Great Incentives for Foreign Investors in Sri Lanka

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The economic policies of the government are designed to attract foreign investment on a large scale to build up the country’s economy. Foreign investments are protected by specific. provisions to this effect in the Sri I.ankan Constitution as well as by bi-lateral investment protection agreements entered into by the government of Sri I.anka with foreign states. Sri Lanka has entered into Investment Protection Agreements with the U.SA, Federal Republic of Germany, U.K, France, Sweden, Belgo – Luxembourg Economic Union, Switzerland, Romania, Canada, Japan, Malaysia, Singapore, Hong Kong and the Republic of Korea. Provision is also made

in these Agreements for recourse to the World Bank’s International Centre for the Settlement of Investment Disputes (ICSID) in the case of a dispute arising between Sri Lanka and a foreign investor. Sri Lanka is also a signatory to the 1965 Convention on the settlement of Investment Disputes between States and Nationals of States. Foreign investment in Sri Lanka could be made either in the Investment Promotion Zones coming under the authority of the Greater Colombo Economic Commission (GCEC) or outside these zones which come within the purview of the Foreign Investment Advisory Committee (FIAC).

Greater Colombo Economic Commission (GCEC) The GCEC is vested with authority to offer a variety of attractive ,benefits to foreign investors with whom it concludes Investment Agreements. The GCEC is the sole authority an investor has to deal with when setting up operations within the Investment Promotion Zones. Thus, all bureaucratic red tape is dispensed with and the foreign investor need not waste his time shuttling back and forth between numerous government departments. The GCEC is also empowered to modify or grant exemption from certain laws of the country including those dealing with taxation, customs, exchange control, companies, etc. Salient features of the investment promotion offered are:-

+ No limit on equity holdings of foreign investors. Foreign investors may own up to 100% of equity. + 100% tax exemption up to 10 years on corporate and personal income, dividends and royalties. + A further concessionary tax period up to 15 years. + Shares may be freely transferred within or outside Sri Lanka without taxes or exchange control permission.

+ Duty free imports of machinery, equipment, raw materials and construction materials. + No duty on exports. + Transfer of capital and repatriation of the proceeds of liquidation are free from exchange control.

Foreign Investment Advisory Committee (FIAC) Foreign investments outside the investment promotion zones are monitored by the FIAC. The FIAC encourages investment in joint venture projects with local collaborators and assists foreign investors to find suitable local partners. As a general rule the local partner should hold majority equity shareholdings in the joint venture and as such the foreign investor is permitted to hold only up to a maximum of 49% of the paid-up share capital. However, there are special cases such as large capital intensive projects, projects that create substantial employment opportunities or provide for significant transfer of technology and projects offering sizeable export markets where the foreign investor is permitted to hold majority equity holdings, sometimes as much

as 70% of the paid-up share capital. While the FIAC encourages export oriented projects, the output of FIAC ventures could be sold in the local market. Following are sources of the incentives the FIAC offers to foreign investors:-

Remittance of Profits and Dividends
Profits and dividends could be remitted freely through the commercial banks without reference to the Exchange Control Department and without limit on the quantum but subject to payment of local taxes where applicable.

+ Capital Repatriation
Sri I.anka permits foreign investors to repatriate their capital contribution in a local venture on the sale of the investment or on final liquidation of the venture after the settlement of local liabilities like taxes and compensation to employees retrenched.

+ Transfer of Shares
Shares in FIAC-approved companies are freely transferable to citizens or non-citizens, residents or non-residents of Sri Lanka provided such transfers do not disturb the ratio of non-resident shareholding approved by the FIAC for that particular company. However, if shares are transferred to a person who is not a citizen of Sri Lanka, the transferee is liable to a 100% tax in respect of the value of shares transferred.

+ Royalties, Technical Service Fees and Management Fees
Transfer of technology and management expertise is encouraged and to this end royalty payments, technical service fees and management fees are permitted where necessary. The quantum allowed, however, is determined by the net benefits accruing to the country in each individual case.

FIAC PROJECTS APPROVED CATEGORY -WISE UP TO 1987

In June 1988 alone the FIAC approved 15 investment projects involving British, Dutch, Belgian, Swiss and Australian nationals. Some of the new projects approved cover civil engineering, highways, floriculture, mushroom and asparagus growing, property development management services, aquaculture, diamond processing, quality garments, handicrafts, an investment company, fancy packaging material, a hi-tech computer centre and sawing of rough diamonds for export.

Business Snippets

* A mission made up of SMI Investors from Italy is in the cards following the recent visit to the island of Emilion Bossi, Foreign Relations Officer, SMI Association of Milan, Italy. Some of the products that Bossi was interested in were precision tools, rubber gloves and tennis balls. jewellery and light engineering products.

* The small-time diamond entrepreneurs in Belgium have been hit by escalating a lStS and are scouting around for alternative low-cost operational sites. D. S. Raj who has been involved in the diamond industry in Belgium for a long time has been thoroughly impressed “With the quality of gem cutting in lapidaries around Sri Lanka and has decided to shift his operation to the island. The fourth Sri Lankan Trade display was conducted recently in Sydney and Melbourne. Products from twelve participating companies were exhibited. Projected sales from the exhibition over the next twelve months are estimated to reach one million Australian dollars. Products displayed included frozen seafood, biscuits, fashion garments, sportswear, tea, oils, spices, condiments, jewellery, ceramics, musical instruments, automative and bicycle rubber accessories, wooden handicrafts, toys and dollhouses, fabrics, linen and furnishings.

For further help/details, please contact: AS.S. lld. – Project **Division** 49, Abdul Gaffoor Mawatha Colombo 3. Sri Lanka Tel: 575354 Foreign Investment Ami ry Committee International Economic Co-operation Division Ministry of Finance and Planning 120, Galle Face Secretariat, Colombo 1. Sri Lanka Tel: 547478, 26286, 27905; Tax: 21409 FINMIN CE Greater Colombo Economic Commission 14 Sir Baron Jayatillake Mawatha Colombo 1. Sri lanka Tel: 34403, 4 5; 35407 /8/9; 35027



FIAC PROJECTS APPROVED CATEGORY - WISE UP TO 1987

1.	Agriculture, Fishing, Animal Husbandry			57
2.	Manufacturing			
	(a)	Textiles and Garments	72	
	(b)	Food and Beverages	20	
	(c)	Wood and Paper Products, Printing and Publishing	07	
	(d)	Chemical, Plastic and Rubber based industries	46	
	(e)	Non-Metallic Mineral Products	21	
	(f)	Basic Metal and Engineering Industries	39	
	(g)	Other Industries	24	231
3.	Civil Engineering, Construction and Property Development			48
4.	Tourist Hotels and Recreational Facilities			68
5.	Specialised Services			62
				466