) Cardboard and Pressboard
- (lxi) Paper cartons
- (lxii) Fountain pens and propelling pencils
- (lxiii) Inks -- writing and printing
- (lxiv) Pencils
- (lxv) Penholders
- (lxvi) Nibs
- (lxvii) Slates
- (lxviii) Abrasive paper
- (lxix) Emery cloth
- (lxx) Fireworks and bonbons
- (lxxi) French polish and varnish
- (lxxii) paints
- (lxxiii) Paint brushes
- (lxxiv) Distemper
- (lxxv) Linoleum
- (lxxvi) Waxes and Polishes
- (lxxvii) Citric acid
- (lxxviii) Caffeine
- (lxxix) Flue-organic & synthetic
- (lxxx) Rubber products
- (lxxx1) Fungicides and pesticides
- (lxxxii) Activated charcoal

Along with a clear declaration in regard to enumerating the industries on the basis of schedules A, B and C given above, taxation and other fiscal incentives to industry were also extended.

23. Between 1956 and 1960 much of the development of the private sector was left to the operation of the market mechanism. The Government's role was restricted to the provision of adequate incentives, finance, and other assistance. Almost all domestic capital moved in to replace foreign capital in plantations which was progressively being withdrawn during this period.

24. Since 1961, however, and particularly during the last two years, definite steps have been taken to co-ordinate development in the private and public sectors, especially through allocation of resources and the determination of priorities in the budgeting of foreign exchange for essential imports. The Government is at present considering the laying down of targets for the private sector which will ensure a greater degree of over-all planning on a national scale.

REORGANIZATION OF PLANNING FOR INDUSTRIAL DEVELOPMENT

25. Due to the present state of industrial development, particularly in the private sector, the existing and past organizational framework for industrial planning and implementation are undergoing considerable reorganization.

26. The proposed plans for reorganization represent the current thinking of the new Government in its attempts to correct errors and eliminate bottlenecks in the development process.

27. Accordingly, a detailed plan of industrial investment for the public and private sectors of the economy for the next five financial years, 1965/66 to 1969/70, will be undertaken by the Ministry of Rural and Industrial Development. For the purpose of this plan, the country's industrial sector will be viewed as an inter-related group of complexes whose movement and progress will be co-ordinated and influenced by continued adjustments in the existing or potential production links. The regulation of these movements will be the responsibility of a planning organization to be set up consisting of a Ministry Planning Unit working through Industry Panels and Project Study Groups. The operation of the Plan will be based on a constant liaison between the Ministry and the officials of State Corporations and private industrialists on the one

hand and between the Ministry and the National Planning Department on the other. The reorganization of the institutions for planning was in process at the time of the preparation of this report.

III. RESEARCH, TESTING AND STANDARDIZATION

CEYLON INSTITUTE OF SCIENTIFIC AND INDUSTRIAL RESEARCH:

28. A major proportion of the research work in Ceylon is being conducted in the Ceylon Institute of Scientific and Industrial Research. The Institute was founded as an autonomous Institute by Statute No. 15 in 1955. It has its headquarters in Colombo and is well equipped with a laboratory, work-shop, and library. The objectives are:

- (a) Technological research with special emphasis on the utilization of local resources;
- (b) Standards Testing;
- (c) Promotional Activities;
- (d) Training of research workers;
- (e) Dissemination of scientific and technical information.

29. The Institute is under the general charge of the Ministry of Industries, but the management is vested in a Board. The Board was initially to be constituted of three members elected by successive Boards (the first three members were to be appointed by the Minister in charge of Industries); one member appointed by the Prime Minister; one member appointed by the Minister of Finance; two ex-officio members; the Permanent Secretary to the Ministry of Industries and the Director of the Institute. The Chairman of the Board is appointed by the Ministry annually and the Board members are appointed for two years.

30. The Director of the Institute is appointed by the Minister of Industries and is a paid employee whose terms and conditions of employment are fixed by the Minister in consultation with the Minister of Finance. The Director is ex-officio Vice Chairman of the Board. The Board is responsible for all appointments to the Institute, but delegates the power of appointing all officers except the Accountant to the Director. A non-Ceylonese cannot be appointed except with the specific approval of the Board. The Director

determines the conditions of employment including remuneration of the employees of the Institute, subject to an appeal to the Board whose decision is final. Disciplinary control, short of dismissal of the employees of the Institute, is vested in the Director subject to an appeal to the Board whose decision is final. The Director is under the disciplinary control of the Board.

31. The first personnel of the Institute were the Research Officers and Research Assistants of the Industries Department. These numbered 21. The Board recruited on its own two Research Officers and three Research Assistants in addition to an accountant and secretarial staff.

32. One foreign expert served as the first Director of the Institute for five years and another as Chief Engineer of the Institute for three years under the auspices of U.N.T.A.A. and the World Bank. The Institute also arranged an agreement with the International Co-operative Administration for six specialists in management, industrial engineering, tool and dye-making. These specialists were provided with local counterparts, who were offered facilities for further training overseas.

33. The Institute was initially given a sum of 5 million Rupees for its first five years of operation by the Government and it was originally hoped that it would be self-financing after this initial period of operation. The Government, in addition, transferred the machinery and equipment of the two industrial laboratories and the entire technical library of the Industries Department comprising of 4,000 volumes, to the Institute. The Institute also received Colombo Plan Aid of a fully-equipped Chemical Engineering Unit complete with laboratory and work-shop.

34. The research programme of the Institute generally comprises:

- (a) Those projects which are suggested to the Institute by various Government agencies and approved by the Minister;
- (b) Those projects which are initiated by the Institute on its own;
- (c) Those projects which are suggested by the various Corporations and Government Departments on their own; and
- (d) Those projects which are suggested by the private sector industries.

35. The Institute also undertakes a large number of testing services for industries in the private sector for a nominal fee. Its undertakings include process research, resource studies, market research, management studies, technical supervision, plant location, layout, aspects of organization, costing, productivity and various other technological, production, sales, and distribution problems.

36. The Institute at present renders continuous services to several manufacturing industries and also offers advice to prospective industrialists.

37. For research, management, engineering, and similar services fees payable consist of:

- (a) Pro rata compensation paid to technical personnel working directly on the particular project;
- (b) 50 per cent of the pro rata compensation to cover the cost of research service, service personnel, gas, electricity, maintenance of laboratories and similar overhead and operational costs;
- (c) Cost of materials and supplies, construction or acquisition of special apparatus, travelling, or other incidentals.

