

# INVESTMENT GUIDE

## BOARD OF INVESTMENT OF SRI LANKA



**Board of Investment of Sri Lanka**

*Prepared by*

Research and Policy Advocacy Department

(In consultation with Investment Dept., Promotion Dept. and Media Dept.)

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# 1. COUNTRY PROFILE

## Geography & Climate

Official name	:	Democratic Socialist Republic of Sri Lanka
Widely use name	:	Sri Lanka
Internet domain	:	.lk
Geographical location	:	South Asian Region
Geo – Coordinates	:	Between 5° 55" and 9° 50" North Latitudes Between 79° 31" and 81° 53" East Longitudes
Land area	:	65,610 sq. km with 2905 sq. km of Inland water
Administrative divisions	:	9 Provinces, 25 Districts
Capital city (Administrative)	:	Sri Jayewardenepura Kotte
(Commercial)	:	Colombo
Standard time	:	GMT + 5.30 hours
Climate	:	Tropical - with two monsoons
Climate variations	:	North- East Monsoon (September - March) South –West Monsoon (May - August)
Annual average rainfall	:	1687 mm
Average temperature	:	Min 24.4 °c - Max 31.7°c

## Demographics

Population	:	20.9 mn
Ethnic groups	:	Sinhalese (74.9%), Tamils (15.4%), Muslims(9.2%), Others (0.5%)
Religions	:	Buddhist (70.2%), Christian (7.4%), Hindu (12.6%), Islamic (9.7%), Other (0.1%)
Official languages	:	Sinhala & Tamil
	:	English is the Business Language and commonly used in Government, Private Institutions & Banks and widely spoken in all urban areas

## Resources

Agricultural	:	18.29% Arable Lands , 29.7% Forest cover
Major commercial crops	:	Tea, Rubber, Coconut, Cinnamon, Pepper
Major food crops	:	Rice, wide range of Fruits & Vegetables, Spices
Marine	:	About 1620 km coastal line with Exclusive Economic Zone of 517,000 Sq km within 200 nautical miles from the baseline
Minerals	:	Limestone, Graphite, Mineral Sand, Gem, Phosphate, Clay

## 2. SRI LANKA - YOUR NEXT INVESTMENT DESTINATION

### a) Political and Economic Stability blended with Peaceful Investment Environment

There are many reasons why companies select Sri Lanka as their investment destination. It all starts with positive leadership, policies and peace. Sri Lanka is an open economy and has heavily invested to develop its infrastructure to face the challenge of attracting high performing industries.

#### Country Performance;

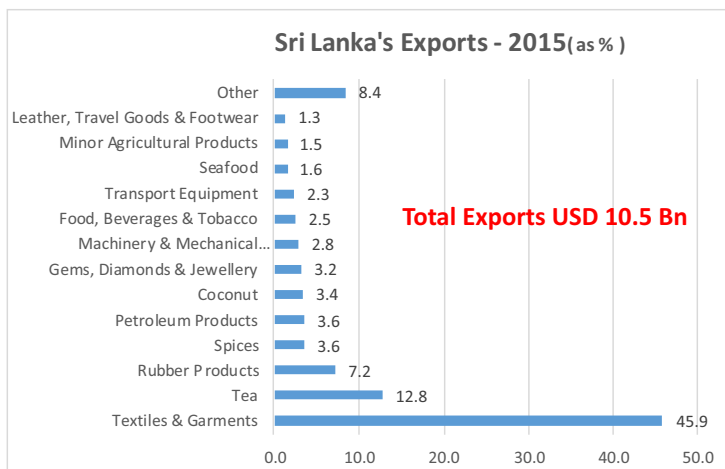
- A fast growing economy in the South Asian region
- Unemployment rate around 4.6%
- Per capita GDP of USD 3,924 in 2015
- Brought down inflation rate to 3.8% in 2015
- Efforts to diversify exports

#### Real GDP Growth

	2011	2012	2013	2014	2015
Bangladesh	6.5	6.5	6.0	6.1	6.6
India	6.6	5.1	6.9	7.4	7.6
Malaysia	5.2	5.6	4.7	6.0	5.0
Pakistan	2.7	3.5	4.4	5.4	5.5
Sri Lanka	8.2	6.3	7.2	7.4	4.8
Thailand	0.1	6.5	2.9	0.7	2.8
Vietnam	6.2	5.2	5.4	6.0	6.7

Source: World Development Indicators

#### Composition of Exports 2015



Source: Central Bank of Sri Lanka, 2015

#### Top 15 Investors

1. Malaysia
2. China
3. Hong Kong
4. U.K
5. India
6. Netherlands
7. Mauritius
8. UAE
9. Singapore
10. U.S.A
11. Luxemburg
12. Japan
13. Sweden
14. British Virgin Island
15. Australia

**b) Choosing Sri Lanka as FDI Location**

- Geostrategic Location
- Openness to trade and investment
- Pro-business Government Policies
- Competitive corporate tax rates
- High quality educational skills development
- Stable and attractive living and working environment
- Availability of property
- English speaking workforce
- Emerging as a popular logistic centre in Asia
- Bilateral Investment Protection Agreements (IPA) with 28 countries and Double Tax Avoidance Agreements (DTAA) with 42 countries.
- Constitutional guarantee on safety of foreign investments.
- Total foreign ownership is permitted across almost all areas of the economy and free repatriation of earnings, fees, capital, and on forex transactions relating to current account payments.

