

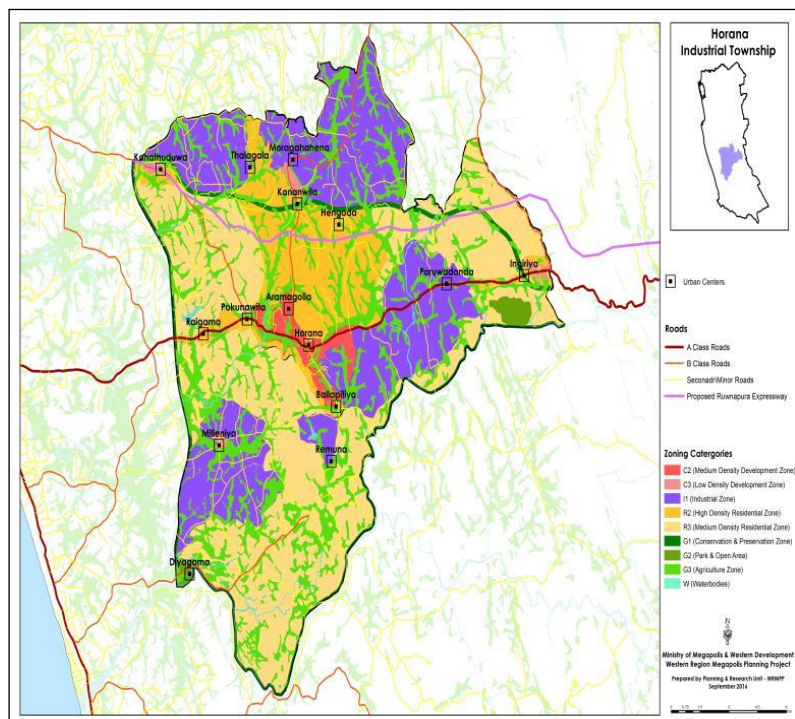
## Project No 7

### HORANA INDUSTRIAL TOWNSHIP PROJECT

1. Project implementation agency: Urban Development Authority
2. Estimated project cost; US \$ 375 million for stage I
3. Method of procurement: By open tender.
4. Development model: PPP Company
5. Implementation period: 4 Years

#### Project Location:

Horana Industrial City Project is located in the Kalutara District covering the Divisional Secretariat Divisions (DSD) of Horana, Madurawala, Millaniya, Bandaragama and parts of the Bulathsinhala and Ingiriya DSDs. However, in none of these DSDs, only some lands identified are included and the proposed industrial city project covers three locations in Millewa, Millaniya, Poruwadanda and Ballapitiya areas covering a total land area of 3334 acres. Since Horana is the main town centering the four areas selected for establishing all industrial ventures, the project is named as Horana Industrial City. The project location is depicted in Map 1.



Horana is a major transport centre connecting the western coastal area of the region, Sabaragamuwa and Uva Provinces through Ratnapura district (via Pandura – Ratnapura Road). Proposed Ruwanpura Expressway running from Kahathuduwa to Ratnapurs will also passes through Horana will make Horana a central location. Further, its proximity to the Southern expressway no doubt benefit the mobility to the industrial city project a time saving transportation facility that provide major requirement for investment attraction. There are two interchanges to the Southern expressway (Gelanigama and Kahathuduwa) with a distance of not more than 7.5 km from the proposed industrial city development. More over the proposed electrified railway line from Kottawa to Horana will connect the industrial city area with the rail network and Colombo harbor generating easy transport of materials and finished goods.

## Background of the Project

Based on the economic development vision of the Western Region Megapolis Plan a strategic development framework has been formulated to meet the future needs in the region marking Sri Lanka a high income developed country. Several projects have been identified as investment initiatives, of which Horana Industrial City Development City will be one such project.



Physical, social, economic development in WRMP is aimed at ensuring equitable, inclusive and sustainable development region. Moreover, the potential for sustainable development is to be harnessed while placing much focus on the need for minimizing income and regional disparities. In the Western Region, therefore, development of modern, self-contained and fully fledged urban centers will be a dire need to accommodate people in a rapidly developing economy with social growth. Thus, the present imbalance between services and productive sectors based on various industries has to be addressed by developing productive resources through establishment of viable and sustainable industries focusing on international markets, utilizing locally under-utilized resources as well as underemployed human resources.

