

Sri Lanka

Steps towards Investment Attraction through Investment Facilitation

Ganga Palakatiya
Deputy Director (Research & Policy Advocacy)



Overview

- *Country Profile – Sri Lanka*
- *Economic Liberalization to attract Foreign Investment*
- *Importance of Foreign Inflows*
- *Legal Framework to Attract FDI*
- *Are we on the right track ? Performance of BOI*
- *Challenges to overcome*
- *Investment facilitation-Recent Reforms & Initiatives*
- *Way forward*

Country Profile – Sri Lanka

- Socio-economic Progress & Human Development
 - With GDP growth of 3.1%, GDP US\$ 87 Bn and per capita of US\$ 4,065
 - Adult literacy rate – 93% on par with advanced countries
 - Human Development Index – 73 out of 188
- Quality Workforce
 - Educated, Highly trainable, English speaking & Capable of precision manufacturing
- Infrastructure
 - Rapidly expanding road and expressway network
 - Widespread broadband and 4G mobile connectivity
 - 99% electrification
 - High standards of public & private education & healthcare
- Strategic location
 - On the sea lanes between the East and the West with the 23rd best port in the world
 - Air connectivity to major routes and 100 cities around the world



Economic Liberalization to attract Foreign Investment

- *First in the South Asian region to liberalize it's economy to promote foreign investment way back in 1978.*
- *Establishment of Board of Investment (BOI) in 1978: the national investment promotion arm to promote and facilitate foreign investments.*
- *Encourage Foreign Investment : an essential source of foreign funding needed for economic development under prevailing circumstances.*

Supportive Business Environment

- Total Foreign Ownership allowed
- No restrictions on the Repatriation of Earnings
- 99 Years Land Lease opportunities for Foreign Investors
- Safety of Foreign Investments Guaranteed by the Constitution
- Safety of Patents and Strong Intellectual Property Laws in line with WIPO Regulations
- Investment Protection Agreement with 28 Countries
- Double Taxation Avoidance Agreement with 44 Countries

Legal Framework to Attract FDI

- ❑ **BOI Act (BOI Law No 4 of 1978 and its amendments)**

Establishment of Board of Investment of Sri Lanka. BOI is structured to function as the Central Facilitation point for investors and empowered to enter into agreements with investors

- ❑ **Strategic Development Project Act (SDP Act No 14 of 2008)**

Grant special concessions for special projects which are in the national interest, likely to bring economic and social benefit to the country and to change the landscape of the country.

- ❑ **Foreign Exchange Act (Foreign Exchange Act No.12 of 2017)**

Provides legal frame work for foreign exchange transactions. More liberalized foreign exchange policy under the newly enacted Foreign Exchange Act No. 12 of 2017

- ❑ **Hub Regulations under Finance Act (Finance Act No. 12 of 2012 and its amendments)**

Declaration of Free Ports and Bonded Areas. Grant exemptions for identified hub activities conduct in declared Free ports and Bonded Areas.

- ❑ **Land (Restrictions on Alienation) Act** – Provide legal framework for ownership of lands for foreigners

Are we on Right Track?