**c) Developed Infrastructure**

- Efficient & Modern Sea ports and Airports
- Network of well-maintained roads and highways
- High quality telecommunication network
- Reliable utility services at competitive rates
- EPZs and Industrial Parks with plug and play facilities

**d) Talent Pool**

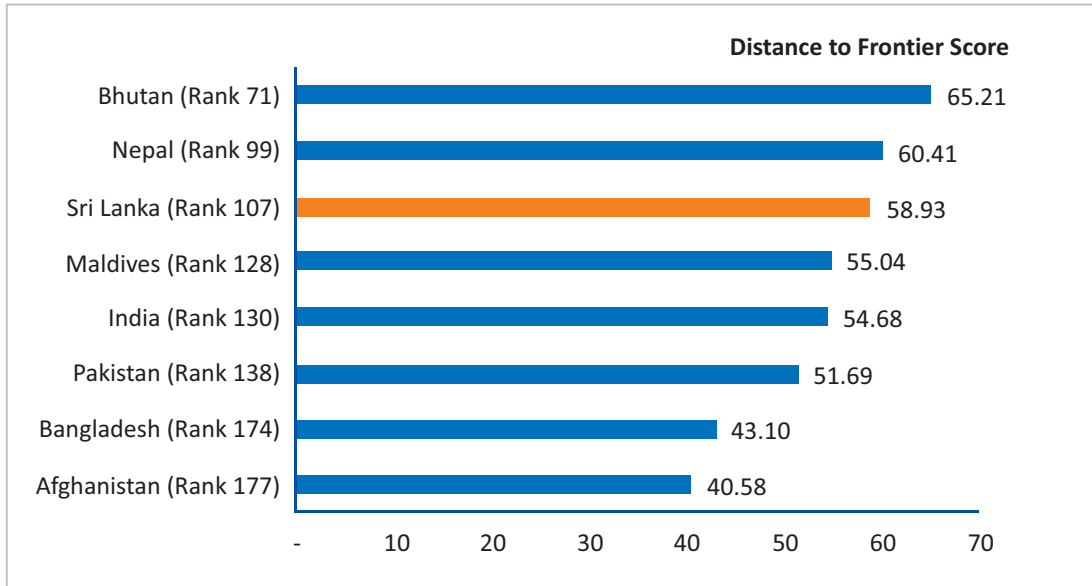
- Our skilled workforce is highly adoptable, trainable and committed to achievement.
- Sri Lanka is among top 10 best performers (lower middle income category) in the “Global Talent Competitiveness Index ” 2015-16
- Sri Lanka has a higher percentage of young population participating in the labour force.
- Annual Graduate output - 25,000 from State Universities & Over 10,000 from Private Educational institutions
- Vocational and Industrial training Institutes to meet the industry demand
- Sri Lanka is fast emerging as a niche “Center of Excellence” (COE) for Finance and Accounting Outsourcing (FAO) with us having the second largest pool of UK qualified accounting professionals in the world.

**e) Preferential Market Access**

- Free Trade Agreements with India and Pakistan; preferential market access to over 4,000 products at zero customs duty.
- Extended market access to over 1.4 Bn population.
- Negotiating a comprehensive FTA with China, India & Singapore.
- A member of APTA and BIMSTEC Agreements

#### f) Doing Business Rankings

- Continuous effort to improve investment environment
- Moved up in the Doing Business Index from 113 th place in 2015 to 107 th place in 2016



#### g) Quality of Life

- A quality living environment in Sri Lanka with comfortable housing, advanced healthcare and medical facilities and reputed international schools
- A cosmopolitan living environment with ample recreational activities and nightlife, world-class shopping, theatre, cafes, art and host of star class hotels.
- Sri Lanka is truly a great place to live and work

### 3. INVESTMENT POLICY OF SRI LANKA

Sri Lanka pioneered in South Asia's economic liberalization over three decades ago. The following transparent investment laws aim to foster foreign direct investments.

#### The Board of Investment Law (BOI Law)

The Board of Investment Law No. 4 of 1978 and its amendments is the principal law applicable to foreign investments in Sri Lanka. BOI is structured to function as the Central Facilitation point for investors and empowered to enter into agreements with investors providing investment incentives of tax holidays, tax concessions and exemptions from customs duty & exchange control law.

Total foreign ownership is permitted for investment in most of the areas of the economy and there is no restriction on foreign exchange transaction relating to current account payments.

#### Exchange Control Laws Applicable for foreign Investments

The Exchange Control Provisions applicable for foreign investments are stipulated in the Regulation No. 1232/14 dated 19-04-2002 as amended by No.1248/19 dated 08-08-2002 which read as follows;

“Permission is granted for the issue and transfer of shares in a company up to 100% of the issued capital of such company, to approved country funds, approved regional funds, corporate bodies incorporated outside Sri Lanka and individuals resident outside Sri Lanka (inclusive of Sri Lankans resident outside Sri Lanka) subject to the exclusions, limitations and conditions herein after set out.

#### Exclusions:-

The permission hereby granted shall not apply in respect of shares of a company proposing to carry on any of the following businesses: (as further amended by the Government gazette (extraordinary) No 1970/49 of 10th June 2016)

- i. Pawn broking
- ii. Retail trade with a capital of less than One Million US Dollars
- iii. Coastal Fishing

#### Limitations:-

- (a) Foreign investments in the areas listed below will be approved only up to 40% of the issued capital of such company or a higher percentage of foreign investment when approval has been granted by the Board of Investment of Sri Lanka only up to higher percentage.
  - i. Production of goods where Sri Lanka's exports are subject to internationally determined quota restrictions
  - ii. Growing and primary processing of tea, rubber, coconut, cocoa, rice, sugar and spices
  - iii. Mining and primary processing of non renewable national resources
  - iv. Timber based industries using local timber;
  - v. Fishing (deep sea fishing)



