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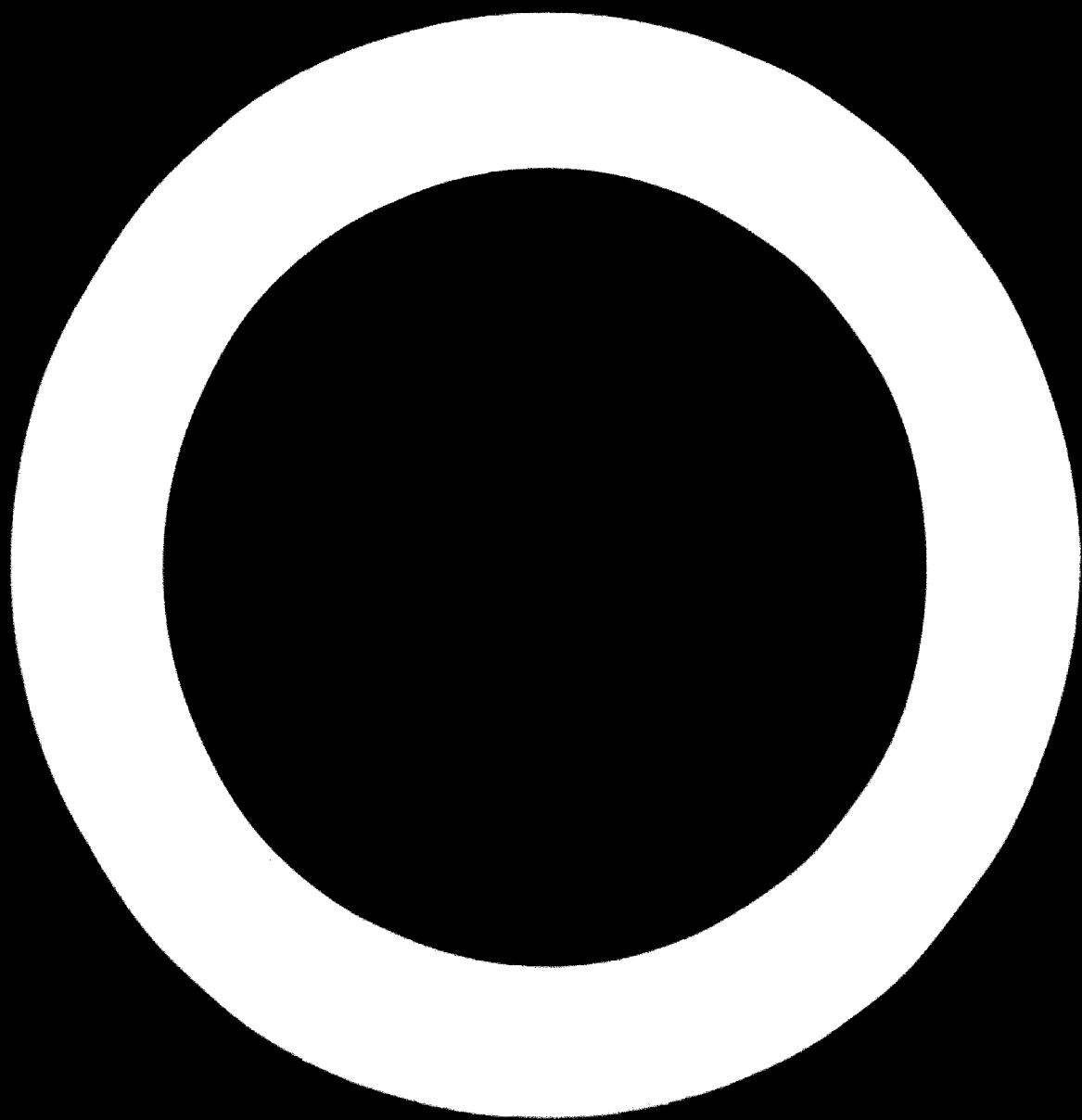
PATTERN OF INDUSTRIALIZATION IN SRI LANKA^{1/}

An Approach for Industrial Project
Identification and Evaluation.

Country paper :

SRI LANKA . (1+5)

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1. **Fostering systematic development of industry in Sri Lanka was initiated with the 1971 - 76 Five Year Plan.** The five year plan laid down the broad guidelines for industrial investment. The plan envisaged the setting-up of large scale industrial plants for basic industries of the economy such as steel, cement, P.V.C., machine tools, sheet glass and the like. Small scale units were envisaged for consumer products such as light engineering, food processing, rubber products and the like. At the same time, investments continuing labour intensive processes were allocated priority over capital intensive processes, and, the regional dispersion of industry was also given priority.

2. Within the broad industrial strategy laid down in the plan, specific sectoral expansion programs were identified so that the channelling of investments could be made accordingly. However, the implementation of many envisaged projects did not take place owing to diverse reasons. The main constraint which thwarted planned investments was a deficiency of foreign currency to finance the acquisition of necessary plant and equipment and the technology required for setting-up the envisaged industries.

3. At the present time it appears increasingly possible for obtaining the required foreign currency financing for projects, through private and public direct investments from foreign countries, through project assistance from foreign governments, and, through long-term project loans from international financial institutions. This new international climate for fostering industrial development, necessitates a project oriented response for channelling the industrial development priorities of the country for foreign financing, and thereby, obtaining for the country optimum utility from available foreign financial resources.

4.0 In order to develop a scheme for channelling specific projects for foreign financing, the following steps could be considered pre-requisites :

1. Identification of project possibilities.
2. Development of investment proposals containing basic project information.
3. Development of procedures for project appraisal and approval.

