

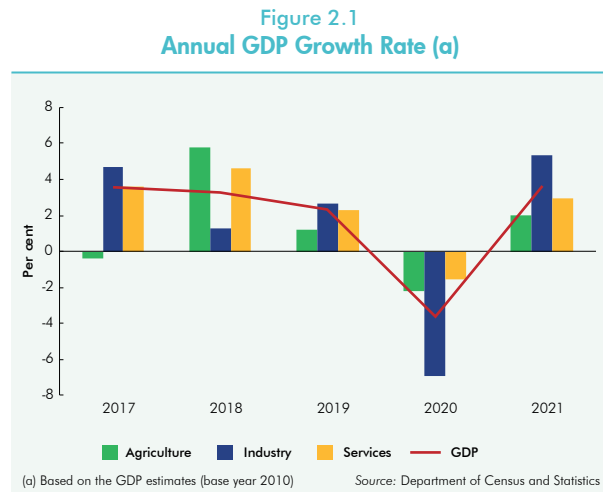
NATIONAL OUTPUT, EXPENDITURE, INCOME AND EMPLOYMENT

2.1 Overview

The Sri Lankan economy rebounded by 3.7 per cent in 2021, recovering from the COVID-19 pandemic induced fall back of 3.6 per cent in 2020, amid fresh threats from new variants of the pandemic. The recovery could be observed across all three major economic activities, namely Agriculture, Industry and Services, propelled by the pent-up demand and the gradual easing of pandemic-related disturbances, and also aided by the favourable base effect that resulted from the significant contraction in the economy in 2020. Nonetheless, the fast spread of the highly infectious Delta variant put the recovery at risk, particularly during the third quarter of the year, adversely affecting Services and Industry activities. While grappling with renewed flare-ups, focused mobility restrictions coupled with policy stimuli and the countrywide vaccination rollout encouraged embracing a normal routing and provided more room for economic activities towards the latter part of the year. Amid the fast adaptation towards the 'new normal', several labour market indicators also improved during 2021 compared to 2020, yet the labour market has not reached the pre-pandemic levels of 2019 due to the ripple effects of the recurrent waves of the COVID-19 pandemic. Accordingly, employed population, especially in the Services and Agriculture sectors and the labour force improved, while the unemployment rate declined during 2021 compared to the previous year. With this backdrop, Services activities entered a growth trajectory fuelled by the expansion in financial services, and wholesale and retail trade activities. Meanwhile, the considerable rebound in manufacturing activities with the pent-up demand, locally and globally, provided the impetus to drive Industry activities. In the meantime, an overall expansion was observed in Agriculture activities. However, certain Agriculture and Industry activities were adversely affected by the supply-side bottlenecks that prevailed, particularly during the second half of the year. The short supply of required nutrients and agrochemicals for farming led to a lower yield in agricultural crops towards the latter part of the year, despite the favourable weather prevailed. Further, business surveys revealed that soaring raw material prices and delays in shipments coupled with foreign exchange shortage gummed up the supply chain, thereby disrupting production plans. Particularly, the full potential of the construction industry was largely hindered by the inadequacy of key materials. Meanwhile, on the expenditure front, both consumption and investment expenditure picked up in 2021, with the gradual normalisation of economic activities in the country. However, net external demand further contracted during the year as the surge in imports outstripped the growth in exports. Meanwhile, the national savings-investment gap as a percentage of GDP widened during the year, largely due to the higher growth in investment expenditure.

2.2 Gross Domestic Product (GDP),¹ Gross National Income (GNI) and GDP Per Capita

The Gross Domestic Product (GDP) at both current market prices (current prices) and constant (2010) market prices (constant prices) grew during 2021, as the economy leaped back from the pandemic driven contraction recorded in 2020. GDP at constant prices grew by 3.7 per cent to Rs. 9,881.4 billion in 2021, compared to 3.6 per cent contraction recorded in 2020. Meanwhile, GDP at current prices was estimated at Rs. 16,809.3 billion (US dollars 84.5 billion in 2021, recording a notable increase of



11.9 per cent compared to 2020, where it stood at Rs. 15,027.4 billion (US dollars 81.0 billion). The higher growth in GDP at current prices mainly reflects the impact of increased price levels during

¹ Department of Census and Statistics (DCS) estimates GDP in production, expenditure and income approaches.

Table 2.1
Gross Domestic Product by Industrial Origin at Constant (2010) Prices (a) (b)

Economic Activity	Growth (%)		Contribution to Growth (%)		As a Percentage of GDP (%)	
	2020 (c)	2021	2020 (c)	2021	2020 (c)	2021
Agriculture, Forestry and Fishing	- 2.2	2.0	- 0.2	0.1	7.1	6.9
Growing of cereals (except rice)	44.8	9.7	0.05	0.02	0.2	0.2
Growing of rice	7.0	- 6.7	0.05	- 0.06	0.8	0.7
Growing of vegetables	7.6	- 2.5	0.04	- 0.02	0.6	0.6
Growing of sugar cane, tobacco and other non-perennial crops	19.3	- 7.4	0.00	- 0.00	0.0	0.0
Growing of fruits	6.2	- 7.8	0.04	- 0.05	0.7	0.6
Growing of oleaginous fruits (coconut, king coconut, oil palm)	- 10.4	11.2	- 0.07	0.07	0.6	0.7
Growing of tea (green leaves)	- 7.1	7.4	- 0.05	0.05	0.6	0.7
Growing of other beverage crops (coffee, cocoa, etc.)	21.7	- 15.6	0.00	- 0.00	0.0	0.0
Growing of spices, aromatic, drug and pharmaceutical crops	3.3	4.5	0.02	0.03	0.7	0.7
Growing of rubber	4.6	- 1.7	0.01	- 0.00	0.2	0.2
Growing of other perennial crops	1.6	- 4.8	0.00	- 0.01	0.2	0.2
Animal production	- 2.8	9.7	- 0.02	0.06	0.7	0.7
Plant propagation and support activities to agriculture	- 0.4	10.6	- 0.00	0.01	0.1	0.1
Forestry and logging	- 7.9	5.1	- 0.05	0.03	0.6	0.6
Fishing	- 16.6	1.4	- 0.19	0.01	1.0	1.0
Industries	- 6.9	5.3	- 1.8	1.4	25.5	25.9
Mining and quarrying	- 12.5	2.8	- 0.29	0.06	2.1	2.1
Manufacturing	- 3.9	7.2	- 0.60	1.11	15.5	16.1
Electricity, gas, steam and air conditioning supply	- 1.6	6.1	- 0.02	0.07	1.1	1.1
Water collection, treatment and supply	4.8	4.3	0.01	0.01	0.2	0.2
Sewerage, waste treatment and disposal activities	- 1.0	- 3.3	- 0.00	- 0.01	0.3	0.3
Construction	- 13.2	1.9	- 0.91	0.12	6.2	6.1
Services	- 1.6	3.0	- 0.9	1.7	58.7	58.3
Wholesale and retail trade, transportation and storage, and accommodation and food service activities	- 5.0	1.3	- 1.16	0.30	22.6	22.1
Information and communication	13.7	17.0	0.10	0.15	0.9	1.0
Financial, insurance and real estate activities including ownership of dwellings	4.7	5.6	0.67	0.86	15.4	15.7
Professional services and other personal service activities	- 5.9	1.2	- 0.67	0.13	11.1	10.9
Public administration, defence, education, human health and social work activities	2.0	3.3	0.17	0.29	8.6	8.6
Equals Gross Value Added (GVA) at Basic Price	- 3.2	3.5	- 2.9	3.2	91.2	91.1
Taxes less subsidies on products	- 8.1	4.9	- 0.7	0.4	8.8	8.9
Equals Gross Domestic Product (GDP) at Market Price	- 3.6	3.7	- 3.6	3.7	100.0	100.0
Net primary income from rest of the world	8.3	9.3				
Gross National Income at Market Price	- 3.5	4.0				

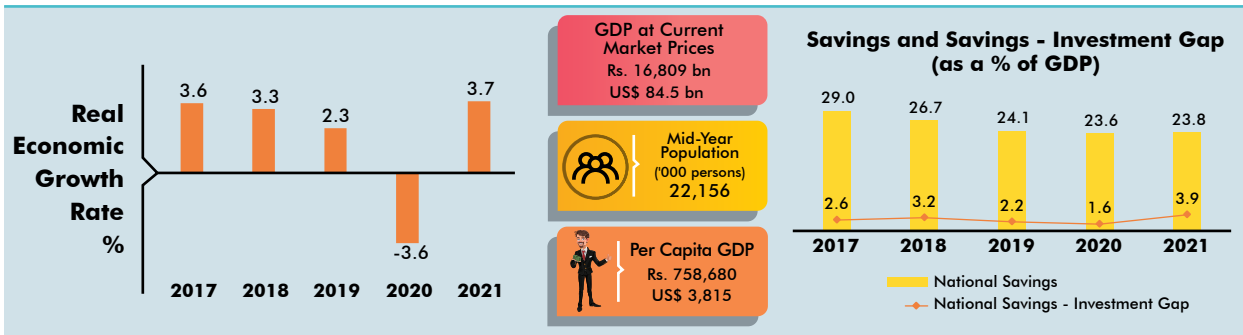
(a) Based on the GDP estimates (base year 2010)

(b) Provisional

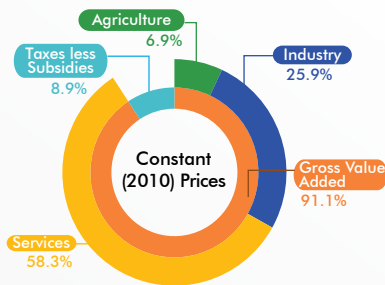
(c) Revised

Source : Department of Census and Statistics

Figure 2.2
Snapshot of National Output, Expenditure, Income and Employment - 2021

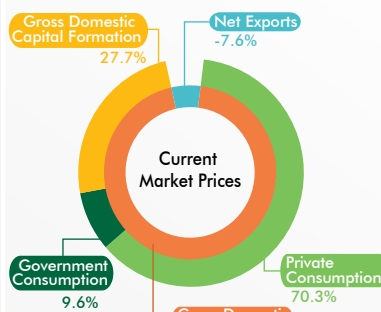


Production Approach



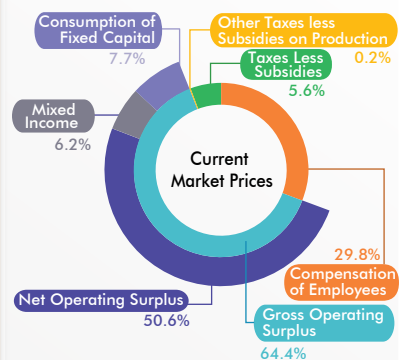
- Services** 3.0% ↑
Key driver: Expansion in Financial Services
- Industry** 5.3% ↑
Key driver: Expansion in Manufacturing Activities
- Agriculture** 2.0% ↑
Key driver: Expansion in Growing of Oleaginous Fruits
- Taxes less Subsidies** 4.9% ↑

Expenditure Approach



- Private Consumption** 10.8% ↑
Key driver: Increase in Expenditure on Food
- Government Consumption** 3.7% ↑
Key drivers: Increase in Expenditure on Defense and Social Protection
- Gross Domestic Capital Formation** 23.2% ↑
Key driver: Increase in Gross Domestic Fixed Capital Formation
- Net Exports** -31.6% ↓
Key driver: Increase in Imports in absolute value
- Exports of Goods and Services** 23.3% ↑
- Imports of Goods and Services** 25.7% ↑

Income Approach



- Compensation of Employees** 8.5% ↑
- Gross Operating Surplus** 13.6% ↑
- Net Operating Surplus** 14.0% ↑
- Mixed Income** 11.9% ↑
- Consumption of Fixed Capital** 12.4% ↑
- Other Taxes less Subsidies on Production** 4.2% ↑

Labour Market Indicators



Labour Force

8.467 mn
(2020)
8.553 mn
(2021)



Economically Inactive Population

8.273 mn
(2020)
8.581 mn
(2021)



Labour Force Participation Rate

50.6%
(2020)
49.9%
(2021)



Employed Population

7.999 mn
(2020)
8.114 mn
(2021)



Unemployment Rate

5.5%
(2020)
5.1%
(2021)



Departures for Foreign Employment

53,711
(2020)
121,795
(2021)

the year. Accordingly, the GDP implicit deflator increased to 7.9 per cent in 2021, from 4.0 per cent recorded in 2020.

GNI, which is estimated by adjusting GDP for the net primary income from the rest of the world, recorded a growth of 12.3 per cent at current prices in 2021, compared to the marginal growth of 0.3 per cent recorded in 2020. This growth in GNI was largely due to the decline in negative balance of net primary income on top of the significant increase in GDP at current prices in 2021, compared to last year.

GDP per capita increased to Rs. 758,680 (US dollars 3,815) in 2021, compared to Rs. 685,587 (US dollars 3,695) in 2020. The increase in GDP per capita in rupee terms was mainly on account of the growth in GDP at current prices, while the slower increase in GDP per capita in US dollar terms was due to the weakening of the domestic currency against the US dollar on an annual average basis. Meanwhile, GNI per capita was estimated at Rs. 740,328 (US dollars 3,722) in 2021, compared to Rs. 666,285 (US dollars 3,591) in 2020.

2.3 Contribution from Institutional Sectors

In 2021, the largest contribution to Gross Value Added (GVA) estimated at current market prices continued to be from the Households

and Non-Profit Institutions Serving Households (HH and NPISH) sector. The HH and NPISH sector sustained the largest contribution to Agriculture and Services activities, while Industry activities were dominated by the Non-Financial Corporations (NFC) sector. Accordingly, representing 48.0 per cent of the overall GVA of the economy, the HH and NPISH sector grew by 10.2 per cent in 2021 compared to the previous year. Meanwhile, the NFC sector recorded a growth of 15.2 per cent. The General Government (GG) and Financial Corporations (FC) sectors recorded growth rates of 5.4 per cent and 19.0 per cent, respectively, in 2021.

2.4 Output, Policies, Institutional Support and Issues

Agriculture

Agriculture activities recorded an expansion of 2.0 per cent in 2021 in value-added terms, recovering from the contraction of 2.2 per cent recorded in 2020, mainly on account of the expansion in coconut and animal production activities. Further, the growing of tea, spices, forestry and logging, and growing of other cereals also expanded during the year, contributing favourably to the growth in overall agricultural activities. Meanwhile, fishing activities also recorded a moderate growth in 2021, recovering from the

Figure 2.3
Percentage Share of Gross Value Added (GVA) by Institutional Sectors in 2021 (at Current Market Prices) (a)

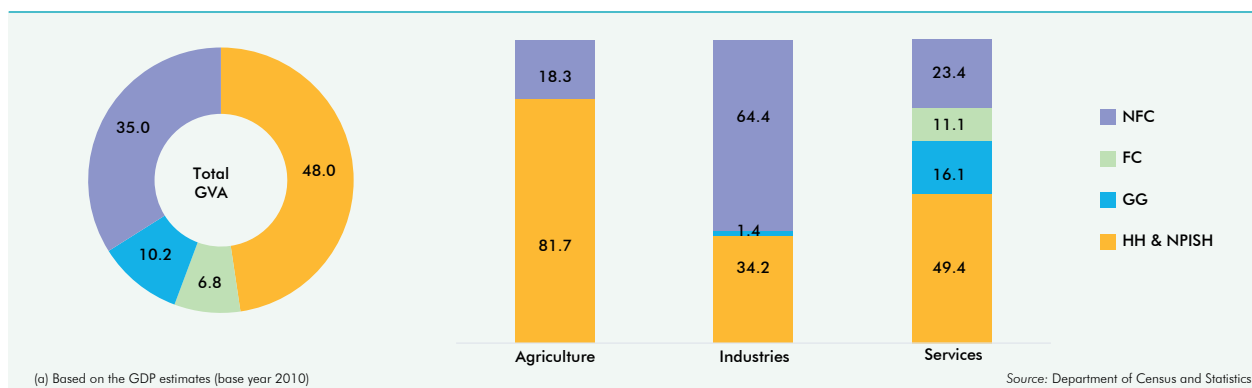
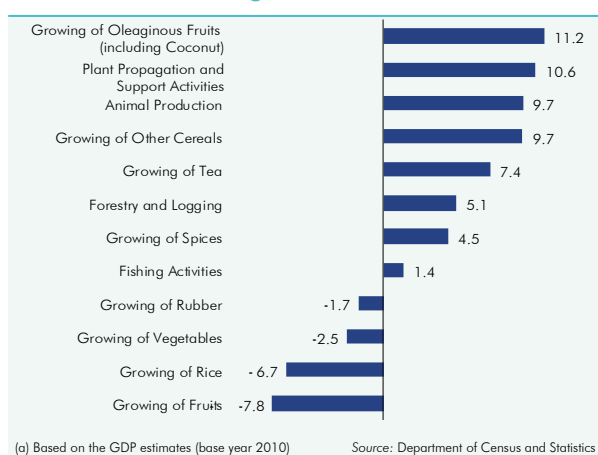


Figure 2.4
Growth Rates of Agriculture Activities - 2021 (a)



significant contraction recorded in 2020. However, the growing of rice, fruits, vegetables, other perennial crops, rubber and other beverage crops (coffee, cocoa, etc.) contracted during the year. Even though Agriculture activities recorded an expansion during the year, the lack of relevant nutrients and agrochemicals prevented it from reaching its full potential particularly during the second half of the year.

Agriculture Production Index

The **Agriculture Production Index (API)**, which measures the output of the agriculture and fisheries sectors,² recorded a moderate increase in 2021. The API increased by 3.0 per cent during the year over a 2.7 per cent increase in 2020 driven by the growth in most of the sub-indices, including paddy, tea, coconut, livestock and fisheries, whereas the rubber sub index witnessed a contraction in comparison to the previous year.