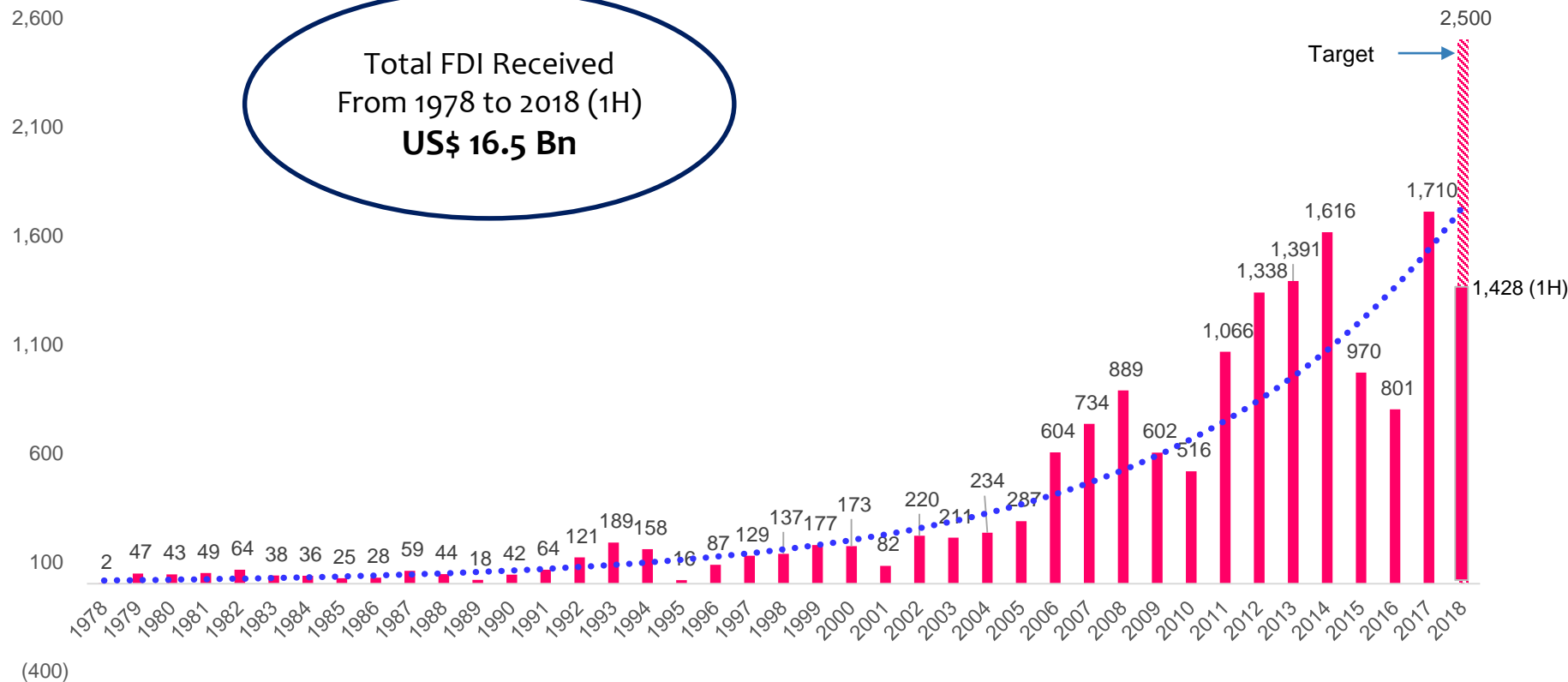


Performance of FDI Attarction

- *FDI Trends*
- *Projects in Operation*