No charge is made for the use of equipment and apparatus of the Institute.

38. In addition, payments made to the Institute for such service, or even as a contribution in support of the Institution, may be claimed as a deduction from income tax.

39. The Government, after the first five years of operation of the Institute, has had to review the policy followed with relation to the Institute and research in general. The limited development of private industry has made it impossible for the institute to be self-financing. The Government has had, therefore, to subsidize the Institute generously and has all along accepted the full responsibility for a survey of the available resources and research in the utilization of these resources, training of technical personnel, and arranging for the technical know-how. The Government is committed to a programme of public sector industrialization and in the pursuit of this policy it has invested in strategic industries conducive to further development.

40. The research has to be planned, programmed, and directed to national needs for the best utilization of available scientific talent. The Research Institute has to co-ordinate its research with other institutes such as

government departments and corporations which also undertake research in their respective spheres.

41. With these considerations in mind, the present Minister of Industries has radically changed the concept of the Ceylon Institute of Scientific and Industrial Research. The Honourable Minister introduced amendments to the Institute Act which received Parliamentary approval. These amendments directed (a) the 3 members of the Board who were elected, instead to be nominated by him; (b) the Board to be subject to and to act in accordance with general directions that the Minister may make from time to time; and (c) that the accounts of the Institute be audited and approved by the Auditor General before presentation to Parliament.

42. The Minister has also obtained Cabinet approval for a flexible annual grant to the Institute which would enable it to work on an annual budget of Rs. 1 million regardless of the income it receives. The Treasury grants the Institute the deficit between the Rs. 1 million and the Institute's revenue. This has ensured continual financial support for the Institute so that it is able to engage personnel with security and to pursue its research programmes unhampered by financial considerations.

COMMODITY-BASED AND OTHER RESEARCH INSTITUTES:

43. Research is also being carried out by the Tea Research Institute, the Coconut Research Institute, and the Rubber Research Institute on problems specific to their trades. Similarly, there is a Medical Research Institute doing research on health problems and drugs and pharmaceuticals. Departments such as the Irrigation, Fisheries, Public Works, etc. also have their own research units.

SMALL INDUSTRY SERVICE INSTITUTE:

44. The main role of the Ceylon Institute of Scientific and Industrial Research lies in the fields of development of technology, development of products, processes and proto-types of machinery, encouragement of higher quality by providing testing facilities, and the improvement of managerial potential. The areas of creative design, financing, marketing, training operative skills, and extension services for small scale industries required a different kind of organization. In 1962, with the assistance of the United Nations Special Fund, the Small Industries Service Institute was founded

at Velona. The main functions of this Institute are:

- (a) The conduct of techno-economic surveys and studies of particular industrial trades and of industrialized areas, and to make recommendations concerning the industries that are to be encouraged or discouraged; taking into account the technical, economic, and human aspects of the industries concerned.
- (b) The conduct of market surveys of products manufactured, or considered suitable for manufacture, in small undertakings on a continuing basis so as to assess marketing arrangements and consumers' preferences and changes therein.
- (c) The organization of experiments, testing and research in such matters as improved designs of products, alternative materials, improved processes of production and the development and introduction of tools and equipment particularly suitable for use in small undertakings under conditions prevailing in Ceylon.
- (d) The organization of training courses for Government extension personnel (including those assigned by the Department of Co-operative Development), and equally appropriate for managers and foremen of co-operative and private undertakings as well, which cover extension techniques and methods of management and organization with particular reference to small enterprises, improved technical processes including the use of modern tools and equipment, and the administration of government assistance services such as credit and marketing.
- (e) The organization of an information centre to enable the field extension personnel to give technical information, advice, and guidance to small manufacturers and to industrial co-operatives in matters relating to credit, production, supplies and marketing.
- (f) The operation of common production facilities and services of a transitory and experimental activity until such time as such services may be successfully organized under public, private, or co-operative ownership and management.

45. The Small Industries Service Institute is, in general, well equipped with highly mechanized equipment for machine shop work, wood-working, and many other industrial endeavours -- however, there is a lack of technicians and mechanics for its operation and maintenance.

46. Some finish-processing of the products of various small industries (trimming of fibre mats, silk-screening of fabrics, etc.) has been carried out and training at the supervisory and demonstration level has taken place. For example, managers and sales persons of some of the departmental shops (Government-owned stores for hand-craft products) were given a training course in salesmanship.

BUREAU OF STANDARDS:

The Bureau of Standards had been provided for by an Act of Parliament but it is not yet in operation. The following is the summary of the draft proposal of the Bureau of Standards drawn up by its "Director-to-be". The main functions of the Bureau of Standards would be:

- (a) To formulate dimensional and quality standards for locally manufactured products and to formulate codes of practice. The standards will cover agricultural and industrial products both for export and local consumption.
- (b) To test local products (and where necessary imported products) for conformity to the standards.
- (c) To administer the standardization (certification) marks scheme.

48. Drafting of Standards. The preparation of standards is one of the main functions of the Bureau of Standards. Such standards must naturally take into account local conditions and the degree of proficiency of local industry. It is important that standards should reconcile the interests of consumers, distributors and producers and that the standards laid down should be widely accepted. The preparation of the standards should therefore be broad-based and all sections of opinion have to be consulted.

49. The Council of the Bureau of Standards would be ultimately responsible for the standards laid down but since it is not a completely technical committee it would not be in a position to guide and co-ordinate the work of drafting standards. There is a provision in Section 12 (1) of the Bill for the Council to "establish committees to assist it in the performance of its functions and may appoint such persons (whether connected with the Bureau or not) as it may deem fit to be members of any such committee."

50. It is proposed that the Council should appoint Divisional Committees to look after specific groups of industries. Those committees should be composed mainly of technical personnel with experience in the particular field of industry and representatives of distributors and consumers. Officers from technical departments such as the Public Works Department, Government Analysts, Irrigation Department, etc., and from professional or scientific organizations would find a place in these Divisional Committees. The following Divisional Committees may be set up:

- (a) Agricultural products
- (b) Food and Drink
- (c) Pharmaceuticals
- (d) Textiles, footwear and 'made-up' articles of textiles
- (e) Paper, Leather and rubber products
- (f) Chemicals and Chemical products
- (g) Building materials and non-metallic mineral products
- (h) Engineering and metal products
- (i) Electrical machinery, appliances and supplies
- (j) Miscellaneous manufacturing industries.