4.1 Identification of Project Possibilities

The identification of industrial project possibilities would need to be essentially based on the plan for industrialisation of the country. Individual projects would need to be specified in terms of the particular implementing organisation or firm. The existing strengths and weaknesses of the relevant implementing organisation or firm needs careful examination in relation to organisational requirements of the particular project. Based on a rational study of the ability of the specific organisation or firm to implement the identified project, further consideration of the project proposal should be undertaken.

4.2 Development of Investment Proposals Containing Basic Project Information


The economic viability of an identified project would need to be carefully examined before further processing of the investment proposal. The examination of the economic viability of a proposal could be done on the basis of a project report that contains information on -

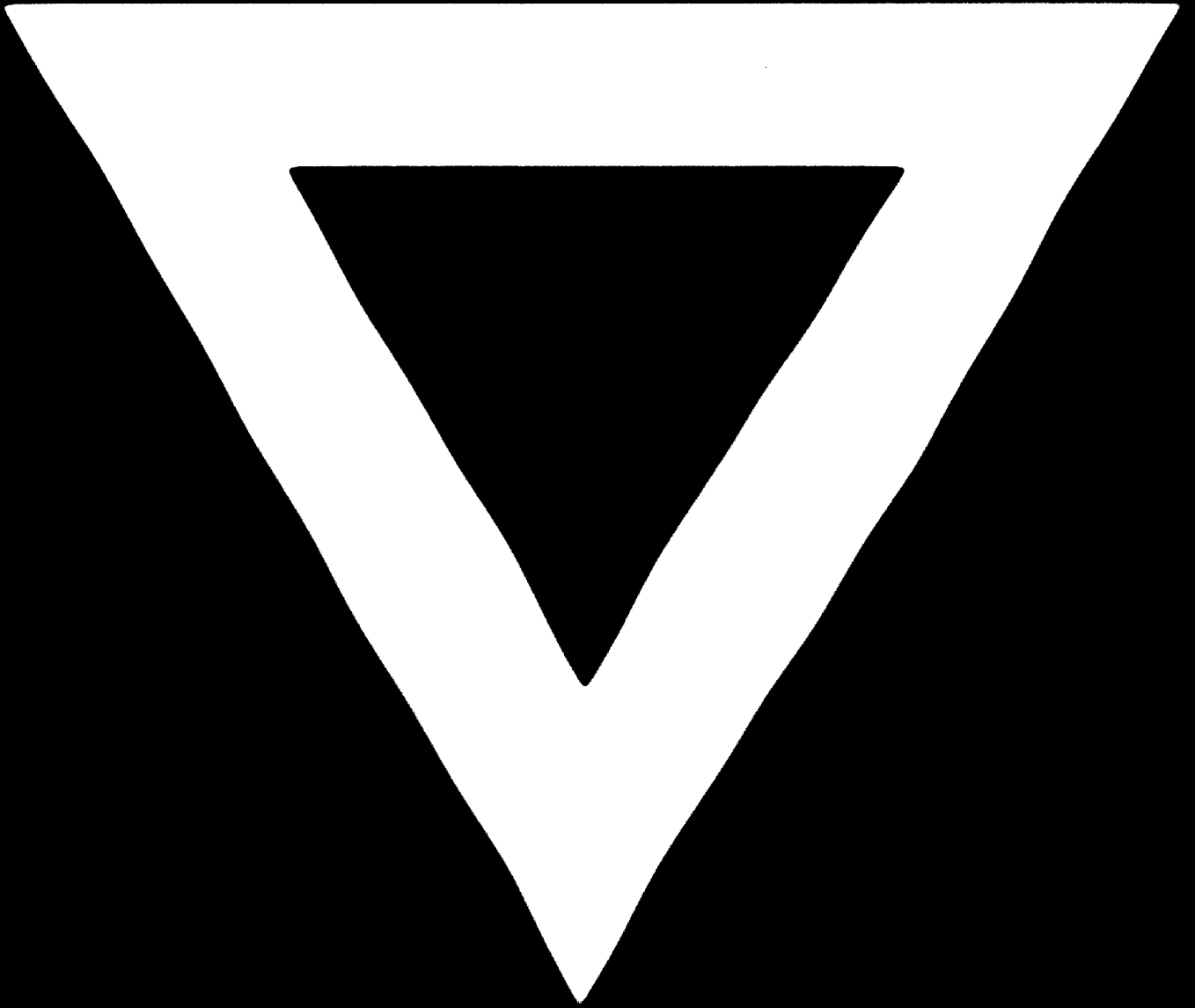
- (a) Production capacity envisaged with details on expected method of selling output both locally as well as exports, where relevant.
- (b) A breakdown of expected costs of production with details on, the source and costs of raw materials and, the type of technology that is to be utilized in the production process.
- (c) The total amount of financial investment required with details of local currency and foreign currency components and particulars of any continuing foreign currency component such as royalty or dividend payments.
- (d) Particulars on location of proposed factory site, with reasons for selection of the site.

4.3 Development of Procedures for Project Appraisal and Approval

Projects that are economically viable, have to be evaluated in terms of national priorities before approval of individual projects. In order to assess the merits of specific projects in relation to national industrial policy, representatives of concerned Ministries and national agencies would need to review the projects on a case by case basis. However, in order to expedite the review of projects, a set of primary policy guidelines could be adopted by the above representatives, so that projects examined would initially need to meet requirements contained in the guidelines in order to be considered further. For projects that meet basic requirements, final approval and 'go-ahead' could be ^{given} when financing of the foreign currency component of the investment has been obtained.

5. With the adoption of a scheme which ensures that projects submitted for foreign financing are economically viable and are in accordance with national priorities, the implementation of selected projects would pose no serious problems to the national government or to the relevant foreign government, financing institution or business organisation. Consequently the development of different sectors of the national economy could be consciously expedited and available foreign resources effectively utilized for industrial development.





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