- *Export Earnings*
- *Employment Generation*

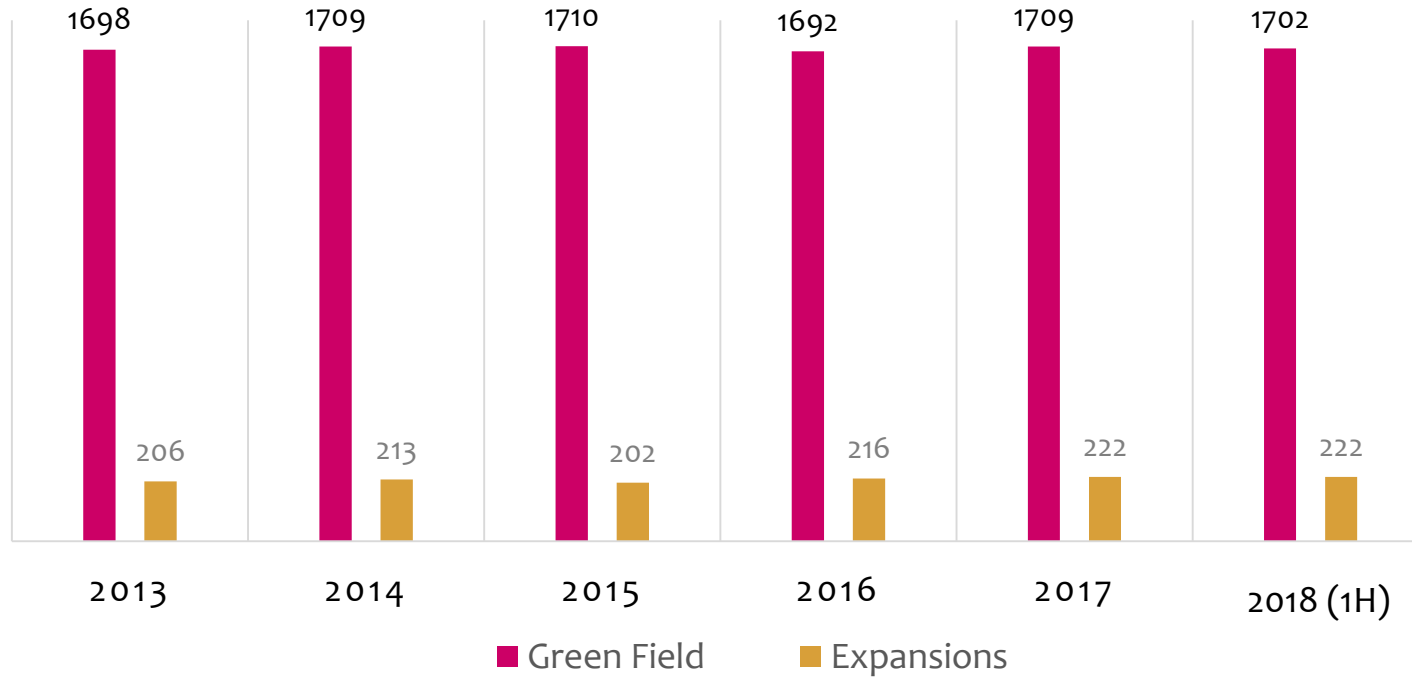
FDI Trends (1978 – 2018)

