

**THE ROLE OF MIDDLE AND SMALL
SCALE INDUSTRIES IN THE RURAL
ECONOMY IN SRI LANKA**

**A DISSERTATION SUBMITTED TO THE
FACULTY OF ARTS IN CANDIDACY FOR
THE DEGREE OF MASTER'S OF PHILOSOPHY**

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Abstract

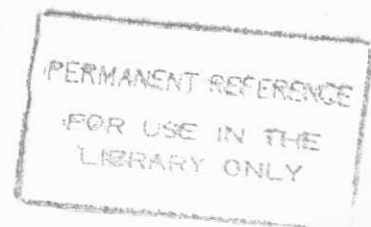
This study , study's the contribution of small and medium scale industries to rural economy in Sri Lanka. The study has taken two approaches. The first part of the study, taking a macro perspective analyze rural agriculture and small and small and medium scale industries using secondary data and information. The second part of the study, taking a micro perspective, examine the physical, social and economic context of Kundasale Division and examine the contribution of small and medium scale industries to its rural economy

The main objective of this study is to assess the contribution of employment, raw material, market and investments in small and medium scale industries in rural economy. At the same time, the problems faced by the small and medium scale industrial entrepreneurs and environmental problems caused by these industries will be also examined with a view to further improve the contribution of these industries to the rural economy.

Kundasale Division located in fast industrializing Kandy District was selected for the field study. The detail study was conducted on 50 industries located in 8 Grama Niladari Divisions randomly selected out of 80 in the district.

The field study confirmed that there is a very close and mutual relationship between the local resource base and small and medium scale industries. It was evident that the locations of most of the industries were decided by the local resource base. Most of the employment in these industries were rural and family based. The gender distribution of employment was fair. Most of the employment generated were however, in the laborer category. Small and medium scale industries have also led to a notable indirect employment generation.

Industries used both local and imported raw material and the share of the former is about 90 %. It was a very unique feature that most of the raw materials were obtained either free or at a very low cost.



Although there is a good local market for the product of small and medium scale industries, they face stiff competition from the imported goods. The private investment dominates the small and medium scale industries. The difficulty in obtaining credits from the state institutions has increasingly led the investors to other sources for investment capital. The careless environmental practices of some of the industries have led to an increase in the negative externalities.

In general an increasing trend towards industrialization was observed in the Kundasale Division. Local agriculture has not been able to provide a solution to the high unemployment in the area. On the other hand, most youth prefer employment in industrial sector agriculture. However, most of the small and medium scale industries are agriculture based. Thus agriculture cannot be overlooked. Thus it can be concluded that the most appropriate strategy to uplift the rural economy is to promote industries, which are directly connected to agriculture.