



# Investing in Sri Lanka

**March 2021**

KPMG Sri Lanka

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# About KPMG

## Who we are

KPMG is one of the world's leading professional services firms. We're proud of our firm's strong and established reputation, a reputation that is built on a long history of independence, integrity and objectivity. It's what drives us to deliver clear and practical advice to help our clients grow and succeed in their chosen field.

It's what makes us committed and successful leaders in our profession.

## Global presence

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services. We have outstanding professionals and partners working together to deliver value in over 156 countries worldwide.

The purpose of KPMG's network of firms is to turn knowledge into value for the benefit of our clients, our people, and the capital markets. KPMG's member firms aim to provide clients with a globally consistent set of multidisciplinary financial and accounting services, based on deep industry knowledge.

## KPMG Sri Lanka

KPMG Sri Lanka is one of the largest professional services firms in Sri Lanka and is also the oldest Chartered Accountancy firm in the country spanning 125 years since inception in 1897. Boasting a resource base of 21 partners, and more than 1,400 professionals and associates, the firm provides a range of services across the audit, tax and advisory spectrum to over 1,500 client organizations in Sri Lanka. KPMG in Sri Lanka's resource mobilization capabilities extend to all provinces and districts in Sri Lanka and is closely associated with KPMG in the Republic of Maldives. KPMG in Sri Lanka is a member firm of KPMG's global network of professional services firms comprising more than 200,000 professionals across more than 150 countries, offering Audit, Tax and Advisory services to clients.

KPMG Sri Lanka is a member of KPMG in Middle East & South Asia ("MESA") sub-region which has over 8,000 professionals and associates working across 28 office locations in 14 countries and territories, placing it among the largest and most resourced professional service networks in the region. KPMG MESA member firms Bahrain, Bangladesh, Egypt, Jordan, Kuwait, Lebanon, Maldives, Oman, Palestine, Pakistan, Qatar, Saudi Arabia, Sri Lanka and the United Arab Emirates continuously work together to deliver value to clients across the region.

## Our people

The KPMG network includes more than 207,050 talented professionals around the world. Our people are recognized in the marketplace for delivering outstanding professional services to leading private and public sector organizations.

Our clients value the breadth of skills and experience KPMG professionals bring to every client engagement. This includes a wealth of experience living and working in other countries and cultures.



# Sri Lankan Economy



# Key Indicators Overall



Gross Land Area

**65,610** Sq. km

Mid Year Population

**21.8** Million

Population Density

**348** per Sq. Km

Gross Domestic Product (GDP) (2019)

84 Billion USD

Per Capita GDP (2019)

**3,853** USD

Value of Exports (2019)

**12** Billion USD

Value of Imports (2019)

**20** Billion USD

Average Literacy Rate

**93%**

Human Development Index Ranking

**71** out of 189 Countries

Unemployment Rate (3Q2020)

**5.8%**

Ease of Doing Business Ranking

**99** out of 191 Countries

# Future Economic Growth

## - Country SWOT

### STRENGTHS

#### **Strategically positioned in terms of geographic**

**location:** Supplemented by its natural harbours and ports, the island nation Sri Lanka is situated along major shipping routes, connecting South East Asia with the region, the Middle East and Eastern Africa, which gives the country a strategic advantage in terms of its location.

**Political Stability:** The new government, led by President Gotabaya Rajapaksa - elected in November 2019, cemented their position by securing a 2/3rd majority at the parliamentary election held in August 2020, signaling political stability

**Sound social indicators:** Sri Lanka's social infrastructure, including education, healthcare, electricity and water, is well placed compared to other developing countries in the region. The average literacy rate of Sri Lanka is at 93% - one of the highest in the South Asian region. English is a link language in the country and in terms of English proficiency, Sri Lanka ranks 14th in Asia. Further, the country has a decent Human Development Index (HDI) value of 0.782 (ranked 71 out of 189 countries in 2019)

#### **Economic potential:**

Sri Lanka's economic performance has improved notably since the end of the three-decade old civil war in 2009. Per Capita GDP has increased from 2,014 USD in 2008 to 3,852 USD in 2019. Currently defined as a lower middle-income economy, the country is on the brink of gaining upper middle-income status (defined by the World Bank as countries with a per capita GNI between 4,046 USD - 12,535 USD)

#### **Expanding Infrastructure, with increasing**

**government support:** Sri Lanka witnessed a considerable growth in infrastructure activities over the past decade, with the conclusion of the war. Some of the notable projects completed since 2009 include; Expressways (Airport/Katunayake, Southern Expressway, Outer-Circular Highway project phase III etc.), Ports (Colombo South Port expansion, Hambantota Port), Airport (Mattala), Power & Energy sector projects (Norochcholai coal power plant) etc. GoSL's annual expenditure on economic and social infrastructure has been between 7% - 9% of GDP, from 2015 – 2019. Key infrastructure projects currently undergoing include, the Port City project and Expressways (The Southern Expressway extension Project, Central Expressway development).



# Future Economic Growth - Country SWOT

## Currently active Trade agreements, facilitating Sri Lanka's exports:

- Global System of Trade Preferences (GSTP) - Implemented in 1989
- SAARC Preferential Trading Arrangement (SAPTA) - implemented in 1995
- India-Sri Lanka Free Trade Agreement (ISLFTA) - Implemented in 2000
- Pakistan-Sri Lanka Free Trade Agreement (PSFTA) - Implemented in 2005
- Asia-Pacific Trade Agreement (APTA) - implemented in 2006
- South Asian Free Trade Area (SAFTA) - implemented in 2006
- Sri Lanka – Singapore Free Trade Agreement (SLSFTA) – implemented in 2018
- Generalised System of Preferences (GSP) arrangements with US, Russia, Australia, Turkey, Japan, Canada
- GSP+ arrangements with EU

## Sri Lanka is on the road to recovery post the COVID-19 pandemic

- 5,000+ tourists have arrived since the reopening of Sri Lanka's international airports
- The industry aims to attract 700,000+ tourists while generating USD 1 Bn revenue by the end of 2021
- Sri Lanka began rolling out Oxford-AstraZeneca's Covishield vaccine in January 2021 and has completed administering the vaccine to its health care workers.
- Over 750,000+ vaccines have been extended to the general public
- Sri Lanka is expected to receive more doses of COVID-19 vaccines in the future



# Future Economic Growth - Country SWOT

## WEAKNESSES

- Ratings downgraded: International credit rating agencies Fitch Ratings, Moody's Investors Services recently downgraded Sri Lanka's foreign currency issuer rating to 'CCC' from 'B' and 'Caa1' from 'B2' respectively. The downgrade occurred in November 2020 on account of COVID induced economic shock and concerns regarding Sri Lanka's external debt servicing capabilities. In addition, International credit rating agency Standard and Poor's downgraded Sri Lanka's credit rating to 'CCC+' from 'B', citing risks pertaining to external financing and fiscal deterioration. Though there has been zero default by GOSL to date the probability of default is increasing according to several sources due to lower FDIs & tax revenues, high recurrent expenditures and increasing debt.
- Weak and significant loss-making state-owned enterprises being funded through government revenues, reduces funds available for development.
- High external debt position to grow over the next few years to significantly fund capital expenditure and loan repayments.
- Limitations in technical know-how, particularly in sectors concentrated on the rural economy, such as agriculture and farming

## OPPORTUNITIES

- Availability of untapped resources, in terms of labour, land availability and natural resources
- Tax concessions among other incentives for Investments focusing on select industries, to drive domestic production
- Excess demand unmet by local supply in certain business sectors (such as pharma, dairy)

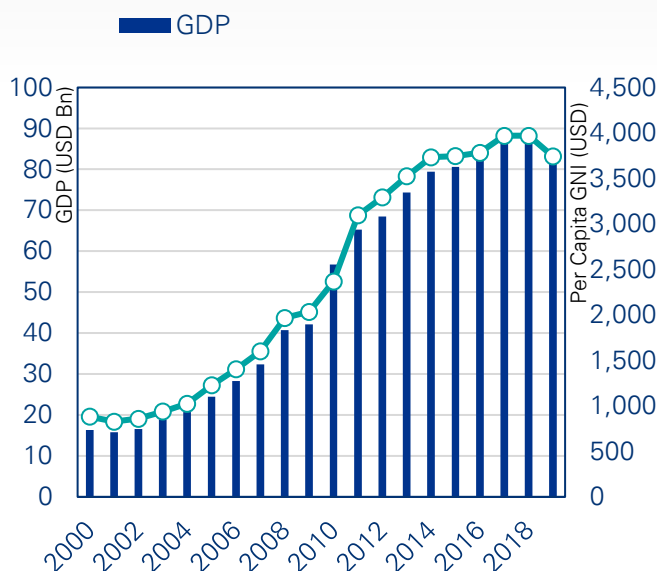
## THREATS

- Threat to sustainability of existing economic policies posed by considerable debt burden, which could exert pressure on key economic variables
- Revision of tax policies affecting tax revenues not being supported by increased economic activities may put increased pressures on the government treasury.
- Inability to meet government debt commitments on time due to lowering foreign currency inflows.

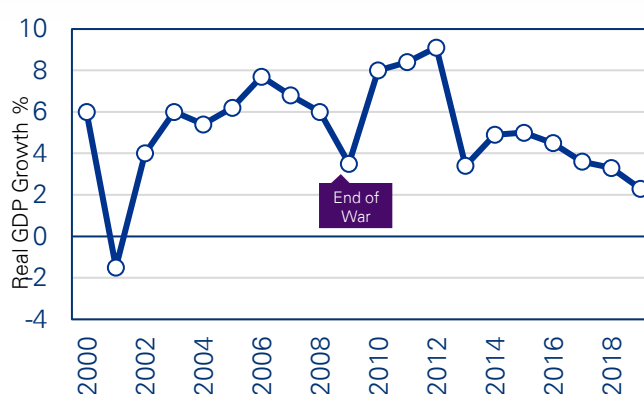
# Future Economic Growth - GDP Outlook [1/2]

## Resilience and value to be created

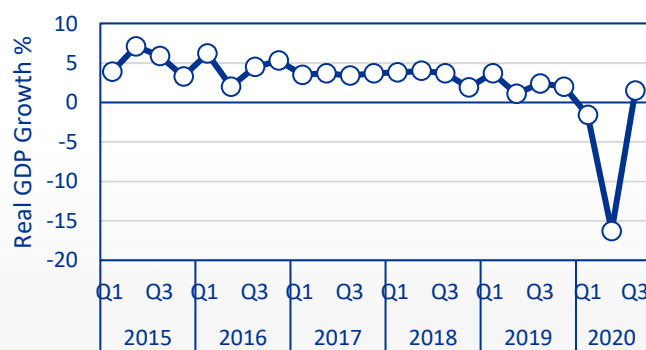
### Sri Lanka: Historic GDP and Per Capita GNI



### Sri Lanka: Historic GDP Growth



### Sri Lanka: Quarterly Real GDP Growth



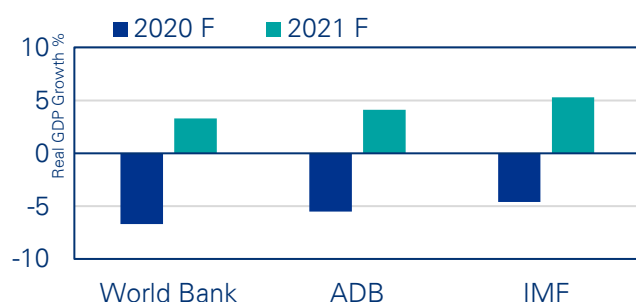
- With a Per Capita Gross National Income (GNI) of USD 3,741 (2019), Sri Lanka is currently classified as a Lower Middle Income nation, defined by the World Bank as a country with a Per Capita GNI between USD 1,036 to USD 4,045.
- As the economy started picking up towards the end of 2019/beginning of 2020, the pandemic hit the nation and Sri Lanka went into a three month long nation-wide lockdown in March 2020, which brought all economic activities to a halt, as was the case in many other countries affected by COVID-19.
- Post the successful containment of the first wave of COVID-19 in the country, the lockdown was lifted in its entirety and economic activities re-commenced. Considerable progress was made since then, only to be disrupted yet again with the country being hit by a second wave of COVID-19 during September/October.

# Future Economic Growth - GDP Outlook [2/2]

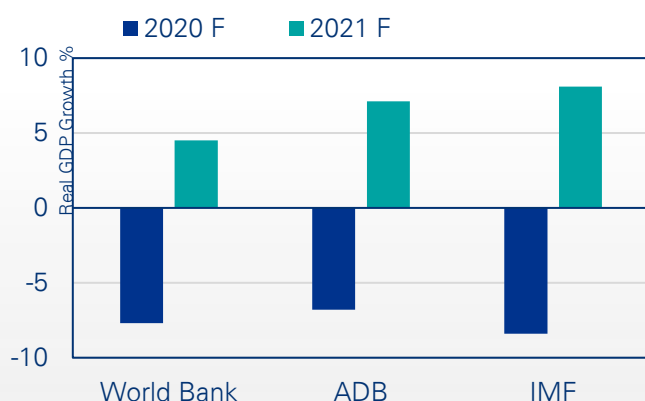
**Future Outlook: Sri Lanka to be less affected than regional peers, expected to make a V-shaped recovery in 2021.**

- The World Bank, Asian Development Bank and IMF projects Sri Lanka's economy to contract by 6.7%, 5.5% and 4.6% respectively in 2020, which is still an improvement compared to the growth forecasts for the South Asian region.
- However, economic growth is expected to recover to a positive trajectory in 2021, enabled by improved performance in all sectors. Further based on the IMF's outlook for 2021, the expected rate of growth of GDP is forecasted to be 3.6%.

