

Evaluation of Performance of the Process of Establishment of New Export Processing Zones



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Executive Summary

Attracting foreign investment is of great importance as a development strategy among the strategies to uplift the economy and living standards of Sri Lanka. Many economic benefits such as infrastructure development, job creation, emergence of new technological innovations in the country, providing a solution to the Deficit of Balance of Payment can be gained from this. Accordingly, the Government focused on the need to create new Export Processing Zones in addition to existing Export Processing Zones. The authority to establish Export Processing Zones to attract Foreign Direct Investment and to provide facilities for that has been entrusted to the Board of Investment of Sri Lanka by the Board of Investment of Sri Lanka Act No. 04 of 1978. In a situation where there was no any Export Processing Zone has been established since 2002, establishment of new Export Processing Zones for strategically targeted sectors was proposed as a Budget Proposal of the Government in the year 2017 due to insufficient capacity in the 12 Export Processing Zones currently in operation. Accordingly, it was proposed to provide the required provisions through the General Treasury to the Ministry of Development Strategies and International Trade which was the Line Ministry of the Board of Investment of Sri Lanka and to construct Export Processing Zones along expressway corridors.

At a time when the need for an export based economy for a developing country such as Sri Lanka strongly highlighted, considering the significance of establishing new Export Processing Zones and although the proposals had been furnished to establish new Export Processing Zones from the year 2014, failure to perform that function as planned was the reason for the selection of this topic for audit.

The objective of this audit was to evaluate the role of the relevant Institutions regarding the establishment of new Export Processing Zones.

Although it had been proposed to establish 06 new Export Processing Zones by the end of the year 2020 as planned by the Board of Investment of Sri Lanka, it was observed that the establishment activities of only two Export Processing Zones in Bingiriya and Millaniya has been commenced by now. Although it was proposed to establish the Milleniya Export Processing Zone through an external private partnership, it was also observed that the Company

that had appeared for that had not taken steps to carry forward this partnership. It was observed at the feasibility studies conducted on the construction of new Export Processing Zones that the functions on Millaniya Export Processing Zone which costs Rs.2,080,533,307 has been suspended by now because of the attention was not drawn on challenging areas and the legal actions taken by the relevant parties against the land acquisition. It was also observed that a sum of Rs. 2,488,251,337 had been paid to provide infrastructure facilities in two Export Processing Zones at Millaniya and Bingiriya without entering into written agreements with the Water Supply and Drainage Board, Road Development Authority, Provincial Road Development Authority and Ceylon Electricity Board. Road construction works in Bingiriya Export Processing Zone had been commenced without approved Bills of Quantity and it was observed that the estimates and bills submitted had been prepared exceeding the prescribed rates and it could not be satisfied with the quality of the construction. A situation where the project does not meet the expectations of the government and does not transmit benefits to the relevant parties was observed in the event of failure to reach desired targets and revision of those targets from time to time, failure to plan essential activities, incurring additional costs exceeding of the agreements due to improper planning.

Accordingly, attention should be drawn on matters such as proper planning by focusing on all aspects before commencing projects, prepare cost estimates more accurately by focusing on each aspect when preparing cost estimates, pay proper attention on future risky and challenging areas in feasibility studies carried out prior to the commencement of projects, entering into formal written agreements with relevant institutions to award infrastructure facilities or service providing contracts, draw special attention to the accuracy and economy of cost estimates obtained from other institutions in connection with infrastructure facilities or service providing contracts, not giving permissions to commence works without approved bills of quantity and before entering into written agreements in connection with contracts which provide infrastructure facilities or service providing contracts, continuous supervision in order to protect the economy, efficiency and effectiveness of public funds when executing infrastructure facilities or service providing contracts, inclusion of favorable conditions in order to the activities can be performed within the planned time frame in a manner that does not incur an additional cost in contracted service providing agreements.

2. Introduction

2.1 Background

Attracting Foreign Direct Investment is extremely important as one of the key strategies identified in Sri Lanka's economic development plans as a developing country. The authority to establish Export Processing Zones for attracting Foreign Direct Investment and to facilitate for that has been entrusted to the Board of Investment of Sri Lanka by the Board of Investment of Sri Lanka Act No. 04 of 1978 . The supervisory function is performed for this purpose by the Ministry of Development Strategies and International Trade as the Line Ministry.

Twelve Export Processing Zones targeting Foreign Direct Investment have been established in the Western, Southern, Central and North Western Provinces under the Board of Investment of Sri Lanka Act No. 04 of 1978 by now. Although the proposals were presented from time to time to establish Export Processing Zones, it was proposed by the Government Budget 2017 to establish Export Processing Zones for strategically targeted sectors in a situation where there was no any Export Processing Zones have been established since 2002 . Accordingly, it was proposed that the Free Trade Zones should be established along the Highway Corridors under private and public management in order to get the maximum benefit from the expressways, to provide the land, electricity and water by the government as well and also to allocate Rs. 1000 million for this purpose. Similarly, it was also proposed to establish 04 Free Trade Zones in the Kalutara, Ratnapura, Puttalam and Vavuniya Districts targeting rubber based industries, pharmaceuticals, textiles, minerals, chemicals and automotive industries. A sum of Rs.1000 million from the National Budget for the year 2017 and Rs. 2,500 million from the National Budget for the year 2018 had been allocated for the Line Ministry and the provision of Rs.1000 million had been made available during the year 2019.