51. In the initial stages some of these Divisional Committees will have to be grouped together. The Divisional Committees would in turn, in consultation with the Director of the Bureau, appoint Drafting Committees for each specific standard required. These Drafting Committees would be similar in constitution to the Divisional Committees but would also include representatives of local manufacturers in that particular field. The shortage of specialised technical personnel will make it necessary for members of the Divisional Committees to also take their place on the Drafting Committees.

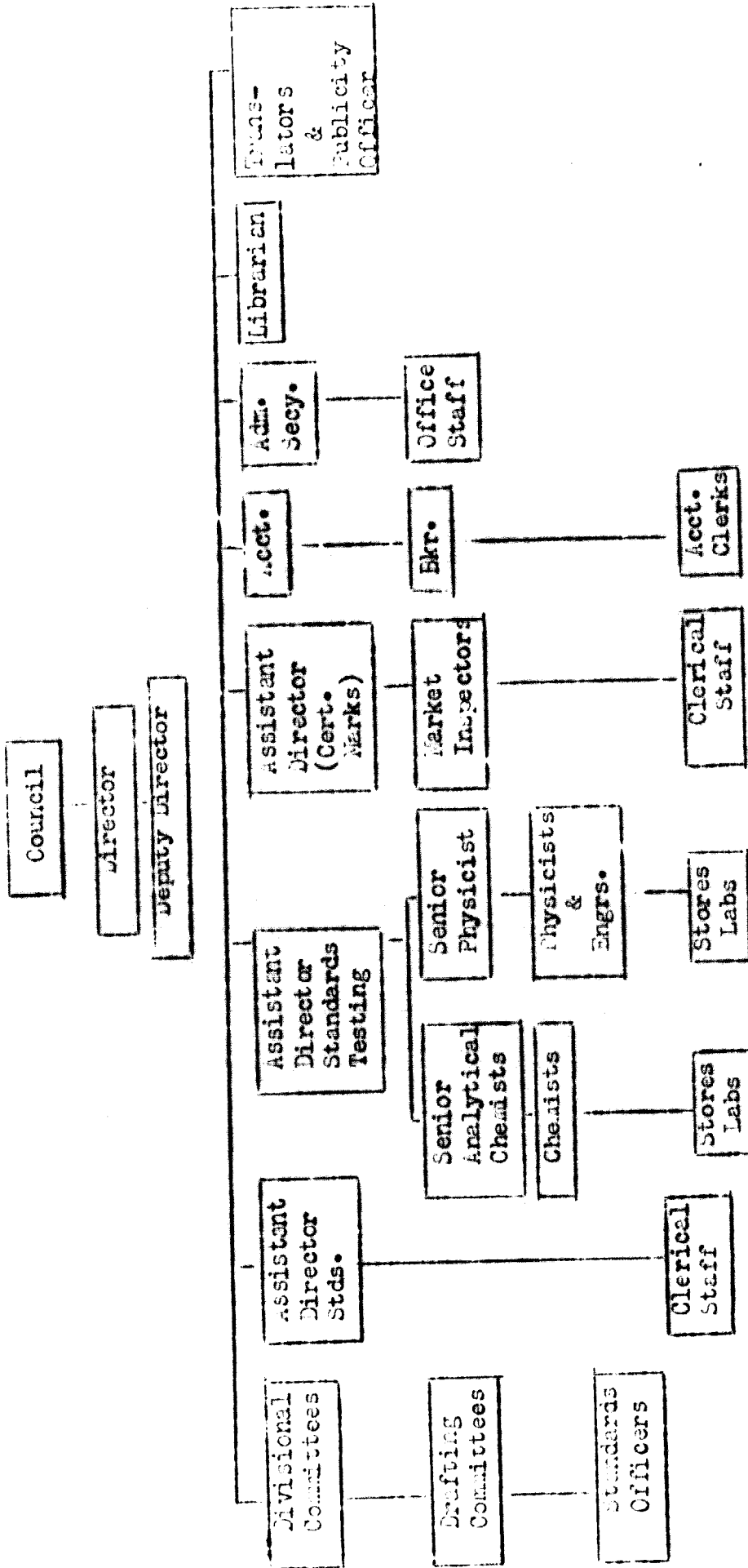
52. After standards have been laid down by the Bureau, locally manufactured products have to be tested for conformity to standards. The modern concept of standardization and approval makes it highly desirable for standard bodies to have their own laboratory facilities. In the initial stages the Bureau of Standards will have to utilize the services of existing laboratories principally that of Ceylon Institute of Scientific and Industrial Research.

53. Locally Manufactured Industrial Products. There has been a rapid increase in industrialization particularly in the field of small scale industries and the Bureau will have to concentrate its attention on these new industries. In a large number of cases the products are not up to the standard of the imported product that the consumer has been used to, and it will be necessary for the Bureau to examine most of these items and lay down standards for every local product.

54. The Council of the Bureau will be responsible for the general policy and direction of the Bureau and will have general disciplinary control over the staff of the Bureau. The Director of the Bureau is appointed by the Minister on terms and conditions determined by the Minister in consultation with the Minister of Finance. All other staff of the Bureau will be appointed by the Council.

55. The proposed organization of the Bureau is set out in the attached chart. The Bureau will be organized in three sections each under an assistant Director to carry out each of the three primary functions of the Bureau. In addition there will be the administrative, accounting, library and publicity sections.

The Bureau of Standards
(proposed organization)



IV. PROMOTION AND ENCOURAGEMENT OF INVESTMENT IN INDUSTRY

56. The Ten-Year Plan of the Government laid down the basic objectives in regard to the economic development. This plan emphasized the need for an increased rate of investment in industry as has been indicated earlier. There was also an attempt to demarcate industries which were left open for private investment. However, the private sector did not invest in manufacturing industries to any extent. The period between 1960 and 1964, however, witnessed an increasing interest on the part of the private sector to enter into industrial ventures. During this period, steps were taken by the Government to provide an increasing measure of protection to local industrialists. These protective measures were not taken solely with a view of safeguarding the interest of manufacturers but also in view of the growing concern over the diminishing foreign exchange holdings of the country. In consequence, therefore, local entrepreneurs found a suitable climate in which to build up a number of light consumer goods industries in the country to supply the deficiencies that were being created by the introduction of general import controls. Direct incentives and organizational facilities provided by the Government with a view to attracting private capital into the field of industry also played an important role. With this development it has now become possible to introduce planning both in the public as well as the private sectors for systematic and co-ordinated development.