Horana Industrial City Project is justified by the fact that there is a felt need for a multi-sector and integrated city development to reduce the pressure on Colombo by increasing demand for job opportunities. It is designed to promote competitiveness by encouraging companies to maintain and expand their operations while attracting foreign direct investment in branded products geared to meet demand of export market.

Similarly, it is important to harness the various demands for the influx of people to Western Region in future. In such a situation, Horana will be an 'integrated industrial township' which could effectively address the social, economic & environmental concerns by enriching, uplifting and inspiring the spirits of future urban users such as employees, employers as well as migrated population of megapolis by 2030.

Maintaining the identity which embosses the Horana Industrial City from the other industrial areas in the region will be the large scale production industrial operations blended with the conservational approach as this areas is comparatively consists with eco sensitive features in the region. Locating comparatively unruffled area in the Western Region, existing industrial estate of BOI, low density of built up areas, comparatively higher availability of developable lands, proximity to Colombo CBD, connectivity with existing expressway and main road network to Colombo Sea Port and Katunayake International Air Port, further strengthening the development capacity of Horana as a well competitive integrated industrial city in Sri Lanka.

## **Project Objectives**

In Horana, there already exists an Export Processing Zone in Poruwadanda, established by the Board of Investment (BOI) of Sri Lanka in 1999. In addition, there are other industrial areas located proximity to the project area, namely, Waulgala Industrial Zone, Wagawatta Industrial Zone, Millewa Industrial Zone and Aramanagolla Industrial Zone implemented by the Industrial Development Board of Sri Lanka. These industrial ventures have already helped the population of the area to experience a factory based living habits and disciplines. Under this background there is a large scope for the establishment and development of an industrial city in Horana. The main objectives of Horan Industrial City Project will be as follows.

- The project aims to accommodate the large numbers of large scale industries which are scattered in the Western Region without referring to objective planning principles;
- To attract large scale foreign investment ventures producing “Branded Goods” to capitalize the international market facilities
- To provide industries with readymade infrastructure facilities to house their establishments in strategic areas identified as pollution free zones;
- In line with the economic growth, to house large scale industries are also expected to improve in technology and value;
- To add value to primary products in the area and exporting the same for hundreds of years and convert the country’s exports to high value products (establishment of natural rubber processing cluster is an example);
- To establish electrical and electronic industrial cluster producing electrical and electronic goods as inputs to Science and Technology City.
- To establish a location for medical and pharmaceutical products presently scattered in the country and attract new investments in the same field.

Since the major lacking element of Sri Lanka’s industrial sector is identified as non-availability of properly integrated and connected infrastructure facilities, a main objective of the proposed project will be to build a modern industrial township equipped with supportive facilities for investment attraction that would not only lure foreign-affiliated investment but also to open-up the available facilities for the local investors, too.

The Integrated Industrial Township will be to create a “high-tech and skills based investment environment” integrated with industries focused on the export market. Other secondary objectives associated with proposed industrial city include;

- To operate as the catalyst for fuelling rate of growth of industry by attracting skilled human resources;
- To encourage creation and growth of new businesses through transfer of technology;
- To foster a collaboration between industries and supportive facilities;
- To strengthen the status of Horana as an export manufacturing destination;
- To provide a cordial living environment for the targeted and vibrant families in the neighborhood;
- To create an environment of sense of ownership feeling amongst communities; and
- To maintain compatible land uses and regulatory measures.

## Project Components

The proposed Horana Industrial Township will mainly be comprised of 5 industrial clusters located separately from one another.

- Rubber based industry Cluster – **MILLANIYA**
- SME Development Cluster - **BALLAPITIYA**
- Value added Textile and Apparel Cluster - **PORUWADANDA**
- Biotechnology, Pharmaceutical and Modernized Ayurvedic Cluster - **MILLEWA**
- Electrical and Electronic Industry Cluster – **THALAGALA**

In the selected clusters, there are some industries already established. Approach of the proposed project will be to scale up the existing potentials to establish new industries to develop into fully fledged industrial city. The base of Horana Industrial Township will be to integrate all industries with supportive facilities, such as development of Horana city, development and upgrading of infrastructure facilities, development of housing and workers quarters, upgrading of inter and intra region connectivity and mobility, provision of facilities for health, education, vocational training, and provision of waste management services.

