

# PROMOTING INVESTMENT IN EXPORTS

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## Introduction

Sri Lanka has recognised exports as a priority area in its development programme and considers exports vital for the stability and long-term development of the Sri Lankan economy. In the coming years exports are expected to make the largest contribution to the country's growth. The Government's medium term investment programme is also dependent on the assumption that a very special effort will be made to promote merchandise exports in the coming years, particularly because invisible earnings from tourism and private transfers from Sri Lanka's employed abroad are not likely to flow in as they did in the last few years.

To achieve these ends the export sector would need all the possible encouragement. The Government's commitment to the export drive has been made through various institutional measures. One such is the Sri Lanka Export Development Board (EDB) which looks into the needs of the export sector in order to promote exports by making it a profitable and attractive area of investment. In its endeavours to find ways and means of assisting exporters to expand the export base and increase the volume of exports from Sri Lanka, various schemes are introduced by the EDB taking into consideration the particular needs of the export sector at different stages.

## EDISS

The EDB's assistance schemes are mainly introduced to reward exporters for their creditable performance as well as to offset any disadvantages they may suffer as a result of their prices being uncompetitive. The

disadvantages may be the result of high cost of capital or production, or freight or even the over-valuation of rupee in comparison with other foreign currencies.

A payment based purely on the performance, however, did not contribute much towards production oriented export development. The EDB wanted to reward the exporter in a way which would reflect more tangible results in the export field. This was the thinking behind the Export Development and Investment Support Scheme (EDISS) which was introduced last year.

The EDISS which came into operation in January, 1985 is designed to reward exporters and at the same time channel a considerable portion of the reward back to the export field as investment. It is one of the most far-reaching means of assistance introduced by the Sri Lanka Export Development Board since its inception in 1979.

The scheme is an improvement of two schemes which were operating in succession before 1985, namely, the Export Expansion Grant Scheme and the Export Development Grant Scheme. These schemes were also based on the idea of rewarding exporters to some extent while assisting to offset the disadvantages they suffer.

Seventy five percent of the payment is given in the form of a Development Certificate which could be encashed only for export oriented investments. It may be new investments or diversification and expansion of an existing project. The balance 25 percent of the payment is given in cash. The Certificates are transferable for investment in approved export oriented projects and valid for a period of 5 years from the date of issue.

One of the main characteristics of the scheme is its flexibility. There is provision to accommodate exporters of a wide range of products from a wide area, at the same time keeping

the main objective of the scheme intact.

For example, a development certificate does not become an unnecessary burden in the hands of an exporter who does not wish to make any further investment because there is provision for transfer. The transferability of the certificate gives freedom to the exporter to take an independent decision whether to make an investment or not. This does not prevent the EDB from realising its major objectives as the certificate will eventually go into the hands of another investor.

The word investment has been given a wide interpretation adding to the flexibility of the scheme. The broad areas in which one could invest includes product adaptation, improvement of quality, market promotional activity such as publicity, foreign market tours, participation in Buyer/Seller meets, trade fairs, trade missions, establishment of trading houses and in obtaining services related to exports.

Many different types of companies, partnerships, proprietorships, statutory bodies and public sector undertakings of the Government of Sri Lanka can benefit under the scheme.

The scheme is mainly applicable to non-traditional products, with the traditional products being excluded. However the processed forms of traditional products are eligible for receiving payment under the scheme.

The traditional products excluded are Tea in bulk, crepe, sheet and scrap Rubber, Coconut-fresh, desiccated, copra and coconut oil, fibre; cloves and coffee in primary form; graphite, gems, 'quota' garments and fertiliser.

The processed non-traditional forms of these, such as tea bags and packs, desiccated coconut in packets of 500 gms or less, coir products, coffee powder, non-quota garments and calibrated precious and semi-precious stones, however are included.

Applications are entertained in respect of services, an area identified as having much potential. In this category are those performing a professional service on a contractual basis and earning foreign exchange in the fields of Accountancy, Engineering, Architecture, Law, Socio-economic development and computer software/data processing.

The criteria on which the quantum of payment payable to an exporter is calculated is as follows:

When an application is made by an exporter in respect of a product he is required to submit cost statements relating to the product in detail, which will indicate the cost of all imported inputs such as raw materials and packaging. The cost (CIF) of all imported inputs and foreign cost component of electricity and of fuel will be deducted from the value of the product to determine the net foreign exchange earnings. All documents forwarded would be carefully scrutinised by a team in the EDB Projects Division before payment is made.