## Sri Lanka: Forecasted GDP Growth



## South Asia Region: Forecasted GDP Growth



# Future Economic Growth

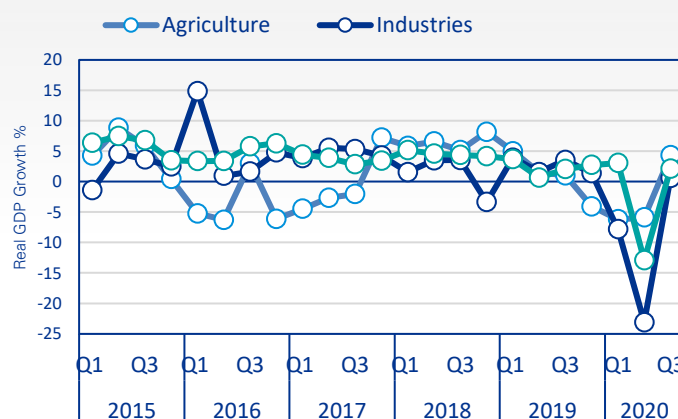
## Sector-wise composition of GDP

A service-based economy: Trade and finance dominates the industry, whilst once strong agriculture sector tapers. All three sectors expected to contribute towards economic recovery in 2021

	2018	2019	3Q2020
<b>Agriculture</b>	<b>7.1</b>	<b>7.0</b>	<b>8.2</b>
Agriculture and Forestry	5.8	5.8	6.5
Fishing	1.2	1.1	1.7
<b>Industries</b>	<b>26.3</b>	<b>26.4</b>	<b>27.7</b>
<b>Some sub-sectors include:</b>			
Manufacturing	15.6	15.6	21.2
Construction	6.8	6.9	6.5
<b>Services</b>	<b>57.5</b>	<b>57.4</b>	<b>56.8</b>
<b>Some sub-sectors include:</b>			
Wholesale and Retail Trade, Transportation and Storage, and Accommodation and Food Service Activities including Ownership of Dwellings	23.1	23.0	28.9
Financial, Insurance and Real Estate Activities	14.1	14.2	16.4
Professional Services and Other Personal Service Activities	11.4	11.4	13.5
<b>Taxes Less Subsidies</b>	<b>9.2</b>	<b>9.2</b>	<b>7.4</b>

- Sri Lanka is a service-based economy, where the services segment commands a lion share of the economy, followed by Industries and Agriculture. (In 2019, the service sector represented a 57% share of the country's GDP, whereas Industries and Agriculture sectors represented shares of 26% and 7% respectively.

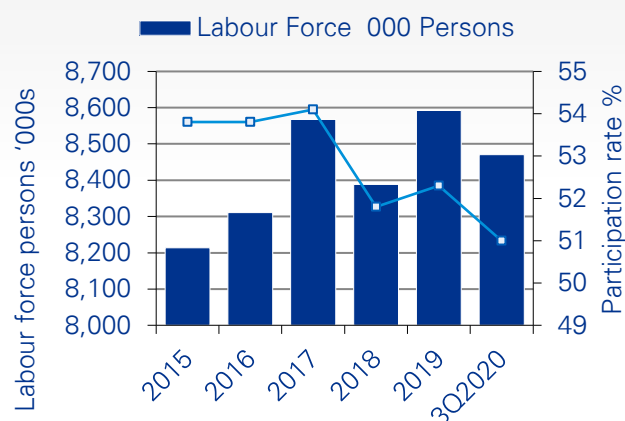
### Sri Lanka: Quarterly sector-wise GDP Growth



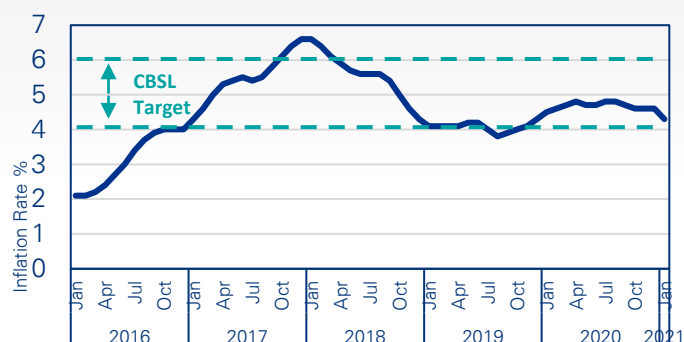
- The Agriculture sector mainly comprises of the production of rice, tea, coconut, rubber and spices. Farming is predominant in the rural segment of Sri Lanka, which comprise of 77% of the country's total population.
- Agriculture and Industry sectors recorded negative growth during the first quarter of 2020. Subdued performance in the tea and oleaginous fruits (coconut, king coconut and oil palm) and fishing sub-segments were attributable towards the poor performance of the Agriculture sector, whilst a contraction in construction and manufacturing activities dragged down performance of the Industry sector. Given the activity of wholesale and retail trade even during the lockdown period, the service sector recorded a growth of 3.1% during 1Q 2020. All three sectors posted a positive movement in the 3rd Quarter of 2020.
- The Central Bank of Sri Lanka envisages 2021 growth to be led by a substantial recovery in manufacturing and service sector activities. Relaxation of restrictions and caution on travel and stay is likely to strengthen service sector performance.
- Based on the macroeconomic framework of CBSL, it expects the economy to grow significantly in the first half of 2021 supported by the base effect arising as a result of the contraction in 2020 due to the COVID-19 pandemic.
- The improved business confidence along with stable political and weather conditions, major markets in services, industries and agriculture are expected to boost in 2021.

# Future Economic Growth - Sri Lanka's labour force excels in human capital, with high literacy rates

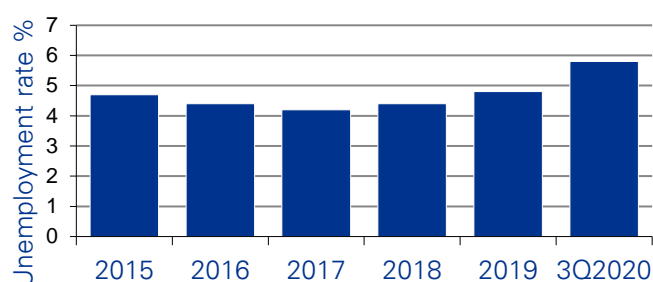
**Sri Lanka: Labour force and Labour force participation rate**



**Sri Lanka: Inflation (12 Month Moving Average)**



**Sri Lanka: Unemployment Rate**



- Sri Lanka's labour force participation was 36% amongst females and 73% amongst males.
- Sri Lanka's literacy rates are one of the highest in the region, with a 93% literacy rate amongst males and a 92% literacy rate amongst females

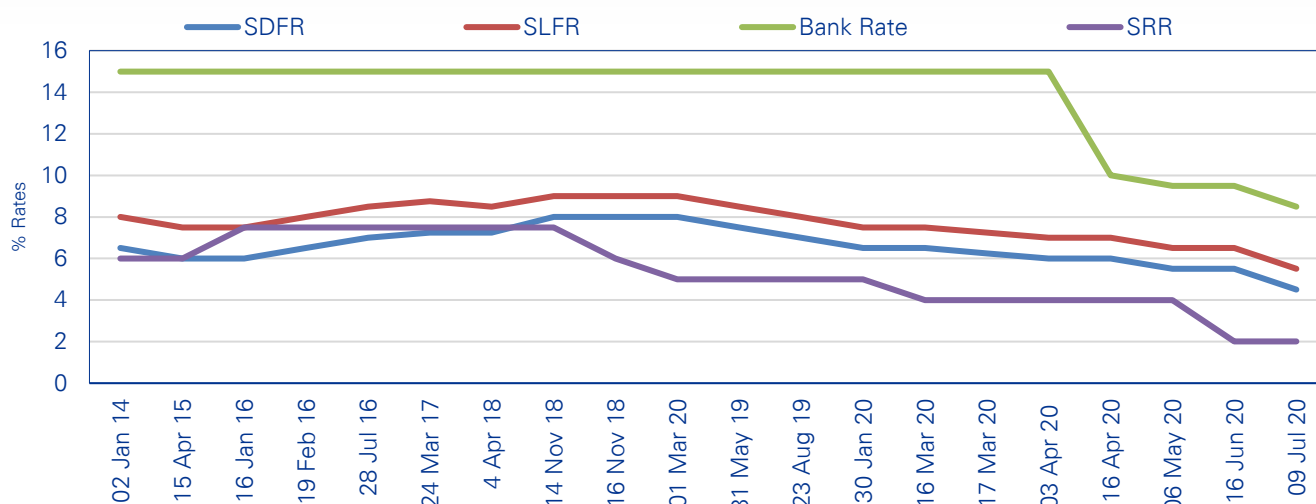
- Rate of unemployment increased to 5.4% as of 2Q 2020, driven poor business conditions due to the pandemic. While these levels may prevail for the next three six months, an increase in economic activity likely to commence from the second half of 2021 will boost overall employment opportunities.

- Sri Lanka produces 30,000 graduates annually
- The Tertiary and Vocational Education Commission (TVEC) trains over 100,000 students per year
- Sri Lanka has the 2nd largest pool of Chartered Institute of Management Accounting (CIMA) qualified accountants in the world
- Sri Lanka offers free public primary, secondary and higher education to all its citizens.

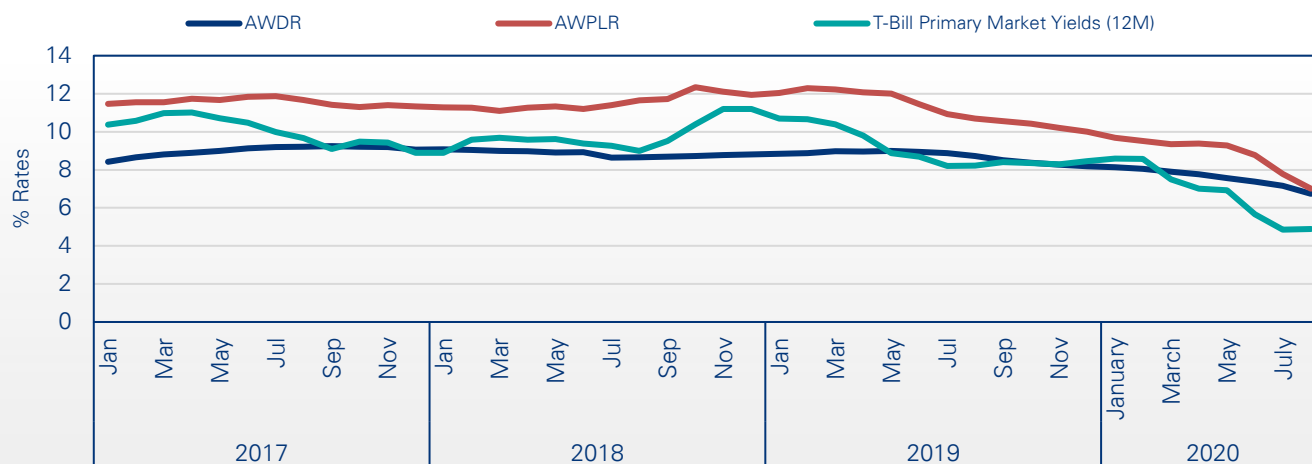
# Future Economic Growth -

## Continuing expansionary monetary policy with COVID-19 impacting the economy.

**Sri Lanka: Movement of Policy Rates – Standard Deposit Facility Rate (SDFR), Standard Lending Facility Rate (SLFR), Bank Rate and Statutory Reserve Ratio (SRR)**



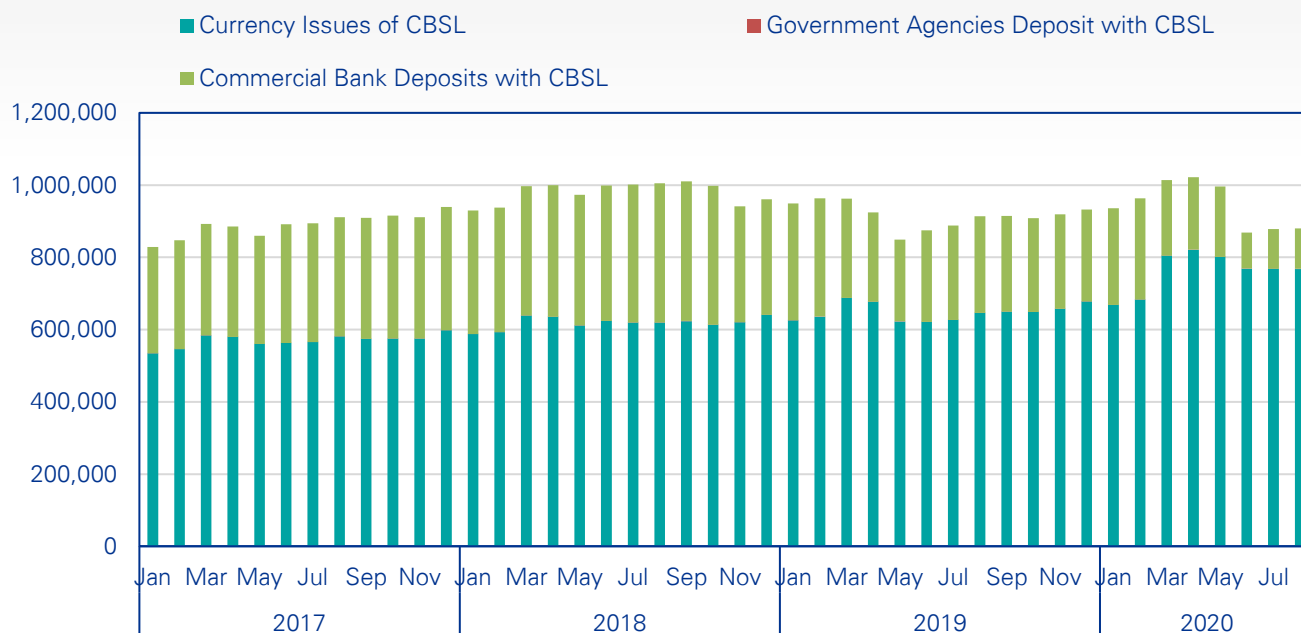
**Sri Lanka: Movement of Average Weighted Deposit Rate (AWDR), Average Weighted Prime Lending Rates (AWPLR) and Treasury Bill Yields**



# Future Economic Growth -

## Continuing expansionary monetary policy with COVID-19 impacting the economy.

### Sri Lanka: Breakdown of Reserve Money



- To compliment the tax reductions announced during December 2019, policy rates (SDFR and SLFR) cuts were announced in end January with the objective of stimulating the economy.
- Since then, policy rates have been revised downward on seven occasions, giving rise to a low interest rate environment.
- As a result of these rate cuts credit to the private sector has grown to LKR 6,055 Bn as at October 2020, marking an annual increase of 6.4%.
- The cut in SRR in June 2020 triggered a build up of excess liquidity in the economy. International rating agency S&P recently downgraded Sri Sri Lanka to 'CCC+' on account of a potentially adverse economic scenario driven by excess liquidity and a high budget deficit.

