

## Colombo Port City: Special Economic Zone investment opportunities

### INTRODUCTION

On 31 May, the [President appointed the members](#) of the Colombo Port City Economic Commission. The Commission is in charge of the administration, regulation and control of matters within the Colombo Port City Special Economic Zone. The Zone was [set up](#) by Parliament on 28 May 2021. An [Estate Manager](#) will manage the lands in the Zone.

The Zone will be an international business and services hub. The Commission will promote and facilitate economic activity including international trade, shipping, logistics, offshore banking and financial services, IT and BPO, corporate headquarters, regional distribution operations and tourism.

The Commission is the one-stop-shop (Single Window Investment Facilitator) to register and issue licences, authorisations and approvals to engage in business within the Zone. This ranges from monetary policy, company registry, environmental, Immigration and Emigration and Customs etc. The Commission will seek the concurrence of the relevant Regulatory Authority.

Further, the Commission will be responsible for:

- developing environmental standards for the Colombo Port City.
- regulating Gaming activities within the Colombo Port City through special regulations.
- enabling all Sri Lankan Regulatory Authorities to operate office(s) there.
- extending approval for Zone related entities to also operate in the rest of Sri Lanka.
- granting access to services available in the Zone by Sri Lankans outside the Zone.
- ensuring that transactions relating to securities on any stock, exchange or market within the zone will be regulated in terms of the [Securities Exchange Commission Act](#).

See highlights of salient provisions in the following areas of the laws:

- A. [Real Estate](#)
- B. [Corporate](#)
- C. [Banking and Offshore Finance](#)
- D. [Foreign Exchange](#)
- E. [Labour](#)
- F. [Immigration](#)
- G. [Tax](#)
- H. [Dispute Resolution](#)
- I. [Investor Protection and interim arrangements](#)

## **REAL ESTATE**

The Commission is vested with the power to lease or transfer land within the Zone. There are two types of lands:

- (1) government marketable land
- (2) project company marketable land.

The Commission, may lease **government marketable land** and lease or transfer on freehold basis the condominium parcels standing thereon subject to [existing law](#).

**Project company marketable land** is currently leased to the developer of the Colombo Port City (**Project Company**). This property is jointly managed by the Commission and the Project Company.

New regulations on condominium ownership will be passed in the future. Until then, the [current laws](#) on Condominiums will be operative. The Law provides the Commission will exercise all or any powers, duties, functions vested in or assigned to Condominium Management Authority.

The law also contemplates the setting up of a company to be designated the “Estate Manager” who will replace the Urban Development Authority and local authorities. It will assist the Commission in providing utilities, managing public lands, collecting rates etc.

## **CORPORATE**

The Zone is poised to be an international financial center and attract investments. This will require ensuring ease of doing business within the Colombo Port City as such, the Commission is tasked with facilitating the registration of Offshore Companies in the Zone.

- All Companies registered (in Sri Lanka and outside Sri Lanka) can apply to the Commission to establish an Offshore Company within the Zone.
- The Commission will make the necessary recommendations to the Registrar-General of Companies, who remains as the regulator. The Registrar will issue a Certificate of Registration to the Company if the [legal requirements are met](#).
- Such a Company will be deemed to be an ‘**Authorized Person**’.
- Once established, the Offshore entity is permitted to conduct business even with entities outside the Colombo Port City (including Sri Lankans).

### Other Considerations

- The Companies will continue to be bound by the [Anti-Money Laundering \(AML\) laws](#) of Sri Lanka.
- For [tax](#) purposes, Offshore Companies are deemed to be Non-Resident Companies.

## **BANKING AND OFFSHORE FINANCE**

A key component of the proposed Zone is to be an international financial center. This will require ease of setting up banking business. In order to facilitate this, substantial measures to encourage off-shore banking are included:

- A licensed bank (either in Sri Lanka or elsewhere) can apply to the Commission for a license to set up an off-shore banking business in the Zone – approvals will be required from either the President (or the Minister in charge of the Port City) and the Monetary Board;
- The supervision of offshore banks in the Zone will be only by the Commission. The Monetary Board which monitors off shore banks outside the Zone has no role.

### **FOREIGN EXCHANGE**

A primary objective of the Colombo Port City is to promote it as a “Special Economic Zone” in the Asian Region and attract enhanced Foreign Direct Investment (FDI) to Sri Lanka.

