PROPOSAL FOR EXPANDING HIGH-QUALITY EXPORT PROCESSING ZONES THROUGH PRIVATE PARTICIPATION AND ECO-INDUSTRIAL PARK PRINCIPLES

THE PROPOSAL

Sri Lanka has not meaningfully expanded its industrial land base in terms of its network of Export Processing Zones (EPZs) in over two decades. Difficulties faced by investors in obtaining land have become a significant barrier to attracting export-oriented investment. To address this gap, Verité Research proposes a three-part reform agenda:

- **Facilitate private-sector participation in EPZ development through a robust legal framework.**
    - Introduce a single, overarching legislation to govern the development and management of EPZs. This framework should be more robust than the provisions offered under the *Economic Transformation Act No. 45 of 2024*. Legislation must provide for the areas detailed below.
    - Establish **minimum quality standards** for zone infrastructure and operations, as well as **transparent criteria for investor selection**.
    - Create **an independent regulating authority** to separate the roles of the regulator and developer to ensure a level playing field, provide for effective oversight, and safeguard investor confidence.
- **Fast-track new zones while ensuring land issues are resolved in advance.**
    - Complete land acquisition before calling for proposals or investing in infrastructure to prevent costly delays and failure. For example, the proposed Milleniya Industrial Park with Thailand's Rojana Industries collapsed after LKR 1.99 billion was spent without resolving land ownership. COPE later reported LKR 3.35 billion wasted due to the absence of a formal proposal.
- **Integrate Eco-Industrial Park (EIP) principles to meet global sustainability demands.**
    - Adopt international standards such as the EIP Principles developed by UNIDO, following the example of Vietnam, which is currently transitioning its industrial parks into EIPs.
    - Mandate EIPs and, in turn, compliance with sustainability standards for all new and existing EPZs. This should include renewable energy usage, resource recovery, water and energy reuse, and industrial symbiosis, allowing Sri Lankan exporters to comply with emerging global compliance requirements such as the EU Supply Chain Due Diligence Act, the German Supply Chain Act, and the EU Digital Product Passport.

SHORT ABSTRACT

Sri Lanka has 15 Export Processing Zones (EPZs), but between 2000 and 2019, no new zones were created. Recent projects in Bingiriya, Arabokka, and Eravur mark the first attempts since then. With larger existing zones, such as Katunayake and Biyagama, nearing or at full capacity, limited land availability has become a significant barrier to attracting the export-oriented investment needed to meet the country's export ambitions. Repeated initiatives to establish new zones through budget proposals and public investment plans (e.g., Milleniya, Trincomalee, Hambantota, Malabe, Homagama) have stalled. At the same time, fiscal constraints have made public financing alone to establish EPZs unfeasible. In contrast, countries such as Vietnam, Thailand and Bangladesh have successfully enabled private-led development of high-quality

zones under strong regulatory frameworks. **Sri Lanka's recent *Economic Transformation Act (No. 45 of 2024)* aimed to encourage private participation but fell short by omitting mandatory quality standards, clear investor selection criteria, and independent regulatory oversight.** To restore credibility and compete globally, **Sri Lanka must: (i) Establish a robust legal framework for private-sector-led EPZ development, (ii) Resolve land acquisition issues before inviting private investment, and (iii) Integrate Eco-Industrial Park (EIP) standards to meet rising global sustainability requirements.** Implementing these reforms will unlock land, attract high-quality investment, and allow Sri Lanka to compete on the basis of quality rather than quantity.

TOPLINE VIEW

Objective of the Proposal

- ☒ Economic Growth
- ☒ Governance
- ☒ Justice and Rights
- ☒ Social Welfare
- ☐ Other: ....

Implementing Agency:	Ministry of Finance/ Board of Investment (BOI)/ Ministry of Industries
Primary Beneficiaries:	Export-oriented industries, foreign and domestic investors, SMEs in supply chains, and the industrial workforce.
Cost Estimate (if available):	Not available
Policy Type:	Legislative reform

HOW DOES IT ADVANCE THE OBJECTIVES

1. **Economic Growth**
   - Expands land availability for export-oriented manufacturing.
   - Attracts high-quality foreign direct investment by offering globally competitive, sustainable zones.
   - Promotes industrial agglomeration that drives efficiency gains and innovation spillovers.
2. **Governance**
   - Addresses systemic weaknesses by requiring land acquisition to be completed before bids are invited, and by mandating transparent bidding processes with enforceable standards.
   - Reduces corruption and political discretion through clear, rule-based procedures.
   - Strengthens investor confidence by embedding transparency and accountability within legislation and ensuring oversight by an independent regulator.
3. **Justice and Rights**
   - Protect workers and communities by embedding environmental, social, and labour standards in all zones.
   - Prevents misuse of public funds by enforcing accountability and transparency.
4. **Social Welfare**
   - Generate sustainable employment and wider community benefits through EIPs.

- Improves environmental outcomes with improved waste management, energy efficiency, and water reuse systems, among others.