## Future Economic Growth - Export sector, lead by textiles and garments.

Breakdown of Exports (USD Mn)	January - October			
	2019	% of Total	2020	% of Total
Textile and Garments	4,628	46%	3,645	44%
Tea	1,139	11%	1,032	12%
Rubber Products	733	7%	645	8%
Other	3,461	35%	2,972	36%
<b>Total</b>	<b>9,961</b>		<b>8,293</b>	

Breakdown of Imports (USD Mn)	January - October			
	2019	% of Total	2020	% of Total
Fuel	3,239	20%	2,129	16%
Textile and Textile Articles	2,404	15%	1,884	14%
Machinery and Equipment	2,035	12%	1,765	13%
Food and Beverages	1,138	7%	1,272	10%
Personal Vehicles	651	4%	282	2%
Medical and Pharmaceuticals	454	3%	494	4%
Other	6,491	40%	5,321	40%
<b>Total</b>	<b>16,412</b>		<b>13,145</b>	

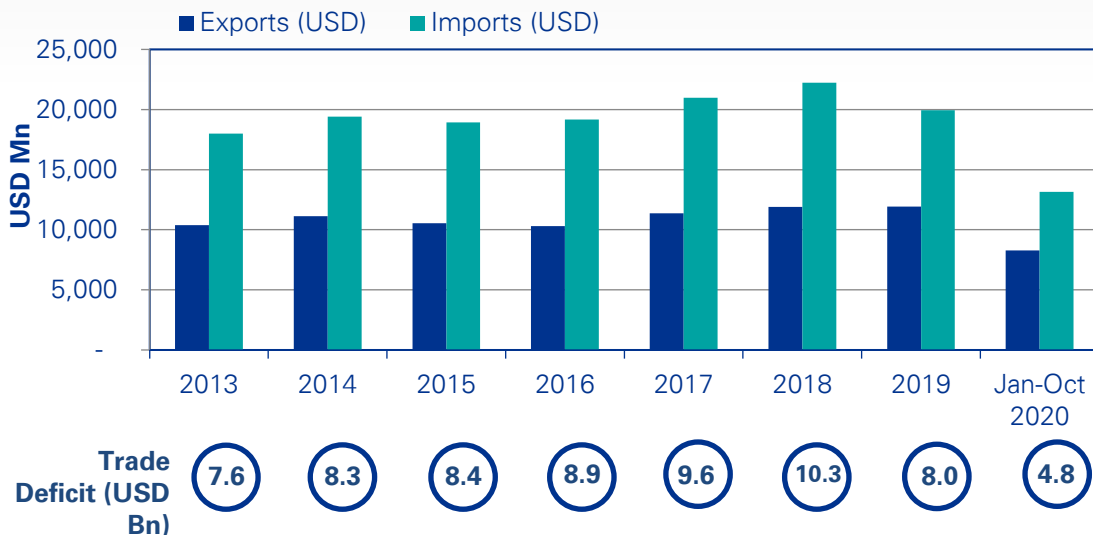
Textiles and garments, Sri Lanka's largest export, accounting for almost half of total export value, suffered significantly during January - October 2020. Despite select producers switching to manufacturing Personal Protective Equipment (PPE), the sector's exports declined to USD 3.6 Bn during the period.



# Future Economic Growth -

## Export sector, lead by textiles and garments, while imports are restricted on a short -term basis

### Sri Lanka: Exports and Imports

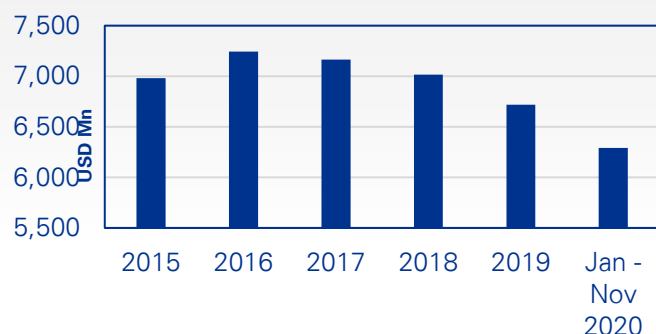


- Categorically, intermediate goods imports accounting for about 60% of imports, led by textiles and textiles articles, decreased USD 7,393.2 Mn. Investment goods (~25% of imports) also suffered, reducing to USD 2,920.9 Mn during this period.
- Import substitution is a key strategy unveiled by the government, with cess slated to “provide the required protection on the imports and exports of domestic production”.



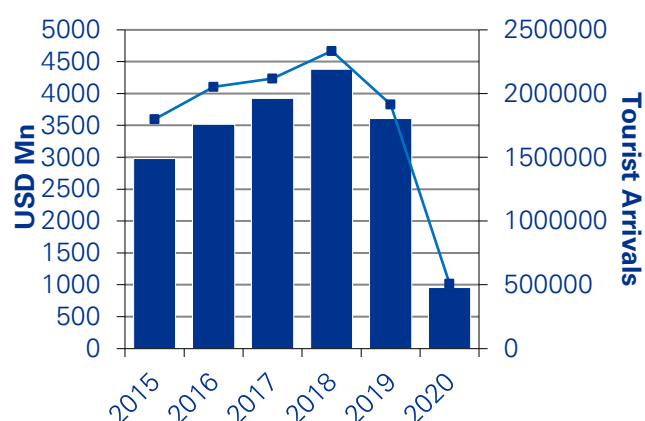
# Future Economic Growth - Tourism industry to grow remarkably.

## Sri Lanka: Worker Remittances



- Worker remittances have ranged between USD 6.7 Mn and USD 7.2 Mn in the recent past. With a significant share coming from Sri Lanka's migrant labour working in the Middle East.
- Despite the World Bank estimating that worker remittances in Sri Lanka will decline 18.6% YoY, it is likely that it would outperform the previous year. Further, importantly workers have started to take part in more formal processes to remit their earnings to Sri Lanka which leads to the better tracking of the statistic.

## Sri Lanka: Earnings from Tourism and Tourist Arrivals



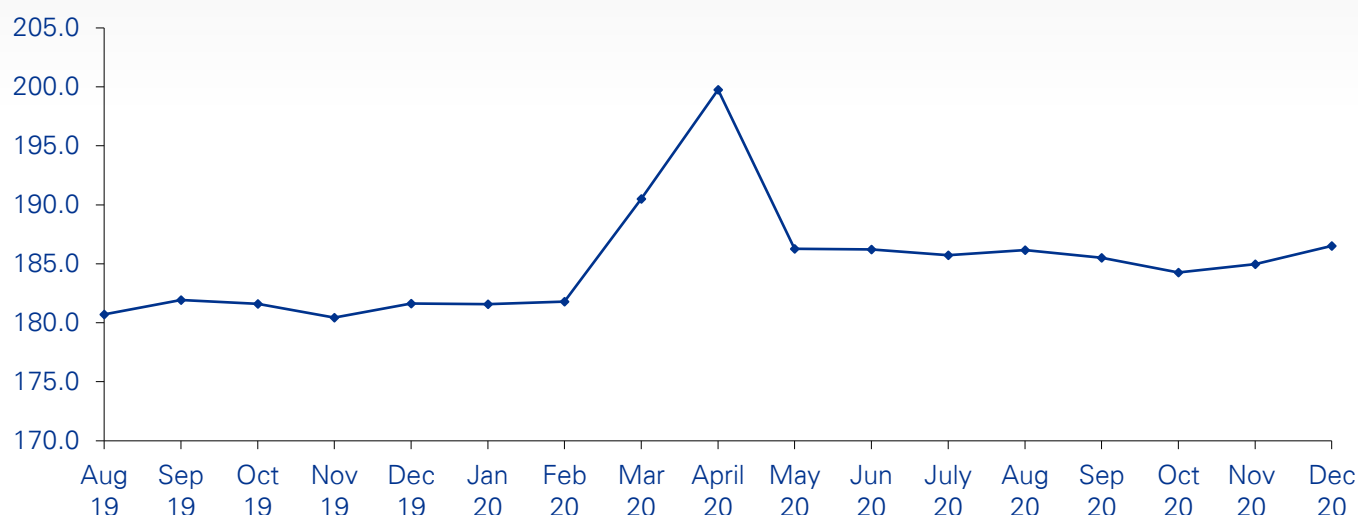
- The tourism sector in Sri Lanka has rebounded with the opening of the Bandaranaike International Airport and The Mattala International Airport on the 21st of January 2021 for tourism. Sri Lanka has welcomed 5,000+ tourists into the country since then.
- The industry aims to attract more than 700,000 tourist to generate USD 1 Bn by the end of 2021



# Future Economic Growth - Exchange rate to remain stable going forward

## LKR per USD

LKR per USD



- The average annual depreciation over the last 5 years and 10 years were 6.8% and 5.2% respectively .
- The enhanced demand for gold, outflows arising from foreign holdings held in debt (government securities) and capital markets and pandemic related effects resulted in the LKR depreciating
- The GoSL and Central Bank of Sri Lanka (CBSL) are also placing emphasis on domestic financing as a means to minimize negative effects on the currency.
- This strategy has also helped to improve the domestic: foreign debt ratio.
- The GoSL is also keen to attract foreign direct investment through which the currency can be stabilized in the long run.



# Why Invest in Sri Lanka

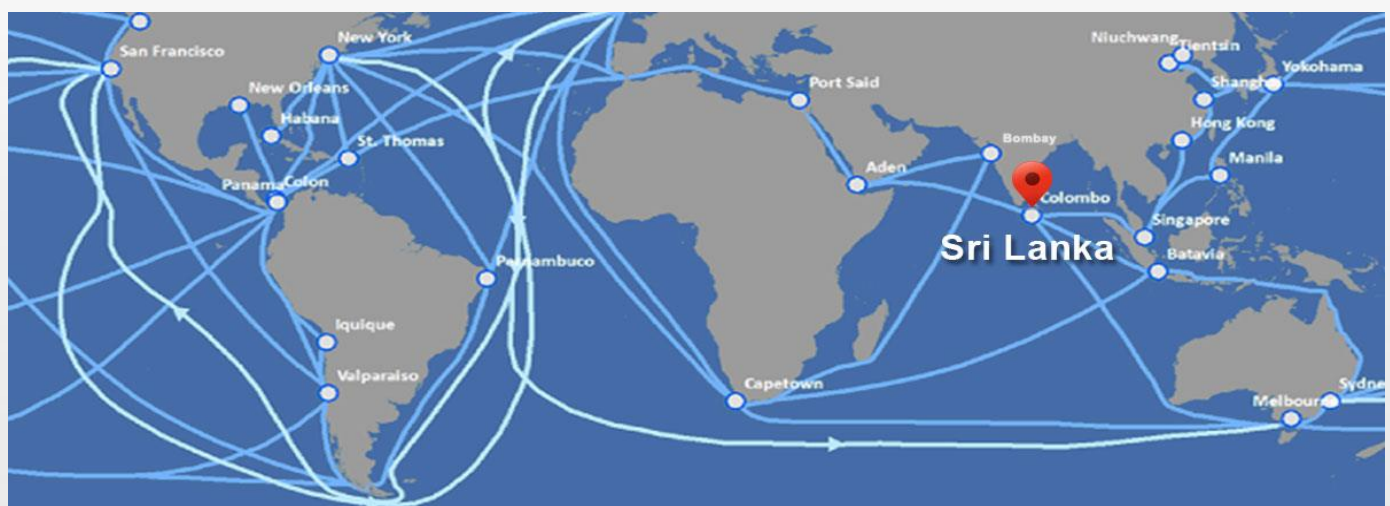


# Strategic Location



## Located in one of the busiest maritime routes in the world

- Sri Lanka's geographical position is ideal for it to become a regional manufacturing and shipping hub.
- The island is strategically located in the Indian Ocean with convenient access to :
  - Major shipping routes connecting South Asia, the Far East and the Pacific with Europe and America.
  - emerging South East Asian countries and the Middle East.
- Sri Lanka is also part of the "One Belt, One Road" initiative, which is a foreign policy and economic strategy of the People's Republic of China aimed at improving connectivity and cooperation among multiple countries in Asia, Africa, and Europe.
- Sri Lanka is also located right beside the fast-growing India.
- Sri Lanka has strong air and shipping connectivity, and it is a tourism hotspot.