57. In these early stages, the primary objective has been the building up of a number of import substituting industries which could supply within the shortest possible time a number of light consumer goods that had hitherto been imported. In doing so, emphasis is placed upon the extent of foreign exchange saving. Consideration is also given to the maximum utilization of domestic resources as far as possible. The development of the basic sector of industries, however, was undertaken by the Government. The problem, therefore, is one of co-ordinating development in both sectors on a co-operative basis with the objective of eventually building up harmonious public and private sectors.

INCOME TAX RELIEF:

58. The first direct attempt to attract private investment into industry was made in the early 1950's with the amendment of the tax laws. An amendment to the main Income Tax Ordinance was introduced and passed by Parliament in 1951. This act is known as the "Income Tax Amendment Act No. 36 of 1951." The principal clauses introduced by the amendment were Sections 7 (a) and 7 (b). Section 7(a) exempted profits of Government-sponsored Corporations for a period of five years, and Section 7(b) exempted newly promoted private enterprises from such tax for a period of five years up to a limit not exceeding 5 per cent of the capital employed. With the introduction of this amendment Government also provided funds in the voted estimates for purposes of promoting joint enterprises.

59. The Income Tax exemption clauses contained in the 1951 Act were extended for a further period of five years in 1957. In addition to the extension of income tax exemptions, the Income Tax Amendment Act No. 56 of 1957 passed during the Second Session of Parliament of Ceylon 1957 was given effect to. This Amendment Act contained provisions for investments in approved projects either by Companies or individuals to be claimed as permissible deductions from statutory income. Together with this, enhanced depreciation allowances on industrial buildings, durable plant and machinery, normal machinery and short-lived equipment, were given as lump sum depreciation allowances. These concessions were applied in respect to both local and foreign capital.

60. The details of the most important sections of the 1951 and 1957 Acts follow.

61. Exemption for Profits of Certain Corporations. The profits and income of certain corporations are exempt from tax for the year in which they commence business and for each of the next five years of assessment. The dividends paid during this period are also exempt. The conditions necessary for exemption are:

- (a) A Government contribution to the capital of the corporation;
- (b) A Notice published in the Gazette by the Minister of Finance stating that Section 7A shall apply to the corporation.

Such Corporations are, as from the date of expiry of this concession, entitled to small company relief provided for in a subsequent section.

62. Exemption for Profits of Certain Industrial Undertakings. The income of new industrial undertakings has a limited exemption from tax for a period of five years after its commencement. The exemption applies to that portion of the profits which does not exceed 5 per cent of the capital employed. The

conditions necessary are:

- (a) The undertakings must use electrical energy, or any other form of energy which is mechanically transmitted and is not directly generated by human energy for the production or manufacture of goods or commodities in Ceylon;
- (b) The undertaking must employ at least 25 persons and should not be formed by the splitting up, or reconstruction, of an existing business, or by the transfer of building, machinery or plant, to a new business from one which was carried on or before April, 1951. The exemption has been extended to any undertaking related to deep-sea fishing.

A company carrying on such undertakings is entitled to small company relief from the date this exemption ceases to apply.

63. Lump Sum Allowance for Depreciation. The provisions of paragraph (a), (b), (cc) and (ccc) of Section 9 (1) of the 1951 Act which provide for depreciation, repairs, and renewals of plant, machinery, fixtures and buildings, cease to apply in respect of all expenditure incurred on such assets after 31st March, 1957, or after the expiry of the accounting year, the income of which is assessed for the year of assessment 1957-58. From the year of assessment 1958-59 the allowance due in respect to such assets are provided under the provisions of sub-section 9 (IF), 9 (IG) and 9 (IH) of the new Act.

64. In lieu of the annual depreciation allowance, a once-and-for-all lump sum depreciation allowance is granted in respect to plant, machinery, fixtures and buildings. The rates of the lump sum depreciation allowances are as follows:

- (a) Industries buildings, 33 1/3 per cent of the cost
- (b) Durable plant and machinery, 50 per cent of the cost
- (c) Normal machinery, 66 2/3 per cent of the cost
- (d) Short-lived equipment, 80 per cent of the cost

65. Sub-section 9 (IH) provides for carrying forward any part of this allowance which cannot be deducted from the profits or income of that year of assessment; the excess which cannot be deducted in any year is carried forward to the subsequent year, together with a sum equal to 5 per cent per annum of such excess.

66. Sub-sections 9 (IK) and 9 (IL) provide for the determination of the profit or loss on the sale or discard of such assets. Renewal of plant, machinery, fixtures and buildings is allowed in respect to any asset for which depreciation has not been granted under section 9 (1) (a) or under sub-section 9 (IF) of 9 (IG).

Development Rebate.

(a) A development rebate of 20 per cent is allowed in respect to expenditures incurred in purchasing and installing, after March 31, 1957, any new plant, machinery or fixtures in connection with the commencement or expansion of a trade or business. If the undertaking were declared as an "approved project" by the Minister of Finance, this development rebate is enhanced to 40 per cent.

(b) A development rebate of 20 per cent is allowed in respect to expenditure incurred after March 31, 1957, in constructing any staff welfare building or any building for use as a dwelling house by any member of the subordinate staff in an agricultural or industrial undertaking, or any building which is occupied for the purpose of an agricultural or industrial undertaking, otherwise than as a dwelling house. If the undertaking were declared an "approved project" by the Minister of Finance, this development rebate is enhanced to 40 per cent. Any unabsorbed development rebate can be carried forward indefinitely.

67. Exemption of Bonus Shares. Bonus shares paid out of capitalized profits are exempt from tax.
68. Exemption of Foreign Scientists and Technicians. Experts from foreign countries loaned to the Ceylon Government under the auspices of the United Nations or any other similar specialized agency are exempted from Ceylon tax in respect of the emoluments.
69. Small Company Relief. This relief is given to a resident company which:
- (a) Either has ceased to have the exemption from tax under section 7 A or section 7 B (previously discussed) of the Income Tax Ordinance and has not made an average annual profit of more than Rs. 150,000 computed after the company ceased to have that exemption; or
 - (b) Has an average profit or income for each of the last three years of assessment an amount not exceeding Rs. 150,000 and;
 - (c) Either 50 per cent or more of the shares in the capital of the company during the last three years of assessment were held by an individual or family to whom the company was the chief source of income; or

- (d) 50 per cent or more of the shares in the capital of the company are owned by shareholders none of whom has an annual income from all sources exceeding Rs. 50,000.