It was observed that the below mentioned lands had been identified for the establishment of Industrial Zones according to the Minute of the Meeting held on 03 March 2017 at Temple Trees Chaired by the Prime Minister and participation with the relevant parties to provide land and other infrastructure facilities.

Name of the Land	Extent of Total land area (Acres)	Divisional Secretariat Division the Land Belongs to
New Chattel Watta	1278	Millaniya
Millewa Watta	591	Horana
Sorana Watta	668	Horana
Penrith Watta	1597	Seethawaka
Elston	1986	Seethawaka
Heenweliyagara Watta	487	Bingiriya
Madugasagara Watta	50	Bingiriya
Kovulwewa Watta	130	Udubaddawa
Gorokgasagara Watta	282	Udubaddawa
German Watta	100	Udubaddawa

In addition to that, it had been focused on the utilization of the Charliment Watta in Weligama Divisional Secretariat Division for the establishment of new Export Processing Zones by the Budget Proposal 2017 .

The Sri Lanka Board of Investment is functioning as the implementing and facilitating agency for these projects and the financial and supervisory institution is the Ministry of Development Strategies and International Trade; the Line Ministry as well.

2.2 Authority for Audit

This performance audit was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka and in accordance with the National Audit Act No. 19 of 2018 .

2.3 Reason for Selecting of the Topic for Audit

Although the proposals had been made to establish new Export Processing Zones since 2014 considering the importance of establishing new Export Processing Zones in a situation where the need for an export based economy is strongly highlighted to a developing country like Sri Lanka, failure to accomplish that function as planned was the reason for the selection of this topic for audit.

2.4 Objectives of the Audit

The objective of the audit was to evaluate the role of the relevant institutions in connection with establishing of new Export Processing Zones. This purpose is briefly shown as follows.

- (a) Evaluation of role of preliminary studies for the establishment of new Export Processing Zones.
- (b) Evaluation of the role of the institutions authorized under operational law for the establishment of new Export Processing Zones as a matter of public policy.
- (c) Evaluation of the role of the institutions entrusted with the task of providing infrastructure facilities and other services in the Export Processing Zones.

2.5 Institutions in Relation to the Project

The Institutions related to the project and the role for them are as follows.

Related Institution -----	Role -----
(a) Ministry of Development Strategies and International Trade	Financing and Supervision of the project
(b) Board of Investment of Sri Lanka	Implementation of the project and facilitation and performing the role of achieving the objectives stated in the Board of Investment of Sri Lanka Act
(c) Road Development Authority	Construction of access roads in the proposed Export Processing Zones
(d) National Water Supply and Drainage Board	Providing relevant infrastructure facilities to the proposed Export Processing Zones for supplying of water and waste disposal system
(e) Ceylon Electricity Board	Supplying of electricity needs to Export Processing Zones and providing relevant infrastructure facilities
(f) Provincial Road Development Authority / Local Authorities	Restoration of damaged roads as a result of pipe laying
(g) Institutions of issuing environmental assessment reports	Assessment of environmental impact with regard to new Export Processing Zones

2.6 Sub-objectives and Criteria

Audit Sub-objective	Criteria
(a) Evaluation of efficiency, effectiveness and economy of land acquisition	Lands Acquisition Plan, National Budget Proposal for the years 2017 and 2018, Cabinet Decisions, Agreements entered into with external parties and court orders
(b) Evaluation of efficiency, effectiveness and economy in road constructions	Highway Construction Plan
(c) Evaluation of efficiency, effectiveness and economy in supplying of Electricity and Water	Electricity and Water Supply Plan
(d) Evaluation of efficiency, effectiveness and economy in resettlement of displaced families	Resettlement Plan for displaced families
(e) Evaluation of efficiency and effectiveness of environmental impact assessment and adaptation with environmental standards	Wastewater Disposal Plan and Provisions in the National Environmental Act No. 47 of 1980 as amended by Act No. 56 of 1988

2.7 Audit Approach

(a) Usage of books and documents

- (i)** Files related to the Project
- (ii)** Progress Reports
- (iii)** Documents and accounts related to payments

Carrying out by the Board of Investment of Sri Lanka and the Ministry of Development Strategies and International Trade

(b) Interviews with relevant parties

- (i)** Officers of Board of Investment of Sri Lanka
- (ii)** Officers of the Ministry of Development Strategies and International Trade
- (iii)** Officers of Millaniya Divisional Secretariat
- (iv)** Officers of Bingiriya Export Processing Zonal Office
- (v)** Officers of the Road Development Authority

(c) Physical examinations

Development works of Millaniya Export Processing Zone

- (i)** Development works of Bingiriya Export Processing Zone

(d) Comments and suggestions of the opposed parties

- (i)** Objections expressed by the parties against the establishment of the Millaniya Export Processing Zone
- (ii)** Investigation reports carried out on those objections

2.8 Audit Scope

(a) Our Performance Audit is carried out in accordance with the Guidelines issued by the International Organization of Supreme Audit Institutions (INTOSAI) and the provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka and the provisions of the National Audit Act No. 19 of 2018 . We obtain an understanding of up to what extent the stated objectives can be achieved to enter into conclusions from the observations and recommendations of our performance audit and operations and internal controls of them as a basis for determining what are the risks in relation with achieving those objectives.