# Improved Investment Climate

## Ease of Doing Business 2020

Sri Lanka currently ranks 99th with an overall score of 61.8/100, improving marginally from previous position.

- Sri Lanka currently ranks 99th out of a 191 countries in the 'ease of doing business rankings', an improvement from the previous position of 100th place.
- Out of the criterion factors, Sri Lanka scored relatively high in 'protecting minority investors', 'Dealing with construction permits and 'Starting a business'. The score was low for registering a property, getting credit, paying taxes and enforcing contracts, implying that these are areas for improvement.

### SCORES

Economy	Global Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Minority Investors	Paying Taxes	Trading across Borders	Enforcing Contracts	Resolving Insolvency
Singapore	2	4	5	19	21	37	3	7	47	1	27
Hong Kong SAR, China	3	5	1	3	51	37	7	2	29	31	45
Korea, Rep.	5	33	12	2	40	67	25	21	36	2	11
Malaysia	12	126	2	4	33	37	2	80	49	35	40
Taiwan, China	15	21	6	9	20	104	21	39	61	11	23
Thailand	21	47	34	6	67	48	3	68	62	37	24
Japan	29	106	18	14	43	94	57	51	57	50	3
India	63	136	27	22	154	25	13	115	68	163	52
Vietnam	70	115	25	27	64	25	97	109	104	68	122
Indonesia	73	140	110	33	106	48	37	81	116	139	38
Bhutan	89	103	91	78	53	94	111	15	30	29	168
Nepal	94	135	107	135	97	37	79	175	60	151	87
Philippines	95	171	85	32	120	132	72	95	113	152	65
Sri Lanka	99	85	66	89	138	132	28	142	96	164	94
Pakistan	108	72	112	123	151	119	28	161	111	156	58
Cambodia	144	187	178	146	129	25	128	138	118	182	82
Bangladesh	168	131	135	176	184	119	72	151	176	189	154

Score of 1= Most Friendly business regulations

# Improving Investment Climate

## Improving the Doing Business in Sri Lanka ranking

### Investor Facilitation

Sri Lanka has made efforts to improve its Doing Business in Sri Lanka ranking by upgrading its information technology infrastructure by introducing online systems for:

- Filing taxes
- Processing constructions permits
- Business registration.

With a view to facilitating and attracting foreign investments, the Board of Investment (BOI) has introduced an online application tracking system.

### Committees

- **Sri Lanka recently appointed two committees in relation to fast tracking foreign direct investment into the country.**
- The **Investment Management Committee** headed by the Treasury Secretary has the purpose of evaluating and accelerating investment proposals received by the Government.
- The committee includes relevant ministry secretaries as well as the head of the Board of Investment.
- A **Project Management Committee** representing the Power and Highways sectors has also been formed

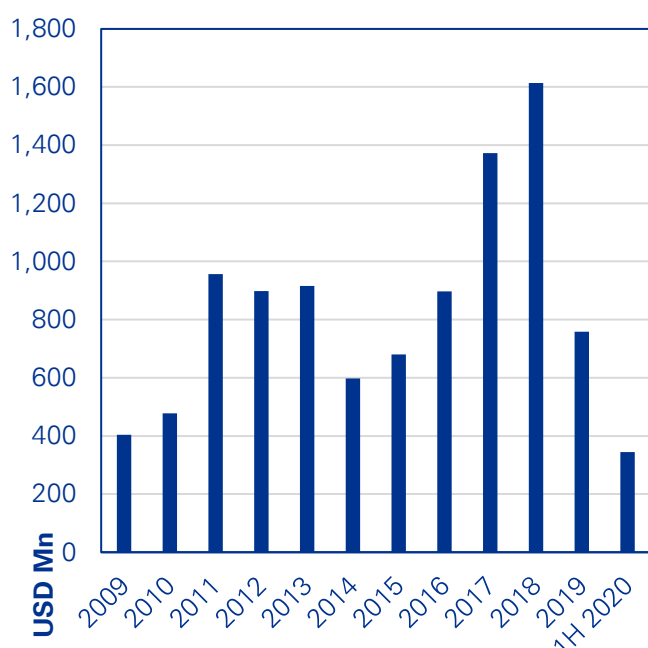


# Improving Investment Climate

## Foreign Direct Investments

### Steady growth in FDIs cut short by economic downturn in 2019.

#### Sri Lanka: FDI Inflow



- In 2019, Foreign Direct Investments (FDIs) declined to USD 758 Mn, falling short of the revised USD 1.9 Bn target, mainly due to the Easter Sunday attacks affecting economic activity in the country.
- FDIs from China, a key investor, significantly reduced in 2019 to only about USD 59 Mn, with investments from India amounting to approximately USD 121 Mn.
- Infrastructure, Housing, Property Development and Telecommunications are key sectors receiving FDIs.
- The first half of 2020 witnessed an FDI flow of USD 345 Mn
- Sri Lanka has set a FDI target of USD 2.5 Bn for 2021, including investments for Port City (USD 0.5 Bn) and the pharmaceutical zone (200 Mn USD)

#### Sri Lanka: FDI Inflow by source country

	2018			2019	
	USD Mn	Share of Total		USD Mn	Share of Total
China	872	54%	India	121	16%
India	177	11%	Singapore	103	14%
Singapore	145	9%	Canada	89	12%
Mauritius	109	7%	Hong Kong	78	10%
UK	64	4%	China	59	8%
Other	247	15%	Other	308	41%

# Improving Investment Climate

## Stock Market performance

### Best performing stock index in 2021

Market Capitalization as at 29 <sup>th</sup> Jan 2021	<b>19.8 Bn USD</b>
No: of companies listed on the exchange	<b>283</b>
ASPI Performance as of 29 <sup>th</sup> Jan 2021	
Year-to-date (End Jan 2021)	<b>28.0%</b>
1 Year Growth (ending 21 <sup>st</sup> Jan 2020)	<b>20.5%</b>
Market Price-to-earnings Ratio	<b>13.52</b>
Market Price to Book Value Ratio	<b>1.35</b>
Dividend Yield	<b>2.21</b>

- The ASPI at the Colombo Stock Exchange (CSE) fluctuated in 2020, touching a low of 4,247.95 in May before scaling to 6,108 in mid November. However, the market has been on a positive trajectory since the beginning of 2021, as where the All Share Price Index established a new all time high, surpassing the 8,000 mark.
- In order to increase stock market listing and participation there are several boards on the stock market, namely, Main and Dirisavi Board, Empower Board and the Multi-Currency Board.
- Further the CSE and the Securities and Exchange Commission of Sri Lanka (SEC) is introducing Real Estate Investment Trusts (REITs), providing real estate developers and owners an opportunity to transfer income generating, fully completed properties into a REIT.
- To promote the listing of local companies, the Government provides a 50% tax concession for the Year of Assessment 2021/2022 for companies that are listed before 31st December 2021 and maintain a corporate income tax rate of 14% for a period of three years subsequent to that.

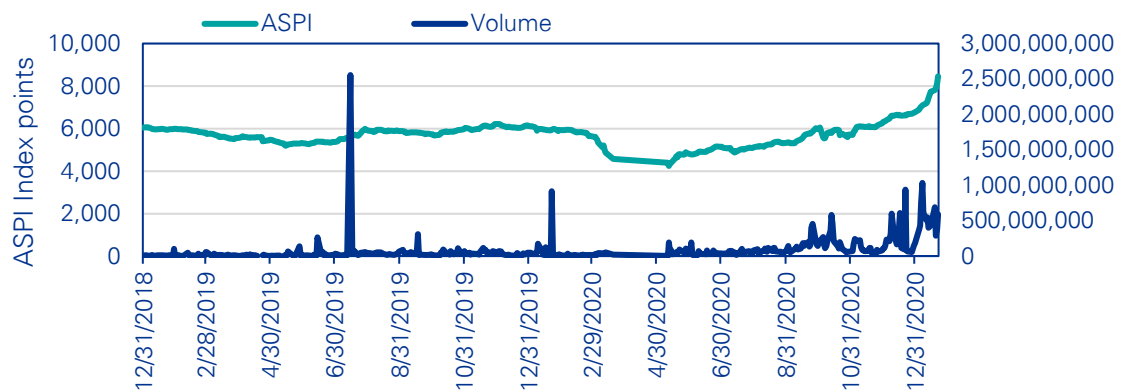


# Improving Investment Climate

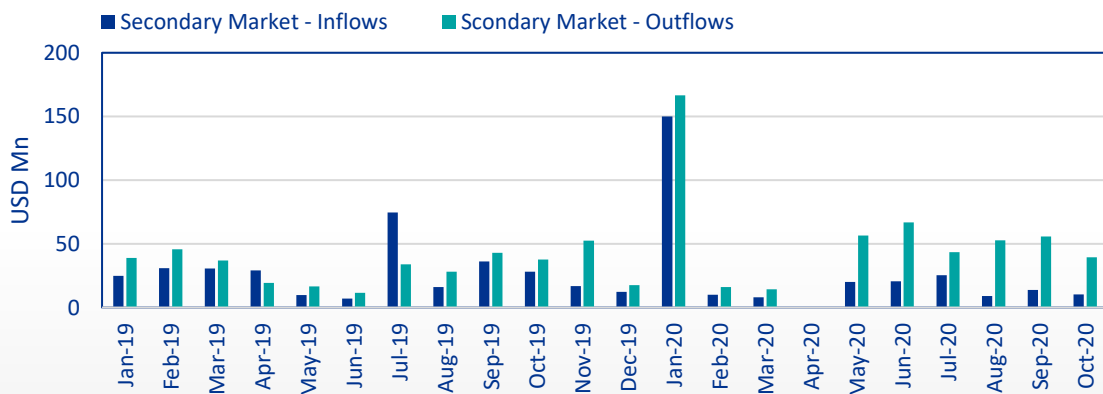
## Stock Market performance

### Best performing stock index in 2021

#### Sri Lanka: ASPI performance



#### Sri Lanka: Foreign inflows and outflows to secondary market



# Improving Investment Climate

## Policies focused on Investments

### Incentives for Dairy, Pharma, Property and Renewable Energy sectors, among others

#### Dairy

- Income tax exemption for Agro farming and concessionary rate of tax for Agro processing.

#### Medicine and Pharma

- A modern investment zone for local and foreign private investors will be developed under the Strategic Development Act for the purpose of **manufacturing medicine**.

#### Property

- Non-residents could invest in **luxury condominiums** by utilizing foreign currency earnings made in Sri Lanka, earnings in foreign countries or a loan obtained from a bank outside Sri Lanka.
- For REITs, capital gains taxes were proposed to be removed, with stamp duty reduced to 0.75% to encourage investments in luxury apartments and homes listed on the Real Estate Investment Trust managed by the SEC.

#### Renewable Energy

- Investment concessions for **renewable energy** including offshore wind farms and floating solar facilities exceeding 100MW capacity.

#### Information Technology

- Income tax exemption for information technology and enabled services.
- Fully fledged five plug and play Techno Parks in Galle, Kurunegala, Anuradhapura, Kandy and Batticaloa districts.

#### Other

- Develop the Colombo Port City Special Economic Zone as a hub for investment promotions.



# Improving Investment Climate

## Policies focused on FDIs

### Concessions to promote trade

- Major tax policy changes to remain unchanged over the next five years.
- Strong emphasis on supporting value added exports, thereby increasing forex inflows .
- Numerous policies to strengthen local production, while supporting import substitution.
- Some of the policies announced to support trade are;
  - Imposing lower custom duties, financing facilities for entrepreneurs investing in value additions to local crops suitable for exports.
  - Assistance towards high technology equipment to help high value addition exports.
  - Imposing CESS for trade protection.
  - Implement a new tariff system to support the local industry.
  - Remove import taxes on raw materials not available locally.
- In January 2020, Cabinet approval was given to proposal by President for full implementation of the Strategic Development Projects Act (SDPA) in bid to boost FDIs.



# Improving Investment Climate

## Establishing Private-Public Partnerships

**Private entities working hand-in-hand with the Government of Sri Lanka (GoSL) can bring about long term successful partnerships. Foreign entities have several entry routes that could be considered:**

### 01 Public/ Private Limited company

- A fully owned subsidiary could be set up as a private limited liability company with one director and one shareholder (parent company).
- The standard format for Articles of Association could be used with the inclusion of the following for foreign investors:
  - The company's objectives.
  - A statement to the effect that the company will not conduct business in industries restricted by the Foreign Exchange Act (FEA).
- If undertaking retail trade, a capital of USD 5 Mn should be invested.
- Capital must be remitted through an Inward Investment Account (IIA) opened with any commercial bank in Sri Lanka.

### 02 Overseas Company

- An 'Overseas Company' in this context refers to;
  - Project offices, branch offices, liaison officers or representative offices.
  - Project offices (generally used for construction projects etc.) and branch offices can conduct business in Sri Lanka subject to business restrictions under FEA. A minimum inward remittance of USD 200,000 is required through an IIA.
  - Liaison and representative officers cannot conduct revenue generating activities and do not have a minimum capital requirement.
- The process of setting up an overseas company entails a local representative and a series of documentation.

### 03 BOI and Strategic Development Project approval

- Investors can choose to obtain BOI approval for customs duty concessions, work permits etc. (medium to large investments of a minimum of USD 250,000 in equity and USD 500,000 for customs duty concessions).
- For very large and strategically important projects, approval and concessions may be granted the status of a strategic development project, through the BOI.