- vi. Mass communications
  - vii. Education
  - viii. Freight forwarding
  - ix. Travel agencies
  - x. Shipping agencies
- (b) The permission hereby granted shall apply in respect of the shares of a company carrying on or proposing to carry on any of the businesses set out below only up to the percentage of the issued capital of the company for which percentage either general or special approval has been granted by the Government of Sri Lanka or any legal or administrative authority set up for the approval of foreign investment in such businesses.
- i. Air transportation
  - ii. Coastal shipping
  - iii. Industrial enterprise in the Second Schedule of the Industrial Promotion Act, No. 46 of 1990, namely – any industry manufacturing arms, ammunitions, explosives, military vehicles and equipment aircraft and other military hardware; any industry manufacturing poisons, narcotics, alcohols, dangerous drugs and toxic, hazardous or carcinogenic materials; any industry producing currency, coins or security documents;
  - iv. Large scale mechanized mining of gems;
  - v. Lotteries

## Investment Protection

Sri Lanka is one of the safest countries in the world to invest in, due to a number of mechanisms in place to protect investors. The Article 157 of the island's constitution guarantees the safety of investment protection treaties and agreements approved by parliament by a two thirds majority.

Sri Lanka has signed bilateral Investment Protection Agreements (IPA) with 28 countries. The country has a very independent system of courts which can redress any concerns of investors.

Sri Lanka also has bilateral Double Tax Avoidance Agreements (DTAA) with 42 countries. Sri Lanka is a founder member of the Multilateral Investment Guarantee Agency (MIGA), an investment guarantee agency of the World Bank. This provides a safeguard against expropriation and non-commercial risks.

## 4. COMPETITIVE INVESTMENT OPPORTUNITIES

While focusing sectoral investment promotion approach, Sri Lanka promotes following competitive sectors to attract Foreign Direct Investments.

### Maritime Sector

Sri Lanka is situated in one of the best locations in the world to gain competitive advantage in the naval and maritime industries.

#### Investment opportunities

- Construction of new terminals
- Developing skills required for maritime industries
- Supporting logistic establishments
- Ship building and repairing industries
- Developing minor ports & connectivity
- Expanding related leisure activities
- Further research on exploring sea bed potential
- Marine support industries
- Rigging & offshore engineering
- Supply of spares, food, water and other goods
- Bunkering service
- Maintenance services
- Transshipments service

### Aviation Sector

Sri Lanka is situated close to many of the world's main air routes. Most of the main cities in the world can be reached from Sri Lanka within few hours and therefore the country has a high potential for becoming an Aviation Hub.

#### Investment opportunities

- Improving aviation services to become a “location for aviation services”
- Improving airport facilities to become a good destination as well as a good transit point.

## Knowledge Sector

The concept of knowledge hub was introduced to make Sri Lanka as the most preferred country for higher education in the Asian subcontinent by attracting foreign students and getting the services of foreign experts.

There are 15 state universities, 7 post graduate institutes and 13 other degree granting universities/ Institute in operation. The capacity of the state university system is limited and not more than 20% of the 140,000 students who qualify for university education can gain admissions to these Universities.

The government has already commenced the formulation of necessary legislation to regulate private sector higher education institutes.

Private sector organizations are encouraged to join with the higher education institutes to undertake research & development.

The Knowledge Services sector which encompasses IT software development, Knowledge Process Outsourcing / Business Process Outsourcing industry, IT and IT enabled services and IT Training Centers, has tremendous potential to emerge as a key growth sector in Sri Lanka.

There are over 100 software development companies in operation in Sri Lanka which caters to both independent and captive markets. Sri Lankan companies have been able to develop software products of their own which have earned them international recognition.

The KPO / BPO industry is an emerging sector in Sri Lanka, within its short history since 2000, the sector has been able to attract some of the BPO / KPO giants in the world. Sri Lanka is growing in reputation for niche areas of Financial and other Professional Services, Transaction processing and Document management.

The Industry has set a target of Export revenue of US\$ 1 Bn and Employment of 100,000 by end 2016.

The knowledge hub initiative will help to develop Sri Lanka as a destination for investments in Higher Education and position the nation as a center of excellence and regional hub for learning and innovation.

### Investment opportunities

- Establishment of Higher education institutes with appropriate programs in order to produce qualified personnel as sought by the Industries and services nationally and internationally.
- Establishment and operation of IT software development, Knowledge Process Outsourcing / Business Process Outsourcing companies, IT and IT enabled services and IT Training Centers.

## Energy Sector

In order to attain the peak demand and to satisfy the electricity requirement in Sri Lanka, altogether 196 Grid Connected power plants with total installed capacity of 3,917 MW have been operated in the first half of 2015. Out of these Power Plants, 27 have been owned and operated by Ceylon Electricity Board including 17 Hydro plants, 09 Thermal plants and 01 Wind power plant.

6 Thermal Power Plants have been operated by Independent Power Producers (IPPs) and 163 Renewable Power Plants have been operated by Small Power Producers (SPPs) including Mini Hydro Plants, Solar Power Plants, Wind Power Plants and Biomass Power Plants.

Sri Lanka also has suffered from global oil price shocks from time to time and developing new avenues for energy creation has become essential. Even though the global fossil fuel resource is depleting, availability of fossil fuel resources have been identified in northern and southern seas around Sri Lanka.

### Investment opportunities

- Developing & Promoting of Non conventional energy sources with improved technology

## Commercial Hub Related Services

Considering the strategic advantages of the location, rapid development of infrastructure and other facilities have been initiated to establish Sri Lanka as one of Asia's foremost commercial centers in the field of commercial services and international banking.