This relief is the smaller of:

- (i) Either a sum equal to one-half of the tax payable under section 53B (1) (a) (i.e. tax at 45 per cent on the taxable income of the company) on the first Rs. 50,000 of the taxable income of the company; or
- (ii) A sum equal to one-third of the tax under section 53B (1) (a) (i.e. tax at 45 per cent on the taxable income of the company) on the amount by which Rs. 150,000 exceeds the amount of the taxable income of the company.

OTHER MEASURES OF ASSISTANCE:

70. Relaxation of import controls. The Department of Import Control and Exchange Control operates certain controls, e.g. restriction of the import of all cotton textiles the value of which exceeds two rupees per yard, restriction of certain machinery and other goods gazetted from time to time, for reasons other than protection to local industry. In instances where any controlled items are required to be imported for industrial purposes, industrialists must apply to the Director of the Development Division for recommendation to the Controller of Imports so that such items can be imported.
71. The Government will impose a ban on the export of raw materials required for local industries, e.g. hides, skins, scrap metals, etc. Local industrialists who find any difficulty in obtaining local raw materials due to their being exported can appeal to the Director of Development.
72. Duty Rebates. Industrialists who export locally produced articles are entitled to a refund of duties paid on the imported raw materials. The law states: wherein goods manufactured or prepared in Ceylon, containing as a part or ingredient any article or articles on which import duty has been paid, are exported, rebate of the whole or part of the import duty paid in respect of such quantity of the article may be allowed.
73. Exchange Controls on Travel. Persons wishing to travel abroad for industrial purposes are generally permitted to do so, despite the exchange restrictions on travel. Applications made by industrialists to the

Department of Exchange Control are referred to this Ministry, and if such travel is considered necessary the Ministry makes favourable recommendations to the Contoller.

74. Government Purchases of Local Products. Some State assistance has been provided by Treasury Circular 279, issued in 1955.

75. This circular refers to Government purchases. Goods imported by the Government are not subject to import duties and in view of this exemption, local tenderers are placed at a serious disadvantage. In order to overcome this difficulty, the circular directs that all tenders should be reduced to the same basis by the exclusion of:

- (a) Customs duty;
- (b) Handling and transport charges, and;
- (c) Freight charges in case of F.O.B. quotations.

76. Even if there is a disparity between the local and imported product, in favour of the imported product, after allowing for these additional charges, preference is given in certain cases to the local product.

INDUSTRIAL ESTATES:

77. Another action of the Government of Ceylon to encourage private investment in industry was the establishment of the Industrial Estates Corporation; established on January 1, 1960, under the State Industrial Corporations Act. No. 49 of 1957 for the purpose of providing factory accommodations to medium and small scale industries at reasonable rentals. This project was sponsored due to the shortage of buildings and building sites in and around Colombo available to medium and small investors. The long term programme of the Corporation also envisages planned regional development of the country by promoting the location of industries in the economically backward areas.

78. The first industrial estate has been established at Ekala (near Colombo) on a site of 70 acres and the development has been planned in four stages. On completion, the estate will provide 650,000 sq. ft. of factory accommodations in 130 units of various sizes to suit medium and small scale industries.

79. The four stages are as follows:

I	20 units	Rs. 4,625 million
II	20 "	3,000 "
III	45 "	5,000 "
IV	45 "	5,000 "
	<hr/>	<hr/>
	130 units	17,625 million

80. Stage I was completed in 1963 and provides 20 units in four standard designs of annual rentals ranging from Rs. 400 to Rs. 1,400. A major portion of the basic utilities such as roads, a sewage treatment plant, power and water have also been provided.

81. The corporation has calculated that the income on completion will be Rs. 1,014 million at a rate of 13 cents/sq. ft. per month. This would give a surplus of Rs. 350,000 per year after allowing amortization reserves as well, which would approximate a return of 2 per cent of the capital investment in the earlier period alone, although the Corporation does not propose to base its activities on profitability. The rental is subsidized to the extent of 50 per cent and, even so, by 1969/70, according to figures submitted by them, a net return of about 4 per cent on the capital invested may be expected.

82. Parliament voted Rs. 3 million for Stage II in 1963/64, which amount was reduced to Rs. 2,550,000 by the imposition of an overall cut of 15 per cent on all the subheads in the Economic Development Vote for possible under-expenditure. This stage will provide factory units smaller in size than in Stage I and at a rental of Rs. 150/month. Work is already in progress.

V. PUBLIC ENTERPRISES

83. Insofar as the public sector is concerned the Government introduced the Government-sponsored Corporations Act No. 19 in 1955, in which statutory provisions was vested in the Ministry of Industries to convert the existing State Factories run on a departmental basis to autonomous institutions to be run by Boards appointed by the Minister. The main purpose of this Act was to incorporate the existing industrial undertakings of the Government, and with the implementation of the third and fourth parts of the Act, to subsequently hand over their ownership to private enterprise. In terms of this Act, the Government could only incorporate existing industrial undertakings of the State which were eventually to be converted into private enterprises. There was no intention of any action being taken in terms of this Act to promote the development of new industries. As such, it could not be used for purposes of industrial promotion and development as is common with industrial promotion Corporations.

84. The first decisive step in the direction of building a strong public sector controlling the basic sectors of the economy was contained in an amendment to the State sponsored Corporations Act. A new Bill (State Industrial Corporations Act. No. 49 of 1957) was passed in Parliament. This Act was an amendment to Act No. 19 of 1955 by the inclusion of three important clauses, namely 2(b), 29 and 31 (1) and the removal of the clauses for converting public enterprises into private ventures. Clause 2 (b) included provision for the Government to set up and carry on any industrial undertaking and conversion of all existing Corporations under the new Act. In Clause 29 provision was included for audit of the accounts of the Corporations by approved Auditors and presentation of Annual Reports in Parliament. Clause 31 (1) provided for ministerial control. These important changes are reproduced below:

85. Clause 2 (1) (b) reads "Where the Government considers it necessary that a Corporation should be established for the purpose of:

- (a) setting up and carrying on any industrial undertaking or
- (b) taking over and carrying on any industrial undertaking previously carried on by any corporation which was established under the Government-sponsored Corporations Act. No. 19 of 1955, and was subsequently dissolved."

86. Clause 29 reads (1) "The accounts of the Corporation shall be audited annually by an auditor (hereinafter referred to as the auditor) appointed by the Minister. The Auditor shall receive such remuneration from the funds of the Corporation as the Minister may determine with the concurrence of the Minister of Finance:

(2) The Auditor-General shall have power -

(a) to direct the manner in which the Corporation's accounts shall be audited by the auditor and to give the auditor instructions in regard to any matter relating to the performance of his functions as the auditor, and

(b) to conduct a supplementary or test audit of the Corporation's accounts by such person or persons as the Auditor-General may authorize in that behalf and for the purpose of such audit, to require information or additional information to be

furnished to any person or persons so authorized, on such matters, by such person or persons and in such forms, as the Auditor-General may, by general or special order, direct.