(b) Our work has been pre-planned and linked to the Audit Plan. This may change based on the results of our findings during the Performance Audit. Accordingly, the size of performance audit has been limited by us for sampling procedures on innovation of audit scope and time available for audit and the human resources .

(c) This Performance Audit has been carried out focusing only on the Millaniya and Bingiriya Export Processing Zones which were planned to be established jointly by the Board of Investment of Sri Lanka and the Ministry of Development Strategies and International Trade.

3. Detailed Audit Observations and Recommendations

3.1 Primary Planning and Organizing Process of the Board of Investment of Sri Lanka regarding the Establishment of Export Processing Zones

3.1.1 Planning

It had been planned to establish 02 new Export Processing Zones by the year 2016 as per the Corporate Plan of the Board of Investment of Sri Lanka for the period

2014-2016 and 06 new Export Processing Zones by the year 2020 as per the Corporate Plan for the period 2017-2020 . However, establishment works of Bingiriya and Millaniya Export Processing Zones were only being carrying out. Accordingly, the Board had failed to achieve the planned targets with regard to the establishment of new Export Processing Zones.

3.1.2 Previous Studies in Relation with the Establishment of a New Investment Zone

The following easibility Studies have been carried out on the establishment of new Export Processing Zones.

- (i) The Feasibility Study named Identification of Potential Sites for the Development of New Industrial Zones carried out as per the instructions of Center for International Development at Harvard University by the Team for identification of appropriate lands for Export Processing Zones in Board of Investment of Sri Lanka called 'Land Team'**
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This Study Report had been issued in June 2017 and the feasibility of establishing new Industrial Zones had been studied in respect of 14 lands in Puttalam, Kalutara, Horana, Colombo, Kurunegala and Matara area. In the event of study of the 244-acre New Chattel Watta in the Millaniya area the attention had not been drawn on Topography of territory and the capability to develop, access to the main mode of transport such as distance from main city, distance to main road, distance to the main expressway, distance to port / railway station/ airport and infrastructure facilities such as electricity, telephone, water, access roads, external roads, external wastewater drainage. It was further recommended by the study that the land was suitable for the construction of an Export Processing Zone.

(ii) Feasibility Study conducted by the Ernest & Young Shinnihon L.L.C Company

It has been stated that the proposed area for the construction of the Millaniya Export Processing Zone was a land with a rubber plantation, it is close to the Southern Expressway, flood management is needed, the government is ready to provide utility facilities by now and 50 cultivating families are living in the proposed land as per this feasibility study report issued in May 2018 and this land had also been rated as an “A” grade work site that could be developed as an Industrial Zone.

However, it was not observed that both of these feasibility studies were focused on ability to efficiently acquire this land which is inhabited by 50 working families engaged in rubber cultivation with a rubber plantation which is currently being maintained under a lease agreement for a period of 53 years under the Government Rubber Policy. However, the Project had to be suspended due to the courts action taken against the acquisition of the relevant land by Horana Plantation Company which was the lessee.

Because of this, it was observed that there is a situation where special attention should be drawn regarding problems and risks to be faced in land acquisition with regard to the Export Processing Zones proposed to be established in future.

3.1.3 Proposal for Establishment of Export Processing Zones and the Approval

- (a) It was proposed that the Millaniya in Kalutara area as an area for the establishment of an Export Processing Zone as per the Budget Proposal for the year 2017. Accordingly, suitable lands and locations that can be acquired relatively easy and located near highways, ports and airports that can be developed into Export Processing Zones / Industrial Zones had to be identified by the Board of Investment

of Sri Lanka in accordance with the conceptual model for the establishment of Export Processing Zones / Industrial Parks in collaboration with external / private institutions which had received the approval of Cabinet of Ministers on 10 January 2018 according to the Memorandum of Cabinet of Ministers submitted on 15 December 2017 with the approval of the Cabinet Sub-Committee on Economic Management dated 21 August 2017 .

(b) Development of Zone/Park through Joint Partnership, providing infrastructure facilities located outside the Zone/Park through the allocations made available by the National Budget and the provision of road network and utility services should be carried out by the government and the responsibility of regulating and facilitating was entrusted Board of Investment of Sri Lanka . The Board of Investment was required to enter into a legal agreement with the joint venture regarding the authority to operate the Zone. Accordingly, the Rojana Industrial Park Ltd., a Thai company which is engaged in the development of Parks /Zones operated by the private sector had expressed the consent and a Letter of Intent between Rojana Industrial Park Ltd. and the Board of Investment of Sri Lanka had been signed on 21 August 2017 as the Zonal Manager or as an other service provider. However, it was observed that this agreement had not been further implemented due to not releasing the land within the expected time and the unavailability of infrastructure facilities up to Export Processing Zone at that time.

