



# EPZs and Impact on Poverty Reduction and Trade Facilitation

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# Outline

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- ▶ Overview of EPZs
- ▶ Impact on Poverty Reduction
- ▶ Impact on Trade Facilitation
- ▶ Conclusion

# Overview of EPZs



# Background

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## Aims of EPZs:

- ▶ Generate employment
- ▶ Expand the exports industry
- ▶ Attract foreign exchange
- ▶ Encourage technology transfer
- ▶ Improve human capital
- ▶ Develop backward and forward linkages
- ▶ Promote economic development in less developed regions within a country

# Americas

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- ▶ 3.084 million employment
- ▶ Dominican Republic: 500 in 1970 → 200,000 in 2008
- ▶ 79.4% of total exports in Nicaragua, 77% in Dominican Republic, 67% in Panama

# Europe

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- ▶ Shannon Free Zone in Ireland
- ▶ Annual zone exports → US\$ 2.5 billion
  
- ▶ Pomeranian EPZ in Poland
- ▶ US\$ 870 million investment by 2007
  
- ▶ Small impact on employment generation
- ▶ 0.001% of total employment

# Middle East and North Africa

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- ▶ Development began in 1960s
- ▶ Less emphasis on manufacturing tradable goods like garments, and more emphasis on providing services like packaging and repackaging of goods.
- ▶ Roughly 100 zones in entire region
- ▶ Small impact on employment: fewer than 2 million workers

# Sub Saharan Africa

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- ▶ Less success than other developing regions
- ▶ Bureaucratic red tape, labour market rigidities among obstacles
- ▶ Most of EPZ employment concentrated in South Africa
- ▶ Textile sector plays major role in employment in EPZs



# Asia

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- ▶ Employs over 55 million workers out of world total of 66 million.
- ▶ Most employed in China's EPZs which number over 200.
- ▶ Vietnam another key country for EPZs with employment of roughly 950,000.
- ▶ Bangladesh employs over 3 million.

# Sri Lanka

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<b>Location</b>	<b>No. of Enterprises</b>	<b>Year Established</b>
Katunayake Export Processing Zone	86	1978
Biyagama Export Processing Zone	58	1985
Seethawake Export Processing Zone	30	1999
Kandy Industrial Park	21	1994
Koggala Export Processing Zone	20	1991
Wathupitiwala Export Processing Zone	17	1998
Horana Export Processing Zone	12	1999
Mawathagama Export Processing Zone	7	2000
Mirigama Export Processing Zone	6	1998
Polgahawela Export Processing Zone	5	2000
Malwatta Export Processing Park	4	1998
Mirijjawila Industrial Park <sup>a</sup>	3	-
<b>Grand Total</b>	<b>269</b>	

Note: (a) Certain information for the Mirijjawila Industrial Park was not available.  
Source: Board of Investment of Sri Lanka, March 2012.

# Methodology and Data

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- ▶ Depth interviews using semi-structured questionnaires
  - ▶ Katunayake EPZ
  - ▶ Biyagama EPZ
  - ▶ Horana EPZ
  - ▶ Seethawaka EPZ
- ▶ Analysis of secondary data from the Board of Investment