# Comparison of Investment Incentives in Peer Countries

## Proposed tax concessions in the Budget speech for 2021

Sector	Concession	Qualifying criteria
Recycling of construction material	Tax holiday of 10 years	Investment in selected recycling sites
Local boat and ship building	Tax holiday of 07 years	No specific criteria
Private sector vocational educational institutions	Tax holiday on income for a period of 05 years	Intake of students should double to minimum of 50,000 students
Approved start-ups by individuals who have completed vocational education	Tax exemption on income for a period of 05 years	Business is required to be approved
Renewable energy	Tax holiday of 07 years	No specific criteria
Exports, dairy, fabric, tourism, agricultural products/ processing and information technology	Tax concessions under the Strategic Development Projects Act for a maximum of 10 years.	Investment exceeding USD 10 Mn with the potential to change the landscape of the economy
Agriculture	Income tax exemption	Engage in agriculture including fisheries and livestock farming
Warehousing in ports	Exemption from all taxes	Investment in bonded warehouses and warehouses related to offshore businesses
Pharmaceutical manufacturing	Tax concessions under the Strategic Development Projects Act	Investment to be made into the investment zone identified for local and foreign investors
Dairy	Tax concessions under the Strategic Development Projects Act for a period of 05 years	Investment should be over USD 25 Mn focused on processing milk powder for exports.
Owner/ operator of telecommunication towers	Tax concession of 05 years from 01 January 2021	Investor should be a domestic industrialist

# Setting up Business in Sri Lanka



# Land Policy for Foreign Investments



- Leasehold ownership of property could be taken for a maximum tenure of 99 years.
- Notarial execution and registration of lease agreement is a requirement.
- Currently 1% stamp duty is payable on the aggregate lease rental.

## **Foreign freehold ownership of property is prohibited under the Land (Restrictions on Alienation) Act. However freehold ownership is allowed;**

- In condominium property.
- Companies incorporated in Sri Lanka with less than 50% (direct or indirect) foreign shareholding.
- Stamp duty is payable on the market value of a land purchase transaction.

# Legal Framework in Foreign Investment

- Open an authorized Inward Investment Account (IIA) through a licensed commercial bank in Sri Lanka.
  - This account is the FEA designated account to invest in equity or debt of companies in Sri Lanka..
  - This allows to repatriate money from Sri Lanka.



## Stamp Duty on transactions

4% of the transfer value for freehold properties

For lease instruments, it is 1% of the aggregate lease rental



## Professional fees on transactions

Legal fees from 0.5%-3% of transaction value.

Valuer's fees.

Brokers fees 3%-5% of transaction value.



## Other tax on transactions

Capital Gains Tax at 10%, upon realization of gains on investment properties

VAT on condominium sales at 8% applicable from 1<sup>st</sup> of December 2019.

# Visa Requirements

## Criteria of visas

### Visa Facilitation

Being the Investment Promoting Agency of the country, the Board of Investment (BOI) plays a vital role in facilitating the companies to enhance the smooth operation of doing business in Sri Lanka. As such, BOI recommends the visas for investors and skilled workers under identified categories to the issuing authorities, the Department of Immigration and Emigration. The online visa system has already setup to obtain visas.

The BOI recommends different type of visas for Investors, dependents, and expatriate workers of BOI approved projects under sec. 17 & sec. 16 of the BOI Law.

Type of visa recommendation

- Entry Visa / Multiple Entry Business Visa
- Residence Visa / Special Residence Visa
- Extension of Residence Visa
- Temporary Visa (maximum 03 months only)

Investors and expatriate employees should arrive in Sri Lanka using Entry Visa or business visa and within one month from the date of arrival Entry Visa to be converted to Residence Visa with the recommendation of the BOI.

If the applicant leaves from the country within the Entry Visa period (One month), no provisions are available to convert the same Entry Visa to Residence Visa, unless a fresh Entry Visa application is submitted.

Temporary Visa will be recommended for contracted technical workers (expatriates) for a period of 3 months for specific assignments after evaluation of such activities.

Visa Category / Project Type & Validity Period
<b>Entry Visa</b>
01 month from the date of arrival
<b>Residence Visa</b>
01 year from the date of arrival
<b>Extension of Residence Visa</b>
02 years for (Sec.17 Projects) 01 year for (Sec.16 Projects)
<b>Temporary Visa</b>
Installation work – Expatriates only
<b>Special Residence Visa</b>
01 year (Investor on Electronic Travel Authorization – ETA Visa) (e.g. Sri Lankan / Child Born in Sri Lanka)

- Residence visas act as a permit for non-Sri Lankans to obtain residential facilities for special purposes. The residence visa (employment category) is also applicable to expatriate personnel employed by companies for projects under BOI.

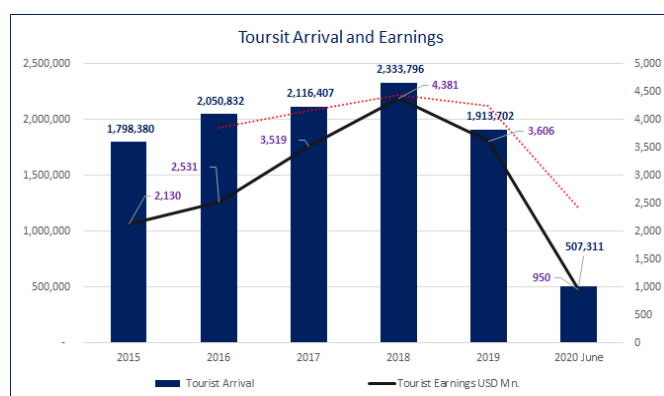




# Sri Lanka Tourism Industry

# The Tourism Industry in Sri Lanka

The total tourist arrivals in Sri Lanka in 2018 amounted to 2,333,796; bringing into the country foreign exchange earnings of USD 4,380.6 million. The tourism industry in Sri Lanka as per the statistics of 2018 and 2019 is the 3rd highest foreign exchange earner. However, terror attacks on Easter Sunday, April 2019, resulted in a 70.8% decrease in tourist arrivals and recorded the lowest number of arrivals of around 37,000 in May 2019 and caused a vast gap to the percentage change for the same month in 2018. Yet, the country managed to bounce and regain its momentum over time in tourist arrivals. The percentage change in tourist arrivals between 2018 and 2019 was around 57% in June, 46.9% in July, 28.3% in August, 27.2% in September, 22.5% in October and 9.5% in November 2019. However, due to the prevailing Covid-19 pandemic and travel bans the tourist arrivals further decreased in 2020 causing a serious blow to the tourism industry. In the year 2020, total tourist arrivals to Sri Lanka was recorded as 507,311 as at June 2020 and 507,704 as at December 2020.



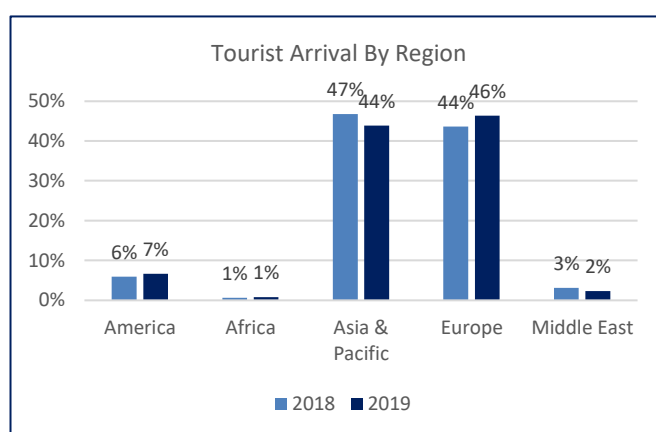
Source: Sri Lanka Tourism Development Authority

Nevertheless, the prevailing Government together with the Sri Lanka Tourism Development Authority (SLTDA) are taking the necessary measures to regain the growing trend and further develop the tourism industry, as soon as the global pandemic is mitigated and travelling will be safe. The highly diversified landscapes and natural attractions in Sri Lanka have been welcoming a growing number of visitors to the country. Not only is it increasing the tourist arrivals to the country, but there is also an increase in the inbound tourism where it is visible that locals travelling across the country for leisure purposes have also increased rapidly.

The growth in the tourism industry has brought about a major expansion and development in the infrastructure of the country as well as the hospitality industry.

Sri Lanka is gifted with a beautiful ocean around the country and is a home to different kinds of tourist attractions. In a tiny island, one gets different climates: dry zone, wet zone, bright sunlight or cooling breeze, this has been the main reason for Sri Lanka to be an island selected to be in the top 20 tourist destinations. (Source: CNN)

The world is broken down into 5 main regions as shown in the graph below, indicating the percentage contributions of each region to the Sri Lankan tourist arrivals for 2018 and 2019. It should be noted that 2018 reflects a more accurate value on the occupancy which has not had any external impacts on the tourism industry.



Source: Sri Lanka Tourism Development Authority

- In the year 2018, the highest number of tourist arrivals were recorded from the Asia & Pacific region and tourist arrivals from the European region was recorded as 47% in the year 2018. Asia & Pacific and Europe contribute to more than 90% of the tourist arrivals.
- In the year 2019, the highest tourist arrivals of 46% was recorded from the European region where a total of 892,572 tourists from the European region visited the country. Apart from that, 44% of tourist arrivals were recorded from Asia & Pacific region in 2019.
- While Middle East tourist arrivals are the second lowest, Africa stands to be the lowest at 1%.

# The Tourism Industry in Sri Lanka

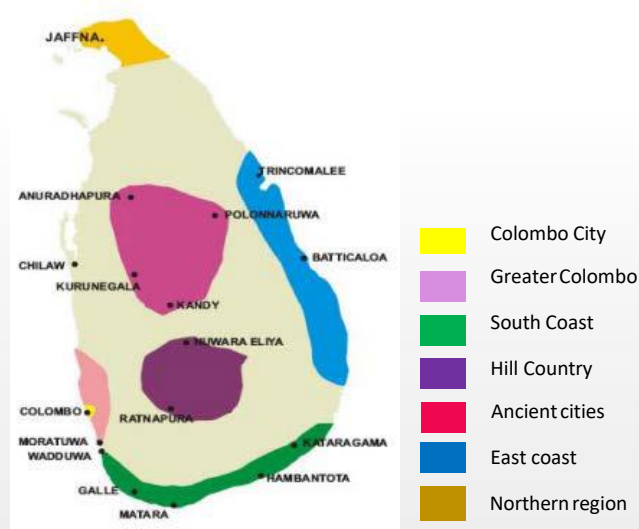
## Accommodation Establishment

Establishments which provide accommodation for international and local visitors could be divided into three categories:

- Tourist hotels: 5-Star, 4-Star, 3-Star, 2-Star, 1-Star hotel, semi luxury hotels, (boutique hotels/ villa), unclassified.
- Supplementary establishments: include boutique villas, guest houses, rest houses, home stay units, tourist bungalows, rented tourist homes, rented tourist apartments, and heritage bungalows/homes.
- Other Establishments: refer to those which are not formally registered with the Sri Lanka Tourism Development Authority. Currently there is no formal data on these facilities.

Further, Sri Lanka is divided to seven regions namely:

- Colombo City
- Greater Colombo (Extending from Mount Lavinia to Colombo)
- South Coast (Kaluthara, Hambanthota, Matara)
- East Coast (Batticaloa, Trincomalee, Ampara)
- Hill Country (Rathnapura, Badulla, Kegalle, Nuwaraeliya)
- Ancient Cities (Anuradhapura, Polonnaruwa, Kandy, Kurunegala, Matara)
- Northern Region (Vavuniya, Jaffna, Mannar)



Source: Sri Lanka Tourism Development Authority

The proposed Peanut Farm hotel will be in the tourist hotel category based in the East coast of Sri Lanka.

## Accommodation establishments by category

Below is a table categorizing the accommodation currently available in Sri Lanka and the number of establishments under each category:

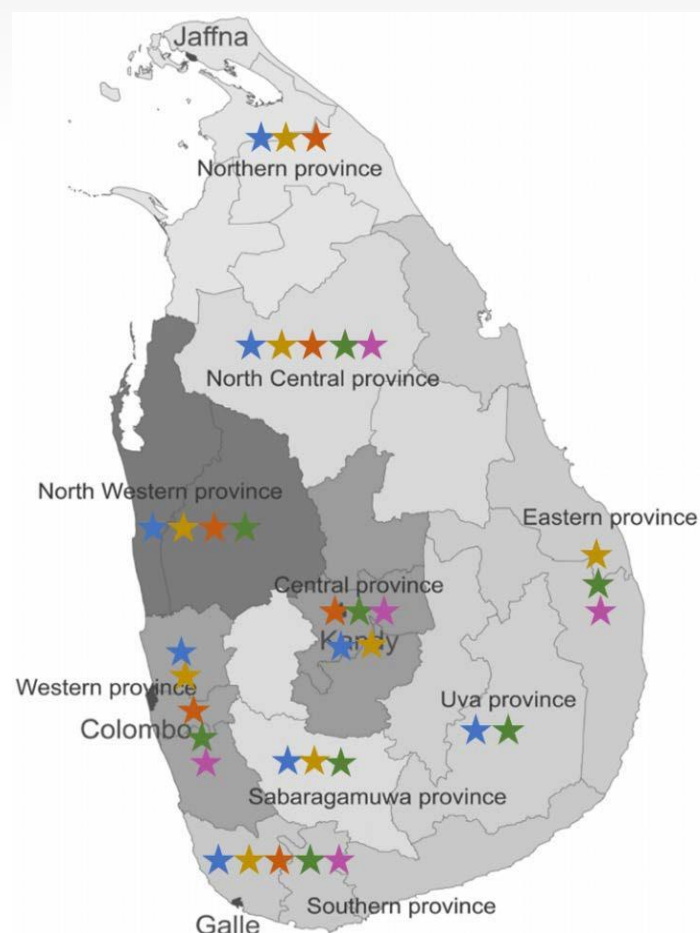
- In June 2020, the total number of establishments registered under SLTDA amounted to 2,895 with 41,929 rooms.
- The presence of small and medium enterprises is strong with guest houses, house stays and bungalows recording the highest number of registered establishments with 1,099, 725 and 493 respectively.
- Classified tourist hotels (1-5 star) had the highest inventory of 14,232 rooms.
- From the 42,929 registered establishments, Ampara has only 703 rooms amounting to 1.6%.