(4) The auditor shall submit a copy of his audit report to the Auditor-General who shall have the right to comment upon or supplement the auditor's report in such manner as the Auditor-General may think fit".

87. Clause 31 (1) reads: "The Minister may from time to time, give the Board of Directors general directions, and after consultation with such Board give such Board special directions as to the exercise of the powers and discharge of the duties of such Board and such directions shall be carried out by such Board . . . "

88. The Act ensures that there would be Parliamentary control both in specifying the initial capital of the Corporation and in the efficient working of these Corporations by the provision for discussion and debate of the annual statements of accounts and the reports of the directors. These discussions and debates offer a regular opportunity to Parliament and the public as well as other bodies directly or indirectly responsible for the proper functioning of these industries for an assessment of the Corporation.

89. There are today (1965) 19 State Industrial Projects which have been set up under Corporate Management. Prior to 1955 State Industrial ventures were managed by the Department of Industries as State Factories.

90. The following is a complete listing of the State Corporations as of the latter part of 1965:

- (a) Cement Corporation
- (b) Eastern Paper Mills Corporation
- (c) Ceylon Ceramics Corporation
- (d) D. I. Leather Products Corporation
- (e) Gintota Plywood Corporation
- (f) Paranthan Chemical Corporation
- (g) Ceylon Mineral Sands Corporation
- (h) Industrial Estates Corporation
- (i) Hardboard Corporation
- (j) Iron and Steel Corporation
- (k) Ceylon State Tyre Factory Corporation
- (l) Ceylon Oil and Fats Corporation
- (m) National Textile Corporation
- (n) National Small Industries Corporation
- (o) National Sale Corporation
- (p) Hardware Corporation
- (q) Fisheries Corporation
- (r) State Flour Milling Corporation
- (s) Ceylon Petroleum Corporation
- (t) State Engineering Corporation
- (u) Kantalai Sugar Corporation

91. The list above includes a total of 21 "Corporations" but two of these really cannot be considered industrial enterprises, i.e. The Engineering Corporation and The Industrial Estates Corporation. All of the Corporations with the exception of the Kantalai Sugar Corporation and the Ceylon Petroleum Corporation are under the jurisdiction of the Ministry of Industries and Fisheries. The Kantalai Sugar Corporation is presently under the Ministry of Lands, Irrigation and Power; the Ceylon Petroleum Corporation functions under the Ministry of Nationalized Services.

92. The State Engineering Corporation merits some further consideration as it is of recent development and will play a major role in future industrial developments in Ceylon, whereas the others are self-explanatory.

93. The State Engineering Corporation was established by the Government to handle all work of an engineering nature in the Public Sector. This work would involve that which might be referred to as infrastructure service and also the main construction activities of development projects. The supply of water and drainage facilities and all of the internal electrical installations, water distribution and roadways would be the responsibility of the Engineering Corporation as well as site selection, basic design work and the actual construction work.

94. The State Engineering Corporation is also setting up a research unit to study all problems relating to construction and buildings in Ceylon. It is also hoped that the Corporation would make available reports on the design of factories and workshops in both the Public and Private sectors and that the standardization of design and construction introduced would enable the establishment of a subsidiary industry for servicing a unified demand for materials and components. It is expected that the Engineering Corporation will have complete freedom to cross departmental boundaries to co-ordinate the activities relating to a single project.

95. The Ministry of Industries with the exceptions indicated, is responsible for directing the expenditures of the Corporations and the Departments. The financial procedures and control of expenditures are different as between Corporations and Government Departments. Departmental expenditures are controlled by the Government Financial Regulations. The Corporations are free from the Financial Regulations and enjoy the freedom of commercial enterprises subject only to overall control and the directives of the Minister. However, the tendency to exercise such control by Government Departments still exist and the Ministry is at present formulating broad principles of financial procedure which will ensure complete freedom for commercial undertakings, but providing for accountability.

VI. FINANCING

DEVELOPMENT FINANCE CORPORATION:

96. The Development Finance Corporation was established in 1955 for the purposes of:

- (a) Assisting in the establishment, expansion and modernization of private industrial and agricultural enterprises of Ceylon, and
- (b) Encouraging and promoting the participation of private capital, both internal and external, in such enterprises.

97. This Corporation is empowered to provide long term and short term credit with or without security, by purchasing or subscribing for shares or other securities, or by acquiring any other type of holding. It can underwrite new issues of stocks, shares, bonds, debentures, and other securities; and guarantee loans from other private investment agencies, make funds available for re-investment by selling any investments of the Corporation when and as appropriate. It is also empowered to furnish managerial, technical, and administrative services to private industrial and agricultural enterprises in Ceylon.

98. The Development Finance Corporation grants medium and long term loans at 7 per cent. On redeemable preference shares, for which no security is required, the interest rate is 8 per cent, though these rates of interest are somewhat variable. The applicant is advised to keep in touch with the Secretary of this Corporation in order to obtain information regarding any changes in the rates of interest. The Corporation does not normally grant very small loans as it is concerned mainly with medium and large scale loans.

99. The terms of repayment vary from 5 to 15 years depending on the purposes for which loans have been granted. There is no hard and fast rule in regard to the period of repayment or in regard to the time at which first instalments are to be made. Industries which are starting anew will normally be given one or two years before they make their first instalment. Industries for which capital is needed for expansion will be required to start repayment almost immediately.

AGRICULTURAL AND INDUSTRIAL CREDIT CORPORATIONS:

100. This Corporation was established by Ordinance No. 19 of 1945 for the purposes of re-financing agricultural debt and financing new industrial

enterprises by providing long term credit facilities. The Corporation is authorized to grant loans for exploitation of mineral resources, construction, repair or renewal of any building, factory, mill, mine, machinery or equipment used or to be used for any industrial undertaking, the manufacture or preparation of any industrial product or commodity for sale in the market, for any purposes incidental, accessory or ancillary to any of the above purposes and also for the liquidation of any debt in connection with the above.

101. The minimum loan is Rs. 500 with a rate of interest of 5 per cent per annum. The amount of the loan will depend on the security; on immovable property loans up to 75 per cent of the value of the security offered will be given, and amounts up to 50 per cent in the case of movable property.