**Rubber Based Industry Cluster:** Sri Lanka is the world seventh largest exporter of natural rubber products. These products are manufactured by 4530 organizations consisting of small, medium and large scale industry units. Sri Lanka produces about 153,000 metric tons of natural rubber annually. Country also produces high quality latex crape rubber to the world market and one of the exporters of solid tires for off road vehicles, which accounts for nearly 20% of the global solid tire market. The global rubber industry experiences a good potential for future growth having an annual rate of growth at 4-6%.

- Approximately 526 acres of state land presently leased out to Kotagala Plantations Ltd located in Millaniya area has been identified for the establishment of rubber based industry cluster;
- Population density in the area is low and presently planted with rubber;
- Close proximity to Kalu Ganga, major source of water supply to Kalutara district, with a precise distance of approx. 3.5 km, as rubber industry consumes high quantity of water;
- High concentration of productive rubber plantations to collect raw materials.

The newly identified and facilitated industrialists will establish their factories during the period 2017 – 2020 and start production at least by 2020. It is proposed that at least 10 large rubber based industrial establishments will initiate investment in this cluster to produce and export rubber goods to the value of approximately US \$ 20 billion per year during the period 2020 – 2030. All raw materials will be based on locally produced latex, rubber sheets, crape rubber and other rubber products, presently export as primary products, and convert the country’s total local rubber production into finished products or to be used by other industries such as vehicle manufacturing or air craft industry etc.

**Apparel and Garment Industry Cluster:** Sri Lanka is well geared to meet global market demand for supplying high quality and fashionable readymade garments with world’s first LEED certified platinum rated environmental friendly production facility. Sri Lanka also a producer of “Garments without Guilt” under the principles of ethical working conditions, free of child labor, free of forced labor, free of discrimination on any grounds, free of sweatshop practices. Hence, international

reputation as a reliable and a quality garment manufacturer with highly competent, skilled and literate workforce. With these advantages, it is proposed to establish a specialized industrial to produce textiles and apparel products especially for the world market.

- Approximately 1,235 acres of state land, presently leased out to Mabok Plantations Ltd situated in Poruwadanda area has been identified for this cluster;
- Entire land area is presently cultivated with rubber and Palm Oil;
- Existing Poruwadanda Export Processing Zone under BOI is located in the area and supportive activities related to textile and apparel industry in available;
- Availability of garment industry based work force living in the area is an added advantage;
- Availability of developable land with all infrastructure facilities;
- Transport facility with two lanes wide road network to Southern Expressway.

At present, the export value of textiles and garments in Sri Lanka is recorded approximately US \$ 8 billion per year and accounts for nearly 45 % of total exports, of course the largest export earning single product. Although with the withdrawal of GSP Plus facility by European Union, export of garments has fallen at the initial years of withdrawal but subsequently recovered due to diverting of the structure of garments industry products. Today basically, the development of garment design industry is the major revenue earner.

With the reinstatement of GSP Plus facility by the European Union, the future of garment industry production and exports will have a better situation. Therefore, it is best time to establish new garment manufacturing industries in the country and new investors will come into the country to enjoy the quota facilities available with the reinstatement of GSP Plus facility. HITP proposes to establish at least another 10 garment manufacturing and exporting companies in this cluster and help to increase Sri Lanka's garments export to reach at least 70 % of total exports of the country.

**Biomedical and Pharmaceutical Industry Cluster:** According to a report published by the Indian Council on International Relations, in December 2014, stated that the global market of pharmaceuticals is about US \$ 1 trillion. India's export of pharmaceutical products in 2013 amounted to US\$ 13 billion, 30% more than Sri Lanka's total exports. At present, Sri Lankan pharmaceutical companies produce only about 10% of total pharmaceutical products used in the country. Therefore, Sri Lanka shows a large market to fulfill with pharmaceutical products and in this area the Sri Lanka Institute of Nanotechnology should create an ecosystem conducive for the development of pharmaceutical industry in the country. Also with the new government policy of providing pharmaceuticals at reasonable prices, open up an additional reason for the expansion of local production of pharmaceuticals with the objective of meeting at least a segment of external market. To realize this objective, it is important to attract internationally renowned producers with branded names to establish industries in the country.