The products fall into 4 categories according to their net foreign exchange earning capacity. The products which have a net foreign exchange earning of 20-30 percent fall into category A and will receive 3% as payment under the scheme; those with 30-60 percent of earnings fall into category B and will receive a payment of 4%; those with 60-70 percent of earnings fall into category C, and will get 5% of their total earnings.

Those in category D will receive the highest payment of 7% of their earnings. The placement of a product in category D will be considered on a case by case basis only on specific applications.

To be placed in this category a firm may have to ensure net foreign exchange earnings of over 70 percent with value added over 55 percent as well as prove special efforts taken in

relation to further processing, supply, product and market development and promotion.

Once a product is placed in one of these categories all applications received in respect of the particular product will be treated on an equal basis, as the imported inputs which go into a product are generally the same. This does not prevent a company from making a specific claim on the basis of valid proof of more net foreign exchange earnings.

The exporters have to show a progressive increase in their foreign exchange earnings to be eligible for payment under the scheme. When an application is made the exporter has to submit documents relating to his foreign exchange earnings for the past 1,2 or 3 years. The average is computed thereupon and if the earnings for the relevant payment year is above the average he will be eligible for receiving payments under EDISS. To ensure stability calculations are made in SDR terms.

An exporter who has just started exporting and earned foreign exchange but is unable to show an increase over the previous year has also been given consideration.

The flexibility of the EDISS has provision to recognise such potential exporters. The first time exporters who are at the mercy of circumstances beyond their control and the exporters in areas which have a very good potential needing a special push—all these categories are specially looked after in order to ensure that the ultimate objective of export development is achieved through this scheme.

In the case of first time exporters the computation of the average earnings does not arise. They are paid according to the performance of the current year.

The exporters who are at the mercy of circumstances such as the weather also get preferential treatment. In such an eventuality when the national export figure is less than the

national average for the product in a particular year, the base average requirement does not arise.

The national average is generally the average of national exports for the past 3 years.

The cashew nut exporters and sesame exporters are two groups presently paid according to their performance in the current year as there was a shortfall in national production owing to bad weather conditions.

The sea food industry was also exempted and paid according to the current year's performance. The short-fall of production in this area was due to the fishermen being unable to carry out their activities in the northern seas, where the most thriving sea-food industry exists.

In special circumstances where the exporters are facing liquidity problems, the EDB considers requests for the total payment to be made in cash to meet the working capital requirements of the company. However such requests are acceded to after careful analysis of the financial situation of the company to ascertain that the company is really in difficulties needing working capital.

The scheme does not forger the small exporter who is still not in a position to make a further investment and wishes to utilise this money for any other requirement. Those who get less than Rs.250,000 as payment under the EDISS are eligible to obtain the entire amount in cash if they so desire.

When an application is made by an exporter for payment under EDISS, the Board gets an indication of a potential investment in the export field. From the time an exporter becomes eligible for payment a close relationship is built up between the two parties which develops through interviews, advice and factory visits. The EDB plays an advisory role with assistance in different areas, such as better

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financial management and identification of potential investment areas.

In this advisory role the Board takes into consideration the needs of the export sector as well as the preferences and capabilities of the particular company. The EDB, however, at any point does not interfere in the activities or the management of the company.

The objective of the EDB is to assist the exporter to take an investment decision which would yield the maximum benefits to the exporter and at the same time be beneficial from the national perspective of export development. The EDB having an overall idea of the export sector is in a better position to identify areas of investment having the highest growth potential.

Setting up of infrastructure facilities such as warehouses is an important area identified by the Board. Another potential area which the EDB tries to promote is the export of professional services.

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Experience of the last few years has enriched the knowledge of the EDB to understand some important aspects in investment decisions. It is easier for any exporter to diversify than start new projects. It is also easier for the exporter to proceed once an area of potential investment is identified.

Although there were many who would like to invest in export oriented projects, mobilisation of finance was always a difficult task and the EDISS helps somewhat in this respect.

Finance from the traditional sources, such as the commercial banks, necessitated the usual procedures of security and guarantee. The Development Certificates under the EDISS on the other hand is ready cash, exempted from income tax, available at any time one wishes to make an investment.