CASE FOR THE PROPOSAL

EPZ capacity exhausted while regional competitors are moving ahead

Sri Lanka currently has 15 EPZs, but their capacity has been exhausted. Between 2000 and 2019, no new zones were established, despite Cabinet recognition in 2018 that existing zones were already near or at full capacity. Today, the country's largest zones—Katunayake, Koggala, Seethawaka, and Horana—are more than 90% occupied, while Biyagama is fully occupied, leaving virtually no land available for new investors. Repeated initiatives to expand industrial land have failed to materialise. The 2017 Budget proposed four specialised Free Trade Zones (FTZs), new zones along expressway corridors, and private-sector management of existing zones; however, none of these plans advanced. Similarly, a 2023 proposal to award land for private industrial parks also stalled. The Public Investment Programme for 2017–2020 pledged to create 45 mega industry and technology zones, industrial cities in Mirigama and Horana, and high-tech parks in Malabe and Homagama. However, none of these projects were implemented. The subsequent Public Investment Programme for 2021–2024 dropped references to these projects and instead offered vague commitments to develop industrial cities, FTZs and free ports. Although successive budgets have allocated funds for industrial estate and zone development, these commitments have lacked detail on concrete projects or implementation timelines.

In contrast, Sri Lanka's regional competitors have rushed ahead in expanding their industrial capacity. These countries not only have more land than Sri Lanka but are also actively investing in developing hundreds of new zones. For example, Vietnam grew from 65 parks in 2000 to 390 by 2022, adding 270,000 acres of industrial land with a further 280,000 acres already planned. Bangladesh is targeting to establish 100 zones by 2030, many of them private-led, while Thailand and Malaysia continue to expand and modernise their industrial estates. In contrast, Sri Lanka's stagnation has left it struggling to keep pace, and without decisive reform, the country risks falling even further behind in the race for export-oriented investment.

Regulatory gaps in accommodating private zones

The Government's fiscal constraints make it increasingly difficult for the government to finance new industrial parks on its own, highlighting the need for private-led zone development. Yet, almost all EPZs remain under the authority of the BOI. Although references to public–private partnerships (PPPs) for EPZ development have appeared in budgets and media, none have materialised. For example, in May 2023, the BOI announced plans to award land to private developers, but provided no details on the specific sites or called for competitive bids. This lack of transparency has undermined investor confidence, while earlier references to private-led zones in the 2017 and 2023 budget speeches also failed to move forward due to weak follow-through.

The Economic Transformation Act (2024) sought to address these issues but left critical gaps. Rather than enacting a dedicated law to govern zone development and management, it folded EPZs into a broader economic framework, thereby weakening clarity and enforcement. The Act failed to establish minimum standards for infrastructure, services, or sustainability, and offered no transparent criteria for selecting investors. Most concerning is that the proposed body, Zones SL, was given overlapping roles as regulator, developer, operator, and landlord. This violates UNIDO International Guidelines for Industrial Parks, which stress separating and clarifying these functions. Without such separation, conflicts of interest and political capture undermine independence and credibility.

International best practices demonstrate how private participation can be governed effectively. Dedicated zone legislation, such as Thailand's Industrial Estate Authority Act (1979), Vietnam's Decree No. 35/2022, and Bangladesh's Economic Zone Act (2010), establish minimum standards, transparent investor criteria, and precise separation of functions. These frameworks have allowed for the development of high-quality zones, reduced corruption, and built investor confidence. By failing to adopt similar provisions, Sri Lanka places itself at a disadvantage, deterring credible investors and allowing for the development of poor-quality and underutilised zones.

Sustainability imperative

Sri Lanka faces a structural constraint: with limited land availability, it cannot compete with its peers on scale. Its only viable path is to compete on quality and sustainability. This requires integrating EIP standards, which embed environmental and social compliance, resource efficiency, and industrial symbiosis, making zones more attractive to global investors. Compliance with international regulations, such as the EU Supply Chain Due Diligence Directive, the German Supply Chain Act, and the EU Digital Product Passport, is becoming essential for accessing global markets. EIPs are no longer a niche model. Their number has grown from fewer than 50 in 2000 to around 250 globally today. Successful examples include South Korea's Ulsan, Mipo, and Onsan. Vietnam is also in the process of converting its existing industrial parks to EIPs to meet its 2050 net-zero target, supported by UNIDO, GEF, and bilateral donors such as Switzerland. Sri Lanka can follow a similar path by leveraging international frameworks and support from organisations such as the World Bank, UNIDO, and GIZ to establish globally credible EIPs and position itself as a sustainable investment destination.

HOW DOES IT HELP THE COUNTRY

1) Unlocks new land for investment, addressing a critical bottleneck to export-led growth.
2) Attracts high-quality, sustainable FDI and integrates Sri Lanka into resilient global supply chains.
3) Reduces the fiscal burden by mobilising private investment while leveraging external support.
4) Improves competitiveness by embedding sustainability and compliance with global standards.
5) Restores investor confidence by avoiding the costly failures of incomplete or poorly planned zones.

HISTORY OF THE PROPOSAL

- **2002–2019:** No new zones were added beyond Bingiriya in 2019, which itself was delayed 15 years between foundation and construction.
- **2017–2020:** Multiple budget speeches and public investment plans promised industrial zones, including 45 mega zones, FTZs, and tech parks, but implementation was stalled. During this time, the Cabinet also recognised capacity issues and called for private zones, including the proposed Milleniya Industrial Park with Roajana Industries Thailand.
- **2020:** The Auditor General and COPE exposed billions wasted in premature spending at Milleniya without resolving the land acquisition. The project was subsequently cancelled.
- **2023:** The BOI announced new private-led initiatives but provided no open calls for proposals.
- **2024:** The Economic Transformation Act introduced provisions for private investment zones, but failed to establish mandatory standards, regulate private participation, or guarantee regulatory independence.

PUBLISHED SUPPORTING ANALYSIS

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