Sri Lanka also has a good potential for development and export of Ayurveda medicine and medical treatment facilities, utilizing the emerging world trend for indigenous medicine and treatment methods. Introduction of latest production techniques and advanced methods is considered as another potential area to be introduced in this cluster.

- App 1,013 acres of land from Millewa area has been identified for this industry cluster;
- Presently there are several pharmaceutical and cosmetic based industries available in the area;
- Availability of developable land together with infrastructure facilities;
- Proximity to Science and Technology City Project under WRMP to which novel experiments related biotechnology products has been planned using modern technology.

Present structure of the industrial production of Sri Lanka indicates that the chemical and pharmaceutical production sector contributes only 3.2 % to the national product and the value of production in this sector is approximately 10 % of the total industrial production. Accordingly, almost 90 % of the country's requirement of annual pharmaceutical products imports to the country and annual import expenditure of pharmaceutical products amounts to about Rs. 20 billion per year (12 % of total imports).

HITP proposes to call for foreign investors to establish pharmaceutical production companies to produce the total local market requirements and export the balance. The information analyzed in the previous paragraph prove that the import substitution volume alone would reflect an increase in the industrial structure by approximately from the present level of 3 % to almost 30 % by 2030.

**Electric and Electronic Industry Cluster:** Sri Lanka's electrical and electronics industry sector has grown during the past 4 decades into a key industrial manufacturing sector contributing towards the country's industrial growth. The Industry contributes over US \$ 300 million in value added products and employs over 40,000 skilled workers in its multi- faceted activities. The workforce is drawn from a pool of skilled young men and women with basic academic and technical knowledge. Major products exported include boards and panels (41% of electronic components), electrical wires (23%), and transformers (21%) while other miscellaneous products account for the balance. Employment generation in this industry is approximately 30,000 excluding top-caliber researchers and design engineers. Preferential market access under the Indo-Lanka Free Trade Agreement, Pakistan-Sri Lanka Free Trade Agreement and the European Union Generalized System of Preferences Plus (GSP Plus) Scheme is an added advantage for Sri Lankan exporters of electronic/electrical products.

- Approximately 400 acres of land from Thalagala area has been identified for this industry cluster;
- Population density is relatively low;
- Availability of developable lands with infrastructure facilities;
- Proximity to Science and Technology City of WRMP to supply with electric and electronic goods.

Demand for electric and electronic goods is increasing at a faster rate in the local market as well as in the world market. The rate of increase of demand for electronics is estimated at 12 % per annum during the past decade and for electric goods it was in the region of 8 % per annum. With the rate of urbanization demand for both electrical and electronic goods tend to increase further. The establishment of the science and technology city under megapolis development plan, there will be an additional demand for electrical and electronic goods components as inputs electronic goods components as inputs may have an additional market.

**SME Industry Cluster:** Small and Medium Scale Enterprises (SME) constitute a considerable part of the Sri Lanka economy, accounting for 80 per cent of all businesses. SME in Sri Lankan context: Share of total employment is 35%; contribution to the GDP 52%; share of total exports 20%. The Sri Lankan SME in Policy discussions emanates also form their role in promoting inclusive growth; developing entrepreneurial skills, innovation and promoting economic growth.

- Approximately 160 acres of land from Ballapitiya area has been identified for this cluster;
- This cluster is close proximity to Horana town center and located centre of the other industry clusters;
- Attractive natural environment with a lake and accessibility to tourists;

- Widespread road network and other infrastructure facilities;
- SME product exhibition centre and sales outlets have been planned to include in the site'

Presently, SME covers a large number of activities spreading from providing food and beverage services to production of different types of electrical and electronic goods in terms of both final goods and production of components of used in the assembly of final products. There are many small and medium level producers who are involved in the production of final consumer goods. They are mainly engaged in the production of household consumer goods using mostly local raw materials employing basically family labour and, in some cases, employing few hired labour. However, in developed countries, many of the SMEs are engaged in the production of different components of large scale production of major industries such as production of motor vehicles, electronic goods such as television sets and electrical goods such as refrigerators. Main producer buys components from different SME producers and assemble them into final products and market the final product with a 'Brand name' and provide a readymade market for the total supply of SME producers.