Paddy

The paddy sector recorded a high level of production in 2021, with a bumper harvest during the 2021 Yala season. Conducive weather conditions and an increase in the net extent harvested contributed to the increased production

during the year. Accordingly, total paddy production recorded a bumper harvest for the second consecutive year in 2021, with a marginal increase in harvest compared to the previous year. Paddy production during the year grew by 0.6 per cent, on a year-on-year basis, to 5.1 million metric tons. Notably, the decline of 4.2 per cent in production of 2020/2021 Maha season was greatly offset by the growth of 8.5 per cent recorded in the 2021 Yala season. The net extent harvested expanded by 2.8 per cent to 681,521 hectares and 10.3 per cent to 445,084 hectares in the 2020/2021 Maha and 2021 Yala seasons, respectively, resulting in an overall increase of 5.6 per cent in the total net extent harvested over 2020. Despite the overall improvement in production during the year, the paddy yield per hectare during the 2020/2021 Maha season and 2021 Yala season decreased by 6.8 per cent to 4,492 kilogrammes per hectare and 1.6 per cent to 4,692 kilogrammes per hectare, respectively, over the corresponding periods of 2020, raising concerns about the sufficiency of supplies of inputs, including fertiliser and other agrochemicals, and poor soil and crop management practices. The total paddy production from both the Maha and Yala seasons was equivalent to 3.3 million metric tons of rice, which was estimated to be sufficient to meet the domestic demand for rice approximately

Table 2.2
Agriculture Production Index (2007-2010 =100)

Item	2020 (a)	2021 (b)	Growth Rate (%)	
			2019/20 (a)	2020/21 (b)
Agriculture and Fisheries	129.4	133.3	2.7	3.0
1 Agriculture	129.6	133.8	7.3	3.2
1.1 Agriculture Crops	123.7	126.9	9.2	2.5
Paddy	136.9	137.7	11.5	0.6
Tea	89.5	96.1	-7.1	7.4
Rubber	58.3	57.3	4.6	-1.7
Coconut	98.6	110.1	-9.5	11.7
Other Crops	167.1	166.9	22.6	-0.1
o/w Vegetables	142.7	141.4	16.0	-0.9
Fruits	199.6	169.3	33.0	-15.2
OFC	141.1	165.5	18.6	17.3
1.2 Livestock	176.4	188.7	-2.3	7.0
2 Fisheries	128.5	130.7	-15.2	1.7

(a) Revised

(b) Provisional

Source: Central Bank of Sri Lanka

2 API does not cover the forestry and logging sector

Table 2.3
Paddy Sector Statistics

Item	Unit	2020 (a)			2021 (b)		
		Maha	Yala	Total	Maha	Yala	Total
Gross Extent Sown	hectares '000	752	456	1,208	770	501	1,272
Gross Extent Harvested	hectares '000	740	451	1,191	762	497	1,259
Net Extent Harvested	hectares '000	663	403	1,066	682	445	1,127
Production	mt '000	3,197	1,924	5,121	3,061	2,088	5,150
	bushels '000	153,188	92,206	245,395	146,702	100,067	246,769
Yield per Hectare (c)	kg/ hectare	4,821	4,770	4,802	4,492	4,692	4,571
Credit Granted by the Banking Sector	Rs. mn	5,605	4,096	9,701	8,603	4,449	13,052
Rice Imports (d)	mt '000	n.a.	n.a.	16	n.a.	n.a.	147
Paddy Equivalent of Imported Rice (d)	mt '000	n.a.	n.a.	23	n.a.	n.a.	216

(a) Revised

(b) Provisional

(c) Yield per hectare is calculated by dividing production by the net extent harvested

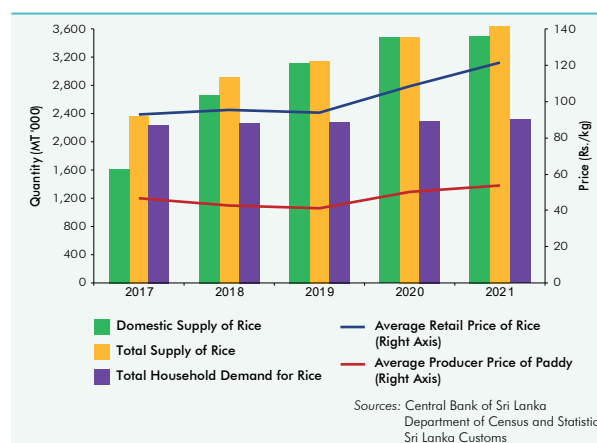
(d) Annual figure

Sources: Department of Census and Statistics
Sri Lanka Customs
Central Bank of Sri Lanka

for 17 months.³ Despite sufficient production, rice imports registered a notable increase from 15,770 metric tons in 2020 to 147,091 metric tons in 2021, of which around 134,716 metric tons of rice were imported during the months of November and December 2021. Rice imports were undertaken with the intention of stabilising the upward volatilities in rice prices observed in the domestic market and also to ensure that a sufficient buffer stock was maintained.

Despite sufficient levels of paddy production and higher rice imports, prices of paddy and rice varieties remained notably high throughout the year. The average price of *Samba* paddy recorded a significant increase of 29.2 per cent reaching Rs. 65.32 per kilogramme during 2021, while the average price of *Nadu* paddy also increased by 20.7 per cent to Rs. 57.61 per kilogramme in 2021, compared to the previous year. The Government continued its paddy purchasing programme, as spearheaded by the Paddy Marketing Board (PMB), in order to ensure fair prices to farmers. Accordingly, with effect from March 2021, the PMB purchased paddy at the price of Rs. 56.50 per kilogramme for all varieties, which was later revised

to Rs. 50.00 per kilogramme for *Nadu*, Rs. 52.00 per kilogramme for *Samba*, and Rs. 55.00 per kilogramme for *Keeri Samba* in July 2021. Further, the guaranteed price for *Nadu* was further increased to Rs. 55.00 per kilogramme in September 2021. The PMB purchased around 44,948 metric tons of paddy stock from the 2020/2021 Maha harvest, while around 7,728 metric tons were purchased during the 2021 Yala season. Further, necessary approval was granted in February 2022 to purchase paddy for the 2021/2022 Maha season at Rs. 90.00 per kilogramme for *Nadu*, Rs. 92.00 per kilogramme for *Samba*, and Rs. 95.00 per kilogramme for *Keeri Samba* with the view to providing competitive prices for paddy farmers. The PMB expects to purchase around 300,000 metric tons of paddy during the 2021/2022 Maha season,

Figure 2.5
Rice : Supply and Demand

³ Household rice demand is computed using the average rice consumption of households based on Household Income and Expenditure Survey – 2016, which provides latest data for the purpose, and mid-year population in 2021.

and as of mid-March 2022, around 70,000 metric tons had been purchased. However, as the efficiency of the paddy purchasing programme of the PMB is constrained due to a host of factors such as the lack of infrastructure and logistics, including warehouse facilities, drying, and transportation facilities, private millers were able to buy significantly higher quantities of paddy at competitive prices in the open market. On average, the retail price of *Samba* was Rs. 136.52 per kilogramme in 2021, which was an increase of 30.8 per cent, compared to the previous year, while the average retail price of *Nadu* stood at Rs. 116.56 per kilogramme in 2021 in comparison to Rs. 100.01 per kilogramme reported in the previous year. Due to high price volatilities and to prevent exploitation of consumers amidst these developments, a Gazette was issued on 02 September 2021 setting a maximum retail price (MRP) for *Samba* rice at Rs.103.00 per kilogramme and *Nadu* rice at Rs.98.00 per kilogramme. However, this Gazette was later revoked towards end September 2021 leading to a price escalation thereon. Meanwhile, the Special Commodity Levy on imported *Samba*, *Nadu*, and *Raw* rice was reduced, considerably, from Rs. 65.00 to Rs. 0.25 per kilogramme from October 2021 to June 2022 with the aim of ensuring a sufficient and continuous supply of rice in the market.

Several measures were undertaken across the agriculture sector to uplift productivity in a sustainable manner in line with the National Policy Framework of the Government. With due consideration to the negative consequences of excessive use of agro chemicals, a ban on the importation of chemical fertilisers, pesticides and herbicides was imposed in May 2021. In this regard, several programmes were carried out for the expeditious adoption of sustainable agriculture practices, while encouraging local production of organic fertiliser, which gathered pace gradually. However, this swift policy move resulted in limited

availability of inorganic and organic fertilisers, creating concerns of sizeable yield losses in paddy cultivation and causing escalations in the price of paddy. Therefore, measures were taken to import natural organic fertiliser, chelated minerals, and micronutrients for paddy cultivation. The Government also planned to import Muriate of Potash for paddy cultivation during the 2022 Yala season. Another key initiative to encourage organic agricultural practices was the provision of an incentive of Rs.12,500 per hectare, capped at a maximum of one hectare, to farmers who produce organic fertiliser for their own paddy cultivation in the 2021/2022 Maha season. Further, organic and bio fertilisers were provided as subsidies for the 2021/2022 Maha season in order to address soil nutrient deficiencies in the paddy fields, while also assisting farmers to produce their own compost fertiliser for their usage. In this regard, laboratory facilities were made available to ensure the quality of compost fertiliser. Rice variety screening for organic cultivation was also carried out encompassing 10 popular varieties and 4 traditional varieties to select the best performing varieties. Creating new crosses and evaluating breeding lines were also carried out under the *Crop Improvement Programme*, while the *Production and Productivity Enhancement of Paddy Project* was continued with the aim of implementing a suite of agriculture technologies spanning the entire cultivation process starting from land preparation to harvest.

Tea

The production of tea recorded an overall growth of 7.4 per cent in 2021, driven by a significant expansion during the first half of the year, owing mainly to the lower base induced by the onset of the COVID-19 pandemic in the corresponding period of 2020. Following the significant increase of 24.0 per cent recorded in the first half of the year, a sharp contraction of

7.2 per cent was registered in tea production during the latter half of the year, largely driven by unfavourable weather conditions that prevailed during the months of November and December. Production of high, medium, and low grown tea, which contributes to about 22 per cent, 17 per cent and 61 per cent of the total production, respectively, expanded by 5.0 per cent, 9.1 per cent and 7.8 per cent, respectively, in 2021. In the meantime, the average yield in the smallholder sector increased to 1,880 kilogrammes per hectare, compared to 1,766 kilogrammes per hectare reported in 2020 and remained above the average yield of the large plantation sector.

Tea prices at the Colombo Tea Auction (CTA) remained elevated in 2021 compared to pre pandemic levels, but were still lower than those observed in 2020. The average price of tea decreased by 2.3 per cent to Rs. 619.15 per kilogramme during the year from Rs. 633.85 per kilogramme recorded in 2020. Accordingly, average tea prices of medium and low grown tea declined by 1.0 per cent and 3.5 per cent, year-on-year, respectively, while high grown tea reported a marginal increase of 0.6 per cent in 2021. Further, the average price received by smallholders for green leaves declined to Rs. 93.67 per kilogramme during the year from Rs. 94.36 per kilogramme in 2020. Although the average export price (FOB) of tea increased by 6.2 per cent to Rs. 920.76 per kilogramme during the year, the FOB price of tea in US dollar terms declined by 0.9 per cent during 2021. The dampening of average tea prices during the year can be partly attributed to the improvement in tea production as well as the increase in the quantity supplied to the auction during the year. Further, sharp increases in freight costs and other input costs, such as packing materials, adversely impacted prices during the year.

Several measures were undertaken by the Government to strengthen the tea industry in 2021. The Five Year Strategic and Action Plan for the Tea Sector in Sri Lanka (2021-2025) was finalised and actions were executed as planned during the year. The transition to an e-Auction system, which was a major stepping stone for the tea trade when initiated during the COVID-19 pandemic in 2020, continued to operate successfully and was upgraded as '*SmartAuction*' with strengthened trading and data features in 2021. Under the replanting, new planting, and infilling subsidy programme to increase the productivity of tea lands, the Sri Lanka Tea Board (SLTB) disbursed Rs. 79.8 million for 263 hectares across tea growing regions. The SLTB continued the Model Tea Garden project for middle scale tea estates, while providing Rs. 2.3 million for 17 lands and expects to establish 138 tea nurseries, of which 113 nurseries had been established as at the end of the year. The Cabinet of Ministers granted approval to utilise Rs. 1 billion from the Tea Promotion and Marketing Fund of the SLTB to provide a grant for tea exporters who are eligible under the Brand Promotion Scheme for the exporting of *Pure Ceylon Tea*. A tripartite agreement worth euros 1 million was signed by the SLTB to obtain financial and technical assistance in relation to obtaining a Geographical Indication (GI) certification for Ceylon Tea, which is expected to serve to recognise the quality and the unique characteristics of the product, as attributable to Sri Lanka. The Tea Small Holdings Development Authority (TSHDA) continued its efforts in relation to tea replanting and new planting programmes and crop rehabilitation subsidy programmes. In 2021, around 849 hectares of tea lands were replanted and about 678 hectares of new lands were converted into tea lands, while 3.3 million tea plants were used for infilling vacancies in tea lands. After a hiatus of over five years, the tea replanting subsidy for tea smallholders

was increased to Rs. 630,000 per hectare from Rs. 500,000 per hectare, while the new planting subsidy was increased to Rs. 500,000 per hectare from Rs. 400,000 per hectare. The Tea Research Institute (TRI) continued to execute research and development activities and service projects in line with its Strategic Plan (2019-2023), which strives to strengthen the sector in line with the Sustainable Development Goals, Five Year Strategic and Action Plan for Tea and the National Policy Framework of the Government.

Rubber

Rubber production continued to decrease in 2021 due to incessant rains in plantation areas, during tapping days along with the prevalence of fungal disease. Accordingly, production declined by 1.7 per cent to 76.9 million kilogrammes in 2021 from 78.2 million kilogrammes produced in 2020. Rubber production showed a rising trend during the first half of 2021, but declined notably thereafter. This was due to higher number of rainy days which dampened production in the last quarter of the year, which is generally considered as the peak yielding period of rubber plantations. The production of sheet rubber, which accounts for about 50 per cent of total rubber production, declined by 1.7 per cent, while crepe rubber production recorded a growth of 7.4 per cent during the period under review. The production of other categories of rubber, which accounts for around 32 per cent of total rubber production, declined by 6.2 per cent in comparison to the production of the previous year. In 2021, domestic consumption of rubber by local industries increased by 19.4 per cent to 133.9 million kilogrammes with the gradual recovery of the industry sector. Meanwhile, exports of raw rubber recorded a marginal decline of 1.7 per cent to 15.5 million kilogrammes in 2021, owing to low production.

Reflecting the escalation of natural rubber prices in global markets, rubber prices in the domestic market also displayed an increasing trend during 2021. At the Colombo Rubber Auction, the average price of Ribbed Smoked Sheet No.1 (RSS1) rubber increased by 31.1 per cent to Rs. 460.78 per kilogramme, while prices of latex crepe witnessed a significant increase of 74.4 per cent to Rs. 626.32 per kilogramme in 2021 over the prices recorded in 2020. Meanwhile, average auction prices of RSS1 and latex crepe rubber stood at Rs. 475.00 per kilogramme and Rs. 696.58 per kilogramme, respectively, as at end December 2021. Average FOB price of rubber also increased from US dollars 1.91 per kilogramme in 2020 to US dollars 2.72 per kilogramme in 2021. The surge in international prices during the latter part of the year was driven by supply shortages in global markets due to unseasonal and heavy rains that disrupted tapping operations in rubber producers amidst growing demand from East Asia.

The strategies that were implemented by the Rubber Development Department (RDD) and the Rubber Research Institute (RRI) for the development of the rubber sector continued in 2021, aiming at improving sectoral productivity as well as raising the value addition in the rubber industry. In line with the National Agricultural Policy, Rs. 60 million was allocated in Budget 2021 to provide subsidies for local small and medium scale entrepreneurs to engage in natural rubber related production and to transform small rubber lands into profitable commercial units by encouraging diversification of income streams. Under the Productivity Improvement Programme initiated by the RDD in 2020, targeting the small holding sector, activities related to new planting, replanting, preparation of abandoned land for tapping and enhancing productivity of lands were underway, while subsidies were provided for

Table 2.4
Trends in Principal Agricultural Crops

Category	Unit	2020 (a)	2021 (b)	Change (%)	
				2019/20 (a)	2020/21 (b)
1. Tea					
1.1 Production (c)	kg mn	278.9	299.5	-7.1	7.4
- Low Grown	kg mn	169.9	183.2	-10.5	7.8
- Medium Grown	kg mn	46.7	51.0	-0.9	9.1
- High Grown	kg mn	62.2	65.3	-1.3	5.0
1.2 Total Extent	hectares '000	266	267	33.0	0.3
1.3 Extent Bearing	hectares '000	266	267	37.7	0.3
1.4 Cost of Production (d)	Rs/kg	492.48	533.13	1.8	8.3
1.5 Average Price					
- Colombo Auction	Rs/kg	633.85	619.15	15.9	-2.3
- Export (F.O.B.)	Rs/kg	866.70	920.76	5.4	6.2
1.6 Replanting	hectares	812	1,123	-22.0	38.3
1.7 New Planting	hectares	424	696	-61.6	64.2
1.8 Value Added (e)	as % of GDP	0.6	0.7		
2. Rubber					
2.1 Production	kg mn	78.2	76.9	4.6	-1.7
- Sheet Rubber	kg mn	39.1	38.4	4.6	-1.7
- Crepe Rubber	kg mn	13.0	13.9	-10.2	7.4
- Other	kg mn	26.1	24.5	14.0	-6.2
2.2 Total Extent	hectares '000	138	139	0.2	0.6
2.3 Area under Tapping (f)	hectares '000	121	113	6.1	-6.0
2.4 Cost of Production	Rs/kg	213.50	221.00	1.7	3.5
2.5 Average Price					
- Colombo Auction (RSS 1)	Rs/kg	351.46	460.78	21.8	31.1
- Export (F.O.B.)	Rs/kg	353.84	540.77	6.5	52.8
2.6 Replanting (f)	hectares	976	1,470	-6.2	50.6
2.7 New Planting (f)	hectares	751	1,185	-31.9	57.8
2.8 Value Added (e)	as % of GDP	0.2	0.2		
3. Coconut					
3.1 Production	nuts mn	2,792	3,120	-9.5	11.7
- Desiccated Coconut	nuts mn	226	298	-41.5	31.8
- Coconut Oil	nuts mn	48	211	-81.0	340.6
- Other	nuts mn	2,516	2,607	2.9	3.6
3.2 Total Extent	hectares '000	505	505	0.2	0.2
3.3 Cost of Production	Rs/nut	21.81	21.25	19.0	-2.6
3.4 Average Price					
- Producer Price	Rs/nut	61.05	71.88	45.7	17.7
- Export (F.O.B.) (g)	Rs/nut	52.61	65.36	40.4	24.2
3.5 Replanting / Under Planting (h)	hectares	5,333	7,647	-10.1	43.4
3.6 New Planting (i)	hectares	8,000	1,387	16.9	-82.7
3.7 Value Added (e)	as % of GDP	0.6	0.7		
(a) Revised		Sources:			
(b) Provisional		Sri Lanka Tea Board			
(c) Includes green tea		Tea Small Holdings Development Authority			
(d) Includes green leaf suppliers' profit margin		Ministry of Plantation			
(e) In growing and processing only		Department of Census and Statistics			
(f) Extent covered by cultivation assistance schemes of the Rubber Development Department		Rubber Development Department			
(g) Three major coconut kernel products only		Coconut Cultivation Board			
(h) Extent covered by cultivation assistance schemes of the Coconut Cultivation Board (CCB)		Coconut Development Authority			
(i) The extent newly planted is calculated based on the amount of coconut seedlings distributed by CCB at a conversion rate of 158 seedlings for one hectare.		Sri Lanka Customs			
		Central Bank of Sri Lanka			

re-cultivation of abandoned lands, and to purchase rain guards and weeding equipment. Further, continued efforts were made in relation to new planting activities in non-traditional rubber cultivation areas, including Moneragala and Ampara districts, under the *Smallholder Tea and*

Rubber Revitalisation (STaRR) Project. As a part of its research and development activities, the RRI introduced an environment friendly and economically viable slow release fertiliser technique to improve crop performance across 14 estates under the Pussellawa, Agalawatta, Kelani Valley, and Kegalle plantations and 6 smallholder sites. The RRI also conducted 64 on-farm participatory research trials for compost application, covering a total extent of 131.8 acres in the Kalutara, Kurunegala, Matale, Kegalle, Matara, Galle, Colombo, and Ratnapura districts. Moreover, the Ministry of Plantation established an Inter-institutional Coordinating Committee for Development of Rubber Cultivation and Industries, comprising representatives of relevant ministries and institutions, with the intention of devising holistic policies to develop and strengthen the rubber industry and relevant value chains.