FDI (US\$ Mn.)

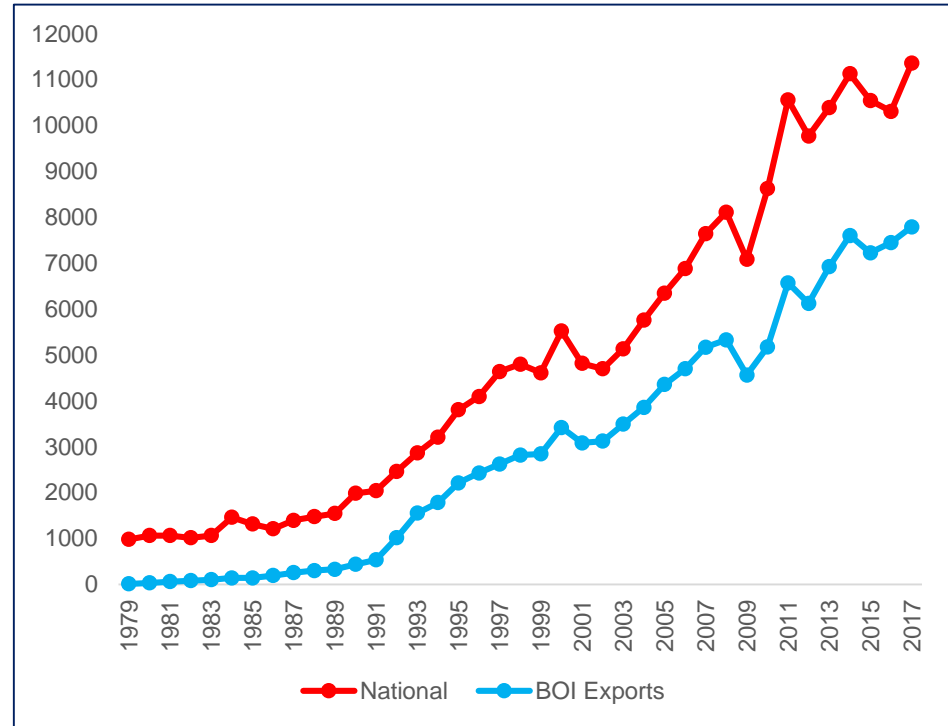
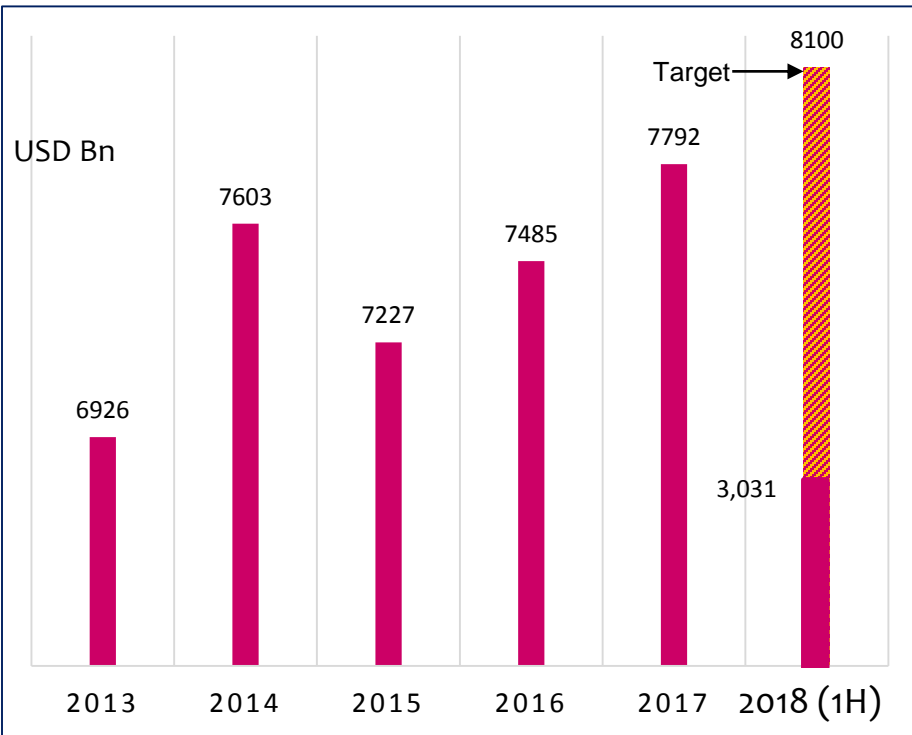