# Results and Discussion

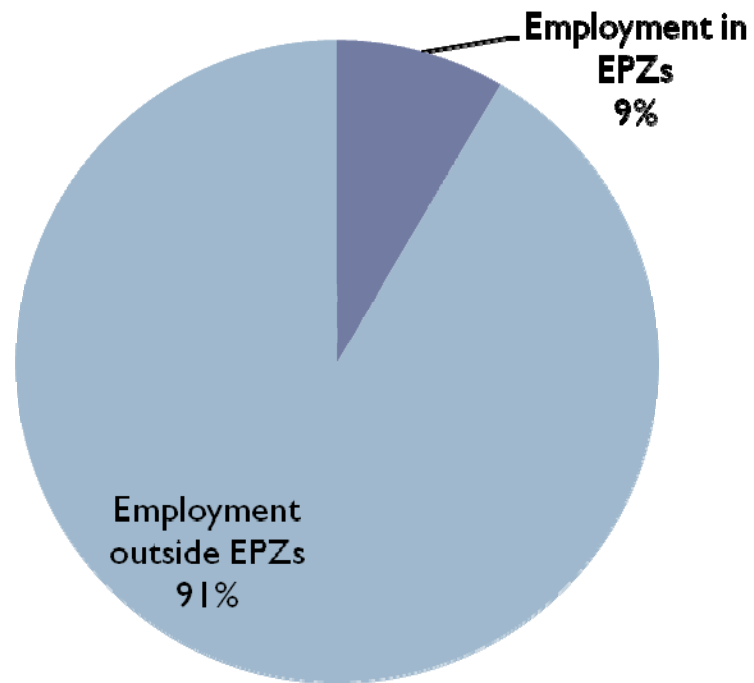


# Impact on Poverty Reduction



# Figure 1: Share of Manufacturing Sector Employment in EPZs

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Source: Board of Investment of Sri Lanka, March 2012.

## Table 1: Length of Employment in EPZs

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<b>Period of Employment</b>	<b>Percentage in Employment</b>
Less than 1 year	30%
1 to 3 years	46%
3 to 5 years	15%
5 to 10 years	9%

Source: Devanarayana, Chandra, *A Review of Free Trade Zones in Sri Lanka*, Dabindu Collective.

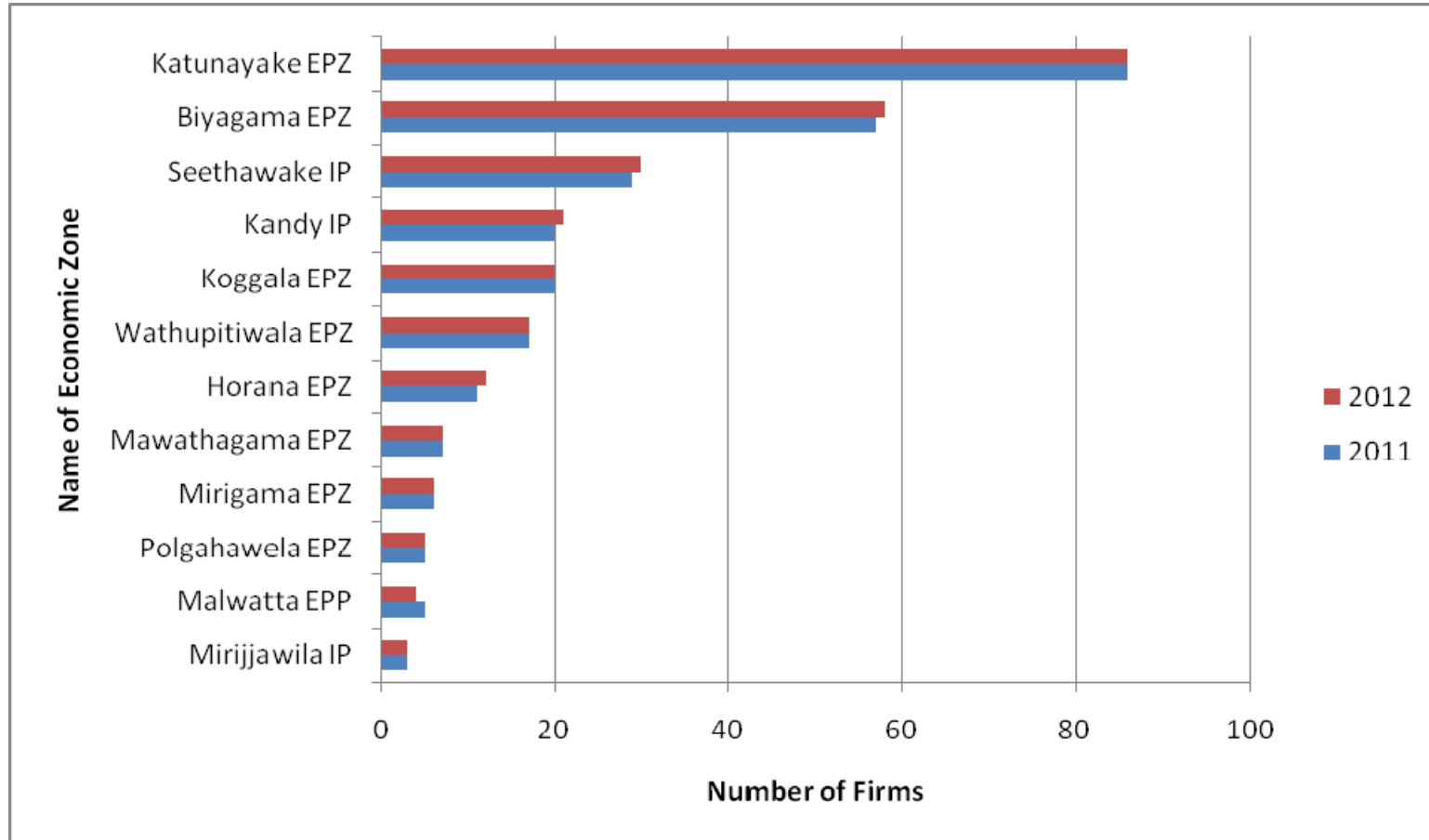
## Table 1: Proportion of Male vs. Female Workers in Economic Zones in Sri Lanka

