



Doing Business in Sri Lanka: 2010 Country

Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Sri Lanka

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Market Overview

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- Sri Lanka is considered a lower-middle income developing nation: Population: 20 million; GDP: \$42 billion; Per capita GDP: \$2,000.
- Compared to other South Asian countries, Sri Lanka is relatively open to foreign investment. It offers a relatively open financial system, moderately good infrastructure, and generally capable workers.
- The economy is based on imports (food & consumer items, oil, raw materials and machinery), exports (apparel, tea, rubber), services (including tourism), agriculture and remittances of low-skilled workers abroad.
- Annual imports are about \$10 billion, mainly from India, Hong Kong, Singapore, and Japan.
- U.S.-Sri Lanka bilateral trade is estimated at \$1.6 billion in 2009, mostly Sri Lankan exports of apparel. U.S. exports to Sri Lanka were about \$230 million. Total U.S. investments in Sri Lanka are about \$200 million.
- The end of Sri Lanka's 26-year civil war in May 2009 should usher in an era of strong economic growth.
- The Sri Lankan economy is remarkable for its resilience. Despite the war, economic growth averaged around 5% over the last ten years. Private sector services and exports fuelled much of the growth.
- The Sri Lankan economy grew by an estimated 3.5% in 2009. With the return of peace, sectors such as fisheries, food and beverage, telecommunications, banking, and transport did well. Heavy government spending also contributed to growth. Inflation, which ranged between 15%-28% in 2006-2008, has slowed to 5% in 2009.
- Economic performance in 2010: The government officially predicts GDP growth of 7% and single-digit inflation in 2010. Foreign reserves are at a comfortable level with an IMF program in place.
- The government headed by President Mahinda Rajapaksa is a coalition of political parties with varied interests. Its 104 ministers and deputies oversee overlapping and often inefficient bureaucracies. A Marxist extremist party, currently in opposition, has at times blocked useful economic reforms.
- In January 2010, President Rajapaksa was re-elected for a further 6 year term of office. The composition of his government may change subsequent to parliamentary elections scheduled by April 2010.

Market Challenges

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- Sri Lanka's overstuffed, inefficient bureaucracy and its unaccountable ministerial leadership are responsible for opaque tender procedures, corruption, slow decision-making, and government failure to honor commitments. A national procurement agency aimed at improving government tendering was disbanded in 2008, further aggravating the situation.
- Increasing bias in favor of local investors.
- Profitable sectors are taxed heavily, a major disadvantage to companies not entitled to special incentives.
- New and increased taxes have moved Sri Lanka's effective import duty structure steeply upwards. Intended both to generate revenue and protect local industries, these taxes have reversed Sri Lanka's previous liberalization of trade and investment. Narrow, crowded, deteriorating roads slow the movement of goods, although the government is building new road infrastructure. Unreliable power supply, particularly outside the capital, forces manufacturers and service providers to install on-site generators.
- Qualified workers are in short supply as the education system produces too few engineers, technicians, scientists, and English speakers.
- Rigid labor laws, including exceptionally high severance pay regulations, along with most unions' resistance to improving productivity, make it difficult to adjust staff size and composition to market conditions.
- Piracy is a problem for U.S. rights-holders in music, film, software, and some consumer products.
- Agricultural imports face stiff health requirements that sometimes exceed global standards. Genetically-modified (GM) regulations restrict imports of U.S. food and agricultural products.
- Lack of anti-competition laws.

Market Opportunities

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- The private sector is the engine of the economy, led by services (telecommunications, transport, international trade, banking) and export industries (apparel, ceramics, gems, tea). There is a growing IT industry, though it remains small compared to that of India. Sri Lanka's strategic location on container routes in the Indian Ocean is still to be fully exploited. Sri Lanka offers tax incentives to investors.
- Infrastructure development: Roads, power, rails, water, ports, airports, and cold-storage facilities for agriculture products.
- Petroleum sector: exploration-related services and supplies.
- Reconstruction: Reconstruction of war-damaged north and east.
- Textiles: Sri Lanka imports about \$1.5 billion of textiles and yarn annually for the apparel industry.
- Agriculture: Wheat grain, lentils, cotton yarn, tobacco, poultry and fruits.
- Other products: Telecommunications and computer equipment, computer software, power and energy, electronics and electrical machinery, mechanical equipment, medical equipment, paper, and apparel industry equipment.
- India-Sri Lanka and Pakistan-Sri Lanka Free Trade Agreements: These FTAs offer duty-free and preferential access to the vast Indian and Pakistan markets for products manufactured in Sri Lanka or that have been transformed through value addition in Sri Lanka.