Coconut

Coconut production reached a historically high level with total nut production of 3,120 million nuts in 2021. Accordingly, coconut production recorded a growth of 11.7 per cent in 2021 compared to the contraction of 9.5 per cent recorded in 2020. The increase was largely driven by conducive weather conditions that resulted in well distributed rainfalls from the latter part of 2020 onwards and throughout 2021, in addition to favourable air temperature in key coconut growing areas. As coconut production recovered from its subdued performance in 2020, the output of major kernel products showed improvements during the period under review. Accordingly, the production of desiccated coconut increased by 31.8 per cent to 33,289 metric tons, while coconut oil production improved significantly by 117.8 per cent in 2021, compared to 2020. The increase in coconut oil production was a result of the policy initiatives of the Government to promote local coconut oil

production, while discouraging the importation and consumption of palm oil and other edible oil imports. Production of coconut cream, coconut milk, and coconut milk powder also increased in 2021. Despite the increase in production of total nuts, copra and fresh nut exports dropped in 2021, amidst growing industrial demand for processed products. Meanwhile, steps were taken to import frozen coconut kernel for coconut based industries, as local production was insufficient to meet the growing demand of the industry sector.

Prices of coconut and coconut based products remained at an elevated level during 2021 amid the high levels of coconut production reflecting the demand emerging from coconut based industries. Accordingly, the average auction price of coconut at the Colombo Coconut Auction increased to Rs. 56.51 per nut in 2021 from Rs. 48.89 per nut in 2020. The average retail price of coconut increased by 13.7 per cent to Rs. 83.90 per nut over 2020. Although the Government imposed MRPs for coconuts, in September 2020 ranging from Rs. 60 to Rs 70, based on circumference, coconuts were sold above the controlled prices in local markets, resulting in the revocation of price controls in June 2021. With the notable drop in edible oil imports and increase in edible oil prices in the global market, the average domestic price of coconut oil increased by 29.2 per cent to Rs. 443.42 per 750 ml bottle in 2021. The average local market price of desiccated coconut also increased further during the year to Rs. 537.25 per kilogramme compared to Rs. 447.56 per kilogramme recorded in the previous year.

The Government took a series of measures to improve productivity of coconut lands through initiatives focused on the creation of a sustainable coconut cultivation system. Accordingly, the Coconut Cultivation Board (CCB)

introduced a special subsidy scheme in 2021 to rehabilitate existing coconut lands using organic manure, soil mulching, and moisture conservation techniques. Also, the scheme for provision of coconut seedlings at a subsidised rate for systematic cultivation continued during the year. Steps were taken to establish efficient irrigation systems in coconut lands through a new subsidy system that supports the construction of micro irrigation systems, hose irrigation systems, and water sources in coconut lands. This is expected to help mitigate the effects of adverse weather on coconut cultivation. During the year, the Coconut Research Institute (CRI) also engaged in several activities relating to the production of genetically superior hybrid coconut seed nuts and the establishment of a new coconut seed garden to produce the high yielding *Kapsuwaya* hybrid coconut cultivar. The CRI also engaged in initiatives pertaining to the estimation of organic fertiliser requirements for coconut cultivation and the standardisation of solid and liquid organic fertiliser. The Coconut Development Authority (CDA) continued to offer support to coconut based industries by facilitating financial support to coconut product manufacturers and entrepreneurs, while ensuring continuous improvement in diversification and manufacture of value added coconut products.

Minor Export Crops

The growth momentum of minor export crops continued in 2021, despite COVID-19 related global supply chain interruptions. According to the provisional estimates of the Department of Export Agriculture (DEA), the production of minor export crops increased by 28.6 per cent in 2021 over 2020. Restrictions imposed by the Government on the importation of spices encouraged farmers to actively engage in cultivation, resulting in improved performance of the sector. The production of cinnamon, pepper,

clove, cardamom, coffee, cocoa, and nutmeg registered growths in 2021, while the production of betel declined marginally in 2021. Further, prices for pepper increased significantly following the rise in global demand for the crop, thereby providing financial relief to cultivators who had been suffering from low prices since 2016. With the initiation of the *Accelerated Turmeric Cultivation Development Programme* by the Government, turmeric cultivation expanded significantly during 2021 in line with the Government's goals of achieving self-sufficiency in the crop. Reflecting improved production, the export agriculture crop sector recorded its highest performance in 2021 with total export volume of the sector registering an increase of 20.4 per cent, while export earnings increased by 41.0 per cent, in rupee terms, during the year.

Several measures targeted at generating foreign earnings by enhancing the quality and productivity of export agricultural crops were adopted to uplift the performance of the export agriculture sector. Research and development activities relating to the expansion of cultivation of pepper, arecanut, ginger, turmeric, and betel in non-traditional areas such as Anuradhapura, Polonnaruwa, Ampara, Vavuniya and Jaffna continued in 2021. The DEA continued to implement initiatives to enhance the quality of production, including the introduction and popularisation of organic cultivation, Good Agricultural Practices (GAP), and Good Manufacturing Practices (GMP). Further, a number of development programmes, such as productivity improvement programmes, crop specific development programmes, and organic cultivation promotion programmes, were conducted in 2021 to assist in the establishment of economically productive cultivations. Technology related guidance and support were provided to farmers with the aim of enhancing post harvest practices and to induct them into value adding

activities using appropriate technologies. Cultivators were also provided with assistance to obtain quality certifications, and organic certifications through the organic cultivation promotion programme.

Other Field Crops

The production of Other Field Crops (OFCs) increased due to favourable weather conditions and rising demand for domestic produce, amidst bans on imports of these crops. Accordingly, in 2021, the overall production of OFCs increased by 27.3 per cent, year-on-year, to 843,297 metric tons, of which a significant portion was driven by the growth of 41.9 per cent registered during the 2020/2021 Maha season. The 2021 Yala season recorded an increase of 2.0 per cent over the previous Yala season. Domestic production of OFCs such as maize, finger millet (kurakkan), potato, big onion, green gram, black gram, ground nut and gingelly recorded an increase, while the production of red onion, green chillies, cowpea, soya bean and sorghum recorded a decline. Maize production registered a significant increase of 50.7 per cent to 472,444 metric tons during the year compared to 2020, as a result of several strengthening programmes conducted by the Government in order to improve domestic maize production. Also, importation of maize decreased by 47.8 per cent in 2021, due to measures undertaken to curb maize importation. Potato production, which declined by 36.0 per cent in 2020, rebounded with a growth of 16.6 per cent in 2021, while potato imports dropped by 8.0 per cent over 2020. Further, big onion production increased by 53.2 per cent to 65,907 metric tons compared to the previous year and importation of big onions decreased by 3.2 per cent to 257,421 metric tons in 2021. In the meantime, the Government adopted several measures to enhance domestic production of OFCs via specific

production improvement initiatives, on top of the continuous support offered through the distribution of seeds and planting materials. Accordingly, during the year, the Ministry of Agriculture (MoA) continued the construction of 102 island wide warehouses for OFCs, of which 76 projects had been completed as at end of 2021, with the aim of providing short-term storage facilities to farmers under the national programme to pave the way for improved food security, while also ensuring a fair price for crops. The Department of Agriculture (DoA) continued its efforts to promote GAPs, expand the extent of cultivation of OFCs, improve pest management techniques, and increase the usage of high yielding seeds, while focusing on improvements to water management. In order to strengthen domestic food security, further efforts are required to improve the supply of all OFCs by way of promoting seed production, optimal usage of agricultural inputs such as fertiliser and pesticides, expanding storage capacity, adopting best practices on climate resilient agriculture, increasing integration into value chains and establishing new marketing platforms.

Vegetables

The supply of vegetables declined in 2021 owing to the combined impact of inclement weather, the fertiliser shortage, and increased machinery and transportation costs. The total production of vegetables decreased by 1.4 per cent to 1,669,515 metric tons in 2021, in comparison to 1,693,095 metric tons recorded in 2020. This decline was mainly due to the lower production of vegetables during the 2020/2021 Maha season during which a contraction of 2.5 per cent to 871,729 metric tons was observed over the previous Maha season. Meanwhile, the 2021 Yala production also marginally declined by 0.2 per cent to 797,786 metric tons, compared to the corresponding season of 2020. The low production and disruptions in the

supply chain resulted in the volatility of vegetable prices throughout the year. Accordingly, vegetable prices remained elevated during the year except for slight declines seen in the months of March and September due to the seasonal harvest. Towards the end of the year, vegetable prices increased sharply, surpassing the seasonal price patterns, owing to the crop damages and supply chain disruptions caused by heavy rains, fertiliser shortage, and spread of pests and diseases due to the shortage of agro chemicals. Meanwhile, 21,540 metric tons of vegetables worth US dollars 28.5 million were exported, while 697,144 metric tons of vegetables worth US dollars 384.3 million were imported during 2021. Moreover, several government authorities continued to undertake measures to promote and strengthen domestic vegetable production during the year. The National Institute of Post-Harvest Management functioning under the MoA carried out several research and development projects, training and awareness programmes, and consultancy services to improve the adoption of technology, while assessing the impact of such technology-centric techniques on post-harvest management and their spillover effects on strengthening agribusiness development and improving food security. In early 2022, the Government initiated a national level programme for home gardening with the support of eight government agencies in order to increase vegetable and fruit production, and ensure food security.

Fruits

According to the provisional estimates of the Department of Census and Statistics (DCS), the production of fruits was estimated at 3.3 million metric tons in 2021. During the year under review, 43,426 metric tons of fruits, worth US dollars 38.0 million were exported, while 55,725 metric tons

of fruits, valued at US dollars 67.6 million were imported. The top three fruit exports comprised bananas, papaws and pineapples, while the top three fruit imports comprised apples, grapes and oranges. Despite the robust demand for local fruits, local producers possess limited capacity to cater to domestic demand. Accordingly, several measures were implemented by the MoA and DoA to enhance productivity, storage and distribution facilities and optimal usage of agricultural inputs, while ensuring the reduction of post-harvest losses. In June 2021, the MoA implemented a programme for District Secretaries or Government Agents to purchase stocks of vegetables and fruits that could not be conveniently sold, due to the imposition of mobility restrictions. Vegetables and fruits were to be purchased at prices determined by the respective District Price Committee thereby ensuring that farmers receive a fair price for their production. In March 2022, the Government took steps to limit the importation of several fruits, including oranges, mandarins, grapes, and apples as part of its measures to curb high expenditure on non-essential imports.

Sugar

Sugar production continued its upward trend in 2021 supported by favourable rainfall patterns and expanded cultivation extent. The total volume of sugar produced at the *Sevanagala*, *Pelwatte*, and *Gal Oya* sugar factories recorded a further increase of 17.9 per cent to 70,606 metric tons in 2021, over the growth of 14.5 per cent recorded in 2020. Accordingly, during the period under review, the production across the *Sevanagala*, *Pelwatte*, and *Gal Oya* sugar factories grew by 10.4 per cent, 28.8 per cent, and 11.2 per cent, respectively. The total extent under sugarcane cultivation (including ratoons) managed by the factories also increased by 3.5 per cent during the

year. Further, the *Ethimale Plantations*, which has commenced production activities is expected to make significant contributions to domestic sugar production in the near future. Meanwhile, re-establishment activities pertaining to the *Kantale* sugar factory and the sugarcane plantation were in progress, albeit at a modest pace due to legal issues. Although total sugar production and average yield increased in 2021, sugar productivity, as measured by the sugar recovery rate,⁴ decreased in 2021. These may be attributed to poor irrigation management, particularly during harvesting time, and inefficiencies in the quality based cane pricing system along with improper sampling systems in sugar factories.

Several strategies were implemented in the sugar industry, focused on productivity improvements in existing plantations and expansion of cultivation. Considering the high level of sugar imports over low domestic production, efforts to expand sugarcane plantations through provision of seed cane, establishment of multiplication plots and nurseries in various cane growing areas, and crop improvement and resource management practices continued throughout the year. In compliance with the Government's policy guidelines, several development programmes related to the shift away from inorganic farming practices and towards organic farming practices were in progress during the year. These included the introduction of organic fertiliser and biochemical and bio-control measures, and the formulation of a site-specific fertiliser recommendation model for sugarcane-growing soils. Meanwhile, the Sugarcane Research Institute (SRI) continued to undertake initiatives related to the setting up of new sugarcane factories in Weli Oya, Horowpathana and Bibile, while expanding sugarcane cultivation in the Skandhapuram area in Kilinochchi. The SRI

⁴ Sugar recovery rate = (Sugar produced/Quantity of cane crushed)*100

actively engaged in the process of updating the *National Sugar Sector Development Policy*, which was approved by the Cabinet of Ministers in 2016, to better reflect the current global and domestic situation. In light of the sharp rise in global sugar prices and the substantial foreign exchange spent on sugar imports, it is vital that the Government collaborates with these institutions to undertake a timely restructuring of the sugar industry, while exploring the potential for expansion of production capacity through the use of improved varieties, better agronomic practices and modern technologies.

Livestock

The performance of the livestock sector showed signs of improvement during 2021.

According to the estimates of the DCS, the total national milk production grew by 4.4 per cent to 513 million litres in 2021. The growth in milk production was mainly driven by an increase in the average producer price of cow milk, increased milk collection, and the addition of new dairy farms. The average cost of production of cow milk increased to Rs. 69.30 per litre in 2021 from Rs. 49.28 per litre recorded in the preceding year owing to the increased price of concentrate feed and high labour charges. However, due to the increased demand for liquid milk stemming from shortages of imported and domestic milk powder and the significant increases in milk powder prices, the price received by farmers for locally produced liquid milk was also relatively high during the year. Accordingly, the average farm gate price of a litre of cow milk increased from Rs. 82.00 in 2020 to Rs. 98.00 in 2021. As per the Department of Animal Production and Health (DAPH), the contribution of local milk production to meeting the country's total requirement stood at around 38 per cent in 2021. In the poultry

sector, egg production witnessed a growth of 4.5 per cent in 2021 compared to the previous year. However, the lack of feed ingredients and rising feed costs translated into reductions in the size and the number of eggs produced per bird. Further, poultry meat production increased by 9.5 per cent, while the cost of production of chicken increased from Rs. 342.07 per kilogramme to Rs. 434.19 per kilogramme in 2021. The local production of broiler parents broadly remained unchanged, while importation of broiler parents increased, resulting in a higher availability of broiler parent day-old chicks in 2021. During the period under review, the production of beef, pork and mutton increased by 4.4 per cent, 4.9 per cent and 1.0 per cent, respectively.

The Government continued to promote the livestock sector by implementing necessary measures and providing policy support during the year. Under the Livestock Breeding Project of the DAPH, around 196,364 artificial inseminations were carried out on cattle and buffalos during 2021 through divisional veterinary offices. Provision of cattle feed to improve the nutrition of female calves born through artificial insemination and vaccination against various animal diseases were also in progress during the period under review. Further, under the *Comprehensive Mastitis Control*

Table 2.5
Livestock Sector Statistics

Sub-Sector	2020 (a)	2021 (b)	Change (%)	
			2019/20 (a)	2020/21 (b)
1. National Herd (No.) (million)	1.4	1.5	3.0	2.6
Neat Cattle	1.1	1.1	1.6	2.5
Buffalo	0.3	0.3	8.2	3.2
2. National Milk Production (million litres)	491.5	513.3	9.8	4.4
Cow Milk	413.6	425.4	10.6	2.8
Buffalo Milk	77.9	87.9	5.9	12.9
3. Milk Products (million litres) (c)	n.a.	n.a.	-	-
4. Producer Price - Cow Milk (Rs./litre)	82.00	98.00	17.2	19.5
5. National Egg Production (No.) (million)	1,869.7	1,953.7	-10.3	4.5
6. National Poultry Meat Production (mt' 000)	216.2	236.7	-3.5	9.5

(a) Revised

(b) Provisional

(c) Based on data from Department of Animal Production and Health

Sources: Department of Census and Statistics

Department of Animal Production and Health

Programme, udder infusions were produced locally and issued to the dairy farmers to control and prevent clinical and subclinical mastitis in the national herd. Despite several initiatives to improve the dairy industry, the local dairy industry largely comprises small scale dairy producers, with average production levels ranging from 2-3 litres per day. Poor feeding practices along with the reduction in locally produced feed ingredients, higher calving intervals and breeding issues, inadequate infrastructure for milk storage, cooling, transportation and processing, and poor health status of cows continued to contribute to low productivity. Considering the country's urgent need for dairy sector development, upgrading the dairy industry to medium and large-scale farms, as well as ensuring the availability of high quality feed at affordable prices, establishing a cost reflective price mechanism for milk and milk products, and increasing the productivity of existing herds could greatly facilitate fulfillment of the domestic demand for milk and milk products. On the other hand, domestic maize production, which is largely used as the primary ingredient in domestic poultry feed production, is still insufficient to fulfill total demand, thereby creating difficulties in obtaining required feed and forcing feed producers to turn to high cost substitutes and resulting in feed price fluctuations and a significant drop in feed production. Accordingly, small scale poultry producers have become more vulnerable to market pressures. Therefore, encouraging domestic maize cultivation and introducing technology to increase productivity remain critical in ensuring the long term viability of the poultry sector, while also ensuring that temporary supply shortages are addressed in a timely manner.