Projects in Operation

No. of Projects in Operation as at end of Year (Cumulative)



Export Earnings

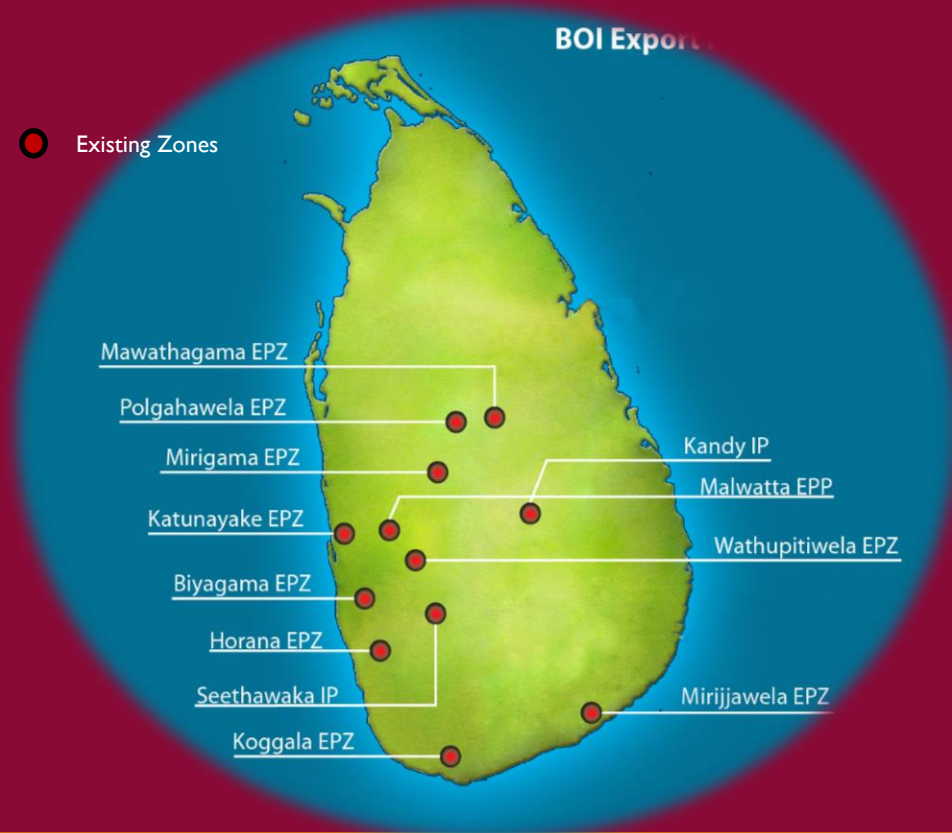


Over 70% of National Exports

Over 80% of National Industrial Exports

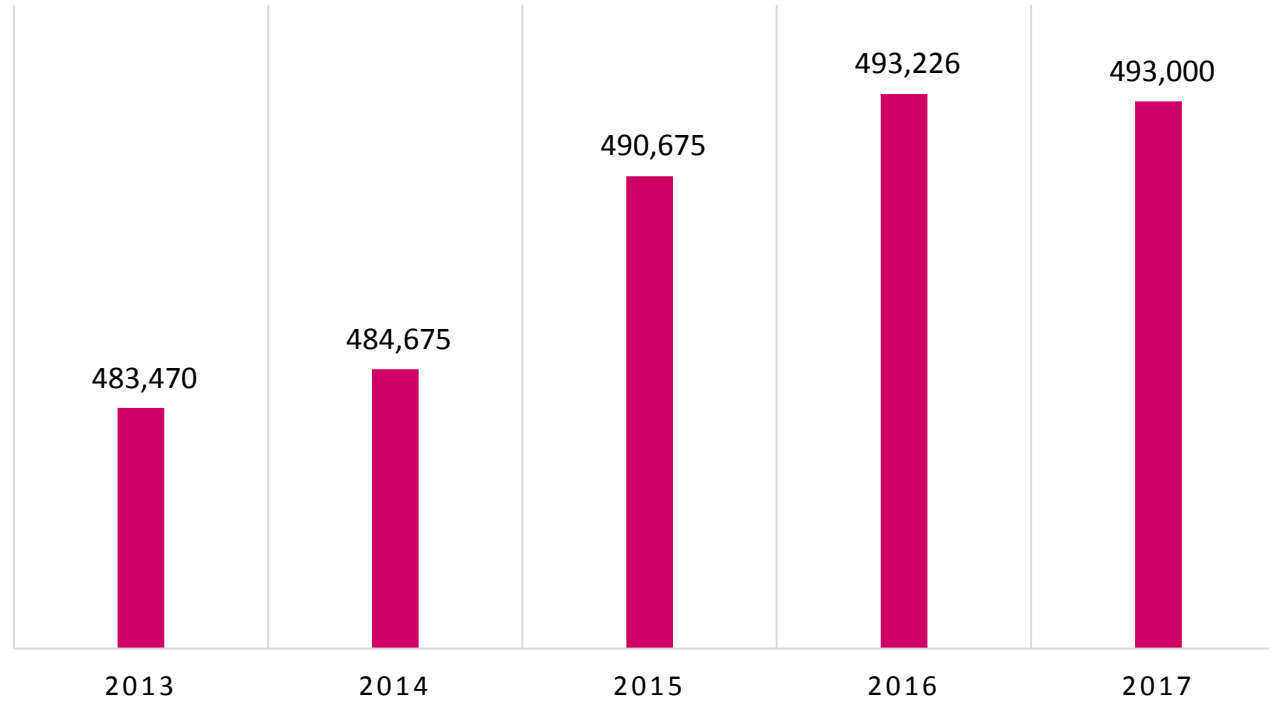
Over 98% of Apparel Exports

BOI Export Processing Zones



Employment Generation (Cumulative)

(Nos)