(c) The proposal to establish Bingiriya Export Processing Zone was approved by the Cabinet Committee on Economic Management at its Committee Meeting held on 08 November 2017 and the approval of the Cabinet of Ministers had been received on 13 December 2017 . It had been decided to take over 164 acres of German Watta belonging to Bingiriya Udubaddawa Divisional Secretariat under the Phase 1 and 283 acres from Goraka Gas Agarawatta under the Phase 2 to establish the Export Processing Zone .

3.2 Function of the Project

A sum of Rs. 1000 million had been allocated under the Budget Proposal 2017 for the works of the Millaniya Export Processing Zone and it had been handed over to the Ministry of Development Strategies and International Trade; the Line Ministry. Although payments for the infrastructure facilities had been commenced since September 2017, a proper Project Plan and a Payment Plan for this entire Project had not been prepared . However, the cost-benefit analysis relating to the Millaniya Export Processing Zone as per the Memorandum of Cabinet of Ministers submitted on 04 September 2018 that is, a year later is as follows.

Extent of Land (Phase I and Phase II)	400 Acres
Industrial Land in extent	240 Acres
Cost on Infrastructure Expenditures (External)	Rs. 8,366 Million
Cost of Internal Infrastructure Facilities	Rs. 2,745 Million
Prepaid Tax Installment	USD 60,000
Rent per Acre	USD. 4,660
Deposit Rate	8.75 Per Cent
Discount Factor (Rate calculated by the Central Bank)	9 Per Cent
Payback period	After 14 years

The cost details in respect of providing infrastructure facilities for this Project are as follows as per the Memorandum of Cabinet of Ministers.

Details of Expenditure	Amount paid for 2017 and 2018	2018	2019	2020	Total
	(Rs. Million)	(Rs. Million)	(Rs. Million)	(Rs. Million)	(Rs. Million)
Inter-change and Access Roads - Roads development Authority	80	900	2,170	4,338	7488
Supply of Water - National Water supply and Drainage Board	298	545	307	100	1250
Supply of Electricity - Ceylon Electricity Board	102	832	896	1,190	3,020
Acquisition of Lands - Divisional Secretary, Millaniya	91	275	-	1,000	1,366
Waste Disposal System - National Water supply and Drainage Board	-	-	50	200	250
Road rehabilitation fees due to laying pipes - Provincial Road Development Authority/Local Government Institutions	53	10	27	10	100
Total	624	2,562	3,450	6,838	13,474

The detailed cost analysis of infrastructure such as land acquisition, electricity supply, water supply and access road improvement when establishing the Bingiriya Export Processing Zone as per the Memorandum of Cabinet of Ministers dated 03 October 2018 is as follows.

Preliminary Works	2018	2019	2020	Total
	Rs. Mil.	Rs. Mil.	Rs. Mil.	Rs. Mil
-----	-----	-----	-----	-----
Acquisition of Lands	105	175	-	280
Construction of Access Roads				

From J.R. Junction to Hettiyakotuwa Junction	298	-	-	298
From J.R. Junction to Thuntota	-	220	-	220
From Hettiyakotuwa Junction to Chilaw Plantation Company Board	-	-	902	902
Water Supply				

1000 m ³ initial water supply from Chilaw Water Supply Project	79.9	319	-	403
Electricity Supply				

2MVA Initial Electricity Supply from Madampe Electricity Sub-station	7.46	-	-	7.46
8MVA Permanent Electricity Supply	-	-	150	150

Sundry

Symmetrical Measurements	1.7	-	-	1.7
Soil Investigating Activities	3.58	-	-	3.58
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	500	714	1052	2266
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The following observations are made in respect of the functions of the establishment of the project for Export Processing Zones.

3.2.1 Acquisition of Lands

The Cabinet Sub-committee on Economic Management held on 16 August 2017 had ordered to the Land Reforms Commission to entrust the 244 acres of land identified as Phase I of New Chattel Watta to the Board of Investment of Sri Lanka expeditiously for the establishment of Millaniya Export Processing Zone. This land to be acquired with 2228 acres of Millaniya New Chattel Watta belongs to the Land Reforms Commission and leased to State Plantation Corporation has been given to Horana Plantation Company for a period of 53 years under sub-lease in the year 1995 by them.

The Notice for the acquisition of lands for public use was issued in terms of Section 2 of the Land Acquisition Act and 10 parties had expressed their objections to the Secretary of the Ministry of Development Strategies and International Trade as per the notice published on 25 July 2018 in terms of the Section 4 of the Act.

As per the investigation carried out by an Investigation Officer appointed by the Secretary to the Ministry of Development Strategies and International Trade in terms of Section 4 of the Act on 04 October 2018 at the Millaniya Divisional Secretariat, the major objections among the objections furnished by the Horana Plantation Private Company who was the main objector are as follows.