### Investment Opportunities

- Supply Chain Management
- Total logistics service
- Establishment and operation of Shopping malls that offer International branded products
- BOI has been empowered to grant concessions for new investors in the Hub related activities in Free Ports and other designated areas. Details are given in the dedicated section titled produce on "Commercial Hub Activities".

## Tourism Sector

- The Sri Lankan government has identified the Tourism sector as a key growth area in the post-conflict development era.
- Tourism arrival has increased by 400 % since 2009, as the number of arrival was recorded in 2016 was 2.0 mn compared to 0.5 mn in 2009.
- Priority has been given for development of required accommodation facilities and other related infrastructure for leisure activities.

- Some regional blocks namely Kuchchaveli in Trincomalee district on the north-eastern coast, Passikudah on the east coast, Kalpitiya on the north western coast consisting of 14 different islands, and Dedduwa near the river Madhu Ganga located close to Bentota on the south western coast have been identified to develop as special tourism zones.
- Considering significant growth in the industry, one of the most prestigious global travel publications, the largest travel guide book and digital media publisher in the world Lonely Planet Magazine's Dream Trips 2016 has included Sri Lanka in its list of Top 10 destinations to visit in 2016. The special edition of Lonely Planet Magazine has identified top 10 destinations to visit in 2016 and Sri Lanka has also been favored as one of such destination. Dream Trips has included Sri Lanka as one of the "World's most extraordinary places to add to your travel wish list"

Sri Lanka has been listed among the top 10 coolest countries in the world to visit in 2015, by the Forbes magazine. Sri Lanka is placed in the 10th position in "The Ten Coolest Places to Visit in 2015" in the magazine's latest edition contributed by scribe Ann Abel. "Sri Lanka offers tremendous value but is still often overlooked.

#### Investment Opportunities

- Construction and management of hotels, resorts, leisure & entertainment complexes

## Manufacturing Sector

Manufacturing industries is one of the key sectors of the economy, which generates over 75% of national industrial exports. A wide range of targeted industrial sub-sectors are to be promoted for investment.

There are many success stories in the manufacturing sector of Sri Lanka with foreign direct Investments as indicated below.

- Apparel industry
- Rubber based products – mainly solid tyers and surgical gloves
- Food Processing Industries – Prima Ceylon
- High-tech manufacturing

#### Investment Opportunities

In line with the new policy guidelines of the government the manufacturing sector is to be promoted in three different segments.

- Export oriented industries such as food processing , rubber based products, apparel, value added mineral based product, ship & boats.
- High end industries such as automobiles, electrical and electronics, chemicals
- Import replacement industries such as pharmaceuticals, textile, dairy products, fertilizer

## Infrastructure Sector

The massive infrastructure development drive currently in progress is expected to support the country to achieve sustainable growth in the medium and long term. Timely development of economic infrastructure will help to increase economic efficiency while expanding the production capacity of the economy, facilitate productivity enhancement and reduction of regional disparity. Economic infrastructure development programme undertaken by the government so far has focused on all areas of infrastructure includes;

- Development of road net work including highways, expressways and railways,
- Expansion of existing international sea port & air port and establishment of new ones
- Housing, Shopping malls and urban development
- Water supply and sanitation,
- Establishment of industrial zones,
- Warehousing and logistic centers etc.

### Investment Opportunities

- Northern expressway
- Mixed Development complexes and other commercial facilities in Colombo and other cities
- Housing -Apartments
- Export processing zones with state-of-the-art technology
- Warehousing and logistic centers etc.

## Services Sector (Utilities)

### Telecommunication Sector

The country has developed its telecommunications industry on par with the developed country standards.

As a result of the pertinent regulatory initiatives, the local telecommunications sector has taken pride in being the prime figure to introduce some of the most latest global telecommunications technologies in the South Asian Region. Sri Lanka has facilitated some of the most advanced technologies in the world such as GSM, 3G, 3.5G and HSPA (High Speed Packet Access) which allows high speed mobile broadband. Sri Lanka is also the first country to introduce Next Generation Networks such as 4G, which would enable the use of WIMAX (Worldwide Interoperability for Microwave Access) and LTE (Long Term Evolution).

- The South East Asia - Middle East - Western Europe 5 (SEA-ME-WE 5) state-of-the-art submarine cable system that will link 17 countries, have a landing point located in Sri Lanka. The 1st of February 2016 marked the arrival of this multi-regional superhighway by the opening of the - cable-landing station building for the SEA-ME-WE 5 in Southern Sri Lanka.
- The new cable will assist Sri Lanka in achieving its 'SMART 2020' digital society goals and promoting Sri Lanka as a preferred destination in the region for data Centre operation.

**Statistical overview of the sector as at end December 2015:**

Number of System Licenses	38
Total no. of fixed phones	2,601,196
Tele-density (Fixed phones per 100 inhabitants)	12.4
No. of cellular mobile subscribers	24,384,544
Mobile subscribers per 100 people	116.7
Internet & e-mail subscribers fixed	682,512*
Internet and E-mail subscribers (Mobile)	3,408,408**
Fixed narrowband subscribers	12,496
Fixed broadband subscribers	670,016
Number of Public Payphone Booths	5,809

\* Provisional \*\* Definition has been changed

**Status of broadband in Sri Lanka - 2014:**

Measure	Value	Global ranking
Fixed broadband subscriptions per 100 capita	2.6	114
Mobile broadband subscriptions per 100 capita	13.0	126
Households with Internet	15.3%	81
Individuals using Internet	25.8%	122

Source: The State of Broadband 2015 report by The Broadband Commission for Digital Development - ITU and the UNESCO

**Network readiness index 2016**

Sri Lanka moved to 63th place out of 139 economies, improving from its 65th place in 2015 in terms of network readiness. The country ranked highest among SAARC nations.