	Male	Female	Total No. of Employees
Katunayake EPZ	41%	59%	42,329
Biyagama EPZ	55%	45%	21,092
Seethawake EPZ	46%	54%	20,050
Koggala EPZ	26%	74%	11,698
Wathupitiwala EPZ	27%	73%	8,232
Kandy IP	27%	73%	6,881
Mawathagama EPZ	24%	76%	4,985
Polgahawela EPZ	23%	77%	3,427
Malwatta EPP	30%	70%	2,887
Mirigama EPZ	34%	66%	2,528
Horana EPZ	94%	6%	1,602
Mirijjawila IP	9%	91%	1,412
TOTAL	40%	60%	127,123

Source: Board of Investment of Sri Lanka, 2012.

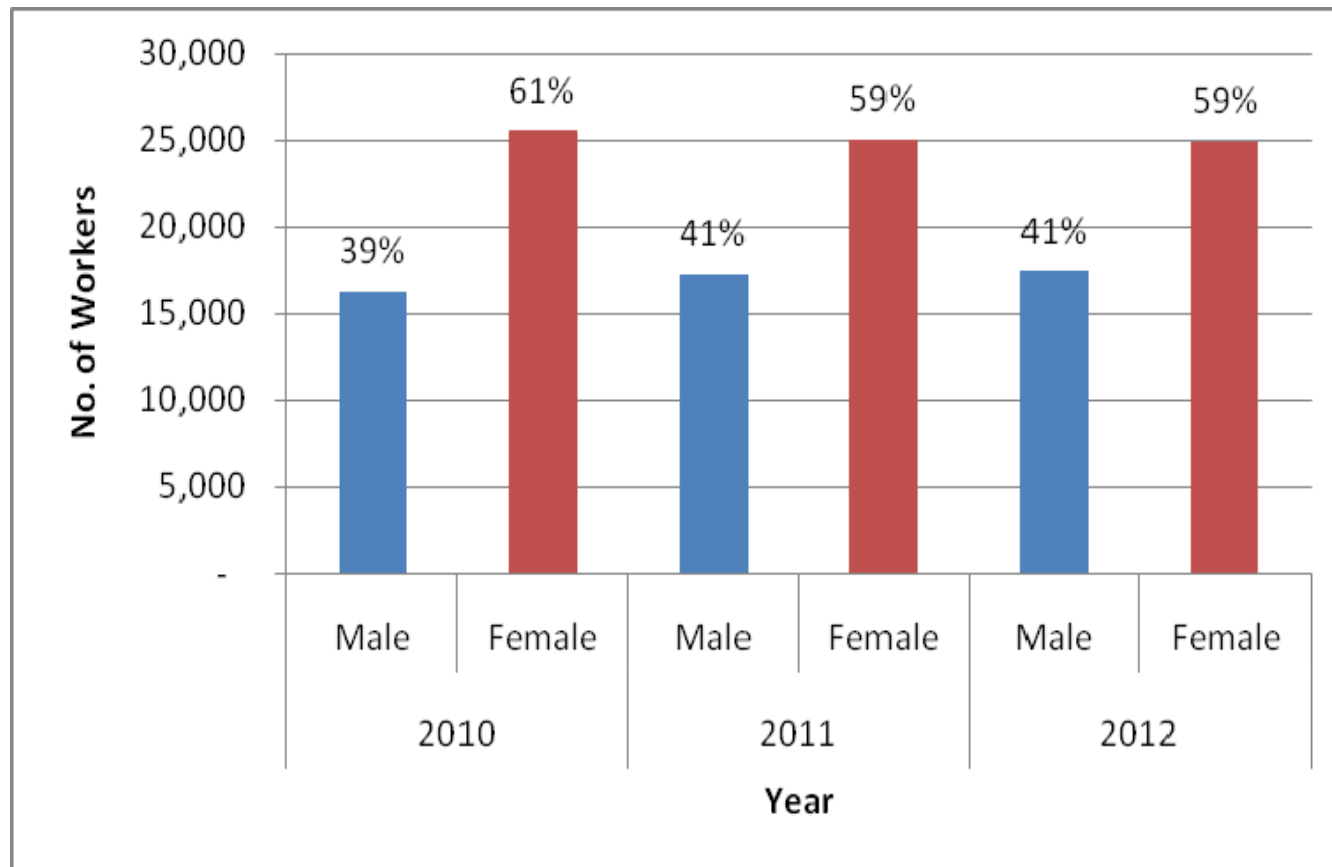


# Figure 2: Number of Firms Operating within each Economic Zone



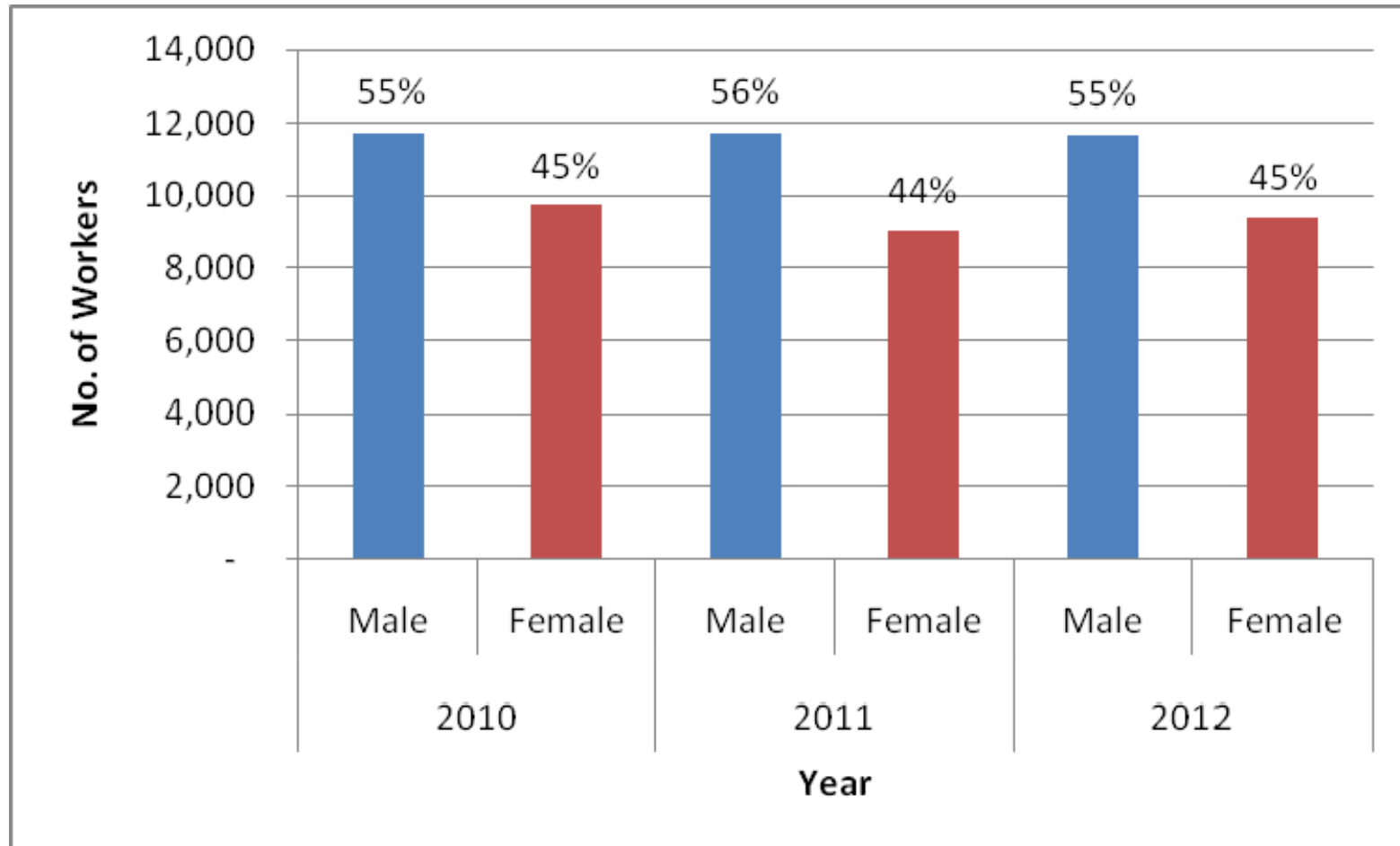
Source: Board of Investment of Sri Lanka, 2012.