- (a) This acquisition was opposed to the decision taken to give the land to the Company for 53 years of use
- (b) This Estate has been leased out to the private sector on government policy because it was making losses at that time and the company was able to make the Estate profitable as well as provide other economic benefits such as employment opportunities
- (c) A sum of Rs. 500 million has been invested by the Company for the development of this land
- (d) Three hundred jobs have been provided by this Estate and a total of 2,320 people have been facilitated to accommodate in the Estate
- (e) A number of 160,000 rubber trees have been replanted from the time this Estate was acquired up to now
- (f) The annual income of this Estate is an average of Rs. 83 million
- (g) The factory was modernized incurring a sum of Rs. 45.43 million for the production of crepe rubber
- (h) Oil palm have been cultivated in this Estate incurring a sum of Rs. 94.72 million and that cultivation is currently productive
- (i) The plot of land to be acquired is high yielding land and the area where this estate is located is a very suitable area for rubber cultivation and high quality crepe rubber is produced here and also a high price can be obtained for that at auctions.

However, a Motion was filed by Horana Plantation Pvt. Company in the Court of Appeal on 07 May 2019 under the Application No. CA (Writ) 115/2019 against to acquire the proposed land for the establishment of the Millaniya Export Processing Zone by the

Government based on above matters and a Stay Order had been issued by the Court in this regard on 19 September 2019 and it has been ordered to be extended up to 21 January 2021 .

The value of the extent of land to be acquired is Rs. 366,000,000 as per the Government Valuer dated 02 November 2017 and a 25 per cent or a sum of Rs. 91,500,000 had been paid on 29 November 2017 as a land acquisition deposit to the Divisional Secretary, Millaniya by the Ministry of Development Strategies and International Trade.

Although the land acquisition activities were scheduled to be completed by 2018, it had not been impossible to complete the acquisition activities of those lands by 2020 due to the judicial proceedings taken by the above plantation company. However, a sum of Rs.1,988,918,307 had been paid to the institutions such as Road Development Authority, Provincial Road Development Authority, National Water Supply and Drainage Board, Ceylon Electricity Board for the development of infrastructure facilities before acquisition of lands.

3.2.2 Construction of Roads

(a) It had been proposed to incur a sum of Rs.3900 million estimated cost for the construction of Pelpola Interchange and related access roads and access road to Wagawatta Export Processing Zone as access roads to the Millaniya Export Processing Zone and to complete those works by the year 2020. A sum of Rs.205 million had been paid to the Road Development Authority as Rs.80 million in the year 2017 and Rs.125 million in the year 2019 for this. It was observed at the on-site inspection carried out on 07 November 2019 that any construction work in connection with the construction of Pelpola Interchange and access roads had not been commenced .

As a result of judicial actions taken by the Horana Plantation Company, the Ministry of Development Strategies and International Trade had informed to the

Road Development Authority on 16 October 2019 to suspend the future works of the Project because of the issuance of a Stay Order until July 2020 . However, it had been planned to complete 60 percent of the construction works of the Pelpola Interchange and access roads by the end of the year 2019 as per the Action Plan 2019 of the Board of Investment of Sri Lanka. However, the progress of road development activities related to the Project by 10 July 2020 according to the information of the Road Development Authority are as follows.

Activity -----	Progress (%) -----
Construction of Pelpola Interchange	19
Access Roads with 4 Lanes from Millaniya to Pelpola	2
Horana Wagawatta Road	37
Overall Progress	19

- (b) Three access roads had been identified as per the detailed cost analysis related to the establishment of the Bingiriya Export Processing Zone and it had been estimated that a sum of Rs.298 million in 2018, a sum of Rs.220 million in 2019 and a sum of Rs.902 million would be incurred for the construction of those roads. Accordingly, the access road from J.R Junction to Hettiyakotuwa Junction had to be completed in the year 2018 and the road from Thuntota to J.R Junction had to be completed during the year 2019 . A sum of Rs.350 million had been paid to the Road Development Authority in the years 2018 and 2019 by the Ministry for the access road and a sum of Rs.100 million for preliminary development activities, Rs. 200 million for the road from Thuntota to J.R Junction and Rs.50 million for the road from J.R Junction to Hettiyakotuwa had been spent out of that accordingly.

Although the construction of the access road from J.R Junction to Hettiyakotuwa Junction should be completed in the year 2018 as per the Plan, the progress was 58 per cent as at 15 July 2020 as per the Progress Report submitted by the Road Development Authority regarding the construction of the relevant access roads. Similarly, the progress of construction of road from Thuntota to J.R Junction which should have been completed during the year 2019 was 7.6 percent.

The following matters were observed during the on-site inspection carried out on 26 November 2020 in this regard.