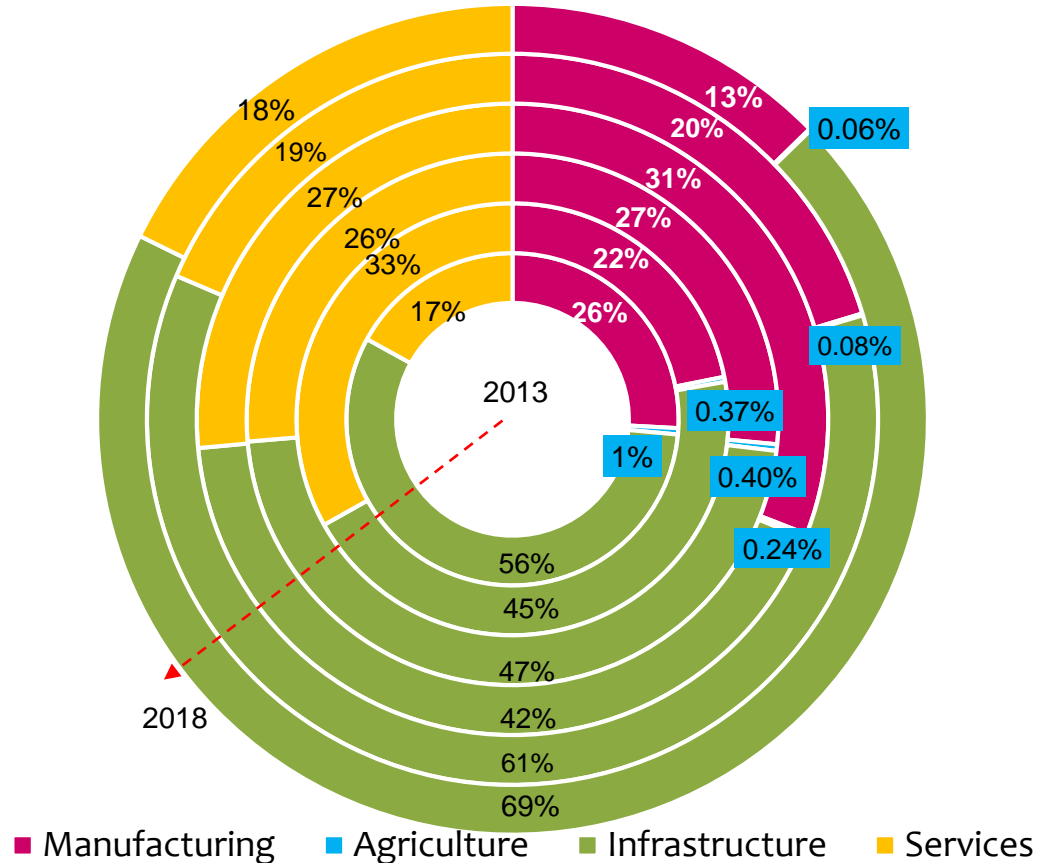


5% of Total
Labour Force
of the
country

Challenges to Overcome

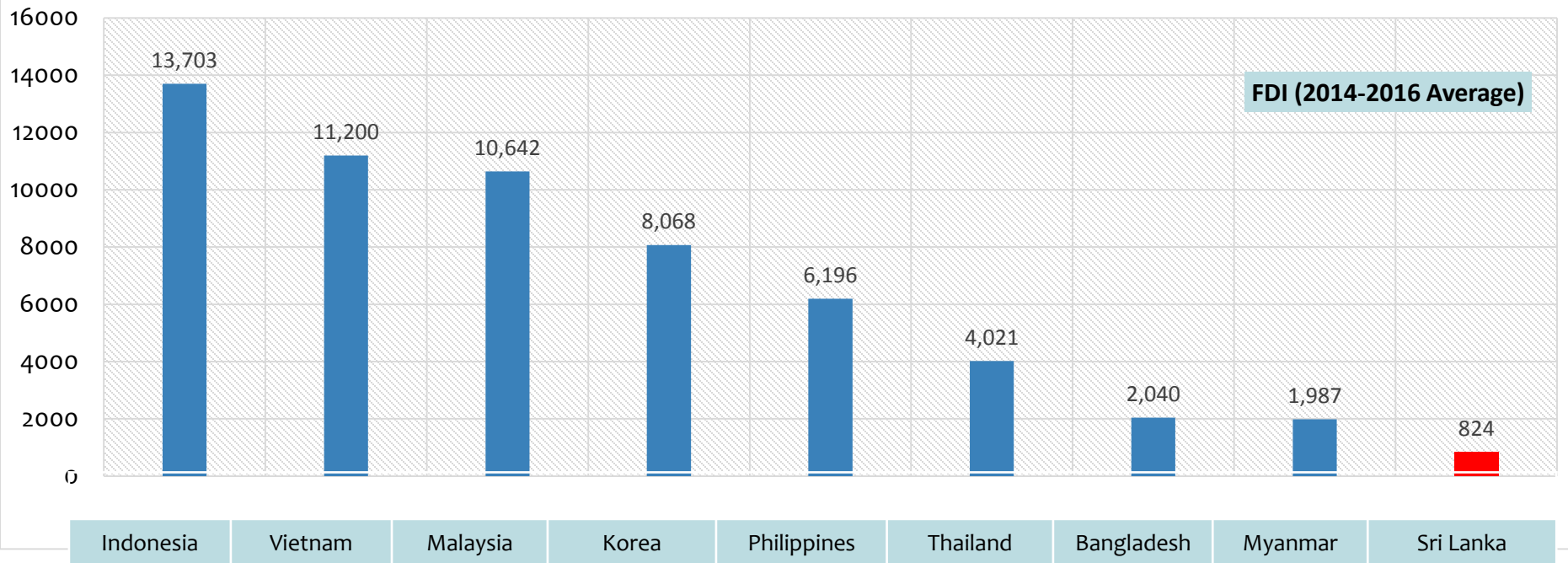


Sectoral Composition of FDI – (2013 -2018)



