

Impact of Development Financing

The need for setting up of a significant source of term financing and investment by way of equity, and an institution that could contribute to further development of the capital market, had been considered by successive governments from around 1968. Such an institution was formally set up in the form of the National Development Bank (NDB) in 1979 with a subscribed capital of Rs 600 million contributed by the Government (67%), the Central Bank, the People's Bank and the Bank of Ceylon. In December 1986 the NDB completed its seventh year of operations and the Chairman's review of its performance states that it had made "a satisfactory contribution to the financial and development objectives for which it was established".

If the operations of the NDB are an index to the business and financial activities in 1986 there appears to have been continued growth in these areas despite the generally unsettled conditions in certain parts of the country. In 1986 the NDB provided Rs 654 mn through loan and equity investment towards the financing of 112 projects (including its Equipment Finance Scheme approvals). This represented a 13 percent increase in the volume of financing approved over 1985 when total approvals amounted to Rs 580 mn for 99 investments.

The volume of finance disbursed in 1986 also increased substantially, to Rs 546 mn, compared with Rs 374 mn in 1985. According to the NDB this is an indication that investments approved in earlier years are being implemented at a satisfactory rate and that the Bank's contribution to the growth and diversification of the economy is taking concrete form, in generating exports, employment and added value to the country's resources.

A further index of the type of investment occurring in the country is apparent in the NDB's sectoral classification of approvals in 1986 which is as follows:

Noteworthy changes in the sectoral composition of approvals in 1986 include: the increase in the Food, Beverage and Tobacco sector from 8 percent of approvals in 1985 to more than 28 percent in 1986; the continuing strong performance of the metals and chemicals, and textiles and clothing sectors. The increase in the miscellaneous sector includes approvals for the modernization and upgrading of facilities in the printing and packaging sector, support for a computer data entry project and gem exports.

Assessing the contribution of approved investments to national economic objectives the assessment of NDB performance for 1986 shows the following:

Exports: 35 projects approved were

export oriented (16 in 1985) to which the Bank extended facilities of Rs 170.4 mn.

Import substitution: 10 projects were import-substituting (7 in 1985) and were approved for Rs 61.2 mn in financing.

Employment: Direct employment potential of projects approved by the Bank in 1986 was 2,000 jobs (2,500 in 1985).

Ownership: 109 of the projects approved were from the private sector of which 03 were publicly-quoted companies and 3 approvals were from the state sector.

Foreign Collaboration: 12 projects approved had foreign collaboration (8 in 1985)

Equipment Finance Scheme: In 1986 more than 50 loans were approved, amounting to Rs 117 mn, compared with 43 approvals totalling Rs 84 mn in 1985. This is a 40 percent increase in the volume of approvals. The total amount of finance provided under the scheme since its introduction exceeds Rs 20 mn for more than

Table 1

SECTORAL CLASSIFICATION OF LOANS & EQUITY APPROVALS 1986

	No.	Amount (Rs Mn)
1. Food, beverage & tobacco	17	128
2. Agriculture, agro-business & fishery	06	21
3. Textile & wearing apparel	19	82
4. Wood/paper products	05	18
5. Rubber & leather products	11	82
6. Metals & chemicals (including petroleum & engineering)	23	109
7. Hotels	01	09
8. Service industries	08	53
9. Miscellaneous	22	94
Total	112	654

100 investments. A significant feature of the scheme is that almost all applications have been processed within a period of two weeks.

An overview of the NDB's record shows that Rs 2.9 billion has been given out in the form of loans by the NDB over the last seven years as direct finance facilities mainly to various manufacturing industries, the hotel and tourism sector, and the service industries sector. In addition the National Development Bank has invested Rs 143.5 million in these projects as equity participation. The largest investment (nearly 22% of the total) has gone into projects in the Metal and chemicals sector; followed by the Service industries (15%) and the Food, beverages and tobacco sector (13%).

Since 1983 there has been a steady increase in the level of financing by the NDB for direct financing, which moved up from Rs 306 million in 1983, to Rs 505 million in 1984 and Rs 545 million in 1985. In 1986 direct financing facilities reached a record level of Rs 644 million, and loans and equity together amounted to Rs 654 million last year.

SMI

A significant growth was recorded in the refinance approvals under the World Bank financed Small and Medium Industries Project (SMI) operated by the NDB in collaboration with 5 participating credit institutions one of which is the People's Bank. In 1986 the project was ending its second phase (SMI II) with total approvals upto the end of 1986 amounting to Rs 748.7 mn, leaving a balance of Rs 80 mn to be disbursed. In 1986 total refinance approvals by the NDB, for the five institutions, was Rs 337 mn for 686 projects, of which the People's Bank's share of refinance was Rs 108.9 mn for 225 projects. The People's Bank had funded almost 30 percent of the 1,751 loans approved for SMI II upto end of 1986.

The sectoral break-down of sub-projects financed both under the first

Table 2

SECTORAL CLASSIFICATION

	SMI - I		SMI - II	
	No.	Rs'000	No.	Rs'000
Food Processing	474	56,625	469	212,171
Other Agro-Industries	120	10,087	44	12,576
Rubber Products	29	6,756	54	33,612
Metal Products	215	22,397	155	59,895
Cons. Materials	272	42,936	121	60,170
Cons. Contracting	11	5,018	11	11,716
Wood Products	176	20,391	132	33,841
Garments	89	9,528	99	29,311
Textiles	52	7,738	36	20,780
Repair Workshop	51	4,108	86	23,168
Miscellaneous	252	43,950	547*	251,462
Total	1,741	229,532	1,751	748,702

* Break-down of Miscellaneous Sector.

	No	Rs'000
Animal Husbandry & Horticulture	100	39,133
Chemical Products	08	2,353
Commercial Transport	127	36,375
Leather and Allied Products	18	5,905
Plastic Products	31	30,957
Printing & Paper Products	100	53,422
Others	163	83,417
Total	547	251,462

(SMI I) project and the second (SMI II) project, given in Table 2, also indicates the most popular areas of investment. The dispersion pattern has generally remained unaltered with a large percentage of sub-projects being located in the principal districts such as Colombo, Gampaha, Galle, Puttalam and Kurunegala.

Prospects for 1987

The NDB expects to step up its volume of lending and refinancing operations by 15 percent to 20 percent over that achieved in 1986. It is also aiming at a qualitative change in its portfolio with greater emphasis on new areas of investment, particularly in export oriented projects, agriculture, agro-processing and fisheries sectors. This institution also hopes to

achieve a target of not less than 5 percent of annual gross loan approvals by way of equity investments in client companies, since an important objective of the Bank's strategy is the development of a capital market in Sri Lanka. With this end in view, the Bank is encouraging client companies to seek quotations for their shares, and to participate in such share issues directly or through underwriting arrangements.

The NDB also expects to participate and play a catalytic role in the privatisation of State Sector enterprises as well as the financial restructuring of public companies, which have imbalances in their financial structures, which impede growth and expansion and prevent them from entering new areas of business.