At present, even though Sri Lankan SMEs are mostly not organized into a small producers linked to large producer basis, the objective of this project will be to organize and develop a similar structure of SME in this country. While therefore, allocating some land for the establishment of traditional SMEs, most of the area identified for SME development will be allocated to those SMEs who produce components and other requirements of main industries establish in the industrial township. Through this strategy, the total production of SME sector could be considerably increase and ensure a better economy for those enterprises.

**Infrastructure Development:** There are other infrastructure facilities identified for development in the Horana Industrial Township. There include:

- Development of several townships, Horana (1<sup>st</sup> order) Township Ingiriya, Moragahahena, Kahathuduwa, Bandaragama and Millaniya Townships as (2<sup>nd</sup> order)
- Development of Roads; Horana – Meepe Road – 24 km, Gonapola – Homagama – Thalagal Road – 5.6 km, Gurugoda – Malagala – Padukka Road – 5 km, Thalalgoda – Horana road – 6.5 km, Moronathuduwa – Horana Road – 9.5 km.
- Development of Kottawa – Horana electrified railway line – 18 km
- Construction of houses – 60,000 middle income houses, 8,000 luxury houses
- Upgrading of Horana Vocational Training Center
- Establishment of a solid waste management system to service all industrial and housing development areas. It is estimated approximately 1,000 mt of solid waste per day would be generated by 2030.
- Establishment of a waste water treatment facility to provide services to all industrial and housing development areas. It is estimated approximately 10,000 m<sup>3</sup> of waste water per day would be generated by 2030.

### **Economic Viability**

Total land area covered by the Horana Industrial Township Project (HITP) has been estimated as 3,334 acres. Since area includes 4 major industrial clusters, namely a rubber based industrial goods producing cluster, an apparel and garments producing cluster, an electrical and electronic goods producing cluster and a bio-technical and pharmaceutical goods producing cluster, and another cluster

specifically reserved for the development of SME. In all these industrial clusters, the production are mainly focused on exports almost all industrialists will be establishing their industries through direct foreign investment. If any local investors expect to establish any industry, the production of such industries will also focus on foreign market.

For achieving a faster rate of economic growth, the rate of growth of industrial production and exports is a must. The faster growth experience of South Korea during the two decades of 1960s to 1980s proved that the rate of growth of industrial exports was the key factor of achieving the high rate of growth of the economy which scaled up the South Korea to a developed nation as well as a member of the “four musketeers”. Through Megapolis development program, Sri Lanka also proposing to reach the status of a high income earning developed country by 2030, and for this purpose it is essential that Sri Lanka develops its industrial production from the present level of 11 % of GDP in 2014 to at least 45 % of GDP in 2030. This will be approximately four times increase of the present production level. In fact, at least 90 % of this production must come from Western Region economy, if the overall target to be achieved.

The Western Region Megapolis Plan (WRMP) proposes to establish two main industrial townships of large size, with approximately in the region of 3,000 acres per township, in Mirigama and in Horana. While Mirigama industrial township will concentrate in establishment and development of 6 areas of industries (electrical & electronics, vehicle assembly, biomedical and pharmaceutical, IT software, agro-based and SME), Horana industrial township has been proposed to concentrate on 5 areas (electric and electronic, apparel and garments, rubber based, pharmaceutical and SME). In both these townships, it is proposed to establish industries mainly under foreign private investment with the objective of exporting bulk of the output.

In these industrial townships, it is only large industries are proposed under foreign private investment and sales in the local market of course not restricted but expected mainly to export depending on the high capacity utilization and large output expected. However, with the objective of achieving the high rate of growth expected, it is proposed to provide an incentive package mainly consistent of fiscal incentives and executing an institutional structure to oversee whether the export industrialists are actually receiving those incentives proposed rather than offering traditional tax holidays and implementation of export facilitation roles. Accordingly, incentives such as high percentages of reduction of profit taxes and charging of nominal taxes for raw materials used for export industries would be introduced. With similar incentives, it is expected that more and more high value added industries will be established and the expected targets could be achieved.