# Figure 3: Male vs. Female Workers in Katunayake EPZ



Source: Board of Investment of Sri Lanka, 2012.

# Figure 4: Male vs. Female Workers in Biyagama EPZ



Source: Board of Investment of Sri Lanka, 2012.

# Wages and Labour Standards

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- ▶ Average of Rs. 12,000 – 14,000
- ▶ Senior factory workers could earn Rs. 20,000 – 25,000

# Wages and Labour Standards

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Wages
<ul style="list-style-type: none"><li>• wages must be paid in accordance with rates determined by the BOI</li><li>• all wages must be paid on a monthly basis – wages cannot be paid on a daily rate, piece rate, or on contract basis</li><li>• wages must be paid within 10 days of expiration of the wage period</li><li>• upon termination of services, an employee's salary must be paid within two working days of termination</li></ul>
Overtime Pay
<ul style="list-style-type: none"><li>• every hour of overtime work shall be remunerated with 1.5 times the normal hourly rate of that employee</li><li>• female workers shall not be employed on overtime work in excess of 60 hours per month</li><li>• employees below 18 years of age shall not be employed on overtime work in excess of 50 hours per month</li></ul>

Source: *Labour Standards*, undated, Board of Investment of Sri Lanka, accessed 1 October 2012. Available at [[http://www.investsrilanka.com/pdf/labour\\_standards.pdf](http://www.investsrilanka.com/pdf/labour_standards.pdf)].

# Indirect Employment Generation

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- ▶ **Tertiary employment:**
  - ▶ Hostels
  - ▶ Restaurants
  
- ▶ **Secondary employment:**
  - ▶ Freight forwarders
  - ▶ Transport providers
  - ▶ Shipping services

# Training Programmes

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- ▶ On-the-job training to operate machinery
- ▶ English classes
- ▶ Quality Management
- ▶ 5-S Organization Methodology
- ▶ Internships

# Health among Workers

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- ▶ Access to proper nutrition lacking.
- ▶ Income spent primarily on non-essential goods like jewellery.



# Expenditure on Food

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<b>Percentage of Income Spent on Food</b>	<b>Percentage of Workers</b>
10% - 30%	28%
30% - 44%	37%
45% - 55%	25%
56% - 66%	5%
67% - 77%	4%
78% - 88%	1%

Source: Devanarayana, Chandra, 1997, *A Review of Free Trade Zones in Sri Lanka*, Dabindu Collective.

# Protein Intake

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<b>Food Item</b>	<b>Percentage of Workers</b>
Eggs	41%
Fish	11%
Meat	4%
All of the above	4%
None of the above	40%

Source: Devanarayana, Chandra, 1997, *A Review of Free Trade Zones in Sri Lanka*, Dabindu Collective.