Investment Opportunities

- Telecommunication related services mainly to improve the quality by improving speed & coverage

**Agriculture Sector**

The agriculture sector plays a key role in the country's economic development with 8.1% contribution to national GDP and employing 2,409,000 persons in 2015. Fisheries sector potential include of offshore/deep sea, inland fisheries and aquaculture development. The fisheries sector has contributed around 1.4% to GDP in 2015 and employs over 650,000 people directly and indirectly through related activities. The Animal Production consists mainly of the dairy and poultry sub-sectors, which are considered as priority areas for growth, employment generation and increasing income of rural farmers. The Animal Production sector accounted for about 0.6% of GDP in 2015. Milk and products valued at over US\$ 251 have been imported in 2015 and it represented 15% of Sri Lanka's total food imports.

Investment opportunities:

Investments in this sector is targeted to improve productivity, level of technology innovation, access to international markets, develop quality seeds and planting materials and improve overall value addition. With diverse agro zones for agro based industries and access to a large fishing area, Sri Lanka has much to offer for both local and foreign investors in Agriculture sector including Horticulture, Livestock and Fisheries sub sectors.

## 5. BOI INVESTMENT FACILITATION

The Board of Investment of Sri Lanka (BOI) is the central facilitation point for foreign investors. BOI provide assistance and advice throughout the investment process from initial point of inquiry through project approval, implementation, monitoring and aftercare facilities.

The BOI currently facilitates investors on a sector-focused approach and has established the "One-Stop-Shop" on Level 27, West Tower, World Trade Centre, Colombo 1, for this purpose. The entire process will be coordinated by a project officer with the assistance of other relevant departments of BOI.

### a. BOI Application(s) Under Section 16 & 17

Board of Investment of Sri Lanka is empowered to approve projects under following categories.

#### **Projects approved under Section 16 of BOI Law**

Projects are approved under section 16 of BOI Law, where the entry of foreign investment is permitted without any fiscal concessions. These projects are governed under Normal laws of the country and are subjected to Inland Revenue Laws, Custom Laws and Exchange Control regulations. These approvals are granted;

- Only to facilitate the entry of foreign investment
- To setting up of a new company with foreign shareholding or
- For the purpose of transferring or issuance of new shares in an existing non-BOI company to foreign investors

At present the minimum investment requirement to qualify for the section 16 projects is US\$ 250,000. This can be either 100% foreign investment or a joint venture investment with a local collaboration.

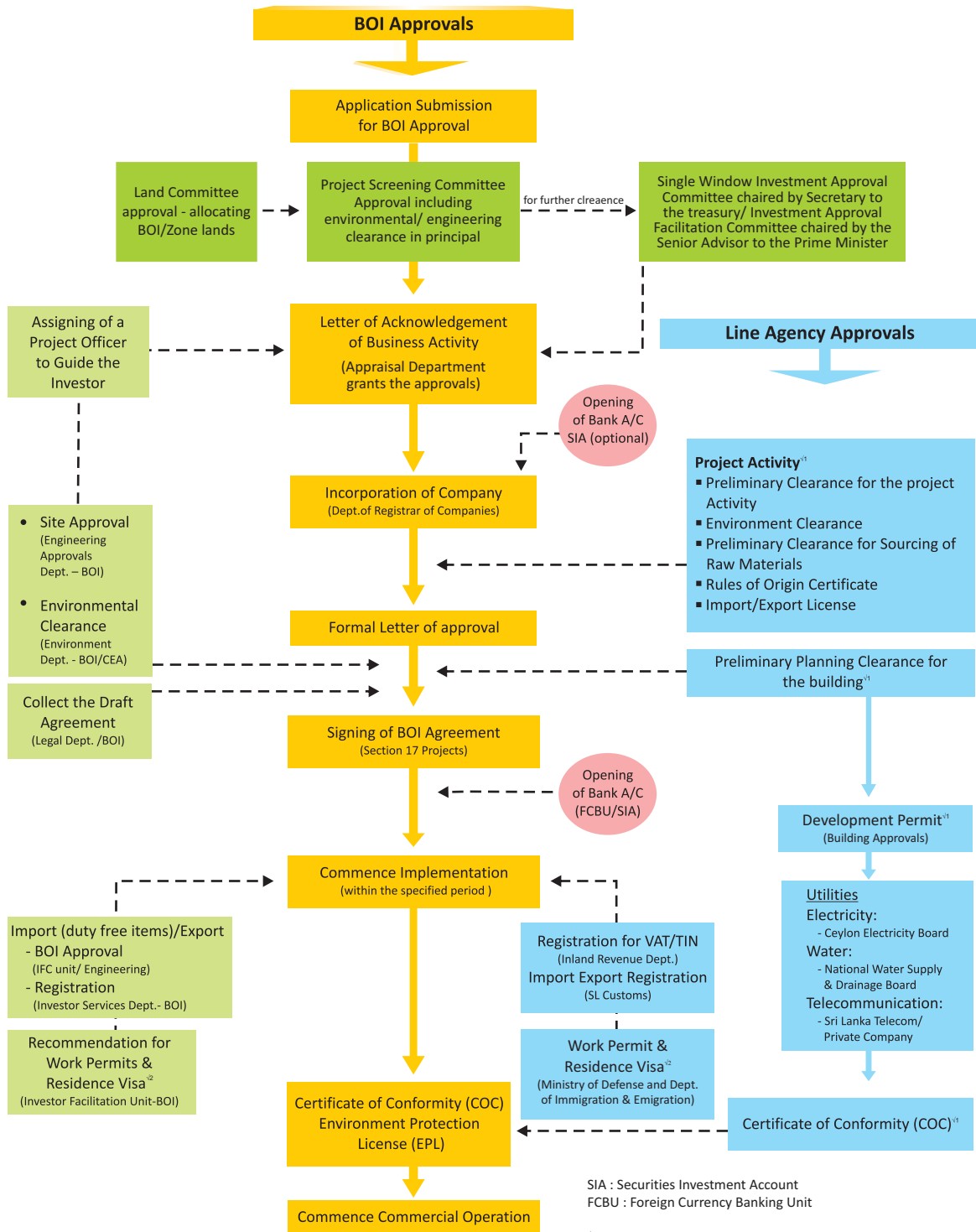
Foreigner has to remit a minimum of US\$ 1 Mn if they are to undertake trading activity. The proposed foreign investment should be effected from funds remitted through a Securities Investment Account (SIA) as indicated in the Gazette Extraordinary No.1232/14 of 19th April 2002 published by the Controller of Exchange.