Fisheries

The production of the fisheries sector remained subdued in 2021 following the steep contraction observed in 2020. Accordingly,

marine fish production, which comprises coastal and off shore sub sectors and accounts for around 76 per cent of the total fish production, increased by 1.5 per cent. Inland fishery production increased by 2.4 per cent mainly driven by the increase in shrimp farm production coupled with improved aquaculture practices. Meanwhile, during the second and third quarters of 2021, fish production was affected by the disruptions to marine fishing activities due to the *Xpress Pearl* vessel incident that caused significant damage to coastal and marine resources. The authorities took immediate measures to impose a temporary fishing ban in the affected areas from Kalutara to Negombo to ensure the safety of the fishing community and the consumers. Subsequently, the Government disbursed an allowance of Rs. 5,000 per affected family, while offering replacements for damaged fishing gear so as to safeguard the livelihoods of fishing communities. However, fish production and consumption witnessed a rebound in the fourth quarter of 2021. The retail price of fish varieties fluctuated throughout the year as a result of disruptions to fishing activities and increased logistics costs. According to the Ministry of Fisheries (MoF), fish exports increased by 25.6 per cent in volume terms and by 58.6 per cent in rupee terms in 2021, reflecting the impact of the measures taken by the authorities to provide necessary guidance and assistance to stakeholders in order to export high quality fish products in accordance with relevant regulations imposed by the importer countries. Fish imports declined notably by 34.5 per cent during the period under review.

The Government continued to undertake its efforts aimed at increasing the contribution of the fisheries sector to the national economy.

The MoF undertook several initiatives to enhance fish production, while focusing on the reduction in post harvest losses, which accounts for around 20-30

Table 2.6
Fish Production

Sub-Sector	2020	2021 (a)	mt '000	
			Change (%)	
			2019/20	2020/21 (a)
Marine	327	332	-21.3	1.5
Coastal and Lagoon	183	178	-24.7	-2.4
Off-shore	144	153	-16.5	6.3
Inland Fisheries	102	104	12.7	2.4
Capture	84	81	15.1	-4.3
Aquaculture	10	9	-5.3	-10.2
Shrimp Farms	7	14	15.0	95.8
Total	429	436	-15.2	1.7
(a) Provisional			Source: Ministry of Fisheries	

per cent of total production. Several initiatives were also underway to prevent illegal, unreported, and unregulated fishing activities. Construction activities of new harbours, upgrading of existing harbours, and construction of anchorages and landing sites were in progress during the year to enable large scale multiday fishing vessels to dock. Initiatives to improve modern cooling, storage and transportation facilities, which are essential logistics for improved fish production were also underway during 2021. The MoF, in collaboration with the National Aquaculture Development Authority (NAQDA), implemented a number of non-traditional farming initiatives to enhance inland fish and aquaculture production, improve exports and strengthen the rural economy. In this regard, the establishment of community based fish breeding units, the improvement of small scale

fish seed production units for post larvae rearing, and the rehabilitation and improvement of aquaculture development centers in order to increase fish fingerling production were in progress during the year. Initiatives to intensify shrimp culture were continued through various measures such as the installation of a water recirculation system, the improvement of biosecurity in farming areas, and the dredging of the Dutch Canal in Puttalam to access quality water. In addition to shrimp farming, the NAQDA also engaged in the promotion of commercial aquaculture through the development of sea weed, sea bass, crab, sea cucumber, and milk fish farming. Sea weed farming activities in the Jaffna, Kilinochchi, Mannar, and Puttalam sea areas and the construction of a milk fish hatchery in Puttalam were underway during the year. A sea cucumber hatchery in Mannar commenced operations in March 2021 and a sea cucumber village was established in Kilinochchi, while steps were taken to expand sea cucumber farming in Jaffna with a view to increasing sea cucumber exports. Furthermore, the development of new ornamental fish strains, the advancement of aquaculture technology, and the provision of brood fish and fish disease diagnosis activities were also underway in order to support the development of ornamental fish and aquatic plant culture and export sector.

Table 2.7
Availability of Major Food Commodities

Item	Unit	2010			2020 (a)			2021 (b)		
		Production	Imports	Per Capita Availability (kg per Year)	Production	Imports	Per Capita Availability (kg per Year)	Production	Imports	Per Capita Availability (kg per Year)
Rice (c)	mt '000	3,011	126	152	3,482	16	164	3,502	147	165
Maize	mt '000	162	16	9	314	44	16	472	23	22
Wheat	mt '000	-	1,051	51	-	1,404	64	-	1,307	59
Big Onion	mt '000	59	158	10	43	266	14	66	257	15
Sugar	mt '000	31	548	28	60	683	34	71	582	29
Potatoes	mt '000	52	130	9	65	127	9	76	117	9
Fresh Fish	mt '000	385	14	19	429	13	20	436	10	20
Cow Milk	mn litres	192	-	9 (d)	414	-	19 (d)	425	-	19 (d)
Coconut Oil	mt '000	65	3	3	20	79	5	43	99	6

(a) Revised

(b) Provisional

(c) 1 mt of paddy = 0.68 mt of rice

(d) Litres per year

Sources: Department of Census and Statistics

Sri Lanka Customs

Lanka Sugar Company (Pvt) Ltd. - Sevanagala Unit

Lanka Sugar Company (Pvt) Ltd. - Pelwatte Unit

Gal Oya (Hingurana) Sugar Industries Ltd.

Ministry of Fisheries

Coconut Development Authority

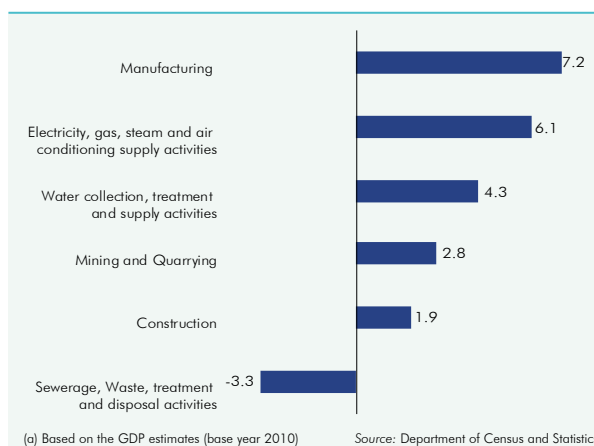
Industry

Benefiting from the pent-up demand and the continuation of the operations under the 'new normal', Industry value-added recovered by 5.3 per cent in 2021, from the contraction of 6.9 per cent registered in 2020, yet the figures masked the lingering damage caused by supply-side impediments. The recovery in manufacturing activities led the Industry growth while construction and, mining and quarrying activities recorded moderate expansions. Meanwhile, electricity, gas, steam, and air conditioning supply activities, and water collection, treatment and supply activities also expanded during the year, positively contributing to overall Industry activities. However, sewerage, waste treatment, and disposal activities contracted in 2021. Reflecting the recovery in Industry activities, the Demand and Production sub-indices related to the Industry activities of the Business Outlook Survey (BOS) conducted by the Central Bank on a quarterly basis, indicated an expansion on average during the year.

Manufacturing

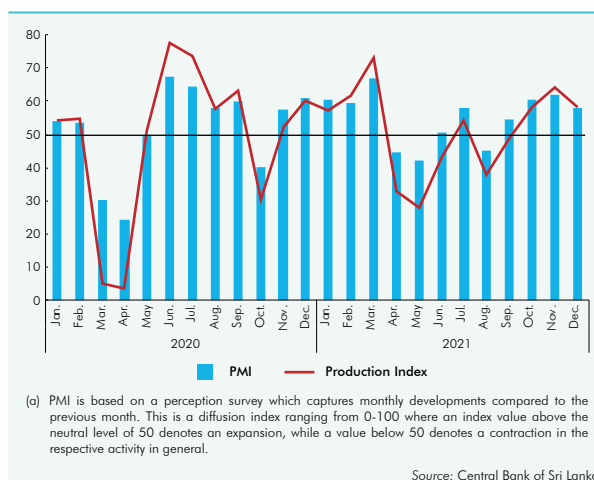
Continuing the operations under new normalcy, the value-added of manufacturing activities turned to a recovery path with a growth of 7.2 per cent in 2021, from the decline of 3.9 per cent recorded in 2020. The successful vaccination rollout in the country, relaxation of the pandemic-related mobility restrictions, allowing of continuous functioning of factory operations and the adjustment of the economic environment to 'new normal' provided an impetus to the recovery in manufacturing activities during the year. Accordingly, all manufacturing activities expanded during the year, except the manufacture of coke and refined petroleum products which was adversely affected by the temporary closure of the Sapugaskanda refinery. Manufacture of textiles, wearing apparel

Figure 2.6
Growth Rates of Industry Activities - 2021 (a)



and leather-related products was a key contributor to the overall growth of manufacturing activities, largely supported by the healthy external demand. Further, the manufacture of food, beverages, and tobacco products, rubber and plastic products, and other non-metallic mineral products also contributed considerably to the expansion in manufacturing activities. Considering the manufacturing-related indicators, the Index of Industrial Production (IIP) compiled by the DCS recorded an increase in 2021, indicating the recovery in manufacturing activities. Further, the Purchasing Managers' Index (PMI) for manufacturing activities, compiled by the Central Bank on a monthly basis, also indicated an

Figure 2.7
Purchasing Managers' Index - Manufacturing (a)



expansion of manufacturing activities on average during the year. However, the delays in the supply chain hindered the sector from reaching its full potential.

Index of Industrial Production

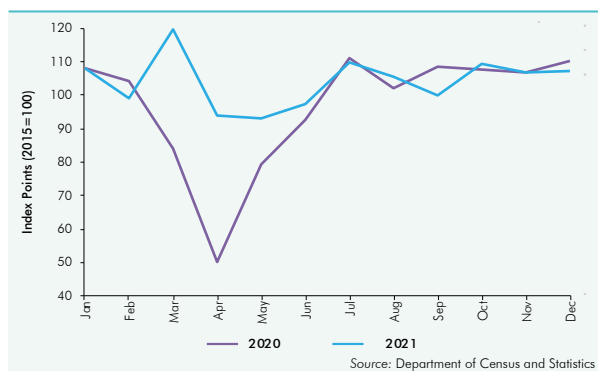
Following a notable setback in 2020, the manufacturing sector showed a rebound in 2021 despite the challenges brought about by the COVID-19 pandemic. As per the Index of Industrial Production (IIP) compiled by the DCS, with increased production across majority of the sub sectors, the manufacturing sector witnessed a significant growth of 7.3 per cent in 2021 compared to the decline of 10.2 per cent observed in 2020. The highest value of the IIP of 119.6 since its inception was reported in March 2021. Imposition of selective and less rigid mobility restrictions during the outbreaks of COVID-19 in 2021 allowed major industrial activities to continue without much disruption. The COVID-19 vaccination drive that picked up pace, especially during the second half of the year also facilitated the continuation of industrial activity. The positive performance of the IIP was primarily driven by the subsectors of manufacturing of wearing apparel, non-metallic mineral products, rubber and plastic products, textiles, basic metals and beverages. However, the overall positive momentum of the IIP was weighed down by the manufacturing of coke and refined petroleum products subsector, on account of occasional closures of the refinery.

Although food manufacturing activities remained subdued during the year, beverage manufacturing activities recorded a sizeable growth. The modest pace of growth observed in the largest sub-sector in the IIP, the manufacture of food products, was largely a result of disruptions to both domestic and global supply chains. Subsequent to a marginal contraction of 0.8 per cent registered

during the first half of the year, the sub-sector showed improved performance during the latter half leading to a marginal expansion of 0.2 per cent during the year, with increased production of chicken products, canned fish, jam, sauce and biscuits. Beverage manufacturing activities recorded a significant growth of 9.8 per cent in 2021 compared to the contraction of 6.7 per cent recorded in 2020. Improved demand for beverages was seen in line with the restoration of normalcy in the economy as restrictions on events and social activities were also lifted to a great extent.

The manufacturing of wearing apparel and textiles subsectors made strong headway during 2021 supported by the improvements in global supply chains, the policy decisions of the Government to facilitate the continuation of manufacturing activities amid pandemic related mobility restrictions and the low base reported in 2020. The manufacture of the wearing apparel sub sector, which accounts for around one-fifth of the IIP, registered a significant growth of 17.5 per cent in 2021 in comparison to the sharp contraction of 30.7 per cent in the previous year. The manufacturing of textile products also followed suit, reporting a significant expansion of 25.9 per cent in 2021 followed by a contraction of 5.6 per cent in 2020. The positive performances of these sub-sectors were driven by the overall rebound in the global economy, especially in key export destinations that enabled a steady recovery of export demand. The abating of disruptions to domestic and global supply chains, which had weighed negatively on the availability of raw materials also facilitated the growth momentum of the sector. Meanwhile, the rapid deployment of vaccines to workers engaged in this sector alongside the Government's decision to allow the continuation of manufacturing activities amidst COVID-19 related mobility restrictions helped minimise disruptions, enabling the sectoral performance of manufacture of wearing apparel and textile products to rebound.

Figure 2.8
Index of Industrial Production (IIP)



The subsectors of manufacture of other nonmetallic mineral products, basic metals, and fabricated metal products registered significant expansions of 23.0, 20.7 and 23.5 per cent respectively, in 2021 subsequent to the COVID-19 induced contractions in 2020. The positive performance of these subsectors was driven by the initiatives of the Government to improve the domestic production capacity, while imposing import restrictions on tiles and ceramic products. The rebound observed in the construction sector during the year also contributed to the improvement in demand for products from these subsectors. Increases in the production of cement, tiles, glass bottles, roofing sheets and porcelain tableware were key contributors to the expansion in production in the manufacture of other nonmetallic mineral products subsector. In particular, the overall expansions in the manufacture of basic metals and the manufacture of fabricated metal products subsectors were primarily driven by the increased production in lead and aluminum, aluminum bars, and steel and aluminum products.

Production of coke and refined petroleum products witnessed a sharp decline during the year, on top of the contraction reported in 2020, owing to the disruptions in the operations of the refinery of the Ceylon Petroleum Corporation (CPC). The manufacture of coke and

refined petroleum products subsector witnessed a contraction of 26.8 per cent during 2021 compared to the contraction of 9.0 per cent during the previous year. During the first half of 2021, the refinery was shut down for almost two months for maintenance purposes followed by a temporary closure of almost a month during the fourth quarter of 2021 due to lack of crude oil imports on account of foreign exchange issues and escalating crude oil prices that hampered timely procurement. In turn, a decline in the production of petrol, auto diesel, and furnace oil was observed during the year.

Policy directions to improve the local pharmaceutical manufacturing sector coupled with the essential nature of products

Table 2.8
Index of Industrial Production (IIP)
2015=100

Division	Weight in IIP (%)	Change (%)			
		2020(a)	2021 (b)	2019/20 (a)	2020/21 (b)
1. Manufacture of Food Products	35.2	109.1	109.3	3.3	0.2
2. Manufacture of Beverages	3.8	96.5	106.0	-6.7	9.8
3. Manufacture of Tobacco Products	1.7	72.1	77.9	-11.0	8.0
4. Manufacture of Textiles	3.3	102.2	128.7	-5.6	25.9
5. Manufacture of Wearing Apparel	19.8	81.2	95.4	-30.7	17.5
6. Manufacture of Leather and Related Products	0.3	77.6	78.6	-33.5	1.3
7. Manufacture of Wood and Products of Wood and Cork, Except Furniture; Manufacture of Articles of Straw and Plaiting Material	0.2	71.8	82.5	-29.5	15.0
8. Manufacture of Paper and Paper Products	1.7	81.8	86.5	-15.4	5.8
9. Printing and Reproduction of Recorded Media	1.4	112.6	117.9	9.4	4.8
10. Manufacture of Coke and Refined Petroleum Products	7.4	97.2	71.1	-9.0	-26.8
11. Manufacture of Chemicals and Chemical Products	4.1	94.2	89.8	-7.8	-4.7
12. Manufacture of Basic Pharmaceutical Products and Pharmaceutical Preparations	0.1	104.7	117.9	6.6	12.6
13. Manufacture of Rubber and Plastic Products	5.7	75.8	102.9	-28.8	35.7
14. Manufacture of Other Non-metallic Mineral Products	7.8	111.7	137.4	-5.2	23.0
15. Manufacture of Basic Metals	2.4	110.7	133.6	-10.9	20.7
16. Manufacture of Fabricated Metal Products (Except Machinery and Equipment)	1.3	100.9	124.6	-8.9	23.5
17. Manufacture of Electrical Equipment	2.0	67.5	81.4	-22.3	20.6
18. Manufacture of Machinery and Equipment n.e.c.	0.7	102.9	122.0	3.6	18.6
19. Manufacture of Furniture	0.8	77.0	77.5	-14.7	0.7
20. Other Manufacturing	0.3	65.7	69.6	-0.5	6.0
Index of Industrial Production		97.1	104.2	-10.2	7.3

(a) Revised

(b) Provisional

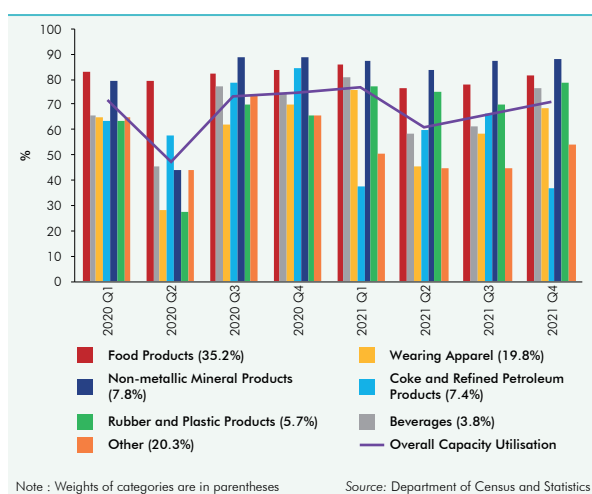
Source: Department of Census and Statistics

during the COVID-19 pandemic led to the manufacturing of basic pharmaceutical products and pharmaceutical preparations subsector to continue its growth momentum in 2021. Accordingly, the subsector registered an expansion of 12.6 per cent during 2021, continuing the expansion of 6.6 per cent registered in 2020. The increase in the demand for Ayurvedic products, predominantly driven by the pandemic, led to the continuation of the upward growth momentum of the subsector.

The manufacturing of rubber and plastic products subsector recorded a significant expansion during 2021. The COVID-19 induced demand for medical rubber gloves alongside significant improvements to the domestic production capacity of tyres resulted in the subsector registering a growth of 35.7 per cent. The growth of the subsector was also driven by the increased production of zippers, plastic bottles, and elastomeric yarn, among others. In 2021, production of tobacco products, which contracted for three consecutive years, registered a growth of 8.0 per cent in comparison to the contraction of 11.0 per cent witnessed in 2020.