# Impact on Trade Facilitation



# Key Functions of BOI

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- ▶ Promotion
- ▶ Appraisal
- ▶ Investor Services
- ▶ Engineering
- ▶ Environment
- ▶ Project Implementation
- ▶ Monitoring
- ▶ Industrial Relations
- ▶ Legal

# Incentives for Firms in EPZs

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- ▶ Investments under Section 17 of BOI Act
- ▶ Investments under Section 16 of BOI Act
- ▶ No restrictions on repatriation of income

# General Incentives

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- ▶ a) Incentives for industries and services using advanced technology which include:
  - ▶ Five year tax holiday on profits
  - ▶ Tax-free dividends if paid out of exempt profits
  - ▶ No import duty or turnover tax on machinery and equipment
- ▶
- ▶ b) Incentives for direct and indirect exporters, which include essentially tax exemption or payment of concessional tax at 15per cent, including:
  - ▶ Companies that operate and maintain facilities for the storage of specified goods brought into the island for re-export
  - ▶ Offshore companies that earn profits and income through the use of Sri Lankan registered ships in international operations
  - ▶ Firms in agriculture and fisheries sectors are entitled to a five year tax holiday
  - ▶ Companies that export gems and jewellery

# Special Incentives

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- ▶ Special incentives for firms which satisfy certain eligibility criteria (aimed at diversifying exports by adopting modern technology and increasing value-addition, as well as more investments in large-scale projects including infrastructure):
  - a) 5 – 20 years full tax holiday
  - b) Concessionary tax (at 15per cent)
  - c) Import duty exemption on project related goods
  - d) Exemption from turnover tax on sales
  - e) Exchange control exemption
  - f) Concessionary tax on income for expatriates (at 15per cent)

# Forward and Backward Linkages

<b>Name of Company</b>	<b>Product / Services Offered</b>
Han Sung Koala Thread Pvt. Ltd.	Nylon and polyester thread
Stretchline Pvt. Ltd.	Knitted and woven elastic and covered yarn
Noyon Lanka Pvt. Ltd.	Lace fabric and covered yarn
Prym Intimates Lanka Pvt. Ltd.	Hook and eyes, shoulder straps, underwires
Silueta Pvt. Ltd.	Molded bra cups and lace fabric
T&S Buttons Lanka Pvt. Ltd.	Polyester buttons
Ocean Lanka Pvt. Ltd.	Knitted fabrics
Avery Dennison Lanka Pvt. Ltd.	Labels for clothing
MAS Active Pvt. Ltd.	Knitted bodywear and sportswear
MAS Intimates Pvt. Ltd.	Intimate wear and lingerie
Rainwear Pvt. Ltd.	Outer garments and leisure wear
Global Clothing Pvt. Ltd.	Garments
Saga Intimates Pvt. Ltd.	Readymade garments
Multichemi Exports Pvt. Ltd.	Chemicals used for washing/dyeing denim
Dynawash Ltd.	Garment washing plant
Cosmos Packaging Pvt. Ltd.	Packaging materials
GreenKeepers Pte. Ltd.	Collecting and processing of waste material to be recycled



# Customs Processes for Imports

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- ▶ Number of documents lower for BOI companies compared to non-BOI firms:
- ▶ 13 import declaration forms required for BOI firms, but around 17 for non-BOI firms
- ▶ Import license required only for non-BOI firms

# Time Taken for Importing by Sea

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- ▶ Processing period substantially less in BOI-supported firms compared non-BOI firms

Activity	Time Taken (hours)	
	BOI	Non-BOI
Submission of CUSDECs	4	4 ½ - 10
Container moved for cargo examination	1	3
Cargo examination	2	3

Source: Taneja, Nisha, John Arnold, and Pallavi Kalita, 2011, *Report of Sri Lanka Trade Logistics: Results from TFA Survey*.

# Time Taken for Exporting by Sea

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- ▶ Processing period substantially less in BOI-supported firms compared non-BOI firms

Activity	Time Taken (hours)	
	BOI	Non-BOI
Submission of CUSDECs	3 ½	3 ½ - 5
Inspection of container	2	2 - 3

Source: Taneja, Nisha, John Arnold, and Pallavi Kalita, 2011, *Report of Sri Lanka Trade Logistics: Results from TFA Survey*.

# Time Taken for Importing/Exporting by Air

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- ▶ No significant difference in the amount of time taken to process imports and exports by air between BOI and non-BOI companies
- ▶ Noticeable difference in examination of cargo – 1 hour for BOI firms compared to 2 hours for non-BOI firms
- ▶ Due to the facilities provided in some EPZs, where firms can process their cargo within the zone

# Conclusion

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- ▶ Important employment generator, particularly for women
- ▶ Access to balanced nutrition is an issue
- ▶ Simplification of customs procedures
- ▶ Cutting down on time taken for imports & exports via sea

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**Thank you!**