- (i) The Bill of Quantity prepared by the Road Development Authority regarding this road project had not been approved even by 26 November 2019 and the work on the road from Thuntota to J.R Junction had been commenced on 25 April 2019 on the verbal instructions given by the Deputy Minister of Development Strategies and International Trade, Chairman and Director General of the Board of Investment of Sri Lanka as per the written statement of the Engineer of the Road Development Authority. However, the Bill of Quantity had not been approved even by 30 June 2020 .
- (ii) A Director for the project responsible for the the Board of Investment of Sri Lanka had appointed and he was required to submit a weekly performance on the providing infrastructure facilities of the project to the Board of Investment of Sri Lanka. However, although the Director had requested information from the Road Development Authority regarding the relevant performance, the information could not be disclosed to the audit as the relevant performance reports had not been released with regard to that, due to the non-response of the Authority.
- (iii) Construction works of Culvert No. 24 +786 of the road between J.R Junction and Wathuwatta which had been estimated to incur an expenditure nearly a sum of Rs. 30 million by the time the construction is completed, had been completed about 50 per cent by now and a sum of Rs.1,437,242 had been

spent. However, due to the construction of this Culvert higher than the specified height, it was observed that the water in the paddy fields does not drain through it. As a remedy for this, a hum pipe was laid below the culvert on the request of the Dummalasooriya Agrarian Services Center and it was observed that improper planning and weaknesses in construction supervision had affected to this.

- (iv) Although the stone layer (Aggregate Base Code - ABC) should be 250mm thick as per the Bill of Quantity prepared by the Road Development Authority with regard to the road from J.R Junction to Hettiyakotuwa, it was observed that the thickness of the layer was 190mm and 200mm respectively at the places of 1km + 000 km and 0 km+ 950 km.
- (v) The Western Province rates had been used for the estimate prepared by the Road Development Authority for construction work of the road from Thuntota to J.R Junction and from J.R Junction to Hettiyakotuwa Junction in the North Western Province and prices for the transportation of soil had been included from a distance of 60 km. Due to the impracticality and uneconomic nature in transportation of soil from such a distance, a difference of Rs. 1,327,670,506 was observed between the estimate prepared by the Project Director considering the cost to be incurred in transportation of soil from a distance of 10 km and using the rates applicable to the North Western Province and the above estimate submitted by the Road Development Authority. Details are shown below.

	Estimated Cost as per the Road Development Authority Rs.	Estimated Cost as per the Project Director Rs.	Difference Rs.
From Thuntota to J. R Junction 0+000 – 1+200 km	474,335,503	223,926,059	250,409,444
From J.R Junction to Hettiyakotuwa 0+000 – 4+850 km	2,081,674,568	1,004,413,506	1,077,261,062
	2,556,010,071	1,228,339,565	1,327,670,506

However, neither the Board of Investment of Sri Lanka nor the Ministry of Development Strategies and International Trade had entered into an agreement with the Road Development Authority even by 30 June 2020 in this regard.

- (c) Three Interim Payment Certificates valued at Rs.203,875,732, Rs.45,019,629 and Rs.16,597,780 had been submitted on 05 August 2019, 03 October 2019 and 11 October 2019 respectively by the Road Development Authority for the construction carried out in connection with this Project. However, because of the rates mentioned in the above Interim Payment Certificates submitted in respect of these constructions which are being carried out in the North Western Province are relevant to the Western Province, those Payment Certificates had not been approved by the Director appointed for the activities of the Export Processing Zone. Similarly, aforesaid Director had informed the Director General of the Board of Investment of Sri Lanka on 08 November 2019 with a copy to the Secretary of the Ministry of Development Strategies and International Trade that the

relevant bills cannot be approved without the approved Bills of Quantities and written agreements as mentioned above. As the Director further stated, a difference of Rs.156,513,806 had been observed in between the value of constructions mentioned in the Interim Payment Certificates prepared by the Road Development Authority and the calculations made by the Director regarding such constructions using the relevant accurate rates. Details are shown below.

	Value according to the Interim Payment Certificates prepared by the Road Development Authority (Without Tax)	Value as per the calculations of the Director in charge of the Project	Difference
	Rs.	Rs.	Rs.
	-----	-----	-----
IPC 01	193,041,756	69,464,533	123,577,223
IPC 02	38,464,897	14,913,907	23,550,990
IPC 03	14,181,190	4,795,597	9,385,593
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	245,687,843	89,173,037	156,513,806
	=====	=====	=====

3.2.3 Water Supply

(d) The water supply activities for the Millaniya Export Processing Zone had been scheduled to be completed by 2020 by the National Water Supply and Drainage Board and the estimated cost was Rs. 1250 million. However, Line Ministry had informed to the National Water Supply and Drainage Board on 25 February 2019 to suspend further functions due to land acquisition issues. According to the Action Plan of the Board of Investment of Sri Lanka 50 per cent progress from the water supply had to be obtained by the end of the year 2019. As per the reports of the National Water Supply and Drainage Board, 500m³ / day water supply has been completed

and since 10,000m³ / day water supply has been suspended on the notice of the Line Ministry, a sum of Rs.163.75 million out of the Rs.323.36 the total amount paid had been transferred to the Bingiriya Export Processing Zone construction project.

- (e) A sum of Rs.79.9 million for the year 2018 and Rs.319 million for the year 2019 had been estimated for the water supply activities in Bingiriya Export Processing Zone. A sum of Rs.137.1 million had been paid to the National Water Supply and Drainage Board for the preliminary works, surveying activities and extension of the proposed pipeline system. However, although this Project is expected to be completed by the end of the year 2019 soil testing and survey activities had been 100 per cent completed as per the report released in this connection on 30 June 2020 by the National Water Supply and Drainage Board regarding the progress of water supply in the Project and the progress of the proposed pipe laying project was 75 per cent. Likewise, 75 per cent physical progress had been obtained in relation with the construction of 2 collection tanks with a capacity of 225 m³, a pumping station and a laboratory and the progress in supplying and installation of relevant industrial and electrical equipment was 10 per cent.