The manufacture of leather and related products subsector and the chemicals and chemical products subsector also depicted subdued performance. The manufacture of leather and related products subsector recorded a marginal expansion of 1.3 per cent in 2021, while the manufacture of chemicals and chemical products subsector registered an overall contraction of 4.7 per cent. Key drivers of the decline of the latter were the reduced production of chemical fertilisers. However, both sectors showed signs of improvement towards the end of the year with the improvement in domestic demand conditions.

Figure 2.9
Capacity Utilisation

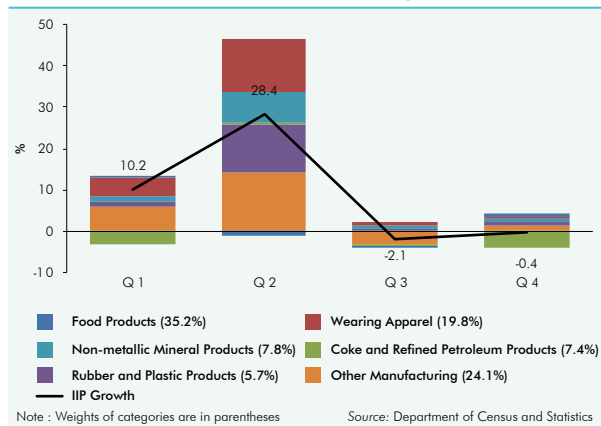


Other sub sectors of IIP, such as the manufacture of wood products (except furniture), electrical equipment, furniture, paper and paper products, machinery and equipment, and printing and reproduction of recorded media registered expansions during 2021. Increased production of corrugated papers, paper bags, and exercise book production contributed to the expansion in paper and paper products subsector, while physical school reopening and the resultant rebound in educational activities resulted in the increased production of printed books, which led to the positive performance of the printing and reproduction of recorded media subsector. The increase in production of several household appliances, in line with growing demand for domestic products, amid import restrictions, led to the expansion of the manufacture of electrical equipment sub sector.

Industrial Policies and Institutional Support

During the year, the Government continued to undertake several initiatives aimed at strengthening the industrial sector to enhance

Figure 2.10
Contribution to Year-on-Year Change in IIP in 2021



the domestic production base. The completion of the drafting of the *National Policy for Industrial Development* (NaPID) marked a key milestone in 2021. The drafting of the NaPID was preceded by an industry diagnosis report that served to provide a comprehensive and indepth analysis, diagnosing the factors that were hindering the progress of industrial development. The NaPID strives to establish a globally competitive industry for sustainable and inclusive growth, while also focusing on the advancement of green growth and digitalisation. Meanwhile, initiatives were underway to establish an industrial zone in Katunayake Kaludiyawela and to expand the Kalutara industrial estate under the *Regional Industrial Estates Development Programme*. In line with the Government's target to expand the scope of mineral-based industries, preliminary work was underway to commence a *Value Addition Project for Mineral Sands* excavated by Lanka Mineral Sands Limited, as a Public Private Partnership (PPP). Meanwhile, the Standard Operating Procedure (SOP) guidelines for the automobile manufacturing, assembling, and manufacturing of spare parts industry were implemented during the year. At end 2021, 13 manufacturing companies were registered under the SOP, while 2,361 vehicles were assembled. Moreover, the approval of the Cabinet of Ministers

was granted to setup 5 techno parks in Galle, Kurunegala, Kandy, Nuwara Eliya, and Habarana areas under the purview of the Ministry of Technology with the aim of attracting foreign investments in the form of new ventures with advanced technology, which may improve the export base of the country as well as create knowledge spillovers. During the year, the MoF also initiated the establishment of a virtual platform for Small and Medium Enterprises (SMEs) with the support of the Asian Development Bank (ADB) targeting the enhancement of technical capacity of women entrepreneurs. With the view of improving and sustaining a national innovation ecosystem, the *National Innovation Agency* (NIA) was established under the State Ministry of Skills Development, Vocational Education, Research and Innovation in November 2021. The NIA is expected to facilitate collaborations between industry, academia, and the Government to harness and enable commercialisation of innovations across all sectors in the economy. The State Ministry of Skills Development, Vocational Education, Research and Innovation undertook various measures to catering the educational needs of the industrial sector. During the year, the *Nipunatha Sisu Saviya* bursary scheme was implemented to provide a monthly stipend of Rs. 4,000 to vocational trainees of low income families. Moreover, several infrastructure development projects were in progress to modernise technical colleges and improve vocational training centers under the *Tech Udana Programme*.

The Board of Investment (BOI) and the Export Development Board (EDB) engaged in various development initiatives to facilitate foreign and local investment for domestic manufacturing industries. During the year, a modern pharmaceutical manufacturing zone was established in Arabokka, Hambantota aimed at strengthening Sri Lanka's pharmaceutical industry to cater to both the domestic and international

market. Accordingly, this project is to be developed in 2 phases, each of which will accommodate 20 companies in each stage. A textile manufacturing zone was also established during the year, in Eravur, to reduce material lead time and input costs with the availability of locally sourced fabric. The fabric park has already attracted investments amounting to US dollars 35 million. Moreover, the approval of the Cabinet of Ministers was granted to develop a large scale tyre manufacturing plant at the Hambantota International Port as a strategic development project. The project is expected to entail the use of local rubber resources for tyre manufacturing and subsequent exporting. During the year, the EDB completed the development of the regulatory framework for the conduct of the boat building industry. Further, export advisory committees were appointed under the EDB Act No. 40 of 1979 covering 24 key export sectors for a period of five years. The advisory committees are expected to create collaborations between the public and private sector to identify market challenges and opportunities, while undertaking initiatives to strengthen competitiveness and outline required policies. Moreover, in collaboration with the Tertiary and Vocational Education Commission (TVEC), the EDB prepared a vocational education training plan to identify the skill gaps and training requirements of the Electrical and Electronics industry in Sri Lanka. Further, the EDB coordinated a series of webinars, buyer linkup gatherings, and training programmes to encourage and build the capacity of export oriented SMEs and that of women entrepreneurs. The EDB also continued to extend its support to export businesses affected by the COVID-19 pandemic, through the development of sectoral revival programmes, formalised help desk, exporter forums, and e-marketplace to facilitate potential trade activities.

The National Gem and Jewellery Authority (NGJA) undertook various steps to enable Sri Lanka to position itself as a leading gem center in the region. Accordingly, during the year, discussions were held with Madagascar, Tanzania, and Nepal to import rough gems into Sri Lanka for value addition. The NGJA also successfully implemented a *One-Stop-Shop* to simplify the process of obtaining various licenses and approvals for unutilised underground gem resources. It also undertook measures to ease gem mining restrictions and associated charges to promote the sale of gems and jewellery. Further, a 14 per cent tax imposed on the profits earned by gem and jewellery industrialists were waived off in April 2021 to encourage manufacturing, while increasing the value threshold of gems that could be sold through virtual platforms. Moreover, construction work related to the international gem tower in Ratnapura was underway during the year.

Other government authorities continued to provide institutional support to industrial sector and policy formulation. The National Enterprise Development Authority (NEDA) continued its endeavours to popularise the *Made in Sri Lanka* logo through several trade fairs in 2021. During the year, 37 SMEs were authorised to use the logo in recognition of their products entailing high value additions and with the view to promote and uplift such products to be marketed at a global level. Further, the *Made in Sri Lanka* Business to Business (B2B) online trade portal was launched in December 2021 to expand the marketing opportunities available to SMEs. By the end of the year, 346 sellers had registered with this portal. The *Regional Entrepreneurship Development Programme* and the *Upadidari Vyavasayaka Udanaya Programme* were continued in 2021, promoting entrepreneurship and forming pathways for university graduates to develop as successful

entrepreneurs. Accordingly, 5,179 regional level entrepreneurs were trained, and 71 university graduates were provided with grants through these programmes. In the meanwhile, the Industrial Development Board (IDB) established a *Smart One Stop* facilitation center for the Hambantota area to facilitate initiatives in the area, while promoting industrial development in the Southern province. During the year, the IDB also commenced the *Dayata Punarudayak - Karmanthayata Jeewayak Programme* to empower and support small scale entrepreneurs. The National Productivity Secretariat (NPS) continued to conduct district level and institutional level productivity improvement programmes aimed at creating a people-centric economy through the empowerment of SMEs.

Several institutions continued to facilitate technology driven initiatives with the aim of elevating technological innovation which has been identified as essential to a dynamic industrial sector. Accordingly, the National Institute of Fundamental Studies initiated the preparation of a technology transfer policy to facilitate the application of technology and research in the industrial sector. Moreover, during the year, virtual training and education sessions pertaining to patent awareness, technology transfer and commercialisation were organised by the Coordinating Secretariat for Science, Technology and Innovation (COSTI) in collaboration with the World Intellectual Property Organisation. Further, the National Engineering Research and Development Center of Sri Lanka together with the State Ministry of Rattan, Brass, Pottery, Furniture and Rural Industrial Promotion conducted several virtual technology dissemination seminars to facilitate development of SMEs amid the pandemic. Meanwhile, the Sri Lanka Institute of Nanotechnology (SLINTEC) continued its technology transfer and commercialisation initiatives pertaining to emerging fields of studies,

including value addition to local graphite, post-harvest technology, nano-fertiliser, and novel healthcare innovations against COVID-19. The National Science Foundation (NSF) facilitated the development of the domestic manufacturing sector through the provision of 11 new research and development grants to multiple sectors including health, agriculture, engineering, and education. During the year, the Industrial Technology Institute (ITI) commenced testing services pertaining to several novel laboratories including pharmaceutical laboratory, lubricant and petroleum oil testing laboratory, and packaging testing laboratory. The ITI also entered into 10 Memorandum of Understandings (MoUs) during the period with various ministries, industries, international universities, and other authorities to establish technological partnerships and facilitate collaborative academic and research activities.

The Industrial Chambers continued to provide training and promotional assistance to enhance the competitiveness of Sri Lankan industries. During the year, the National Chamber of Commerce of Sri Lanka (NCCSL) conducted several training and knowledge sharing programmes aimed at facilitating importers and exporters to overcome contemporary issues and challenges arising from the COVID-19 pandemic, while business development programmes were also conducted at international levels including virtual B2B sessions and business forums to create trading opportunities for Sri Lankan exporters. Further, the NCCSL entered into several MoUs with regional and international institutions during 2021, thereby establishing networks with counterpart organisations. The Ceylon Chamber of Commerce (CCC), in collaboration with an international partner, implemented the *Exporter Barometer Survey* in late 2021. The survey is to be conducted bi-annually to obtain exporter insights. Further,

facilitating trade and business promotion, the CCC conducted a series of international webinars, B2B sessions, and meetings with both local and foreign diplomats. Moreover, with a view to enhancing institutional cooperation across industrial sectors, the CCC entered into MoUs with 6 international level chambers during the year. Meanwhile, the Sri Lanka Chamber of Small and Medium Industries conducted capacity building and motivational programmes to support the SME sector.

Several loan schemes were introduced in line with the National Policy Framework to ensure that SMEs were provided with the necessary financial support in 2021. The *Kiri Shakthi* loan scheme was implemented during the year providing loans amounting up to Rs. 1 million each at a concessionary interest rate of 7.5 per cent per annum, with the target of strengthening of small and medium size dairy farmers. Accordingly, 739 loans were granted under this credit scheme, thereby leading to the disbursement of Rs. 400.4 million in 2021. Further, as per the decision of the Cabinet of Ministers to provide financial support to the manufacturers of organic fertiliser, pesticides and herbicides, a special loan scheme was introduced. Meanwhile, guidelines and instructions were issued by the Central Bank to financial institutions on implementing debt moratorium and working capital loan facilities to revive SMEs, self-employed, and individuals affected by the COVID-19 pandemic. During the year, the MOF also expedited the establishment of the National Credit Guarantee Scheme to strengthen the SME sector. Moreover, the *Rooftop Solar Power Generation Line of Credit* and the *Small and Medium Enterprise Line of Credit* schemes were continued with the financial support of a donor agency. By the end of 2021, Rs. 23.4 billion had been granted under these two credit schemes.

Construction, and Mining and Quarrying

Bolstered by the renewed demand for real estate and housing, and the resumption of projects, construction value-added picked up by 1.9 per cent in 2021, recovering from the contraction of 13.2 per cent recorded in 2020, yet the raw material shortage hindered the full recovery. Considering construction-related indicators, total cement availability in the country recorded a marginal decline, while building material imports recorded an increase during 2021. Meanwhile, credit to the private sector granted by Licensed Commercial Banks (LCBs) for construction activities, including personal housing construction activities, also recorded a growth as of end December 2021, denoting an increased availability of funds for construction activities. However, the third wave of the pandemic, which spanned during the second and third quarters of the year and disruptions to global and local supply chains affected adversely to the construction-related activities. The business surveys related to construction activities conducted by the Central Bank indicated that supply-side disturbances, especially the short supply of key raw materials such as cement, steel and tiles, as well as the rapid price increases hindered the full potential of the industry. Meanwhile, mining and quarrying activities which mainly consist of mining activities that provide inputs to the construction activities such as sand mining, recorded a growth of 2.8 per cent in 2021, largely benefitting from the recovery in construction activities, compared to 12.5 per cent contraction recorded in 2020. With regard to the other mining-related indicators, phosphate production recorded an increase in 2021, indicating a favourable performance in mining activities. Considering the gem mining related indicators, gem export volumes recorded an increase in 2021.

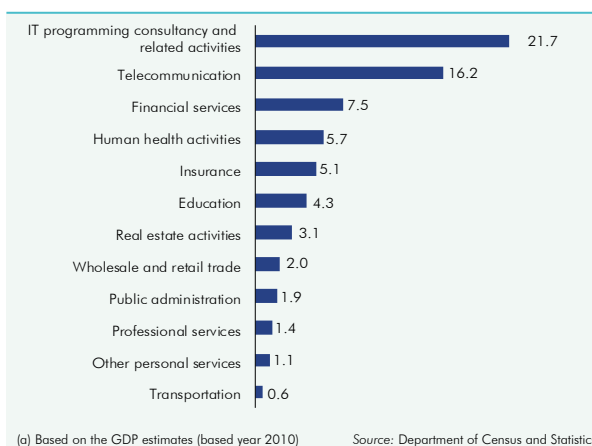
Electricity, Water and Waste Treatment

Mainly driven by electricity and gas supply-related activities, the value-added of electricity, water and waste treatment activities rebounded by 3.9 per cent in 2021, compared to 0.8 per cent contraction recorded in 2020. The largest contributor to the improvement in this category, electricity, gas, steam and air conditioning supply activities grew by 6.1 per cent during the year compared to the contraction of 1.6 per cent recorded in 2020. Considering electricity generation data, the total electricity generation increased significantly in 2021, mainly due to higher demand from the industry sector with the recovery in the economy. Among the other sub-economic activities within the category, water collection, treatment, and supply activities grew by 4.3 per cent during the year compared to 4.8 per cent growth in 2020. However, sewerage, waste treatment, and disposal activities declined by 3.3 per cent in 2021 on top of the 1.0 per cent decline recorded in 2020.

Services

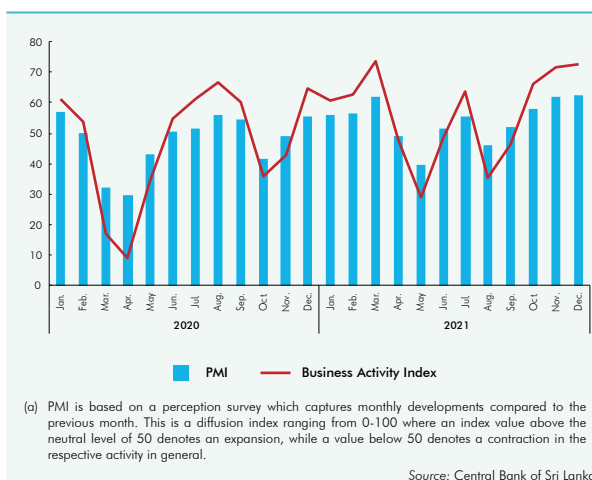
With the rebuilding of economic interaction and pick-up in household consumption, the value-added of Services activities climbed up by 3.0 per cent in 2021, from the 1.6 per cent downturn in 2020. The recovery was upheld by the expansion in financial services while wholesale and retail trade activities and real estate activities also expanded during the year, benefitting from the relaxed pandemic-related restrictions. Further, supplemented by the pandemic-induced demand, IT programming, telecommunication and health activities also expanded during the period. Moreover, the recovery in other personal service activities, professional services, insurance and transportation services, together with the growth in

Figure 2.11
Growth Rates of Services Activities - 2021 (a)



public administration, education services and postal and courier services also contributed positively to the overall growth. Moreover, accommodation, food and beverage service activities rebounded during the year, recording a moderate growth after two consecutive years of contraction. Mirroring the services performance, the PMI for Services activities, compiled monthly by the Central Bank, indicated an overall expansion. Moreover, the Demand and Sales sub-indices of the BOS related to Services activities denoted an increase on average during the year, indicating the pickup in Services activities.

Figure 2.12
Purchasing Managers' Index - Services (a)



Wholesale and Retail Trade

Wholesale and retail trade activities recorded a moderate growth of 2.0 per cent in value-added terms in 2021, compared to 1.4 per cent growth recorded in 2020, induced by the policy stimuli and relaxed mobility restrictions.

The trade activities were sustained by the gradual adoption of the country to conduct operations under the 'new normal'. Further, the Government also provided periodic liquidity support by way of financial assistance, buoying the disposable income of consumers. The total imports volume index recorded an increase during the year, mainly due to imports of investment and intermediate goods, while the volume of consumer goods imported recorded only a marginal decline. Moreover, loans and advances to the private sector provided by Licensed Commercial Banks for wholesale and retail trade activities increased substantially at the end of 2021, compared to end 2020.

Transportation and Storage

With the intermittent imposition of mobility restrictions, the value-added of transportation activities recovered marginally by 0.6 per cent, compared to 6.8 per cent decline recorded in 2020. Transportation activities that were adversely affected from the onset of the pandemic indicated an improvement during early 2021, yet was later dampened by the emergence of the third wave of the pandemic. However, the easing of mobility restrictions from the beginning of the fourth quarter benefitted the revival of the transportation activities. Even though passenger conveyance was adversely affected due to the lower usage and the limited availability of public transportation during the pandemic-hit periods, the goods transportation, as an essential service, was broadly uninterrupted during 2021 compared to the previous year. The operations in seaports stepped up during the year despite the abating of global

supply chains. Accordingly, an increase in container handling (in terms of Twenty-Foot Equivalent Units) and cargo handling was observed during the year. Further, the freight kilometers flown by Sri Lankan Airlines also increased in 2021. However, the passenger kilometers operated by the Sri Lanka Transport Board, private bus operators and Sri Lankan Airlines continued to contract during 2021.