#### **Projects approved under Section 17 of BOI Law**

Under Sec.17 of the BOI Law, it is empowered to approve projects and enter into agreements with enterprises and to grant exemptions from laws such as Inland Revenue, Exchange Control and Customs, subject to fulfillment of the investment threshold or any other specified requirement.



## b. Approval Process



SIA : Securities Investment Account  
FCBU : Foreign Currency Banking Unit

<sup>1</sup>If applicable only

<sup>2</sup>Residence visa can be obtained at any stage of the process

### c. One-Stop-Shop (OSS)

OSS with necessary linkages of relevant line agencies in order to fast tract the project approval process has been established since January 2016.

### d. Incentives

#### Tax Incentives

- Duty free (Customs Duty) import facility on plant Machinery & Equipment, during the project implementation period.
- Exemption on Exchange Control

### e. Other Service

#### ▪ Visa Recommendation

BOI recommends applications of visa for the investors, employees and their dependents of the BOI approved projects under the section 16 & 17 of the BOI Law.

#### ▪ Import Export Facilitation

The Investor Services Department of the BOI is responsible for permitting Imports and Exports of projects under section 17 of the BOI law as well as providing other investor related services.

#### ▪ Industrial Labour Relations

Industrial relations department promotes and facilitate labour management co-operation and industrial harmony in the enterprises coming under it's purview and provides advisory services and guidance to employers and employees on labour relations aspects.

## f. Locations for Projects: Economic Processing Zones, Industrial Parks and Outside Zones

Investors can select the following options to locate the project within Sri Lanka:

1. Locate the project within a BOI administered Export Processing Zone or Industrial Park (with required infrastructure facilities) on long-term lease basis. These zones/parks are more suitable for industrial manufacturing and processing businesses.
2. Locate the project outside zones
  - a. Privately owned land
  - b. State lands
 } generally on lease basis

There are some lands registered in the BOI land bank (user registration required).

### Other Privately Managing Zones

In addition to BOI administered zones, there are specialized sector specific privately owned industrial parks.

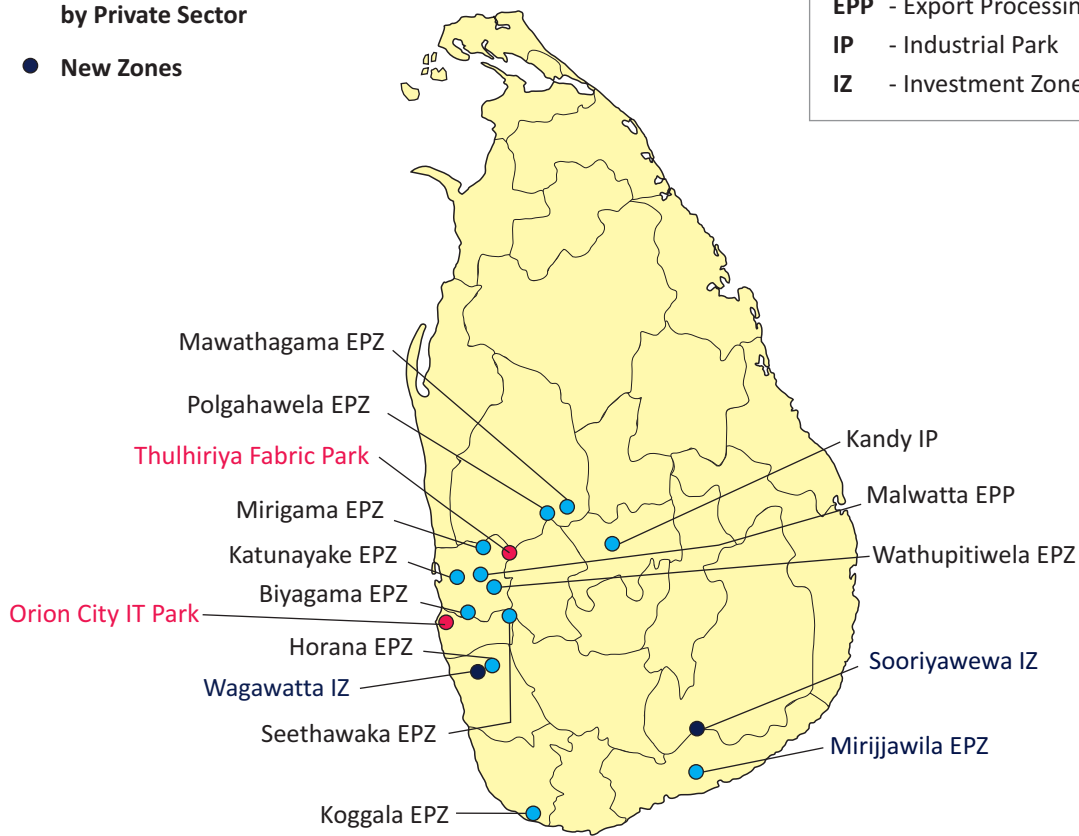
1. Apparel and Related Industries : MAS Fabric Park, Thulhiriya  
[www.masfabricpark.com](http://www.masfabricpark.com)
2. IT / Knowledge Services : Orion City IT Park, Colombo 9  
[www.orioncity.com](http://www.orioncity.com)