102. Repayment is on the basis of half yearly instalments. The period of repayment varies from 10 to 25 years depending on the security.

DIRECT STATE LOANS:

103. Since the two institutions (AICC and DFC) did not give exhaustive coverage to all prospective entrepreneurs it became necessary for the Government to make loan facilities available through the Department of Industries to medium and small scale industrialists. These Departmental loans are granted to co-operatives, individuals, and to public companies.

104. Loans to individuals are granted up to a maximum of Rs. 5,000 for the purchase of machinery, land, construction of buildings and extensions to buildings with repayment over periods of 4 to 20 years. Loans for machinery are repayable between 1 to 5 years. Loans to public companies and co-operatives are not limited in amount. All approved borrowers may obtain sums up to 90 per cent of the cost of machinery, land, or other security offered. Loans for land, construction, or the extension of factory buildings are repayable within a maximum period of 20 years.

PEOPLE'S BANK:

105. Another significant step taken by the Government was passage of the People's Bank Bill in 1962. This provides for the setting up of a People's Bank to offer:

- (a) Short, medium and long term advances to co-operative societies, approved societies or individuals for constructing, repairing, or renovating buildings;

- (b) Short, medium or long term advances to any person who intends to carry on any agricultural, industrial or business undertaking which, in the opinion of the Board of Directors of the Bank, is a small scale undertaking.

VII. MANPOWER AND TRAINING

106. General Education has been widespread in Ceylon for many years. In principle, compulsory education for those between the ages of 5 and 14 was introduced early this century, and in 1961 school enrolment was about 76 per cent of the numbers in this age group. Total enrolment was then 2,315,352 and of those children, 655,340 were in secondary schools. It appears, however, that the greater part of the children at school have been receiving an essentially non-technical education, designed largely to lead the better students to an academic career.

107. Until very recently little consideration has been given to the possibility of structuring the general education system so that, as well as meeting social and cultural needs for education, it provides manpower more in keeping with the type required in the labour force.

108. The general education to be provided at the various levels has been planned largely on the basis of forecasts of the numbers likely to present themselves in future years for entry to each school standard. Numbers likely to enter school for the first time are calculated from demographic trends, and numbers likely to move each year to higher from lower grades are calculated using trends in past retention rates. Projections for each school grade up to the year 1981 (and a concise account of the method used) are available in a paper prepared by the Department of Education. Further projections, indicating maximum and minimum estimates (on alternative assumptions about expenditure likely to be available for education) have been made up to 1981 with the assistance of the UNESCO Advisory Team on educational planning.

109. The Technical Education and Training System. Technical education institutions have operated in Ceylon for many years. However, there is still heavy concentration on the Humanities in Ceylon's Universities, when at the same time there are large unmet demands for technical graduates and apparently not enough jobs for Arts graduates.

110. Since 1956 national planning has been concerned with problems associated with the supply of manpower in its development programmes. In this regard several studies on various aspects of technical manpower have been made which are presented prior to the discussion of technical training facilities.

111. The problem of inadequate engineering skills was highlighted by a Special Committee appointed by the Minister of Agriculture & Lands in 1959 which had as its terms of reference an investigation into:

- (a) the existing facilities for the training of engineers and technicians;
- (b) the reasons for the shortage of such personnel;
- (c) measures necessary to attract the best talent to the engineering profession;
- (d) provision necessary for the training of sufficient personnel to execute the Ten-Year Plan for the Island; and
- (e) the number of technical personnel that would be required both in the Government and Private sectors, for carrying out the Ten-Year Plan.

The Committee's investigations were restricted only to engineers. It pinpointed that the shortage of technical manpower was due to the absence of planning for the supply of such manpower and the absence of a centralized co-ordinating authority in the sphere of technical education and training. It also stated that the present training schemes were inadequate and that steps should be taken to attract more and more persons into technical education.

112. The recommendations of this Committee were accepted by the government and approved by the Cabinet in March 1961. The Cabinet directed that (a) a higher technologist course should be instituted at the Ceylon Technical College at the earliest possible date; (b) that in the first year of the course 98 regular engineering apprentices (civil, electrical, mechanical and chemical) be enrolled for the course; (c) that a representative committee be appointed to administer the course of training.

113. Among other things, the Cabinet authorized that disabilities in regard to staff be removed and funds be made available for setting up necessary facilities at the Technical College; and it authorized that a Diploma, to be

recognized as equivalent to an engineering degree in government service, should be conferred.

COMMISSION OF INQUIRY ON TECHNICAL EDUCATION

114. A major step in planning the technical education and training system was taken in 1962 with the setting up of the Commission of Inquiry on Technical Education. This Commission drew up a comprehensive directory of technical education and training institutions in Ceylon including information about their capacity. It also conducted a survey of public and private sector employers to learn about their current vacancies. The general conclusions of the Technical Education Commission were as follows:

- (a) The present training facilities available are obviously inadequate. While a framework of sorts for various types of skills exists, the structure has to be re-designed to cope with the demand for more efficient training and increased out-turn.
- (b) The expansion of technical training facilities can be pursued vigorously without fear of saturating the employment market. Any considerable waste or surplus of unwanted skills, is not anticipated. On the contrary, owing to the inevitable time lag between the provision of adequate training facilities and the out-turn of the requisite skills, shortages of skilled workers of all grades will continue to exist for some considerable time.
- (c) If the normal staffing ratios of 1 engineer: 5 technicians; 25 craftsmen, are applied to the manpower goals of the Ten-Year Plan, more than 400 engineers, 2,000 technicians and 10,000 craftsmen are needed annually for development needs.
- (d) There should be, as an integral part of the National Planning Programme, a Directorate of Manpower to have in constant review the availability, utilization and shortages of technical and scientific manpower, and to make a continuing assessment of the expansion and development needs of manpower, in the public and private sectors. This organization could also co-ordinate training in terms of project demand.

115. With reference to technical training the Commission made a number of specific suggestions. The Technical Commission went further and recommended the setting up of a College of Technology and that a Diploma in Technology be introduced with an academic standard comparable to the degree course of the University. In regard to the training of technicians which constitutes the middle grades of engineering and industrial employment, the Technical Education Commission recognized the inadequacy of existing institutions. The main problem in this field, as revealed by the inquiries, was in reference to the disparity in the courses provided by them both in respect to their curricula and lack of emphasis placed on practical work relative to theory. Steps are now being taken to standardize the system of education in institutions for the training of technicians. The Commission also recommended that the training institutions should be renamed Polytechnics and be brought under the control of the Department of Technical Education and Training with adequate provision for an out-turn of a thousand technicians per year. The investigations made by the Commission also revealed a serious shortage of skilled craftsmen and they endorsed the proposals of the government at that time for the setting up of a Trade School at Maradana which planned to cater to 400 full-time students following two-year courses and 900 part-time students following three year courses.