Accommodation and Food Service Activities

The gradual rebound in tourist arrivals and staycations provided impetus to the value-added of accommodation, food and beverage service activities to recover by 1.9 per cent in 2021, compared to 39.4 per cent contraction recorded in 2020. Tourism-related activities were hit hard by the pandemic due to the imposition of international and domestic travel restrictions. The country gradually lifted inbound travel restrictions by introducing bio-bubbles for international tourists along with attractive tour packages, resulting in a strong month-on-month growth in tourist arrivals towards the latter part of the year. Further, domestic tourism activities rebounded during the year as many hotels offered exclusive discounts for local travellers. Nevertheless, the recovery of accommodation, food, and beverage service activities was largely hindered by the third wave of the COVID-19 pandemic.

Financial, Insurance and Real Estate Activities including Ownership of Dwellings

Continued increase in financial services steered the value-added of financial, insurance, and real estate activities including ownership of dwellings which grew by 5.6 per cent in 2021, compared to 4.7 per cent growth recorded in 2020. Accordingly, financial services activities and

auxiliary financial services expanded by 7.5 per cent, compared to 10.9 per cent growth in 2020. Reflecting the continuous expansion in financial services, the loan book of banks and non-bank financial institutions increased substantially during the year while the deposit base also expanded, despite the challenging environment. Further, as pointed out in the Credit Supply Survey conducted by the Central Bank on a quarterly basis, the demand for credit was at elevated levels due to the low-interest rate environment while the willingness to lend was also at healthy levels due to the surplus liquidity that prevailed for most part of the year. Meanwhile, insurance, reinsurance, and pension funding activities recovered by 5.1 per cent in 2021, compared to the contraction of 3.3 per cent recorded in 2020 while the real estate activities, including ownership of dwellings, grew by 3.1 per cent in 2021, recovering from 1.2 per cent contraction experienced in 2020.

Information and Communication

Benefiting from the opportunities opened-up from the pandemic, the value-added of telecommunication, and IT programming and consultancy services continued the momentum in 2021 growing at a healthy rate of 17.5 per cent on top of 14.1 per cent growth achieved in 2020. The telecommunications industry played a key role in maintaining socio-economic interaction during the pandemic. Accordingly, the sector substantially benefitted from the pandemic-induced extra demand for voice and data with the increased reliance on work-from-home arrangements, online education and entertainment. Accordingly, telecommunication activities grew significantly by 16.2 per cent during the year, compared to 15.4 per cent growth in 2020. The industry responded strongly to high demand, by extending the coverage

and capacity levels, improving the service quality, and introducing special packages catering to needs such as working-from-home and learning-from-home arrangements. Meanwhile, IT programming consultancy and related activities also grew significantly by 21.7 per cent in 2021, compared to 10.0 per cent growth in 2020, underpinned by the surge in demand for technology-based solutions such as digital media, networking, cyber security, cloud computing services, artificial intelligence and automation.

Other Services Activities

Most of the other service-related economic activities which dived in 2020 due to the adverse impacts of the first two waves of the COVID-19 pandemic managed to recover in 2021 despite the disturbances from the recurrent waves. Accordingly, other personal services activities consisting of personal services such as arts, entertainment and recreation, laundry services, hairdressing and other beauty treatment, and funeral and related activities, which contracted by 6.5 per cent in 2020, grew by 1.1 per cent in 2021, due to the comparatively favourable environment. Further, professional services activities also grew by 1.4 per cent in 2021, recovering from the 2.7 per cent contraction recorded in 2020. Moreover, public administration and defense activities grew by 1.9 per cent in 2021, compared to the 1.6 per cent growth observed in 2020 while human health activities which remained active during the pandemic grew by 5.7 per cent in 2021 on top of 4.3 per cent growth recorded in 2020. Further, education, postal and courier services, and programming and broadcasting activities also contributed positively to overall economic growth during the year.

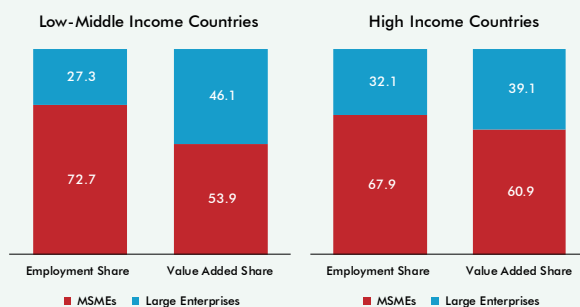
BOX 4

Catalysing Micro, Small and Medium Sized Enterprises (MSMEs) as a Growth Driver and Challenges

Introduction

Micro, Small and Medium Sized Enterprises (MSMEs) remain the core and account for the vast majority of enterprises, while providing a significant source of employment, yielding a greater proportion of output in most countries around the world. They account for about two thirds of employment and contribute to more than 50 per cent of GDP in many countries.¹ Contribution of the MSME sector to the economic output is generally found to be higher in high income countries than in medium and low income countries, highlighting the potential of their contribution to growth, particularly in developing nations (Gonzales, Hommes and Laura, 2014).

Figure B 4.1
Median Shares of MSMEs and Large Enterprises (Per cent)



Source: Adapted from MSME Country Indicators, IFC (Gonzales, Hommes and Laura, 2014), with new data from the 2019 MSME Economic Indicators Database, available at SME Finance Forum (<https://www.smeffinanceforum.org/>)¹

Generally, MSMEs span across all forms of social clusters, including rural and low income areas, with a large share of such firms being informal establishments. It is also reported that there are about 365-445 million MSMEs in emerging economies, while over three-fourths of such establishments are found to be informal enterprises (International Labour Organization, 2016). MSMEs appear to heavily contribute to increasing the income levels of low income families, and thereby contribute to reducing disparities in the income distribution. Further, as a result of their small size and customer centric business models, small businesses are also more flexible and better able to withstand changes in the economic landscape by adapting to the changing environment and new advancements in technology. Therefore, MSMEs can improve the resilience of an economy up to a certain extent and pave the way for growth and development.

¹ Based on data from the MSME Economic Indicators Database 2019, available at SME Finance Forum (<https://www.smeffinanceforum.org/>), which contains secondary data of registered MSMEs in 176 countries. Information for the latest available year is considered, which may not necessarily be the same for all countries. Due to differences in source institutions and time, data are not standardised, thereby somewhat limiting country comparability. Based on availability, the numbers of data points used to arrive at median values are 80 for employment share and 38 for value added share.

MSMEs as a Growth Driver

A considerable body of literature provides statistical evidence to prove a positive relationship between the existence of MSMEs and the overall economic growth of a country. Successful MSMEs usually evolve into large organisations, and such organisations contribute to economic growth immensely. MSMEs make an important contribution to the economy as a breeding ground for large firms, an employment provider, and a facilitator of innovation, thereby leading to inclusive and balanced growth.

A breeding ground for large organisations: Most successful economies comprise a healthy mix of both large and small firms. Large firms typically are more productive, have the capacity to invest in capital intensive projects, facilitate research and development on a larger scale, and in turn facilitate the creation of new knowledge contributing to yield growth episodes. On the other hand, MSMEs play an important role by acting as a breeding ground for such large organisations, which in turn would promote the businesses of MSMEs by expanding supply chains. Most modern global business giants, such as Samsung, Apple, Microsoft and Facebook initiated their operations as small businesses and developed gradually into their current status, thus highlighting the potential of such small businesses to transform into any scale, and ultimately drive respective national and regional economies. In fact, a healthy MSME sector can contribute to improving entrepreneurship skills among the general population of a country, in turn augmenting human capital, which is a prerequisite for sustainable growth.

MSMEs increase employment and overall output in an economy: MSMEs, being the largest segment involving a significantly large number of enterprises, provide employment opportunities for the majority of the population. This in turn help in increasing the spending power of the general public, which drives up consumption and boosts overall economic growth. As MSMEs span across multiple sectors of the economy, empowering a large number of people in terms of livelihood and contributing to reducing inequality, these establishments play an important role in achieving the Sustainable Development Goals (SDGs), thereby supporting respective economies to record sustainable growth episodes. Further, as achievements of SDGs generally cast a positive image on countries, a healthy MSME sector can play an indirect role to support economies by improving investor sentiments as well.

MSMEs increase competition among firms: MSMEs can increase competition in their respective business environments by identifying niche business propositions. Under an enabling environment, increased levels of competition created by MSMEs can encourage innovative ideas, which is an essential element of sustained growth

paths. Recent successes of fresh ideas such as Uber and Lyft for ridesharing and Airbnb for homestay facilities, and the multitude of similar adaptations provide evidence for the innovative capacity of MSMEs and how they can enrich the lives of numerous stakeholders, who are not usually parts of large traditional organisations.

Importance of MSMEs in Developing and Emerging Economies

The contribution of MSMEs to the development process is particularly important for emerging and developing economies as they play an effective role in alleviating poverty by facilitating sustainable development and innovation. As per the estimates of the World Bank, about 600 million jobs will be needed by 2030 in order to accommodate the growing population. Given typically high levels of population growth in developing countries, the role of MSMEs as an employment provider becomes extremely vital. In this regard, MSMEs are more important than large organisations, as MSMEs are generally more labour intensive and have the potential to absorb large labour forces in developing and emerging countries. Further, developing countries can utilise MSMEs to address issues such as improving female labour force participation, effective use of underutilised natural resources, and diversifying economic activities across various sectors. At the same time, the innovative capacity of MSMEs, given enabling conditions, could assist developing and emerging economies to avoid growth stagnation, enabling them to elevate into higher income countries. It is noted that the growth prospects of Asian economies, such as Korea, Malaysia, Indonesia, Thailand, India etc., are driven by small businesses which are innovative, highlighting the importance of policy support to facilitate innovative activities in MSMEs (Asian Productivity Organization, 2015).

Challenges Faced by MSMEs

Although certain characteristics, for example, the small size of MSMEs, can be advantageous in some areas, the nature of MSMEs can sometimes become an issue, leading to substantial challenges, such as those discussed below, ultimately leading to low productivity of MSMEs in comparison to large firms.

Limited access to finance: Difficulties in access to finance is one of the key obstacles faced by MSMEs across many countries. As proved in studies, such limited access to finance remains the main hindrance to the growth of MSMEs. As a result, undertaking capital intensive projects is difficult for most of these establishments. Reasons highlighted in the literature for difficulties of MSMEs in obtaining services of formal financial institutions include, among others, information asymmetry, limited availability and low quality of collateral, low financial literacy of MSMEs, high delinquency rates, and limited expertise of lenders themselves in assessing MSME ventures. As a result of these limitations, attracting financing via banks, especially for project financing, becomes particularly difficult without collateral.

Limited business skills and inability to retain human resources: Lack of expertise in fields such as finance, accounting, taxation, human resource management and marketing which are integral elements for the success of any business endeavour, also remains a key issue observed in MSMEs. Moreover, by nature, MSMEs lack the buffers to absorb large losses, thus they are highly vulnerable to business cycles and shocks emanating from domestic and international fronts. Inability to retain key employees is also perceived as a concern hindering the progress of MSMEs. In many instances, job opportunities provided by MSMEs tend to be temporary, driving employees to constantly search for other opportunities. At the same time, MSMEs often cannot compete on pay and benefits offered by large organisations, especially for skilled workers, thus resulting in higher worker turnover and the inability to retain such skilled workers, who are capable of driving the development of small businesses. As a result, many such businesses tend to be managed and run by the owners themselves, which in turn can result in management, governance, finance and sustainability issues, even for successful ventures.

Regulatory barriers and incoherent policy: MSMEs also face difficulties due to regulatory barriers in many countries, across various aspects such as business registration, quality and environmental standards, reporting requirements, taxation etc. However, depending on the country, these difficulties and their impact can vary significantly. For example, even though regulatory barriers have seen a large reduction in OECD countries over the last decade or so, the complexity of such barriers remains diverse across countries (OECD, 2018). Small businesses typically do not have the capacity to effectively study regulatory complexities due to the low availability of skills and funding. As a result, overall limitations in the doing-business environment could lead to multiple difficulties for MSMEs, which may especially be the case with developing countries, as they operate with relatively weak institutional infrastructure. Further, lack of policy consistency and less transparency also adds to these regulatory barriers faced by MSMEs.

Low market share and limited access to markets: MSMEs also face challenges in maintaining revenue streams and suffer from low sales in general, mainly due to low market share and weak accessibility of markets. This can be contributed by various reasons such as, among others, inability to spend on large advertising budgets, limited networking channels, limited use of social media and limited online presence, and weaknesses in adopting new technology leading to comparatively lower market access.

Lack of information and data on MSMEs: Information on MSMEs is typically difficult to obtain in many countries, particularly in developing economies. Unlike large organisations, which typically have to publish information, particularly in relation to financial data, MSMEs usually do not have such requirements and hence information is usually held private, forcing lenders to incur costs to obtain reliable information, and in turn discouraging them to lend to MSMEs (Yoshino

and Taghizadeh-Hesary, 2016). This is a hindrance to the development of MSMEs, as it does not only prevent financial institutions' ability to evaluate these businesses, but also limits availability, quality and timeliness of research on the MSME sector.

Impact of the pandemic and other developments:

MSMEs across the world endured difficulties during the COVID-19 pandemic, which created large losses in revenue and increased uncertainty. Although the unprecedented levels of policy support by governments and other authorities may have helped these businesses to weather this difficult period, many of them have not recovered fully. The uncertainty in the global political landscape due to the Russia-Ukraine conflict may also create difficulties for MSMEs, particularly for those who are linked with value chains, exports and services trades such as tourism.

Gender-wise disparities: The participation of women entrepreneurs in MSMEs is found to vary across countries. Studies report about one third of formal small businesses are owned by women, although this share ranges from a high of more than 40 per cent in East Asia and the Pacific to a low of below 10 per cent in South Asia (IFC, 2014). In addition to common challenges faced by small businesses, women owned MSMEs face additional hindrances, depending on cultural biases, and relatively low levels of size and networks. The impact of the COVID-19 pandemic is also found to be disproportionate on women-owned MSMEs, where a larger proportion of women-owned businesses than men-owned businesses are found to be affected by the pandemic and are likely not to survive (United Nations, 2021). However, there exists evidence to suggest that women-owned MSMEs are performing well, although often overlooked by financial institutions (IFC, 2014). Women entrepreneurs are better at achieving development goals, as women are found to reinvest more in families and communities (International Trade Centre, 2014), thus highlighting the importance of continuous commitment to address these gender-wise disparities to achieve inclusive growth.

Successful Strategies to Promote the MSME Sector

A variety of strategies have been used by different countries to address common problems faced by MSMEs.

Addressing financing difficulties: As many MSMEs find it difficult to access finance from formal channels, strategies to minimise this limitation can often contribute to the growth of MSMEs. Moreover, many other challenges faced by small businesses are also linked to low capacity, often as a result of funding difficulties. In this regard, some of the successful strategies undertaken by various countries include introducing credit guarantee schemes that address limitations of collateral based lending by financial institutions (for example, the multitude of credit guarantee corporations in Japan, the Korea Credit Guarantee Fund and the Korea Technology Finance Corporation in Korea, the Credit

Guarantee Corporation Malaysia Berhad in Malaysia, etc.), establishing development banks specialising in lending to high risk projects with non- or less-profit oriented motives (for example, China Development Bank in China, Kreditanstalt für Wiederaufbau (KfW Bankengruppe) in Germany, Korea Development Bank in Korea, etc.), implementing policy measures such as imposing lending targets to drive lending by formal financial institutions to small businesses, donor financing via multinational agencies, improving access to alternative channels of financing, such as crowd funding and angel investors, and measures to reduce information asymmetries, such as developing MSME databases with information required by lenders (for example, the Credit Risk Database of Japan, which aims at enhancing the efficiency of credit supply to MSMEs with financial information of a large number of small businesses).

Supporting winners: In addition to addressing concerns regarding financial difficulties of MSMEs, several other programmes are used worldwide to provide overall assistance to establishments in the sector. For example, some countries such as Korea have used a 'picking winners approach', where assistance is targeted to industries and businesses with growth potential and organisational capacity in line with national priorities. However, there are criticisms against such a policy as well, since it could lead to suboptimal resource allocation. Nevertheless, it is a policy that could be used to guide resources to intended sectors, especially during times when market driven allocations do not reach areas of growth potential.

Clustering and improving linkages: Global market liberalisation and globalisation could lead MSMEs to a disadvantageous position due to capacity mismatch against international players. In this regard, creating clusters of businesses and linking MSMEs with the value chains of large organisations, such as the Industrial Linkage Programme of Malaysia, could assist MSMEs to compete in international markets. Moreover, subcontracting linkages between large enterprises and MSMEs can enhance the productivity of the industry, while providing benefits to MSMEs in terms of easier acquisition of new technologies, management methods, marketing and input materials, and production techniques (Wijesinha, 2011).

Targeted support: National prioritisation programmes, such as the SME Promotion Plan in Thailand, whereby the economic contribution of MSMEs is expected to be enhanced (OECD/ERIA, 2018), can also streamline the efforts to support MSMEs in a country. Low use of information technology by MSMEs is often cited as a key area that needs to be improved. As a result of the COVID-19 pandemic, even businesses which did not have any virtual presence started to embrace online tools to reach customers and suppliers. However, MSMEs stand to gain much more by embracing information technology products and services into their businesses. In this regard, governments and support groups can play a vital role by improving the

awareness on the advantages of utilising information technology, by way of programmes such as the Digital MSME Scheme in India, which aims to enhance the adoption of information technology by MSMEs.² Multilateral donor agencies also support capacity development of MSMEs, thereby contributing to improve business skills of these entrepreneurs. Further, given the commitment of most governments over the world, and the community drive to address climate change, businesses engaged in 'Green Activities' and those who promote sustainable business practices can also obtain financial support from various public, private and multinational agencies, while they can enjoy improved market presence as well.

Overall, measures that facilitate sustainable growth, which allow countries to avoid growth stagnation, pave way for the development of the MSME sector as well. For example, efforts to create a knowledge based economy with an emphasis on developing new knowledge is considered a main success factor of the Korean economy and its MSME sector (Gregory et al., 2002). Similarly, improvements to the education system with a focus on improving skills relevant to businesses via vocational training, which has been reported as a key driver of the success of German MSMEs (Herr and Nettekoven, 2018) can contribute to creating small businesses empowered with skills needed to compete in the modern globalised marketplace.