### BOI Investment Zones

- Existing Zones
- Industrial Zones established by Private Sector
- New Zones

EPZ - Export Processing Zone  
 EPP - Export Processing Park  
 IP - Industrial Park  
 IZ - Investment Zone



INVESTMENT GUIDE  
**COMMERCIAL**  
**HUB ACTIVITIES**

## SRI LANKA'S GEOSTRATEGIC LOCATION

Best suited Air & Sea connectivity through strategic location

- Located at the center of sub continents
- Located within the vicinity of main shipping routes connecting East & West providing direct access to important trading partners
- Provides further investment opportunities for private investors in integrated areas designated for carrying on specific business activities.

## LEGAL FRAMEWORK

- Government has announced to setup Free Ports and Bonded Areas to create trade related infrastructure to facilitate import and export of goods and services and the related legal provision are contained in;
  - In 2012, the Finance Act No. 12 of 2012 first announced the legislation applicable for Commercial Hub activities.
  - In 2013, amendments were made by Finance Act No 12 of 2013
  - Commercial Hub Regulation No 01 of 2013 (Gazette No. 1818/ 30) issued on 11-07-2013

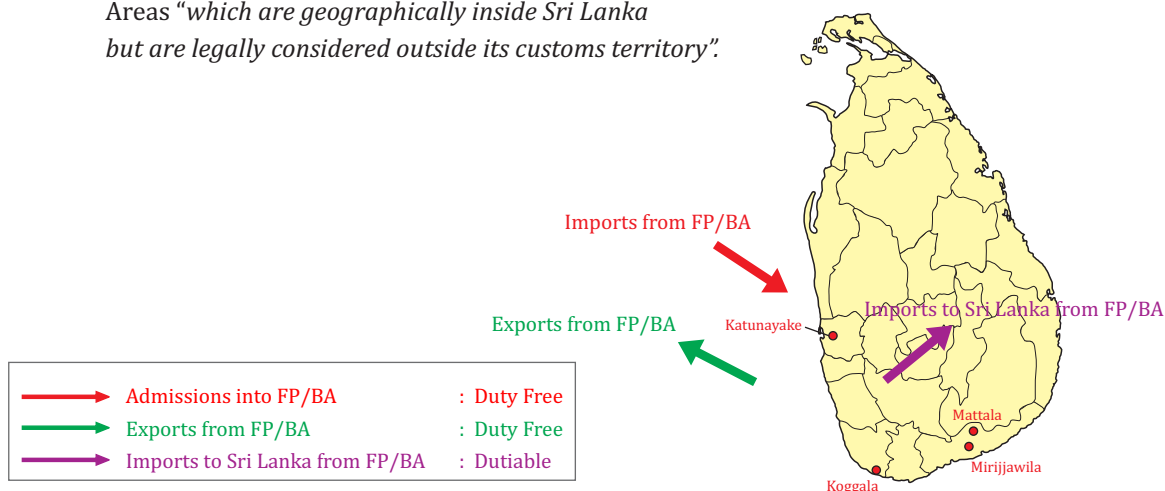
## DECLARED FREE PORTS AND BONDED AREAS

Declared Free Ports	Colombo & Hambantota
Declared Bonded Areas	Katunayake EPZ & Koggala EPZ
Specified Bonded Areas for projects engaged in entrepot trade with approval for manufacturing or assembling a product	Mattala Rajapaksha International Air Port & Mirijawila EPZ

## Declaration of Free Port and Bonded Area

What are Free Port (FP) & Bonded Areas (BA) for the purpose of Finance Act 12 of 2012 ?

Areas “which are geographically inside Sri Lanka but are legally considered outside its customs territory”.



## PERMITTED ACTIVITIES

- Entrepot trade involving an import, minor processing and re-export
- Off-shore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka
- Providing front end services to clients abroad
- Operations of the Headquarters of leading buyers for the management of the finance supply chain and billing operations
- Logistic Services such as a bonded warehouse or in the case of operation of multi-country consolidation in Sri Lanka

*Activities (a) and (e) required to be operated within a free port or bonded area since it involves physical movement of goods. However, an enterprise involved in entrepot trade and engaged in manufacturing or assembling requires to locate in a free port or specified bonded area*

## Manufacturing under Entrepot Trade

- Considering the importance of availing a product in domestic market in the interest of national economy, an enterprise engaged in entrepot trade in **manufacturing a product** shall be permitted local sales up to a certain percentage payable in SL Rupees by the BOI with prior concurrence of Ministry of Finance for such products, subject to provisions of Customs Ordinance.
- The turnover of such domestic sales shall be treated as turnover from deemed exports.