Investors would be interested to note:

- The Commission will be the “Single Window Investment Facilitator” and hence the sole point of contact for investors
- Investors will be required to enter into an Agreement with the Commission (specifying the total value of FDI which is to be made in any foreign currency)
- Concessions and exemptions may be granted by the Commission up to 40 years for “Businesses of Strategic Importance”. Such as; Tax (in full or part), VAT, Customs, Export Development, Foreign Exchange, Excise, Finance Acts, Betting and gaming and casino businesses etc.
- All FDI to the Colombo Port City must be raised outside Sri Lanka. However, land that is leased can form part of the investment. Profits are freely remittable outside the country.
- All transactions within the Colombo Port City must be in foreign currency. However, transactions with a resident or citizen of Sri Lanka can be carried out in LKR provided it is converted to foreign currency.
- Offshore companies can be registered (and will be deemed to be a non-resident company for the purposes of the Inland Revenue Act).

### **LABOUR**

A key objective of the Commission is to generate employment opportunities within the Zone. The proposed changes include the following:

- Migrant labour working in the Zone need only apply for approval from the Commission while the visa issuing authority will remain with the Controller of Immigration. The Commission becomes the “[Line Ministry](#)” for purposes of approval of Residence Visas for Employment in the Zone.
- The law confirms that all employees in the Zone including Sri Lankans may be [paid in foreign](#) currency.
- The incentive to work in the Zone is further enhanced due to tax exemptions available for foreign income.

Another element of the proposals, to boost investor confidence, is the potential availability of exemptions from Sri Lanka's strict regulations on hiring and firing. [Current law](#) requires payment of

compensation and assent of employee or Labour Commissioner for retrenchment. We will update you on the progress of this proposal.

### **IMMIGRATION**

The process of obtaining a Visa to Sri Lanka has been simplified and expedited for foreign nationals who intend to engage in business, to invest, to engage in employment and/or to reside in the Zone.

The Commission will facilitate end to end issuance of all types of Visas on behalf of the applicants (including work permits to engage in employment/Visas to reside within the Zone), based on the approval of Controller of Immigration and Emigration.

- **Residing in Sri Lanka (other than for employment)** –Long term Residence Visas within the Zone will be based on a recommendation issued by the Commission and will now be a far less complex process than the [existing regime](#).
- **Working in Sri Lanka** – Under the proposed laws, the Commission replaces the “[Line Ministry](#)”, for recommending Employment Visas within the Zone.

### **TAX**

To generate investment, the Commission may grant tax concessions subject to confirmation by the Inland Revenue Department.

The types of relief already contemplated are:

- Tax incentives and exceptions for income generated within the Zone for businesses identified to be of [Strategic Importance](#) up to forty years.
- Tax exemptions are available for income taxes, value added taxes, excise taxes, debit taxes, ports and airport development levy, betting and gaming and casino businesses.
- [Tax exemptions](#) from income tax for resident and non-resident employees alike employed by an authorized person and paid in a designated foreign currency.

### **DISPUTE RESOLUTION**

Dispute resolution in the Colombo Port City seeks to foster investor confidence in the ease of doing business in Sri Lanka and enforcement of contracts, by significantly reducing the amount of time it takes to resolve commercial disputes.

- The Commission is mandated to establish an “International Commercial Dispute Resolution Centre” (“ICDRC”), which is to be located within the Colombo Port City and offer alternate dispute resolution.
- All disputes;
  - i) between the Commission and an Authorized Person or an employee of an Authorized Person and;
  - ii) between the Commission and a resident or an occupier where there exists a legally binding document between the Commission and the resident or occupier)shall be resolved by way of Arbitration conducted at the ICDRC.

- Priority is to be given to the hearing of civil and commercial matters by Courts of law, where the cause of action arises within the Colombo Port City or in relation to any business carried on in or from the Colombo Port City.

### **INVESTOR PROTECTION AND INTERIM PROVISIONS**

In order to ensure investor protection and continuity, the law also provides the following:

- The Commission may permit an [Authorised Person](#) to engage in business from a designated location outside the Colombo Port City as approved by the President, for up to 5 years. Such business shall be considered as part of the Colombo Port City and be entitled to same privileges.
- Any deeds of transfer or leases concerning lands within the Colombo Port City executed by the Urban Development Authority shall be deemed to have been executed by the Commission and shall remain valid and effective.
- Agreements entered into by the Board of Investment under the BOI Law or Strategic Development Projects Act on the Colombo Port City shall be deemed to be entered into by the Commission.
- The Commission may grant a special permit to carry out business outside the Colombo Port City – as an interim measure- up to 5 years, whilst being entitled to all the privileges as a business operating within the Colombo Port City.

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Date: 2nd June 2021