Categorization	No of Establishments	No of Rooms
Boutique Hotel	36	722
Boutique Villa	46	326
Bungalow	493	1,980
<b>Classified Tourist Hotels</b>	<b>156</b>	<b>14,232</b>
Five star	25	5,354
Four Star	24	2,564
Three Star	26	2,513
Two Star	42	2,090
One Star	39	1,711
<b>Guest House</b>	<b>1,099</b>	<b>12,227</b>
<b>Hostels</b>	<b>10</b>	<b>125</b>
Heritage Bungalow	4	19
Heritage Home	3	9
Home Stay Unit	725	2,079
Rented Apartment	77	253
Rented Home	7	18
<b>Tourist Hotel(Unclassified)</b>	<b>239</b>	<b>9,939</b>
<b>Total</b>	<b>2,895</b>	<b>41,929</b>

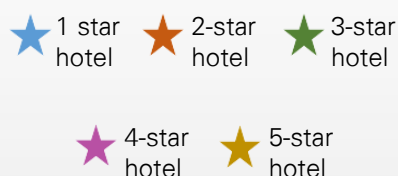
# The Tourism Industry in Sri Lanka

## Star classified hotels

The following map and table depict the geographical distribution of **star classified hotels** across the country:



Source: Sri Lanka Tourism Development Authority 2020



This map depicts the geographical distribution of **star classified tourist hotels** by province. The Western province recorded the highest number of classified hotels (star wise) in all provinces in Sri Lanka while the Eastern Province had only 5 which is only 3% of the total classified tourist hotels in Sri Lanka.

The Eastern province consists five classified tourist hotels categorized as 2- star and 4- star categories and one classified as 5-star.

Province	1 star	2 stars	3 stars	4 stars	5 stars	Total
North	1	1	2	0	0	4
North central	1	4	1	1	0	7
Central	6	7	8	9	6	36
North Western	1	4	1	1	0	7
Western	20	11	10	5	12	58
Eastern	0	2	0	2	1	5
Uva	1	0	0	1	0	2
Sabaragamuwa	2	1	0	1	0	4
Southern	5	12	3	3	5	28

Source: Sri Lanka Tourism Development Authority

# The Tourism Industry in Sri Lanka

## Occupancy Rate

Due to the Easter Sunday attacks, the occupancy in accommodation establishments in 2019, had drastically affected which decreased on average by 20% from 2018. The decrease from 2018 to 2019 is depicted in the table below.

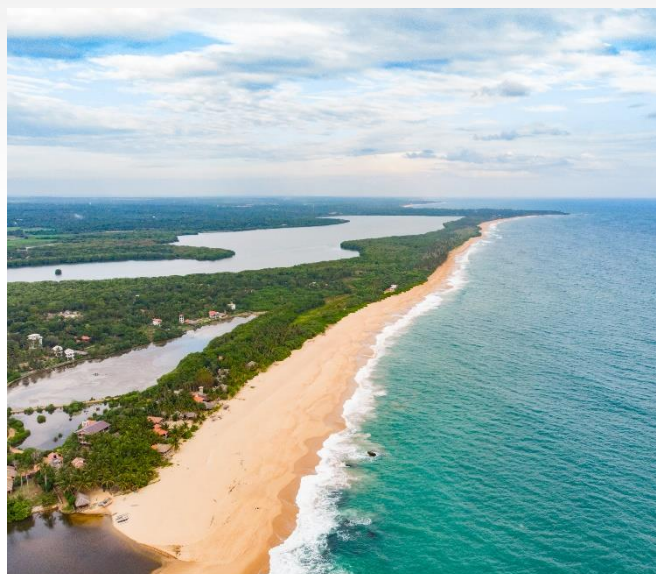
Resort Region	Occupancy Rate		
	2017	2018	2019
Colombo City	75.30%	79.20%	58.70%
Greater Colombo	73.10%	75.40%	57.90%
South Coast	72.30%	73.10%	59.70%
East Coast	72.90%	71.40%	57.30%
Hill Country	73.50%	71.70%	57.50%
Ancient Cities	73.80%	71.40%	57.00%
Northern Region	70.90%	68.50%	48.50%

Source: Sri Lanka Tourism Development Authority

Further, the average occupation was 57.09% in 2019 while it decreased to 52.02% in 2020.

Tables 04 and 05 in the following page show the distribution of foreign and local guest nights by resort region. Since 2018 has a more accurate value on the occupancy which has not had any external impacts on the tourism industry, the occupancy of 2018 is considered.

- ✓ This shows that 36.6% of the foreign guest nights have been spent in the Colombo city and its environs. The proportion of foreign guest nights spent in the South Coast was 35.8% followed by Ancient Cities (16.59%) and the East Coast (4.74%). Total of 598,746 foreign nights were spent in the East Coast during 2018.
- ✓ The local guest nights figure shows a different distribution. The largest proportion of nights local guests spent, was reported from the South Coast (34.73%) followed by Colombo City and Greater Colombo (27.04%) and Ancient Cities (23.16%). These three areas accounted for 84.8% of the total nights local guests spent while traveling. The Eastern coast accounted for 7.93% of foreign guest nights, with a total of 157,378 foreign guest nights recorded for the period.
- ✓ When considering the overall foreign guests, the highest number was reported in January and February with 4.4% and 4.7% respectively visiting the East Coast. As for the Local guest nights, the highest number is recorded during the December Christmas vacation. 7.6% of the local guests had visited the East. The local guest nights increase during the holiday season in the country, especially in December, January and August/September.
- ✓ The highest number of foreign guest nights recorded in the East coast was in the months of August and September of the year. This coincides with the surfing season in Arugam Bay which is from June to December.
- ✓ As for the Local guest nights, the highest number is recorded in the East Coast during the December Christmas vacation. When considering the east coast highest local guest nights were recorded in the months of August and September. It is was also showing the similar trend of the foreign guest nights.
- ✓ Foreign guest nights in the East Coast are high in January, February and March as well as indicating that foreigners choose to travel during the winter season specially from the western countries.

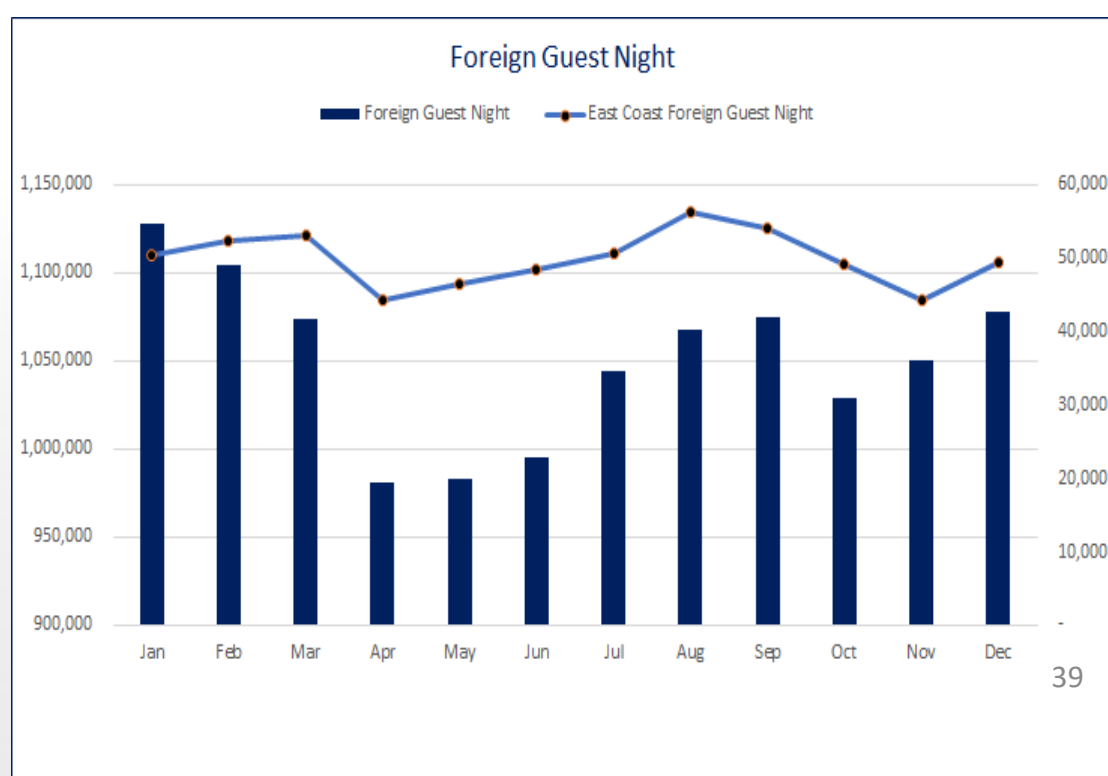


# The Tourism Industry in Sri Lanka

## Foreign guest nights in graded accommodation establishments by Region (classified/unclassified/boutique) by region and month 2018

Resort Region	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Annual Total
Colombo City	258,688	247,647	249,976	220,991	247,086	232,719	244,179	251,813	235,332	233,861	247,757	251,780	2,921,829
Greater Colombo	156,159	153,524	153,144	133,606	130,621	134,666	142,053	145,603	142,546	132,988	135,204	143,375	1,703,489
1. North of Colombo	134,880	132,754	131,575	114,051	109,241	112,048	120,897	124,689	120,273	111,706	112,665	121,373	1,446,152
11. South of Colombo	21,279	20,770	21,569	19,555	21,380	22,618	21,156	20,914	22,273	21,282	22,539	22,002	257,337
South Coast	408,590	400,426	377,478	354,551	345,406	357,537	373,344	363,364	390,649	380,687	379,702	389,360	4,521,094
1. Upto Galle	268,201	261,181	247,985	237,955	227,168	229,018	235,627	223,128	255,282	247,594	252,093	255,559	2,940,791
11. Beyond Galle	140,389	139,245	129,493	116,596	118,238	128,519	137,717	140,236	135,367	133,093	127,609	133,801	1,580,303
East Coast	50,456	52,245	53,091	44,341	46,471	48,468	50,573	56,199	54,066	49,075	44,393	49,368	598,746
High Country	61,605	60,799	62,868	53,424	54,972	52,723	62,171	64,140	64,225	56,040	60,858	62,102	715,927
Ancient Cities	186,762	185,455	172,274	169,826	154,107	164,404	167,141	181,763	183,498	171,672	177,686	177,423	2,092,011
1. Kandy Area	76,204	78,212	69,756	73,658	68,006	69,637	67,071	71,869	78,252	70,067	74,400	69,028	866,160
11. Anuradhapura Area	19,737	20,073	20,720	20,836	15,724	15,082	18,699	20,255	18,699	18,715	19,103	20,033	227,676
111. Polonnaruwa / Giritale	18,516	18,763	18,031	14,414	16,240	14,845	16,459	18,102	17,985	16,935	18,336	16,718	205,344
1V. Habarana/Sig./Damb.	72,305	68,407	63,767	60,918	54,137	64,840	64,912	71,537	68,562	65,955	65,847	71,644	792,831
Northern Region	5,157	4,660	4,713	3,989	3,943	4,661	4,533	4,817	4,625	4,557	4,355	4,938	54,948
All Regions	1,127,417	1,104,756	1,073,544	980,728	982,606	995,178	1,043,994	1,067,699	1,074,941	1,028,880	1,049,955	1,078,346	12,608,044

Source: Sri Lanka Tourism Development Authority



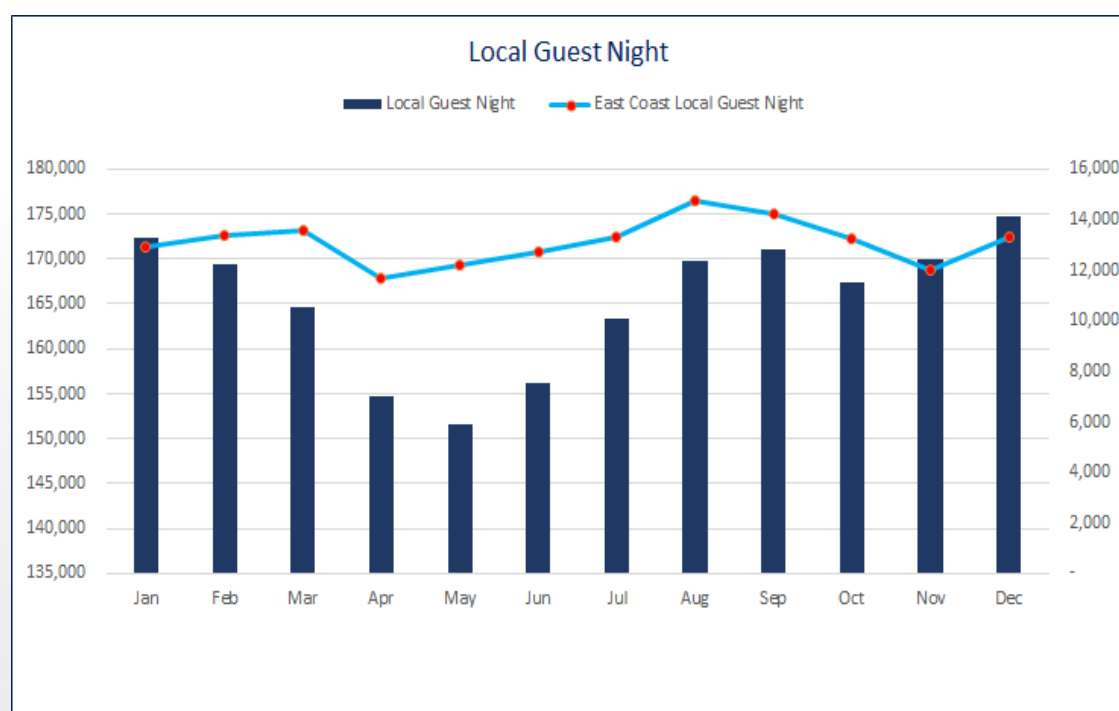
Source: Sri Lanka Tourism Development Authority