MSMEs in Sri Lanka³

MSMEs play a major role in the development process in Sri Lanka by providing employment to a large proportion of the population. Nevertheless, many of the common hurdles to their development discussed above are faced by Sri Lankan MSMEs as well. Despite their importance to the economic output of the country, which is reported in excess of 50 per cent,⁴ most Sri Lankan MSMEs may not have reached their true potential due to capacity limitations (often linked with limited access to finance), low adoption of technology and limited linkages to value chains, both domestic and global. Driven by low financial literacy and difficulties in accessing the formal financial system due to a variety of reasons, many small businesses in Sri Lanka end up utilising the services of unregistered money lenders, who are widely spread across the country, providing financial services at extremely high interest rates. Subsequently, many such entrepreneurs face difficulties in meeting high interest costs, thereby threatening the viability of their business ventures. The informal nature of such lending services makes it hard to track such activities, thereby limiting the ability to take effective regulatory actions as well. Meanwhile, like in other countries, lack of information has also been a serious limitation to making a meaningful assessment of MSMEs in Sri Lanka, while also making it difficult to

assess the impact of informal market lenders, in order to properly evaluate whether their role is a facilitative or an exploitative one. There have been efforts to support these businesses by both governmental and non-governmental bodies at different points in time. For example, the National Policy Framework for Small and Medium Enterprises (SMEs) Development of the Ministry of Industry and Commerce (2016) comprise detailed action plans for the development of the MSME sector. However, the implementation and coordination of such policies remain weak, requiring further improvements in the implementation process. The Central Bank also plays an important facilitating role in supporting small businesses under its agency function of regional development. Accordingly, both financial and non-financial support is provided, together with participatory financial institutions and a number of other resource providers. Meanwhile, the large policy support extended to MSMEs during the pandemic could have helped the sector to stay afloat during this difficult period. However, in general, MSMEs in Sri Lanka are yet to exploit new normal opportunities created by the COVID-19 pandemic. Further, the prevailing uncertainty of the global and domestic economic activity can be harmful to MSMEs, which require remedial and preventive policies. Going forward, timely measures are required for the implementation of 'enablers', including the expeditious operationalisation of the proposed credit guarantee institution and the establishment of a dedicated development bank, in order to extend the required sustained support for MSMEs to prevail and prosper through challenging times. Overall, policy initiatives need to be coordinated with a national drive to embrace MSMEs, which are often neglected, in order to bring them into the mainstream business environment.

References

1. Asian Productivity Organization (2015). Innovation and SME Financing in Selected Asian Economies.
2. Gonzales, E., Hommes, M. and Laura, M.M. (2014). MSME Country Indicators 2014: Analysis Note.
3. Gregory, G., Harvie, C., and Lee, H.H. (2002). Korean SMEs in the 21st Century: Strategies, Constraints, and Performance in a Global Economy, SMEs in a Global Economy Conference - Sustaining SME Innovation, Competitiveness and Development in the Global Economy, 272-290.
4. Herr, H. and Nettekoven, Z.M. (2018). The Role of Small and Medium-Sized Enterprises in Development: What Can be Learned from the German Experience?, Global Labour University Working Paper No. 53.
5. IFC (2014). Women-Owned SMEs: A Business Opportunity for Financial Institutions.
6. International Labour Organization (2016). Role of Finance in Driving Formalization of Informal Enterprises.
7. International Trade Centre (2014). SMEs Drive World Trade and Economic Growth.
8. Ministry of Industry and Commerce (2016). National Policy Framework for Small and Medium Enterprises (SMEs) Development: Action Plan.
9. OECD (2018). Improving the Business Environment for SMEs Through Effective Regulation, Policy Note, 2018 SME Ministerial Conference, OECD.
10. OECD/ERIA (2018). SME Policy Index: ASEAN 2018: Boosting Competitiveness and Inclusive Growth. SME Policy Index, OECD Publishing, Paris/ERIA, Jakarta.
11. United Nations (2021). Micro-, Small and Medium-Sized Enterprises Day, 27 June.
12. Wijesinha, A. (2011). SME Development Strategies for Sri Lanka: Learning Lessons from Neighbouring Countries, Talking Economics, Institute of Policy Studies of Sri Lanka.
13. Yoshino, N. and Taghizadeh-Hesary, F. (2016). Major Challenges Facing Small and Medium-Sized Enterprises in Asia and Solutions for Mitigating Them, ADBI Working Paper Series No. 564.

2 Ministry of Micro, Small and Medium Enterprises, Government of India.

3 A detailed discussion on issues and challenges faced by Sri Lankan MSMEs is provided in the Issues and Policies section in Chapter 1 of this Report.

4 Ministry of Industry and Commerce, Sri Lanka.

2.5 Expenditure

Gross Domestic Expenditure (GDE), which consists of consumption and investment expenditure of the economy, grew by a higher rate of 13.1 per cent in 2021 at current prices, compared to the marginal growth of 0.5 per cent in 2020, supported by the expansion in both consumption and investment expenditure.

The accommodative monetary policy stance, as well as fiscal policy stimuli, bolstered the final consumption expenditure. Accordingly, consumption expenditure increased significantly by 9.9 per cent in 2021, being the major contributor of GDE while investment expenditure also rebounded by recording a significant growth of 23.2 per cent during the year. On the external front, net external demand at current prices contracted significantly by 31.6 per cent in 2021, compared to the contraction of 5.1 per cent recorded in 2020. This was due to the growth of 25.7 per cent in import of goods and services, which outpaced the 23.3 per cent growth recorded in export of goods and services, partly owing to high import prices prevailed during the period. Accordingly, GDP at current prices, which is the aggregate of GDE and the net external

demand, recorded a growth of 11.9 per cent in 2021, compared to the marginal growth of 0.2 per cent in 2020. Considering the estimates at constant prices, consumption and investment expenditure grew by 3.5 per cent and 3.0 per cent, respectively, in 2021. Consequently, GDE recorded a moderate growth of 3.4 per cent in 2021, compared to the contraction of 4.6 per cent in 2020. In the meantime, net external demand at constant (2010) prices recorded only a marginal contraction of 0.4 per cent in 2021, benefitting from the higher growth in the volume of exports. Consequently, GDP at constant (2010) prices grew by 3.7 per cent in 2021 compared to the contraction of 3.6 per cent in 2020.

Consumption

Consumption expenditure, which is the largest expenditure category accounting for 74.3 per cent of the aggregate expenditure of the economy at current prices, grew at a favourable rate of 9.9 per cent during the year, compared to the moderate growth of 2.0 per cent recorded in 2020, induced by the rebound in consumption demand with expanded space for consumer spending. The growth in consumption expenditure

Table 2.9
Aggregate Demand (a)

Item	Current Market Prices (Rs.mn)			Constant (2010) Prices (Rs.mn)		
	2019 (b)	2020 (b)(c)	2021 (c)	2019 (b)	2020 (b)(c)	2021 (c)
A. Domestic Demand						
Consumption	11,971,144	12,214,284	13,425,152	7,786,374	7,601,213	7,870,841
(% Change)	8.0	2.0	9.9	4.5	-2.4	3.5
Gross Domestic Capital Formation	3,945,423	3,779,064	4,655,829	3,082,250	2,766,593	2,848,458
(% Change)	-7.5	-4.2	23.2	-11.6	-10.2	3.0
Total Domestic Demand	15,916,567	15,993,349	18,080,981	10,868,624	10,367,806	10,719,300
(% Change)	3.7	0.5	13.1	-0.7	-4.6	3.4
B. External Demand						
Export of Goods and Services	3,472,337	2,418,541	2,981,613	1,845,686	1,666,522	1,952,033
(% Change)	5.5	-30.3	23.3	7.2	-9.7	17.1
Import of Goods and Services	4,391,746	3,384,516	4,253,285	2,823,843	2,501,420	2,789,936
(% Change)	0.9	-22.9	25.7	-5.8	-11.4	11.5
Net External Demand	-919,410	-965,975	-1,271,672	-978,157	-834,898	-837,903
(% Change)	13.4	-5.1	-31.6	23.3	14.6	-0.4
C. Total Demand	14,997,157	15,027,374	16,809,309	9,890,468	9,532,909	9,881,397
(% Change)	4.9	0.2	11.9	2.3	-3.6	3.7

(a) Based on the GDP estimates (base year 2010)

(b) Revised

(c) Provisional

Sources: Department of Census and Statistics
Central Bank of Sri Lanka

was mainly attributable to the considerable growth in the main consumption expenditure category, private consumption expenditure (PCE), which accounted for 88.0 per cent of the total consumption expenditure. The higher nominal consumption expenditure reflected the impact of elevated prices of most consumer goods categories, particularly during the latter part of the year. In the meantime, the government consumption expenditure (GCE) grew at a moderate pace in 2021, compared to the previous year.

Private Consumption Expenditure (PCE) at current prices recorded a significant growth of 10.8 per cent in 2021, compared to the marginal growth of 1.0 per cent in 2020, as consumers were keen to spend following the opening up of the economy. The gradual easing of pandemic-related restrictions coupled with fiscal as well as monetary policy stimuli encouraged returning consumers to the markets. This supported the growths in PCE categories such as transport, restaurants and hotels, and clothing

and footwear. Further, the PCE categories, which include essential goods and services such as PCE on food and non-alcoholic beverages, housing, water, electricity, gas and other fuels, health and communication also expanded during the year.

GCE at current prices, which comprises the collective final consumption expenditure and individual final consumption expenditure of the government, grew by 3.7 per cent in 2021, compared to the growth of 9.9 per cent in 2020. Individual consumption expenditure of the government, which particularly includes government's spending on health and education, expanded moderately by 1.0 per cent in 2021, on top of the higher growth of 17.8 per cent reported in 2020. Further, collective consumption expenditure such as defence, public services and social protection, which comprises the general government's expenditure on services that benefit the community as a whole, grew by 5.3 per cent in 2021, compared to the growth of 5.8 per cent in

Table 2.10
Composition of Private Consumption Expenditure at Current Market Prices (a)

Category	As a Percentage of Total PCE (%)			Growth (%)	
	2019 (b)	2020 (b)(c)	2021 (c)	20/19 (b)(c)	21/20 (c)
1. Food and Non-alcoholic Beverages	27.9	30.9	31.3	11.6	12.4
2. Alcoholic Beverages, Tobacco and Narcotics	3.4	3.2	3.4	-4.7	15.5
3. Clothing and Footwear	4.5	3.7	3.9	-15.6	15.0
4. Housing, Water, Electricity, Gas and Other Fuels	10.1	10.4	10.0	3.6	6.7
5. Furnishings, Household Equipment and Routine Household Maintenance	1.0	1.0	1.1	-2.1	24.3
6. Health	2.8	2.8	3.4	1.7	33.1
7. Transport	24.1	20.2	19.3	-15.2	5.9
8. Communication	0.7	0.7	0.8	0.1	20.9
9. Recreation and Culture	1.6	1.7	1.7	7.6	8.4
10. Education	1.7	1.7	1.6	0.0	3.0
11. Restaurants and Hotels	3.9	2.6	2.9	-34.2	24.4
12. Miscellaneous Goods and Services	21.5	21.4	21.4	0.7	10.8
13. Direct Purchases Abroad by Residents	2.9	0.9	0.3	-68.7	-68.4
14. Less: Direct Purchases in Domestic Market by Non-residents	6.2	1.2	0.9	-80.1	-17.2
Total Private Consumption Expenditure	100.0	100.0	100.0	1.0	10.8

(a) Based on the GDP estimates (base year 2010)

(b) Revised

(c) Provisional

Source: Department of Census and Statistics

2020. The government's continued involvement in curtailing the COVID-19 pandemic also contributed to the expansion in GCE.

Investment

Benefitting from the gradual rebound in economic activities and targeted policy stimuli to shore up recovery, the investment expenditure at current market prices grew by 23.2 per cent in 2021, recovering from the contraction of 4.2 per cent recorded in 2020. This recovery was largely driven by the considerable growth in gross fixed capital formation by 14.5 per cent in 2021, compared to the contraction of 6.0 per cent in the previous year. Accordingly, the major asset categories of gross fixed capital formation, such as construction, transport equipment, and machinery and equipment, expanded in 2021, recovering from the setback in 2020. Further, investment expenditure on categories such as Information and Communication Technology (ICT) equipment and intellectual property products, as well as, changes in inventories and acquisitions less disposals of valuables recorded a considerable increase in 2021.

Foreign Direct Investments (FDIs), including loans received by BOI companies during the year, increased by 13.6 per cent to US dollars 780.2 million⁵ in 2021, compared to US dollars 687.0 million recorded in 2020. A recovery in FDI inflows were recorded in the major sectors including manufacturing sector, services sector, and infrastructure projects, while FDI inflows to the agriculture sector continued to remain low in 2021. Further, the total value of projects approved during the year by the BOI under Sections 16 and 17 of the BOI Act No. 4 of 1978, is estimated at Rs. 517.4 billion, registering an expansion of 22.1 per cent compared to 2020. The estimated investment value of projects that commenced commercial operations under Sections 16 and 17 of the BOI Act amounted to Rs. 1,672.3 billion and Rs. 36.7 billion, respectively, recording an overall expansion of 8.1 per cent in 2021 compared to the previous year.

⁵ This includes receipts, including loans, to companies registered with the BOI and differs from the estimates presented in Chapter 5, mainly due to the inclusion of FDIs to non-BOI companies in the latter. Accordingly, total FDIs amounted to US dollars 784 millions in 2021.

Table 2.11
Investments and Employment in Enterprises Registered under Board of Investment of Sri Lanka (BOI) and Ministry of Industries

	No. of Projects		Estimated Investment (Rs. million)						Est. Employment (No.)	
	2020	2021	2020 (a)			2021 (b)			2020 (a)	2021 (b)
	(a)	(b)	Foreign	Local	Total	Foreign	Local	Total		
BOI (Under Act No. 4 of 1978)										
Projects Approved	162	144	300,608	123,178	423,786	348,926	168,451	517,377	14,376	26,463
Under Section 17 (c)	161	139	299,236	123,178	422,413	347,933	168,002	515,935	14,256	26,290
Under Section 16	1	5	1,373	-	1,373	993	449	1,442	120	173
Projects Contracted Under Section 17 (c)	122	93	131,342	165,858	297,201	42,397	74,144	116,542	15,856	16,477
Realised Investment Under Section 17 (d)(e)	1,943	1,875	2,105,156	1,812,278	3,917,434	2,258,989	2,021,406	4,280,395	n.a	n.a
Projects in Commercial Operations (d)	2,651	2,735	606,527	975,024	1,581,551	651,662	1,057,348	1,709,010	441,936	459,828
Under Section 17 (c)	2,116	2,216	580,734	966,286	1,547,021	626,170	1,046,161	1,672,331	413,280	431,550
Under Section 16	535	519	25,793	8,738	34,530	25,492	11,187	36,679	28,656	28,278
Ministry of Industries										
Companies Registered (d)	3,020	3,259	-	-	208,934	-	-	209,366	-	n.a.

(a) Revised

(b) Provisional

(c) Includes expanded projects

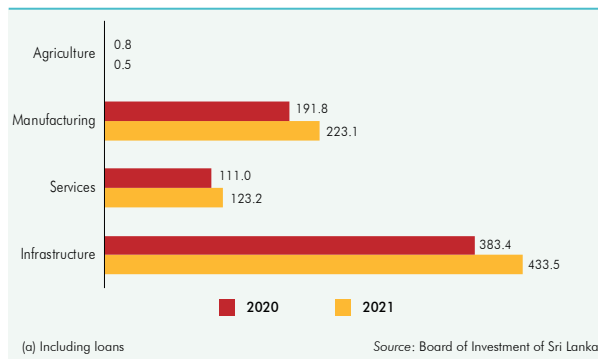
(d) Cumulative as at end of year

(e) Cumulative actual investment values are given

Note: Projects approved and contracted under Sec. 17 of the BOI Act are exempted from customs and exchange control regulations subject to the fulfilment of the investment threshold or any other specified requirements.

Sources: Board of Investment of Sri Lanka
Ministry of Industries

Figure 2.13
Foreign Direct Investment of BOI Enterprises (a)
(US\$ million)



Availability and Utilisation of Resources

The available resources of the economy expanded in 2021 by 14.4 per cent at current market prices in comparison to the contraction of 5.0 per cent recorded in 2020. In this regard, GDP which represents domestic resources, and imports which are external resources expanded in 2021, compared to the previous year, both in current and constant prices. Considering the utilisation of available resources, the majority of resources was utilised for consumption purposes, which accounted for 63.7 per cent of the total resource utilisation in 2021. Meanwhile, at current prices, the share of resources utilised for export

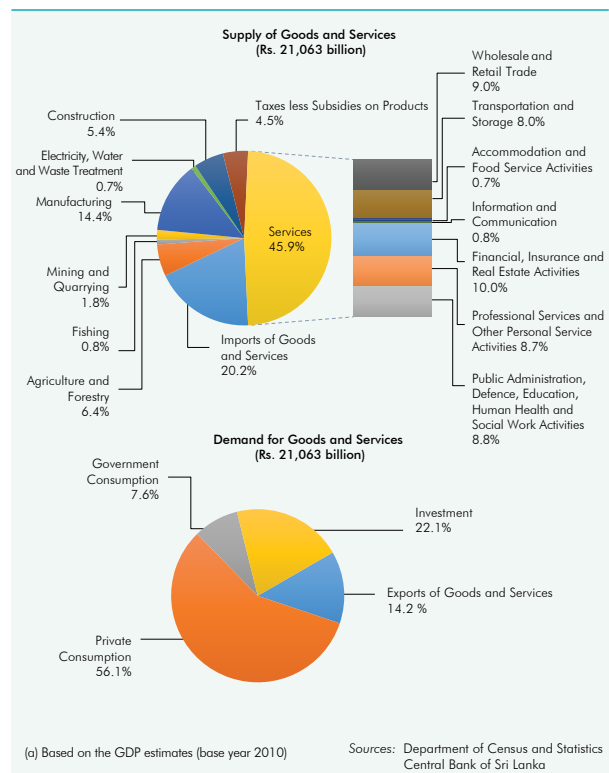
Table 2.12
Total Resources and Their Uses at Current
Market Prices (a) (b)

Item	Percentage Share %		Growth %	
	2020 (c)	2021	2020 (c)	2021
A. Resources				
Gross Domestic Product	81.6	79.8	0.2	11.9
Import of Goods and Services	18.4	20.2	-22.9	25.7
Total	100.0	100.0	-5.0	14.4
B. Utilisation				
Consumption	66.3	63.7	2.0	9.9
Gross Fixed Capital Formation	20.7	20.8	-6.0	14.5
Changes in Inventories and Acquisition less Disposals of Valuables	-0.2	1.4	67.9	874.2
Export of Goods and Services	13.1	14.2	-30.3	23.3
Total	100.0	100.0	-5.0	14.4

(a) Based on the GDP estimates (base year 2010)
(b) Provisional
(c) Revised

Sources: Department of Census and Statistics
Central Bank of Sri Lanka

Figure 2.14
The Economy in 2021 (at Current Market Prices) (a)



and investment purposes increased during the year. At constant prices, the share of resources utilised for export purposes increased while that for investment purposes decreased.