3.2.4 Supply of Electricity

In addition to the Millaniya Export Processing Zone, electricity supply works had been planned including a electricity sub-station on the land belonging to the Wagawatta Export Processing Zone with a view to supply electricity to the Wagawatta Export Processing Zone as well and a sum of Rs.2400 million had been estimated for that. Even though the electricity supply had been scheduled to be completed by 2020, the project was scheduled to be completed by 27 December 2021 as per the progress report of the Electricity Board dated 15 November 2019 . According to the progress report, the overall progress was 31 per cent by 15 November 2019 . A sum of Rs.1,407,762,550 had been paid by Line Ministry to the Ceylon Electricity Board in this regard. However, the Line Ministry had informed the Ceylon Electricity Board on 07 February 2019 to suspend the power

supply temporarily in the prevailing situation. However, the construction works of this had not been completed according to the progress report dated 30 June 2020 .

3.2.5 Road Rehabilitation Charges due to Laying of Pipes

Road rehabilitation works had been scheduled to be completed by 2020 due to the laying of pipes in the Millaniya Export Processing Zone and the estimated cost was Rs.100,000,000 . A sum of Rs.52,792,600 had been paid for road rehabilitation works to Western Provincial Road Development Authority by 31 December 2018 in this regard. Works on these roads had not been completed and handed over to the Authority by the National Water Supply and Drainage Board according to the report submitted regarding the progress of this by the Western Provincial Road Development Authority on 18 November 2019 . Accordingly, even though the payments had been made for this activity, it was observed that any work had not been achieved.

3.2.6 Wastewater Disposal System

It had been scheduled to commence the function of disposing of wastewater in Millaniya Export Processing Zone in the year 2019 and to be completed in the year 2020 and the expenditure had been estimated at Rs. 250 million. However, since the Project has been suspended in the court orders, any progress was not observed in this regard.

3.2.7 Entering into Agreements to Provide Infrastructure Facilities in the Export Processing Zone

Payments had been made to the institutions which have obtained services to provide infrastructure facilities as follows in relation with the Millaniya Export Processing Zone by the Ministry of Development Strategies and International Trade in the years 2017, 2018 and 2019 as follows.

Institution	Total Amount Paid
-----	Rs.
-----	-----
Road Development Authority	205,000,000
Provincial Road Development Authority	52,792,600
National Water Supply and Drainage Board	323,363,157
Ceylon Electricity Board	1,407,762,550

Total	1,988,918,307
	=====

Payments had been made to the Institutions which have provided services for the infrastructure facilities as follows in relation with the Bingiriya Export Processing Zone by the Ministry of Development Strategies and International Trade in the years 2018 and 2019 .

Institution	Total Amount Paid
-----	Rs.
-----	-----
Road Development Authority	350,000,000
National Water Supply and Drainage Board	137,100,000
Ceylon Electricity Board	12,233,030

Total	499,333,030
	=====

Accordingly, it was observed that a sum of Rs. 2,488,251,337 had been paid to the service provider institutions for the provision of infrastructure facilities without entering into written agreements with the Ministry of Development Strategies and International Trade and the Ministry had not made arrangements to enter into aforesaid agreements even by 30 June 2020.

3.2.8 Assessment of Environmental Impact

(a) Approval of the Central Environmental Authority is required for the Millaniya Export Processing Zone in terms of Section IV-C of the National Environment Act No. 47 of 1980 amended by Act No. 56 of 1988 and an environmental impact assessment should be carried out for that. An administrative fee of Rs.500,000 had been paid by the Board of Investment of Sri Lanka when handing over the application to the Central Environmental Authority to obtain the approval of the Authority. Environmental Impact Assessment activities had been entrusted to the Institute of Industrial Technology with the approval of the Cabinet Committee on Economic Management and an advance of Rs. 1,185,000 to commence work had been paid in February 2019 by Board of Investment of Sri Lanka for that.

A technical proposal had been submitted to the Board of Investment of Sri Lanka by the Institute of Industrial Technology on 27 September 2018 in respect of the function of Environmental Impact Assessment. Even though it had been planned to submit a Preliminary Report within 14 days from the date of implementation of the Project, an interim report within 49 days, the Final Draft Report within 75 days, the Final Impact Assessment Report as well within 10 days after commenting to the Report as per the reporting time frame included in this proposal, any Report had not been submitted even by 30 June 2020. Likewise, the Board of Investment of Sri Lanka and the Institute of Industrial Technology had not been entered into written agreement in this regard.