# The Tourism Industry in Sri Lanka

## Local guest nights in graded accommodation establishments by Region (classified/unclassified/boutique) by region and month 2018

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Colombo City	25,456	24,368	24,598	22,332	23,969	23,517	24,675	25,446	23,781	24,281	25,724	26,142	294,289
Greater Colombo	21,384	20,593	21,089	19,023	18,992	18,680	20,290	20,662	20,542	19,781	20,271	21,157	242,464
1. North of Colombo	15,355	15,112	14,978	13,333	12,771	13,099	14,134	14,577	14,061	13,418	13,533	14,579	168,950
11. South of Colombo	6,029	5,481	6,111	5,690	6,221	5,581	6,156	6,085	6,481	6,363	6,738	6,578	73,514
South Coast	60,560	59,426	55,936	53,712	52,552	54,694	57,282	56,051	59,515	59,648	59,238	60,891	689,505
1. Upto Galle	35,410	34,482	32,739	32,262	30,800	31,051	31,947	30,252	34,612	34,491	35,118	35,600	398,764
11. Beyond Galle	25,150	24,944	23,197	21,450	21,752	23,643	25,335	25,799	24,903	25,157	24,120	25,291	290,741
East Coast	12,918	13,376	13,592	11,658	12,218	12,743	13,297	14,776	14,215	13,257	11,992	13,336	157,378
High Country	10,898	10,755	11,121	9,706	9,987	9,578	10,295	11,652	11,668	10,460	11,360	11,592	129,072
Ancient Cities	40,061	39,836	37,254	37,479	32,936	35,875	36,412	40,164	40,321	38,902	40,290	40,230	459,760
1. Kandy Area	14,832	15,222	13,576	14,722	12,592	13,918	13,405	14,364	15,640	14,389	15,279	14,175	172,114
11. Anuradhapura Area	5,763	5,860	6,049	6,247	4,714	4,522	5,107	6,073	5,607	5,765	5,885	6,171	67,763
111. Polonnaruwa / Giritale	5,031	5,098	4,899	4,021	4,531	4,142	4,592	5,061	5,018	4,855	5,256	4,793	57,297
1V. Habarana/Sig./Damb.	14,435	13,656	12,730	12,489	11,099	13,293	13,308	14,666	14,056	13,893	13,870	15,091	162,586
Northern Region	1,129	1,093	1,031	897	886	1,048	1,019	1,083	1,039	1,052	1,006	1,140	12,423
All Regions	172,406	169,447	164,621	154,807	151,540	156,135	163,270	169,834	171,081	167,381	169,881	174,488	1,984,891

Source: Sri Lanka Tourism Development Authority



Source: Sri Lanka Tourism Development Authority

# The Tourism Industry in Sri Lanka

## Survey on the most popular tourist attraction in Sri Lanka

- In mid-February 2018, SLTDA conducted a survey through a self-service kiosk at the pier and departure lounges at the Bandaranaike International Airport to obtain quick feedback from tourists departing from Sri Lanka.
- The main objective of this initiative was to support visitor profiling and assessing satisfaction rates to improve services and facilities for tourists.
- As of 30th September, the total number of respondents via the kiosk was 9,348. The highest number of respondents were by visitors from India, UK, Australia, Germany and UAE and in the 20- 29 age group. The majority (73.3%) of respondents were males.
- The responses of the survey showed the most popular tourist destinations in Sri Lanka.
- According to the feedback of 9,348 tourists, the most popular place of attraction within Sri Lanka was the Colombo city (41%). Apart from the Colombo city, the other top ten places of attraction in order of popularity were Kandy (37%), Galle (30%), Sigiriya (25%), Nuwara Eliya (24%), Dambulla (22%), Negombo (22%), Unawatuna (15%), Pinnawala (14%), Polonnaruwa (14%) and Hikkaduwa (13%). When it comes to the East Coast, Nilaweli was the most popular destination with a share of 9.1% while 7.0% of share was for Arugam bay .
- For the Indian (25.2% out of 3,068 respondents), Australian (43.2% out of 420 respondents) and UAE (37.4% out of 198 respondents) tourists, Colombo city was the most popular place of attraction while for the UK (45.8% out of 465 respondents) and Germany (53.0% out of 411 respondents) tourists, Kandy was the most popular place of attraction.

location	Number of respondents	% Share
Colombo city	3,857	41.3
Kandy	3,485	37.3
Galle	2,768	29.6
Sigiriya	2,319	24.8
Nuwara Eliya	2,290	24.5
Dambulla	2,054	22.0
Negombo	2,050	21.9
Unawatuna	1,400	15.0
Pinnawala	1,324	14.2
Polonnaruwa	1,289	13.8
Hikkaduwa	1,199	12.8
Anuradhapura	1,318	14.1
Yala park	1,216	13.0
Adams Peak	1,133	12.1
Udawalawa Park	1,058	11.3
Minneriya Park	1,001	10.7
Horton Plains	833	8.9
Nilaweli	854	9.1
Jaffna	840	9.0
Rathnapura	651	7.0
Arugambay	655	7.0
Passikudah	612	6.5
Vilpaththu	564	6.0
Sinharaja Forest	538	5.8
Kithulgala	535	5.7
<b>Total number of Respondents</b>	<b>9,348</b>	<b>100%</b>

Source: Sri Lanka Tourism Development Authority

# Sri Lanka Real Estate Industry



# Sri Lanka Real Estate Industry

## Compelling Reasons to Invest in Sri Lankan Real Estate

From an investor's point of view, Sri Lanka's strategic importance, linked with its location with major shipping routes connecting South Asia, Europe and America with nearly two thirds of the world's oil being transported, close proximity to emerging South Asian economies and Middle Eastern Countries and also its strong air connectivity, which holds a great position as a tourism hotspot in the world, gives the country an advantage.

On the other hand, Sri Lanka has a conducive business environment. Sri Lanka is ranked 99th by the World Bank in the Ease of Business Index. This index is a measure to help investors to get a better understanding about the business environment of a country. The Economic Freedom Index has also increased over time and it ranks countries based on trade freedom, judicial effectiveness, and tax burdens. The Human Development Index (HDI) indicates an improvement, and it is a summary composite measure of a country's average achievements in 3 basic aspects namely, health, knowledge, and standard of living.

Further, Double taxation avoidance agreements with 38 countries, Bilateral investment agreements with 28 countries, secured foreign investment policies, a transparent legal and regulatory framework,

COVID-19 loan schemes to support industries, permission for condominium ownership on freehold for foreign nationals, are some of the other key aspects that rank Sri Lanka at a high level.

The Sri Lankan Government has placed immense investments in infrastructure, with developing the international airport, highways, seaports and has completed other huge and ongoing projects, major power projects, Western Region Megapolis, BIA expansion etc.

The Colombo Port City project is the next game changer in the sector, comprising world class business commercial, ultra-luxury residential, entertainment and lifestyle hubs being developed adjoining Colombo, targeting High Net Worth Individuals in the Asian region. The project is anticipated to add a total of 179 Ha. of sellable land and a total GFA of 6.3 Mn sq. ft. The project will create a positive impact on economic growth with the increase in FDIs and attract high spending tourists to the country. It will also create over 83,000 job opportunities. The land and development supply will be added in a phased-out manner into the market, avoiding any risk of oversupply. Further, it will positively impact land prices and rental values of residential and commercial property in the CBD area.



# Sri Lanka Real Estate Industry



It is very important to understand demand drivers, to perceive what has been fueling the sector's growth over the years. The main factor for domestic demand, is the growth in the population. According to statistics Sri Lanka has a total population of around 21 million, which is expected to increase to 24 Million by 2030 at a 1.1% of expected annual population growth rate (p. a.). Sri Lanka is into fast urbanization, by recording 18.6% in 2019 which will lead to 30% by 2030.

In terms of housing demand, 100,000 units per annum is needed to fill the housing gap, considering the new requirements and replacements in the country. Since land is a scarce resource for Sri Lanka, there is only 11% land available for development and the remaining land has been utilized for other purposes like agriculture, forest reserves or can be unsuitable for production. Hence, it is pivotal for proper effective utilization of land for meeting the rising demand for housing. Moreover, Sri Lanka has a reducing household size, which recorded 5 individuals per household in 1980 and has gradually dropped to 4 individuals per household, which compounds the requirement for housing along with all the factors mentioned above.

Sri Lanka has a growing middle income segment which is represented by middle income professionals,

self-employed individuals and public sector employees. With more than one income earner in the family, the monthly household income of the middle-income family is rising. In a family where both partners are working, condominium living may be preferred due to convenience, and it has led to the demand for semi luxury apartments in the country.

The Luxury apartment market demand is mainly driven by foreigners, high net worth individuals in the country/region and Sri Lankan expatriates. The worker remittance has escalated from USD 3.3 BN in 2019 to USD 7.1 BN in 2020. This is broadly coming from countries like Australia, UK, and the Middle East countries. Sri Lanka is seen to have the second fastest growth in HNWI's after Vietnam, according to the 2016 Wealth report by Knight Frank and this has potentially attracted foreigners to buy second homes/holiday homes in Sri Lanka, due to the fact that foreigners can buy condominiums freehold. And on the flip side, tourism also plays a major role in the Real Estate sector, due to COVID-19 tourist arrivals dropping to 507,000 in 2020 but with post COVID-19 strategies by the Government of Sri Lanka and the Sri Lanka Tourism Board having managed to re-ignite the entire tourism sector. Sri Lanka had a strong tourism drive and was on track to achieve a tourist arrival target of 4.5 MN before the advent of COVID-19.

# Sri Lanka Real Estate Industry

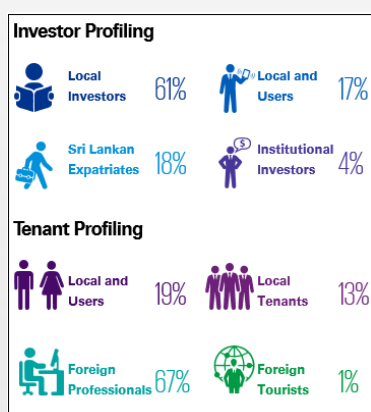
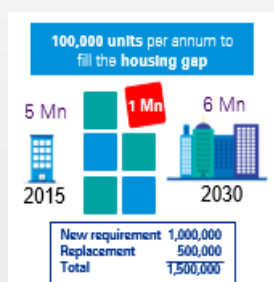
## Residential Development

### Market Outlook

Residential demand picked up amidst COVID-19. Demand for Luxury Condominiums was dull during 2018-2019, due to a relative slowdown in the economy and political uncertainty. However, the announcement of new projects has slowed down recently, and off-plan sales have picked up from 2020, despite COVID. The supply pipeline from 2020 - 2025 is approximately 6,900 units, with approximately 4,400 units under delayed projects and pre-sales have improved to 65%. Several developers were offering special pricing and easy payment plans since 2020, to push the remaining stock into the market, which has improved pre-sales.

Demand for semi luxury apartments was driven by housing demand in urban areas by middle income earners. Trends of urbanization and land scarcity compounds the housing requirements. Price appreciation of land values in urban areas and increase in construction costs, have pushed pricing of semi luxury condominiums. Certain developers in recent times have penetrated the market with affordable products, which have sold at a faster pace, compared to that of other residential segments. Housing loans have been capped at 7% and therefore, more people are encouraged to consider a semi-luxury unit through available borrowing options.

Broad Categorization of the Residential Condominium Market		
Category	Pricing per sq. ft.	Facilities
Super Luxury	USD 270 – 450 & above	Accommodation with luxury finishes including additional amenities such as business centers, helipads, jogging track and recreational areas, swimming pool, gym and saunas etc. Mostly seen between CBD areas.
Luxury	USD 170 – 270	Basic accommodation with luxury finishes included a swimming pool, gym, mini mart etc. Mostly seen in CBD and Suburban areas
Semi Luxury	USD 90 – 170	Basic accommodation option and mostly seen in Suburban areas

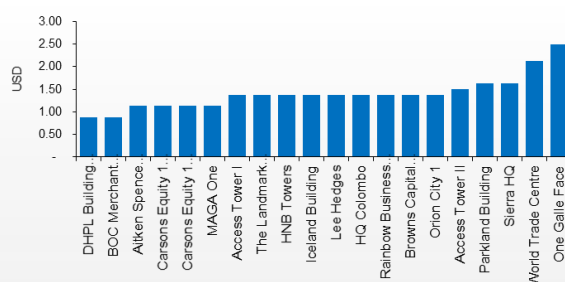


## Commercial Office Space

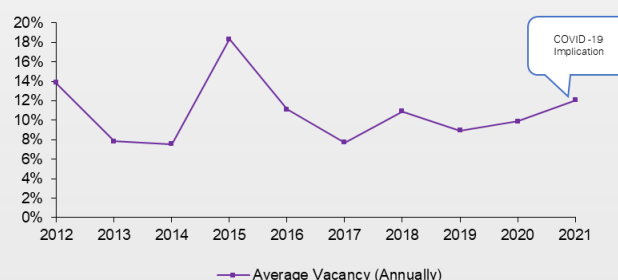
### Development Market Outlook

Since 2010, we have witnessed a complete and remarkable turn-around in fortunes for the commercial property market segment in the Colombo city. This is reflected in the high occupancy levels and increase in rents in the market. However, the pandemic poses a challenge in maintaining the same momentum in the short run. According to KPMG findings, with the COVID-19 effects, the market average vacancy rates increased from 9% to 12%. Companies engaged in the business of renting or leasing out office spaces, have used multiple forms of strategy to retain tenants, by extending or providing grace periods on rent, providing discounts on rents and being flexible on lease/rent contract negotiations. The GoSL has plans to vaccinate most of the population, which will lead to people moving back to normalcy in their day-to-day work. Work from home will continue as a practice, to resort to in an emergency. However, it is unlikely that demand for physical office space may reduce drastically. According to existing data, there is ~5.4 Mn sq. ft. of office space available within Colombo 1 - 15 areas. A new supply of ~1.7 Mn sq. ft. is anticipated to enter the market between 2020 - 2025. Recently completed office towers of large mixed developments are One Galle Face, Cinnamon Life, while Havelock City, Mireka towers and Ekroma, are expected to be completed in the coming quarters of 2021. It is expected that demand for co-working options will increase, as the sector adjusts to operating under social distancing norms and the health guidelines imposed.