Savings

Both domestic and national savings of the economy at current prices rebounded in 2021. Accordingly, domestic savings grew by 20.3 per cent in 2021 largely driven by the increase in private savings during the year. Meanwhile, an upsurge was reported in government dis-savings, mainly due to the lower government revenue. Consequently, domestic savings as a percentage of GDP increased to 20.1 per cent in 2021. In the meantime, in rupee terms, net primary income recorded an improvement, while net current transfers from the rest of the world contracted in 2021. As a combined outcome of these developments, national savings grew by 13.2 per cent to 23.8 per cent of GDP in 2021. Further, the national savings-investment gap

Table 2.13
Consumption, Investment and Savings at Current Market Prices (a) (b)

Item	Rs. million		Growth (%)		As a per cent of GDP (%)	
	2020 (c)	2021	2020 (c)	2021	2020 (c)	2021
1. Gross Domestic Product at Market Price	15,027,374	16,809,309	0.2	11.9	100.0	100.0
2. Consumption Expenditure	12,214,284	13,425,152	2.0	9.9	81.3	79.9
Private	10,661,955	11,814,865	1.0	10.8	71.0	70.3
Government	1,552,329	1,610,287	9.9	3.7	10.3	9.6
3. Investment	3,779,064	4,655,829	-4.2	23.2	25.1	27.7
4. Domestic Savings	2,813,090	3,384,158	-7.0	20.3	18.7	20.1
Private	3,993,489	4,674,599	12.2	17.1	26.6	27.8
Government	-1,180,399	-1,290,441	-121.2	-9.3	-7.9	-7.7
5. Domestic Savings - Investment Gap	-965,975	-1,271,672	-5.1	-31.6	-6.4	-7.6
6. Net Primary Income from Rest of the World	-423,063	-406,605	4.2	3.9	-2.8	-2.4
7. Net Current Transfers from Rest of the World (d)	1,150,789	1,030,321	11.7	-10.5	7.7	6.1
8. National Savings	3,540,816	4,007,874	-2.1	13.2	23.6	23.8

(a) Based on the GDP estimates (base year 2010)
(b) Provisional
(c) Revised
(d) The difference with the BOP estimates is due to the time lag in compilation.

Sources: Department of Census and Statistics
Central Bank of Sri Lanka
Ministry of Finance

widened to 3.9 per cent of GDP in 2021, from 1.6 per cent of GDP in 2020, due to the significant growth in investment expenditure.

2.6 Income

Gross Operating Surplus (GOS) continued to be the largest income component of the economy in 2021, followed by Compensation of Employees (CE) and taxes less subsidies on production.

GOS grew by 13.6 per cent at current prices in 2021, accounting for 64.4 per cent of GDP. This growth was mainly attributable to the expansion in Net Operating Surplus (NOS) during the year. When considering other major sources of income, both CE as well as taxes less subsidies on production expanded during the year. Meanwhile, HH and NPISH sector continued to be the largest contributor to the income within the institutional sector classification, followed by NFC, GG, and FC.

Table 2.14
Income Components by Institutional Sector at Current Market Prices (a) (b)

Item	Percentage Share (%)									
	2020 (c)					2021				
	Non-Financial Corporations (NFC)	Financial Corporations (FC)	General Government (GG)	Households and Non-Profit Institutions Serving Households (HH and NPISH)	Total Economy	Non-Financial Corporations (NFC)	Financial Corporations (FC)	General Government (GG)	Households and Non-Profit Institutions Serving Households (HH and NPISH)	Total Economy
Compensation of Employees	33.1	7.5	30.3	29.1	100.0	34.4	7.5	28.6	29.4	100.0
Gross Operating Surplus	34.3	5.8	1.5	58.4	100.0	35.1	6.4	1.8	56.7	100.0
Net Operating Surplus	36.8	6.5	0.7	56.0	100.0	38.0	7.3	0.6	54.1	100.0
Mixed Income	-	-	-	100.0	100.0	-	-	-	100.0	100.0
Consumption of Fixed Capital	45.9	6.0	8.2	40.0	100.0	44.7	5.7	10.8	38.9	100.0
Other Taxes less Subsidies on Production	85.5	14.2	-	0.3	100.0	84.7	15.1	-	0.2	100.0
Gross Value Added at Basic Price	34.0	6.4	10.9	48.7	100.0	35.0	6.8	10.2	48.0	100.0

(a) Based on the GDP estimates (base year 2010)
(b) Provisional
(c) Revised

Source: Department of Census and Statistics

2.7 Population, Labour Force and Employment

Population

The mid-year population in Sri Lanka was estimated at 22.156 million in 2021 as per the mid-year population estimates compiled by the Registrar General's Department. Accordingly, the population growth rate increased considerably to 1.1 per cent in 2021 from 0.5 per cent recorded in 2020. The Western province was the largest contributor towards population growth followed by the Eastern province. Meanwhile, the lowest contributions towards population growth were from the Uva and Northern provinces. The Western province continued to account for the highest share of mid-year population of 28.1 per cent, followed by the Central and Southern provinces accounting for shares of 12.7 per cent and 12.2 per cent of the mid-year population, respectively, in 2021, continuing the same trend observed. Meanwhile, the Northern province continued to account for the lowest share of mid-year population of 5.3 per cent. In line with the population growth, the population density also increased to 353 people per square kilometre in 2021, from 350 people per square kilometre in 2020. As seen in the recent years, the female population continued to remain higher than the male population and the share of elderly population remained at the same significant level during the period under review.

Table 2.15
Province-wise Population and Density (a)(b)

Province	2020		2021	
	Population '000 Persons	Density	Population '000 Persons	Density
Western	6,165	1,716	6,219	1,731
Central	2,781	499	2,811	504
Southern	2,669	496	2,696	501
Northern	1,152	139	1,165	141
Eastern	1,746	187	1,783	190
North Western	2,563	341	2,592	345
North Central	1,386	142	1,402	144
Uva	1,387	166	1,400	168
Sabaragamuwa	2,070	421	2,088	424
Total	21,919	350	22,156	353

(a) Provisional
(b) The mid-year population data are based on the Census of Population and Housing - 2012.

Source: Registrar General's Department

Labour Force

The labour force, which is the economically active population,⁶ increased to 8.553 million in 2021 from 8.467 million recorded in 2020, recording a growth of 1.0 per cent. This growth was driven by the increases in labour force in all three sectors namely, urban, rural and estate. Meanwhile, the economically inactive population also increased significantly further to 8.581 million in 2021 from 8.273 million in 2020 with the subdued interest in active job search and pandemic induced hardships on usual routines. This increase was largely driven by the increase in the inactivity in the rural sector, particularly related to rural females. Following the

⁶ This is the current economically active population, i.e. the number of persons (aged 15 years and above), who are employed or unemployed during the reference one-week period.

Table 2.16
Household Population, Labour Force and Labour Force Participation (a)

Item	2020	2021 (b)				
		Q1	Q2	Q3	Q4	Annual (c)
Household Population '000 Persons	16,739	17,025	17,092	17,158	17,260	17,134
Labour Force '000 Persons	8,467	8,673	8,515	8,487	8,538	8,553
Employed	7,999	8,181	8,082	8,044	8,146	8,114
Unemployed	468	492	432	444	392	440
Labour Force Participation Rate (d)	50.6	50.9	49.8	49.5	49.5	49.9
Male	71.9	71.7	71.1	71.0	70.2	71.0
Female	32.0(e)	33.4	30.9	30.9	32.0	31.8

(a) Household population aged 15 years and above

(b) Provisional

(c) Average of four quarters of 2021

(d) Labour force as a percentage of household population

(e) Revised

Source: Department of Census and Statistics

increase in both labour force and inactive population, the labour force participation rate (LFPR), which is the ratio of the labour force to the household population, decreased to 49.9 per cent in 2021 from 50.6 per cent in 2020. Accordingly, the male and female LFPRs also decreased to 71.0 per cent and 31.8 per cent, respectively, in 2021 from 71.9 per cent and 32.0 per cent, respectively, in 2020. On a positive note, the gender gap in LFPR reduced to 39.2 per cent in 2021 from 39.8 per cent in 2020, however yet to return to pre-pandemic levels.

Employment

The employed population⁷ increased to 8.114 million in 2021 from 7.999 million in 2020, though not yet recovered up to the pre-pandemic employment levels. The increase in employment was mainly driven by the increase in employment opportunities related to Agriculture and Services activities. Accordingly, employment in Agriculture increased to 2.213 million in 2021 from 2.170 million in 2020, while that of Services increased to 3.791 million in 2021 from 3.677 million in 2020. However, amid the persistent adversities faced, the employment in Industry continued to decline to 2.109 million in 2021 from 2.153 million in 2020. Accordingly, the shares of employment in the Agriculture and Services sectors increased to 27.3 per cent and 46.7 per cent, respectively, in 2021 from 27.1 per cent and 46.0 per cent in 2020, whereas the share of employment in the Industry sector declined to 26.0 per cent in 2021 from 26.9 per cent in 2020.

As per the Public Sector Employment Survey conducted by the Central Bank, total public sector employment increased to 1.493 million at the end of 2021 compared to 1.461 million in 2020. This includes employees in ministries, departments, district secretariats, divisional

Table 2.17
Public Sector Employment

Sector	2020 (a)	2021 (b)	Percentage Change 2021/ 2020 (b)
Government (c)	1,223,617	1,258,440	2.8
Semi Government (d)	237,454	235,032	-1.0
Public Sector	1,461,071	1,493,472	2.2
(a) Revised			
(b) Provisional			
(c) Central Government, Local Government and Provincial Councils			
(d) State Corporations, Statutory Boards and State Authorities			

Source: Central Bank of Sri Lanka

secretariats, provincial councils and semi government institutions. The increase observed in public sector employment was due to the continued recruitment of unemployed graduates and multi task development officers, and recruitments related to armed and police forces, and health sector. Meanwhile, as per the quarterly labour force survey conducted by the DCS, public sector employees, employers and own account workers increased notably in 2021 compared to 2020, whereas the private sector employment declined marginally in line with the continued terminations amidst the interminable difficulties encountered by the private sector companies due to the pandemic. Nevertheless, the private sector continued to remain the main employment generator in Sri Lanka representing the largest share of 42.0 per cent followed by own account workers, which accounted for 33.4 per cent of the total employment during 2021.

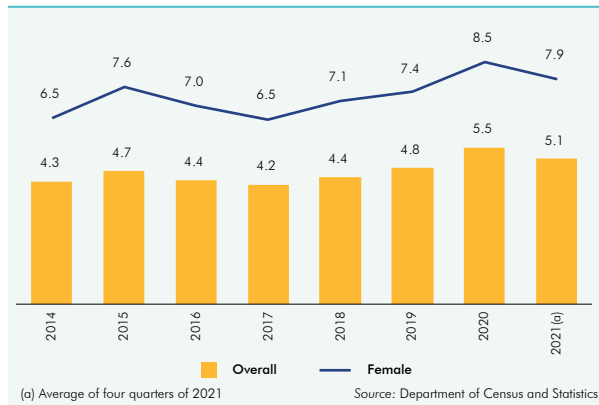
Unemployment

The unemployment rate declined to 5.1 per cent in 2021 from 5.5 per cent recorded in 2020 in line with the creation of new employment opportunities. Accordingly, the unemployed population⁸ declined to 0.440 million in 2021 from 0.468 million recorded in 2020. Consequently, the male and female unemployment rates declined to 3.7 per cent and 7.9 per cent, respectively, in 2021

⁷ Persons who worked at least one hour during the reference period, as paid employees, employers, own account workers or contributing family workers are said to be employed. This also includes persons with a job but not at work during the reference period.

⁸ Persons available and/or looking for work, and who did not work and took steps to find a job during the last four weeks and are ready to accept a job given a work opportunity within next two weeks are said to be unemployed.

Figure 2.15
Unemployment Rate (Per cent)

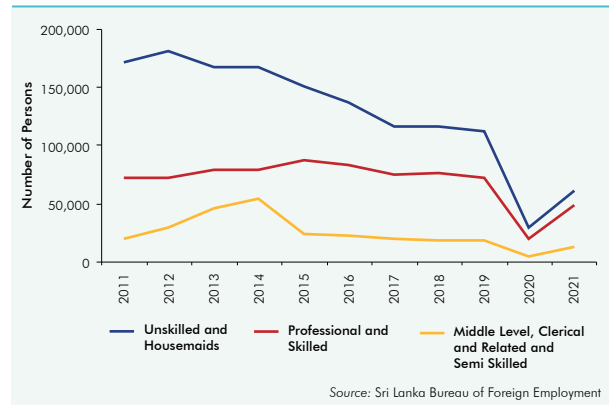


from 4.0 per cent and 8.5 per cent, respectively, in 2020. Further, the unemployment rate of the GCE A/L and above category, declined considerably to 9.1 per cent in 2021 from 9.8 per cent recorded in 2020. However, the youth (15-24 years) unemployment rate remained unchanged at 26.5 per cent in 2021 compared to 2020 indicating the continued lack of job opportunities at the entry level. Further, the overall unemployment rate still remains above the pre-pandemic levels as job opportunities created in 2021 were insufficient to reverse the considerable number of terminations that took place in 2020 and continued in 2021.

Foreign Employment

Departures for foreign employment recorded a significant growth of 126.8 per cent to 121,795 in 2021 from 53,711 in 2020 in line with the significant improvement in departures towards the latter part of the year. Accordingly, the departures for foreign employment in the final quarter of 2021 was recorded at 61,447, highest ever reported since the third quarter of 2016. Relaxed travel restrictions and increase in employment opportunities in labour receiving countries, the large number of prospective migrant workers who were waiting to travel overseas for jobs and the fast vaccination of prospective migrant workers drove

Figure 2.16
Departures for Foreign Employment by Skills



this significant increase in departures for foreign employment. Accordingly, the share of male and female departures for foreign employment stood at 66.2 per cent and 33.8 per cent, respectively, to the total departures of foreign employment. In line with the increase in total departures for foreign employment, departures for foreign employment under all categories, namely professional, middle level, clerical and related, skilled, semi-skilled, unskilled and housemaid improved, where the major contributions were from the skilled, unskilled and housemaid categories. The Middle East region continued to lead as the key foreign employment destination in 2021 as well, accounting for 84.8 per cent of the total departures for foreign employment, with 87.7 per cent of those being to

Figure 2.17
Departures for Foreign Employment by Major Destinations

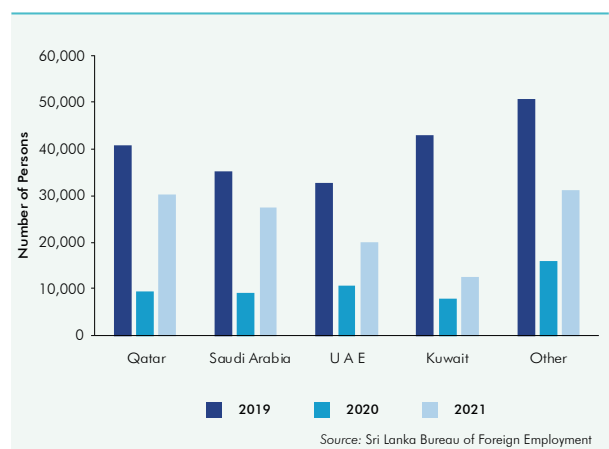


Table 2.18
Departures for Foreign Employment

Foreign Employment	2019		2020 (a)		2021 (b)	
	Number	Per cent	Number	Per cent	Number	Per cent
Total Placement	203,087	100.0	53,711	100.0	121,795	100.0
By Source						
Licensed Agents	69,278	34.1	18,065	33.6	42,012	34.5
Other	133,809	65.9	35,646	66.4	79,783	65.5
By Gender						
Male	122,257	60.2	32,500	60.5	80,670	66.2
Female	80,830	39.8	21,211	39.5	41,125	33.8
By Manpower Category						
Professional	9,861	4.9	2,957	5.5	8,309	6.8
Middle Level	5,725	2.8	1,496	2.8	4,216	3.5
Clerical & Related	9,163	4.5	2,496	4.6	6,495	5.3
Skilled	62,711	30.9	16,664	31.0	39,971	32.8
Semi Skilled	2,950	1.5	789	1.5	1,908	1.6
Unskilled	51,188	25.2	13,987	26.0	31,497	25.9
Housemaid	61,489	30.3	15,322	28.5	29,399	24.1

(a) Revised

Source: Sri Lanka Bureau of Foreign Employment

(b) Provisional

Qatar, Saudi Arabia, United Arab Emirates and Kuwait. Meanwhile, a significant improvement in departures for foreign employment is envisaged for 2022 amid further improvements observed during the first quarter of 2022.

Labour Productivity

Labour productivity, measured in terms of Gross Value Added (GVA) (in 2010 prices) per hour worked, declined by 2.6 per cent to Rs. 562.15 per hour worked in 2021 from Rs. 577.36 per hour worked in 2020.⁹ Even though, increases in GVA were observed related to all three activities namely, Agriculture,

Industry and Services in 2021 compared to 2020, the overall labour productivity declined slightly solely due to the considerable recovery in hours worked amid lesser mobility restrictions prevailed during the year. Accordingly, labour productivity in Agriculture, Industry and Services activities declined to Rs. 175.64 per hour worked, Rs. 598.78 per hour worked and Rs. 734.94 per hour worked, respectively, in 2021 from Rs. 178.37 per hour worked, Rs. 611.90 per hour worked and Rs. 764.25 per hour worked, respectively, in 2020. In terms of the level of productivity, Services activities continued to exhibit the most efficient use of labour resources, recording the highest labour productivity level, followed by Industry activities, while Agriculture activities recorded the lowest.

⁹ The significant increase in labour productivity in 2020 was due to the substantial reduction in hours worked amid tighter mobility restrictions that prevailed to contain the spread of the COVID-19 pandemic.