## COMMERCIAL HUB PROVISIONS –AT A GLANCE

Business Activity New Enterprise	Location				Min. Investment in fixed assets US\$ <sup>[1]</sup>	Annual Re-export/ Turnover to be achieved in 5yrs <sup>[2]</sup>	Exemptions
	Free port (Colombo & Hambantota)	Designated Bonded Area (KEPZ/ KGEPPZ)	Specified Bonded Area (Mattala RIA /Mirijjawila EPZ)	Outside FP or BA			
(a) Entrepot trade involving an import, minor processing and re-export  Enterprise involved in Entrepot trade with approval for manufacturing [3] or assembling a product	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	5 Mn. Within 1 years from the BOI Agreement	Not less than US\$ 20 Mn.	Exemptions from the application of Provisions of the  1. Customs Ordinance (Chapter 235)  (subjects to restrictions & prohibitions imposed in Schedule B),  2. Exchange Control Act (Chap. 423)
	<input checked="" type="checkbox"/>	-	<input checked="" type="checkbox"/>	-			
(b) Off-shore business where goods can be procured from one country or manufactured in one country and shipped to another country without bringing the same into Sri Lanka	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	<input checked="" type="checkbox"/>	1 Mn. Within 1 years from the BOI Agreement	Not less than US\$ 10 Mn.	(Sec. 3(a) of Gazette 1232/14 dated 19-04-2002 shall not apply and foreign ownership shall be permissible),  3. Imports & Exports (Control) Act, No. 1 of 1969,  4. Acts referred to in schedule;
	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	<input checked="" type="checkbox"/>			
(c) Providing front end services to clients abroad	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	<input checked="" type="checkbox"/>	1 Mn. Within 1 years from the BOI Agreement	Not less than US\$ 10 Mn.	- VAT Act No. 14/2002 - NBT Act No. 09/2009 - Export Dev, Act No. 40/1979 - Special Commodity Levy Act No. 48/2007
	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	<input checked="" type="checkbox"/>			
(d) Operations of the Headquarters of leading buyers for the management of the finance supply chain and billing operations	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	<input checked="" type="checkbox"/>	1 Mn. Within 1 years from the BOI Agreement	Not less than US\$10 Mn.	- PAL Act 18/2011 - Excise SP Act. No 13/1989  Eligible for Tax concessions available under Sections (13 (b)i, 13 (b)ii, 13 (b)iii, 13 (ddd) of IR Act No 10/2006 as amended and if such enterprise satisfies the requirement therein.
	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	<input checked="" type="checkbox"/>			
(e) Logistic services such as a bonded warehouse or in the case of operation of multi-country consolidation in Sri Lanka	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-	3 Mn. Within 1 years from the BOI Agreement	Not less than US\$ 15 Mn.	
	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	-	-			

<sup>[1]</sup> 65% of total investment to be made from foreign sources including from a FCBU Account.

<sup>[2]</sup> From the date of commencement of operations.

<sup>[3]</sup> Domestic sales (DS) in SL Rupees permitted up to a certain percentage with permission of BOI with prior concurrence of Minister of Finance and turnover of that DS is shall be treated as turnover from deemed exports.



## OTHER POTENTIAL BENEFITS

- Product Storage Facilities - Assist in meeting specific warehousing requirement for each product category e.g. different sections for storage of food items.
- Shared warehousing - Availability of temporary storage facilities to enable users to meet short term demand without incurring significant costs (e.g. leasing space for a year to meet 2 to 3 months demand).
- Shared Equipment - Ability of users to save on capital investments by leasing equipment provided by the Free Zone or Bonded Area.
- Delivery Time - Reduction in custom clearance time and better logistics connectivity leading to improved delivery time.
- Support Facilities and Effective Management - Provision of efficient management services and international expertise along with support facilities such as banking, insurance etc.

## DEFINITIONS REFERRED IN FINANCE ACT NO.12 OF 2012 AND ITS AMENDMENTS

- “Free Port” means an area within a sea port or an inland dry port under the supervision of SLPA and declared by the regulations under this Act.
- “Bonded Area” means an area supervised by the BOI or DG customs or any other authority and declared by the regulations under this Act.
- “Entrepot trade” includes any manufacturing activity approved under Part IV of Finance Act No 12 of 2012 as amended and carried out by a new enterprise for re-export with a domestic value addition at a minimum rate of 10% within a free port or designated bonded area or in a specified bonded area if the enterprise is engaged in manufacturing or assembling products with approval.
- “logistic service” include the followings
  - (I) Transshipment activities;
  - (ii) Warehousing for temporary storage of input or finish goods for local exporters; and
  - (iii) Freight forwarding for clients abroad;

## ILLUSTRATIONS OF ACTIVITIES

Activity	Example
Entrepot trade	<ul style="list-style-type: none"> <li>▪ Imports of ready-made garments and re-export after packing and labeling</li> </ul>
Off-shore business	<ul style="list-style-type: none"> <li>▪ Procurement, order management and supply chain management, delivery and invoicing</li> </ul>
Front end services	<ul style="list-style-type: none"> <li>▪ Marketing, sales &amp; business development related services</li> <li>▪ Product design and development</li> <li>▪ Supply chain management including financing</li> <li>▪ Sampling, testing, quality checking related services</li> </ul>
Operations of the Headquarters	<p>Headquarter Operations of leading buyers</p> <ul style="list-style-type: none"> <li>▪ International billing</li> <li>▪ Quality control</li> <li>▪ Financial services</li> <li>▪ Administrative and back-end services</li> <li>▪</li> </ul>
Logistic services	<ul style="list-style-type: none"> <li>▪ Import of finished products from different origins for consolidation and re-export (Multi country consolidation)</li> <li>▪ Import of finished products for storage for global distribution</li> <li>▪ Import of project cargo for major projects</li> <li>▪ Warehousing, inventory management &amp; logistic value additions for international clients</li> <li>▪ Freight forwarding for clients abroad</li> <li>▪ Transshipment services</li> <li>▪ Regional trading bonds including supply to Sri Lankan exporters</li> </ul>





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