Since the industrial township project as a total will be managed by a company established with the participation of public sector organization as a shareholder (owning land as equity shareholding) and private investors as other shareholders, investors do not have to bear the cost of land and for development of infrastructure as part of capital investment, the rate of profits earn by the investors will be comparatively high. This will be a better incentive for the investors to invest in new industrial townships, an incentive package hitherto not implemented in Sri Lankan industrial estates. At the same time, the cost of investment is reduced; the financial rate of return expected out of the industrial investments will also be relatively higher.

Since there are some basic development work has to be carried out, the actual cost of the project cannot be estimated, at this point of time. For example, although the total extent of land of the



identified industrial clusters, the land utilization pattern of is not concluded and therefore it is not exactly aware of whether the identified land as it is could be utilized for the project or not. Bulk of the identified land is presently owned by the Land Reforms Commission. Some sections of these lands are being leased to persons for development and there exists with recently planted rubber. When acquiring land for the use of industrial purpose, it is not yet decided what land to be excluded from acquisition and what lands should be included in the acquisition process.

Similarly, the taken over land has to be distributed into different sizes of industries and decision on the number of investors to be recruited has to be taken. After completing such activities only, a valuation of land to be considered and included in the project's Books of Accounts. However, as stated above these costs will not affect the investment of individual industries and they will be paying a leasehold rent as against land. The other payment will be a share of profit towards the project organization. Therefore, the project will be financially viable and the rate of return could be assessed after completing the above mentioned cost components.

### **Environmental Feasibility**

The Strategic Environmental Assessment (SEA) of HITP was completed and cleared by the environmental unit of WRMPP. Subject to observations made in SEA, the project may be implemented and the project implementation organization must take full responsibility of implementing the environmental concerns basically during period of construction of industrial buildings and other infrastructure projects. However, prior to the commencement of industrial production, the solid waste management system and waste water discharging and management systems need to be established and these requirements should be essential components of the entire infrastructure development system. No approval should be granted to industrialists, including SMEs to discharge of solid waste and waste water in their own and must discharge through the central waste handling systems only.

### **Financial Feasibility**

The financial feasibility of HITP has to be conducted on the assumption that the project will be implemented on PPP company basis. As detailing out in Section 11 below, the public sector investment component of the project will be equivalent to the value of land and cost of infrastructure directly affecting the implementation of project. Even though there are some other infrastructure items identified together with the development of the project, those have no direct impact on project implementation and/or satisfactory management of the project. Those shall not include in the cost of the project or as part of the investment of public sector partner and should not be included in the equity investment of the project. Since land is owned by the Government and will be leased out to the PPP Company in the form of a 99 year lease. The Company will pay lease rent on annual basis to the Government.

The public sector equity contribution is estimated as 10 % of total investment and the balance 90 % will comprised of private industry investment. The equity share of each investor will be determined at an initial discussion held the attendance of all investors or their representatives. SME investors willing to participate in the company as shareholders, they are allowed to do so and their equity contribution will be determined later.

The private industrialists will invest in their respective industrial ventures of the project. Each industry will maintain Books of Accounts of individual investments and assess the profits they earn at the end of each financial year. Out of the gross profits each industrial venture, a certain percentage of profits has to be paid to the PPP Company and these profit contribution will be considered as its revenue source. The Company will prepare a profit and loss account and a balance sheet to assess the financial feasibility of the Company.

### **Estimated Cost**

Out of the five lands identified for the Horana Industrial Township Project, the land at Millewa Estate has been already acquired by the government, with an extent of 700 acres, and Megapolis project is planning to implement as Stage 1 of the project in this land. In order to do that Megapolis project is now identifying the infrastructure development needs of this land and develop the same so that suitable investors could be selected and allocated the land for development. It is estimated that the cost of infrastructure development will be approximately US \$ 75 million for this stage. Industrial development cost will be approximately another US \$ 300 million

### **Time Line for Implementation**

The implementation of infrastructure facilities will require approximately one year. Once infrastructure development is completed, investors could be selected and allocate land for industry development.