(b) The Secretary to the Prime Minister had informed to the Board of Investment of Sri Lanka at the Ministerial Committee Meeting on Economic Management held on 08 November 2017 to prepare a Feasibility Study Report expeditiously on the relevant Project after the decision taken to establish the proposed Bingiriya Export Processing Zone. Accordingly, although that task had been assigned to the North Western University of Sri Lanka and the University of Moratuwa respectively, the Board of Investment had decided to assign the relevant activity to the Institute of Industrial

Technology on the inability of these institutions to adequately study the social and environmental feasibility. The Institute had submitted an estimate of Rs. 4,905,063 for that and the Board had handed over the relevant task to the Institute of Industrial Technology for a Rs.4,265,272. Although the relevant report should be submitted within 75 days from 27 August 2018, it had been furnished to the Board of Investment of Sri Lanka on 06 September 2019 by the Institute of Industrial Technology and a delay of nearly 9 months was observed. However, the procurement process had not been followed in selecting the above Institution.

Although the agreed value as per the Agreement was Rs.4,180,000 (Rs.4,265,272 + NBT) for the preparation of the Environmental Impact Study Report with the Institute of Industrial Technology, the Board of Investment of Sri Lanka had to incur an additional cost of Rs.1,652,500 in addition to the estimated cost stated in the Initial Project Proposal for the preparation of the Environmental Impact Study Report on expanding the scope of the study due to the functions such as study of an appropriate release methodology and Assessment on Wastewater Management of the Drug Project and Toxic Waste Management presented as a new proposal in addition to the proposed project types because of impracticality of releasing of purified wastewater through the Karabalan Oya . Details are shown below.

Cost Component	Estimated Cost Mentioned in the Initial Project Proposal Rs.	Actual cost Rs.	Additional Cost Rs.
Water quality analysis	300,000	750,000	450,000
24 hr Noise Measurement	160,000	200,000	40,000
Short Point Noise Measurement	-	37,500	37,500
1 hr Vibration Measurement	50,000	100,000	50,000

Cost of Water Quality Specialists	200,000	500,000	300,000
Cost of Air Quality Specialists	200,000	375,000	50,000
Cost of Social Science Specialists	200,000	437,500	50,000
Cost of Solid and Toxic Waste Specialists	-	375,000	375,000
Cost of Supporting Staff	150,000	300,000	150,000
Printing Cost of Environmental Impact Study Report	-	150,000	150,000
Total Additional Cost			1,652,500

A sum of Rs.1,051,500 out of the above amount had been paid to the Institute of Industrial Technology by the Board of Investment of Sri Lanka.

It was observed that the weaknesses in planning had caused these conditions.

3.3 The Economic Impact on the Establishment of New Investment Zones

The Government of Sri Lanka has identified development strategies to achieve the below mentioned overall targets by 2020 in terms of Memorandum of Cabinet of Ministers No. 17/2955/752/042 dated 15 December 2017 for the establishment of the proposed Export Processing Zones.

- (i) Foreign Direct Investment amounting to USD 5 billion per year
- (ii) Jobs - 1,000,000 New Jobs
- (iii) Income - Per capita Gross Domestic Product of USD 6000
- (iv) Exports – USD 20 billion
- (v) Government Revenue – 15 % out of Gross Domestic Product

Similarly, it had been expected to complete the land development activities within 06 years from the year 2017 and an export target exceeding imports Rs.01 billion each in the years 2021, 2022 and 2023, Rs.02 billion in 2024, Rs.04 billion in 2024, Rs.06 billion in the year 2026 and 2027 and Rs.08 billion up to 2031 through that as per the Memorandum of Cabinet of Ministers submitted on 04 September 2018 .

However, although the acquisition activities of the relevant lands had to be completed by the year 2018, due to the inability to complete the task of acquiring the relevant lands even by 30 June 2020, the establishment activities of the proposed Millaniya Export Processing Zone had stopped. Likewise, it was observed that it had failed to accomplish the activities of providing infrastructure facilities such as construction of highways, electricity supply and water supply at the instance of establishing the Bingiriya Export Processing Zone within the planned time frame. Accordingly, a situation where the economic benefits planned to achieve by the Government of Sri Lanka could not be accomplished within the planned time frame as mentioned above.

4. Recommendations

- 4.1** Planning of projects properly focusing on all aspects before the commencement
- 4.2** Preparation of cost estimates and forecasts more accurately on a realistic basis, focusing on every aspect.
- 4.3** Paying proper attention to future risky and challenging areas in feasibility studies carried out prior to commencement of projects.
- 4.4** Awarding of contracts for infrastructure facilities or providing services only after acquisition of lands.
- 4.5** Entering into proper written agreements with the relevant institutions before awarding infrastructure facilities or service providing contracts.

- 4.6 Paying special attention on the accuracy and economy of cost estimates obtained from other institutions in relation to infrastructure facilities or service service contracting
- 4.7 Failure to allow commencement of work prior to entering into approved agreements without bills and quantities approved for infrastructure or service providing contracts.
- 4.8 Continuous supervision to ensure the economy, efficiency and productivity of government funds in case of implementing infrastructure facilities or service providing contracts.
- 4.9 .Incorporate favorable terms into contract service delivery agreements so as not to incur additional costs and to be able to perform tasks within the planned time frame.

Sgd./W.P.C. Wickramaratne
Auditor General

W.P.C.Wickramarathne

' Auditor General

22 December 2020