Rental Rates of Graded Multi-Tenant Offices



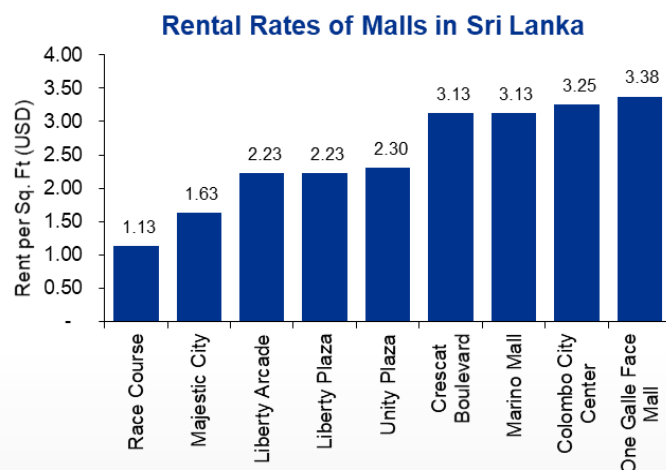
Vacancy Trend of Office Space (Historically)



# Sri Lanka Real Estate Industry

## Commercial Retail Space Development Market Outlook

According to KPMG Research, there is ~1.8 Mn sq. ft. of retail mall space available between Colombo 1 - 15 areas, while shopping precincts cover an area of ~255,000 sq. ft. This is a relatively low mark, compared with the population within the city limits and the country's original tourism targets. An addition of 907,072 sq. ft. is expected to add to the supply by 2023, with projects such as Altair, Havelock, Cinnamon Life, ITC, One Square, Marina Square and Destiny. The sector reported steady rental growth. However, occupancy of the retail mall spaces was greatly affected by COVID-19. The drop in tourism, health restrictions imposed and limited footfall, placed tenants in a difficult position to pay rents. According to KPMG findings, the market average vacancy rates increased from 5% to 14% with the effects of COVID-19. Many retailers shifted towards e- platforms to market their products. Major supermarkets were the first to initiate this shift and it has greatly assisted their operations.



## Warehousing Market Outlook

There is approximately 7.41 Mn square feet of warehousing area in Sri Lanka and from that, 86% is B grade warehousing spaces and 14% is A grade warehousing spaces. There are 4 main warehousing corridors in Sri Lanka namely the Colombo Port, Wattala - Peliyagoda, Ja Ela - Katunayake and Ratmalana. Demand drivers for warehousing market includes a huge contribution from the logistics and warehousing sector amounting to USD 2 Bn and the growth in Apparel and Textiles, Tea, FMCG and Pharma sectors and Improvement in internal and external connectivity of Sri Lanka. COVID-19 had a minimal impact on the sector and relatively longer periods of lease contracts, created less pressure on rental rates. In the wake of COVID-19, Logistic companies reassessed inventory volumes in line with business continuity plans. Diversification of manufacturing and warehousing across the globe amidst COVID, will create future demand for warehousing. Investments in warehousing allows investors to earn a passive income stream through rental and enjoy capital appreciation through increase in land prices. Sri Lanka has a high demand for logistical spaces.

Average Warehousing Rent Prices		
Area	Price per sq. ft. (USD)	Price per sq. ft. (LKR)
Peliyagoda	0.23	46
Kelaniya	0.27	54
Wattala	0.24	48
Grandpass	0.3	61
Kottawa	0.35	71
Kaduvela	0.32	64

# Sri Lanka Tax Guide



# Investment Incentives – Corporate Income Tax (CIT)

## 1. Standard CIT Rate – 24%

## 2. Reduced Rates

The following sectors/activities enjoy reduced **tax rate of 14%** unless they come under the exempted category.

- Small and Medium Enterprises (annual gross turnover less than LKR.500 Mn).
- Conducting a business of sale of goods or merchandise where the payment for such sale is received in foreign currency and remitted through a bank to Sri Lanka.
- Specified undertaking
  - Commercial hub activities (entrepôt trade, offshore business)
  - Logistic services provided for local market
- Deemed Exports
  - Services (Supply of services to any exporter of goods or services essentially related to the manufacture of such goods or services exported by such exporter either directly or through any export trading house, and the payment for such services are made by such exporter to such person in Sri Lanka in foreign currency)
  - Goods (Production or manufacturer and supply to an exporter of non-traditional goods)
    - (i) Educational services
    - (ii) Promotion of tourism
    - (iii) Construction services
    - (iv) Agro- processing
    - (v) Healthcare services
    - (vi) Dividends received from a resident company
- The following sector enjoys reduced tax rate of 18%.
  - Manufacturing (Local Market)

## 3. Higher Rates

A higher **rate of 40%** will be applicable for the following sectors;

- On gains and profits from conducting betting and gaming.
- On gains and profits from manufacture and sale or import and sale of any liquor or tobacco products.

The following sectors enjoy 0% CIT rate from the year of assessment 2019/2020.

- Agro-farming (w.e.f. 01st April 2019).
- Information Technology and enabling Services.
- Export of Services.
  - rendered in or outside Sri Lanka.
  - to any person to be utilized outside Sri Lanka.
  - the payment is received in foreign currency and remitted through a bank to Sri Lanka.
  - may include; commercial hub Activities: front-end services, headquarter operations, logistic services for exports, transshipment operations, freight forwarding, ship repair, ship breaking repair and refurbishment of marine cargo containers.
- Gains and profits earned from any foreign source in foreign currency and remitted through a bank to Sri Lanka.

# Investment Incentives –

## Tax exemptions

### Dividend tax exemptions:

- Dividend paid by a resident company to a member who is a resident or a non-resident person.
- Dividend paid by a BOI registered Hub company.

### Port and Development Levy (PAL) exemptions:

- Importation of Capital Goods - investment over USD 50 Mn is exempted from PAL on importation of project related capital goods by a BOI enterprise during the project implementation/construction period but prior to the commencement of commercial operations.
- Importation of Raw Materials - exemption from PAL on importation of raw materials for any export-oriented projects for the lifetime of the project.

### CESS Exemptions under Sri Lanka Export Development Act

- Importation of Capital Goods - investment over USD 50 Mn - Exemption from CESS on importation of any goods by BOI enterprise during the project implementation/construction period but prior to the commencement of commercial operations, if invested on or after March 6, 2019.
- Importation of Raw Materials - Exemptions on importation of raw materials for any export-oriented projects for the lifetime of the project.



# Investment Incentives – VAT Exemptions/deferments

## Importation of Capital Goods & Raw Materials

	Within Zones <sup>1</sup>	EPZs other than under <sup>1</sup> and Outside Zones
<b>Export oriented</b>	Exempted <sup>2</sup> for Capital Goods	Deferred for Capital Goods (Plant, Machinery, Equipment and Construction items) - During project implementation period  Further deferred for Plant, Machinery and Equipment for Life time of the project
	Exempted for Raw Materials: Life time of the project	Deferred for Raw Materials: Life time of the project  Special Exemptions for importation of raw materials by Garment manufactures and Fabric manufactures for Life time of the project
<b>Non-Export Oriented</b>	Deferred for Capital Goods Plant, Machinery, Equipment and Construction items: During project implementation period	

1. Katunayake EPZ, Biyagama EPZ, Koggala EPZ, Kandy IP, Wathupitiwala EPZ, Malwatta EPP, Mirigama EPZ
2. If the investor intends to get local purchases by registering under SVAT, he may enjoy the deferment facility under Section 22(7) of VAT Act.
3. Note: All exempted suppliers need to pay VAT at the time of importation. They cannot enjoy either VAT exemption or deferment facility

## Investment Incentives – VAT Exemptions/deferments (Cont.)

### Recent Exemptions to VAT - Zero per centum (0%) (w.e.f. 01st December 2019)

- Supply of services by a hotel, guest house, restaurant or other similar businesses providing similar services, registered with the Sri Lanka Tourism Development Authority, if not less than sixty per centum (60%) of the total value of the inputs are sourced from local supplies/sources.
- Import of goods (Fabrics)  
(Set out in the H.S. Code and description specified in Column I and II of Schedule of the Extraordinary Gazette Notification No.2095/20 dated November 1<sup>st</sup>, 2018)
- Supply of residential accommodation by way of sale of Condominium housing unit by any person is exempt.

## Customs Duty Exemption

	Importation of Capital Goods	Importation of Raw Materials
<b>Export oriented</b>	Exempted for Capital Goods (Plant, Machinery, Equipment and Construction items) - During project implementation period.  Further exempted for Plant, Machinery and Equipment for Life time of the project.	Exempted for Raw Materials: Life time of the project
<b>Non-Export Oriented</b>	Exempted for Capital Goods (Plant, Machinery, Equipment and Construction items) - During project implementation period.	Customs duty is applied

# Investment Incentives –

## Exemptions under Hub Regulation No. 1 of 2019

Eligible Activities	Minimum Investment	Annual Re-export /export turnover	Location			
			Free Port (Colombo/Hambantota)	Bonded Area (KEPZ/KGEPZ/BIA)	Specified Bonded Area (MRIA/Mirijjawila)	Outside Free Port/Bonded Area
<b>Entrepot Trading</b> <ul style="list-style-type: none"> <li>➤ An import, minor processing and re-export</li> <li>➤ Any manufacturing activity for export as defined in the principle act and established in a Specified Bonded Area.</li> </ul>	USD 5 Mn <i>(50% in Fixed Assets within 12 months)</i>	USD 20 Mn <i>(Within 5 years)</i>	✓	✓	✓	-
				-		-
<b>Off-shore Business</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.			✓	✓	-	✓
<b>Front-end Services</b> Providing front-end services to client abroad.			✓	✓	-	✓
<b>Headquarters Operations</b> Operations of headquarters of leading buyers for the management of the finance supply chain and billing operations.	USD 1 Mn <i>(40% in Fixed Assets within 12 months)</i>	USD 10 Mn <i>(Within 5 years)</i>	✓	✓	-	✓
<b>Logistics Services</b> Logistic services such as bonded warehouse or in the case of operation of multi-country consolidation in Sri Lanka.	USD 3 Mn <i>(30% in Fixed Assets within 12 months)</i>	USD 15 Mn <i>(Within 5 years)</i>	✓	✓	-	-

# Investment Incentives – Exemptions under Hub Regulation No. 1 of 2019 (Cont.)

## Note:

At least 65% of total Investment to be from foreign sources including transfers from any approved Foreign Exchange Account.

No approval will be granted for logistic services to any re-export business/activities or transshipment related to;

- Spices and allied products namely pepper, areca nuts, nutmeg, mace, tamarind, cinnamon, clove, ginger, turmeric, and cardamom
- Waste and /or processing of waste or resource recycling business

Enterprises referred to the commercial hub regulations are subject to the restrictions and prohibitions imposed in Schedule B to the Customs ordinance.

If more than 65% of the domestic demand for such goods/product is being met out of imports to the country, 40% of the annual re-export turnover (ex-factory value) of the enterprise is allowed for domestic sale for a maximum period of 08 years on annual reconciliation basis. Above concession is limited to; any auto fuels, liquid petroleum gas, propane, butane, and fertilizer or any other good as approved by the Cabinet of Ministers.

Any enterprise fails to reconcile the value of sale to domestic market during a year with its export turnover on annual basis, shall be allowed to carry forward that unreconciled value of domestic sales during the initial 4 years from the date of first commercial sale.

Any goods/product brought for re-export, should not be warehoused or stored for more than 18 months, if stored more than 18 months, will be ordered to send within 30 days from the completion of such 18 months.

## Exemptions

Exemptions from the application of Provisions of the following Acts

- Customs Ordinance (Chapter 235)
- Foreign Exchange Act No. 12 of 2017
- Imports & Exports (Control) Act, No. 1 of 1969
- Acts referred to in schedule of Part IV of Finance Act No. 12 of 2012 as amended by Finance Act No. 12 of 2013;
  - VAT Act No. 14/2002
  - NBT Act No. 09/2009 (Abolished w.e.f. 01<sup>st</sup> December 2019)
  - Export Development Act No. 40/1979
  - Special Commodity Levy Act No. 48/2007
  - PAL Act 18/2011
  - Excise SP Act. No 13/1989
- Supply of any goods to an enterprise engage in the following eligible activates shall be treated as export and VAT and NBT will be zero rated.
  - 0% CIT if qualified for export of services
  - (rendered in or outside Sri Lanka to any person to be utilized outside Sri Lanka and the payment is received in foreign currency and remitted through a bank to Sri Lanka)



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