- FDI into Infrastructure has shown significant contribution.
- Need to focus more towards Manufacturing Services & Agriculture to strike the right balance.

Challenges from Peer Countries



- *Harmonize investment policy with government development policy.*
- *Improve investment environment with consistent and predictable investment policy.*
- *Improve Line Agency coordination.*
- *Empower BOI as the lead investment promotion agency.*

Recent Reforms & Initiatives taken to boost investment climate



Recent Reforms & Initiatives

- *Moving away from granting traditional tax concessions to attract investments*
- *Initiatives more towards investment facilitation as guided by UNCTAD (10 items referred in ACTION MENU FOR INVESTMENT FACILITATION and UNCTAD IIA reform package)*
 - *Targeted Investment Promotion*
 - *Acceleration of investment approval process*
 - *Development of new zones and upgrading of existing zones*
 - *Introduction of A web portal to streamline and fast track the investment approval process*

Targeted Investment Promotion

In-depth Study Carried out with Harvard University's Centre for International Development (CID) and the World Bank Group

IT enabled Services

(IT software, BPM, KPM)

High value- added apparel

(Lingerie, Smart textiles, wearable technology, other potential high-value clothing items, Innovation & research)

Logistics

(Entrepot trade ,Transportation, Warehousing & Storage)

Food processing

(Fish / seafood, Fruit and , Vegetables, Dairy)

Tourism

(Hotels, Recreational activities -theme

Parks, Adventure sports & leisure facilities)