116. The Commission found that steps taken to provide for apprenticeship training have encountered certain difficulties due to the absence of a uniform procedure regarding the mode of selection of apprentices. It has also ascertained that no uniform rule was adopted by employers in any particular industry or as between the different industries. The Commission recommended the setting up of an apprenticeship board and a permanent organization to ensure the availability of sufficient facilities for the large number of trainees of all grades who will require such training, and further that an Apprenticeship Training Division should consider the various aspects pertaining to such training.

117. In the light of experience both the Planning Authorities as well as the Ministry of Industries have realized the importance of perspective planning in manpower supplies. In this regard the comprehensive analysis of technical training facilities made by the Technical Education Commission and

some of the recommendations made by the Commission are being taken up by the Government and the Ministry of Education.

118. A recent development is the establishment of the Small Industries Service Institute at Velona which is receiving technical assistance from the International Labour Organization.

119. The Department of Technical Education and Training has recently replaced the Technical College Department and is to co-ordinate technical education and training facilities and expand the system as required. There are also proposals for the Council of Technical Education to regulate and co-ordinate all types of technical education and training in Ceylon.

120. The Department of Labour operates an employment service and provides vocational training. The principal training Centre is at Urugedawatte, and is now being operated with technical assistance from an ILO expert. During 1962-63, 722 persons were trained at this Centre in a wide variety of trades and other callings. Seven smaller centres are operated with a total of about 400 trainees.

ENGINEERING AND INDUSTRIAL TRAINING INSTITUTIONS FOR HIGHER EDUCATION.

121. Universities. At present the University of Ceylon has its Faculty of Engineering which provides specialized courses of four years' duration in civil, mechanical and electrical engineering. Admission to follow these courses is on the basis of competitive examinations which are held two years after the completion of the G.C.E. (Ordinary Level).

122. During the past years the output of engineers has remained at approximately 45 per annum. This would be increased from 1967 onwards to 100 persons per year.

123. Apart from the University of Ceylon, Vidyalankara University, established in 1875 and raised to University status in 1959, provides education up to the level of technologists and has Honours and General Degree courses in Public and Business Administration of 4 years and 3 years duration up to the level of professional qualifications for technicians and craftsmen.

124. The Ceylon Technical College. This College was established in 1893 for training skilled workmen for the Railway, Postal, Public Works and certain other departments, and has subsequently been expanded to provide for professional industrial courses as well as the training of technicians.

The Institute has facilities for electrical engineering (light, current and power), physics, chemistry, heat engines, hydraulic, strength of materials and motor mechanic laboratories and Drawing Offices; workshops for carpentry, pattern making, fitting, plumbing, electric wiring and radio servicing. Approximately 400 students are turned out by this institution every year. It also provides ad hoc on-the-job vocation courses with Corporations, Government departments, and private companies.

125 Institute of Practical Technology, Katubedde. This institution provides technical training up to the level of technicians. It was started in 1960 with assistance under the Colombo Plan from the Canadian Government. The training facilities provided cater to the Government as well as private requirements. The following courses are given by this institute:

- (a) Civil, mechanical and electrical or chemical engineering courses for Junior Technical Officers.
- (b) Courses for draftsmen, apprentices, surveying and levelling, and architecture.

Besides these, there are Junior Technical Schools in Kandy, Galle, Jaffna and Amparai which provide courses up to the level of technicians and craftsmen.

126. Besides the institutions enumerated above, there are several other units in the private sector which have undertaken the training of technicians. The government has also provided incentives in the form of tax relief in respect to costs incurred in providing such training facilities. Although technical education is an integral but distinct part of the over-all system of education, specific inclusion of basic scientific subjects, technical subjects and general subjects has made it possible for the selection of suitable personnel for industrial and other commercial purposes. Training courses include a thorough acquaintance on the one hand with cottage crafts and on the other hand with practical knowledge pertaining to skills required in the handling of up-to-date machinery and equipment.

127. Management Development. Some institutions provide facilities for the training of managerial personnel, notably the Ceylon Technical College, the Institute of Management, and the Business Administration courses organized by the two Universities.

128. The syllabus of the course in Business Administration given by the Department of Business Management of Vidyalaya University indicates that it is a part-time course and purely theoretical in nature and it would not appear to fill the need for training young graduates for managerial positions in industry.

129. The opinion of members of the Productivity Association, the Institute of Management, the Institute of Personnel Management and the Chamber of Industries is unanimous that there is an urgent need for additional training of management in Ceylon at all levels. This is supported by the Director of the Ceylon Institute of Scientific and Industrial Research and the U.N.T.O. attached to that Institute.

MANAGEMENT DEVELOPMENT AND PRODUCTIVITY CENTRE - A PROPOSAL:

130. It is the intention of the Government to end this situation and provide a cadre of highly trained managers for both the public and private sectors of industry to satisfy the present and future requirements. With this in view, it plans to set up a Management Development and Productivity Centre which, at the end of five years, will have a fully trained staff of nationals capable of carrying on the work and expanding the activities as demanded by changing circumstances.

131. The proposed Centre is urgently required and its work would be complementary to that of other training schemes and institutions in the country since no other work of the type required is being undertaken there would be no overlapping or duplication. For instance, the Small Industries Service Institute deals, as its name suggests, only with small scale industries. The new Centre would cover specifically the needs of medium and large industries. The Executing Agency for both projects is likely to be the International Labour Organization so co-operation between the staffs would be assured from the start.

132. The Government has requested the assistance and co-operation of the United Nations Special Fund in carrying out this project which is briefly outlined below.

133. At the time of report preparation the proposed Management and Development and Productivity Centre was to be mainly a training institution located in

Colombo and engaged in the following types of work:

- (a) Promotional Activities
- (b) Management Training; including courses in General Management, Labour Relations and Personnel Management, Advanced Supervisory Training, Industrial Engineering, Management Accounting and Marketing and Sales;
- (c) Research and Development;
- (d) Business Consultation Services;
- (e) Technical Information and Library Services;
- (f) Basic Training Activities for Students, Graduates and Post Graduates.



74.10.22