PRIORITY GEOGRAPHIC MARKETS

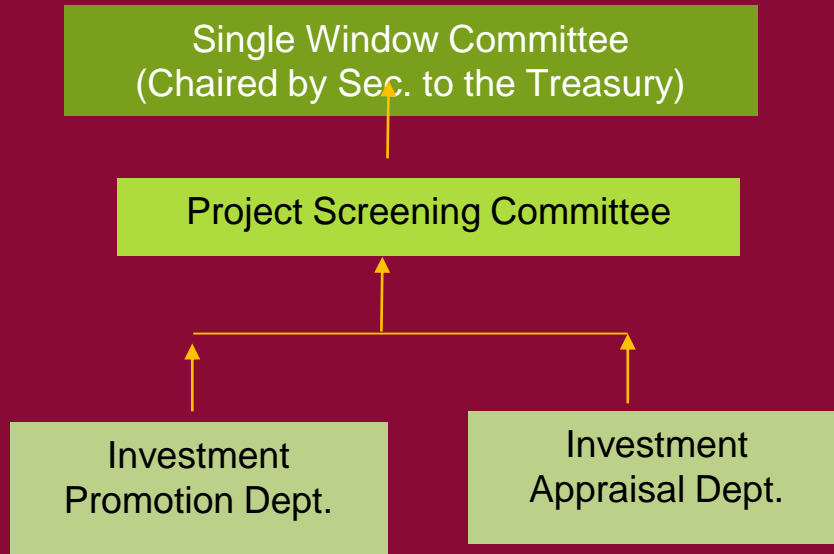
USA, UK, China,
Japan, Malaysia
& India

“RADAR”/“ASPIRATIONAL ” SECTORS

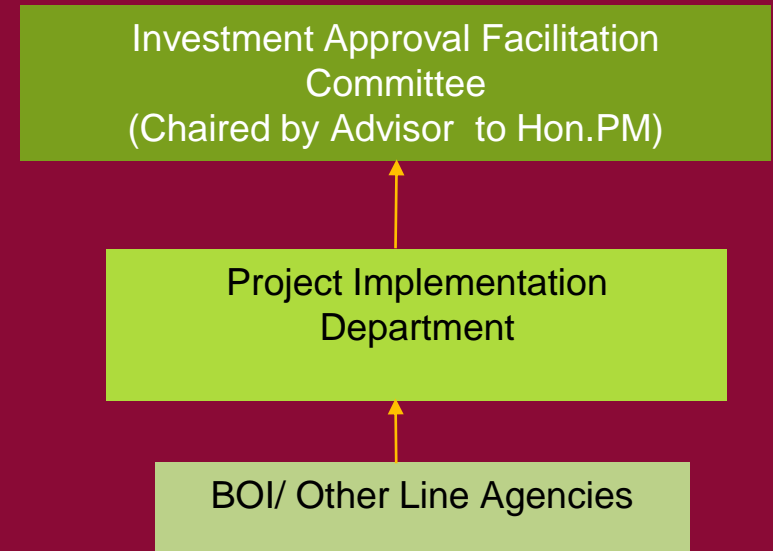
- Fabricated metal parts
- Education (both vocational and higher education)
- Medical devices and pharmaceuticals
- Solar panel manufacturing
- Transport equipment (automotive components, trailers, trucks, mobile
- cranes, body parts for motor vehicles)
- Value added Minerals

Accelerating investment approval process

Attraction and approval process

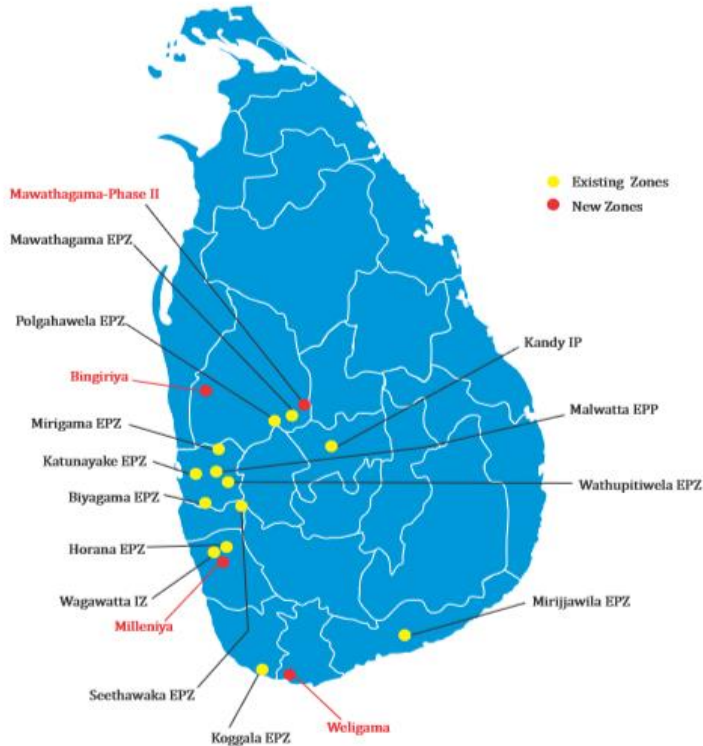


Facilitation process



Development of new zones and upgrading of existing zones

Export Processing Zones already operating and proposed under BOI



Bingiriya, Milleniya, Mawathagama and Charlie Mount Estate- Matara have already begun and they are in different stages of development process.

Establishment of Effective One-Stop-Shop

Virtual Platform for Line Agency Coordination

- Implement a Virtual One-Stop-Shop with the assistance of the World Bank to expedite the investment approval process by;
 - Improving transparency in regulatory procedures and simplify the line agency processes.
 - Improving line agency coordination; 24 line agencies have been identified and will be linked in the first phase including;
 - Inland Revenue Department
 - Colombo Municipal Council
 - Sri Lanka Customs
 - Central Environment Authority
 - Urban Development Authority
 - Establishing Web enabled Application Tracking System (ATS)



Way Forward

- *Focusing more towards promoting and attracting investments in to identified target sectors with special focus on high-tech manufacturing.*
- *Stand out among peer countries on investment attractions.*
- *Strengthening Investment Policy Framework.*
- *Enhancing exports in merchandise goods as well as services.*
- *Enhancing market access through FTAs.*
- *Developing skills to match the industry demand.*
- *Improving Line Agency Coordination to promote Sri Lanka for investments*
- *Reform Orientation towards Exports and FDI*

Thank You