Market Entry Strategy

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- Offer value at the right price.
- Consumer education and advertising.
- Local agents are helpful to enter the Sri Lankan Market. The Embassy, through the U.S. Department of Commerce (USDOC) Agent Distributor Service and International Company Profiles, can assist U.S. companies to find local agents.
- Sales to the government may require a local agent.
- For firms investing locally, the Board of Investment (BOI) www.investsrilanka.com or www.boi.lk offers investment incentives and other services.

The American Chamber of Commerce in Sri Lanka

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Companies interested in operating in Sri Lanka should contact the American Chamber of Commerce (AmCham) for guidance and networking assistance. Those companies that do invest in or establish a presence in Sri Lanka should become members of the Chamber.

The American Chamber of Commerce in Sri Lanka brings together approximately 270 leading Sri Lankan and American companies engaged in trade, business, and investment activities between Sri Lanka and the U.S.

AmCham Sri Lanka maintains close relationships with decision-makers from the U.S. and Sri Lankan governments, trade bodies, national and regional Chambers of Commerce, and many other relevant institutions both in Sri Lanka and the U.S., in order to promote the continuing interests of its membership.

AmCham Sri Lanka is affiliated with the U.S. Chamber of Commerce, the largest business federation in the United States, representing the interests of over three million U.S. companies. AmCham is also a member of the Asia-Pacific Council of American Chambers of Commerce (APCAC), an umbrella organization representing businesses in 20 countries throughout the Asia-Pacific region.

AMCHAM offers several advantages for member companies:

- Networking events and business services
- Lobbying/advocacy efforts
- Industry-specific development programs
- Expedited visa appointment processing for eligible members
- Policy advocacy and advice
- Trade events
- Quarterly newsletter
- Sector briefings with the U.S. Embassy

For more information on the American Chamber of Commerce in Sri Lanka, visit their website at <http://www.amcham.lk>

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

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Using an Agent or Distributor

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Most exporters find using local distributors an easy first step for entering the Sri Lankan market. Many foreign firms select local agents on the basis of financial stability and technical capability. As the largest trading houses represent many (sometimes competing) foreign principals, medium and smaller firms are becoming more attractive. If products require stocking or servicing, however, large firms are often the better choice. Sales commissions paid to agents range from 3% to 15%, depending on sales volume and product price. Agency relationships can be terminated for inefficiency, misappropriation or inability to fulfill other conditions stipulated in the agency agreement. Due diligence on suitability of a potential agent/distributor is essential prior to entering the local market.

The International Partner Search (IPS) and International Company Profile (ICP) provided by the Department of Commerce are available through the Embassy for U.S. companies looking to appoint a local representative in Sri Lanka. Interested companies should contact the U.S. Department of Commerce's Export Assistance Centers in their respective states (www.export.gov). The U.S. Commercial Service has a network of export and industry specialists located in more than 100 U.S. cities.

Establishing an Office

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Potential investors should first initiate discussions with the Board of Investment (BOI – www.boi.lk) prior to establishing a company or a liaison office in Sri Lanka. 100% foreign ownership is allowed with certain exceptions. The list of the regulated areas where foreign ownership is limited or requires approval of the statutory agencies can be obtained at www.boi.lk.

Investors should apply to BOI under section 16 or 17 of the BOI law, depending on the project category and size of investment. Once meeting specified BOI criteria, a company could be entitled to various concessions and privileges. Following BOI approval, the investor is required to float a limited liability company. Companies must register with the Department of Registrar of Companies (DRC); the registration fee is about \$150. The application for registration should be accompanied by Articles of Association, consent from initial directors and secretaries (Form 18 and Form 19), and the application in the prescribed form (Form 1). Companies approved under section 17 of the BOI law are required to include a primary objective approved by the BOI in the Articles of Association. The application forms can be downloaded from www.drc.gov.lk

An overseas company may establish a branch office in Sri Lanka by submitting the following documents to the Registrar General of Companies: a certified copy of the charter, statute or memorandum, and articles of association of the company; a certified copy of the incorporation of the company; a list of directors; a statement containing the full address of the registered or principal office of the company and principal place of business within Sri Lanka; a valid power of attorney authorizing a person resident in Sri Lanka to act on behalf of the Company; and a certified extract of a resolution of the shareholders confirming the activities of the branch office. The registration fee for registering a branch office is approximately US \$250.

Once the documents are in order, registration of a new company takes approximately 3 days. Registration of a branch office takes 2-4 weeks.

For more information contact the Registrar of Companies, "Samagam Medura," 400 D.R. Wijewardane Mawatha, Colombo 10, Phone: 94-11-268-9212; Fax: 94-11-268-9211.

Franchising

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Franchising is not as common as agents/distributorships. U.S. franchises include Coca Cola, Pepsi, Pizza Hut, UPS, Federal Express, Kentucky Fried Chicken (KFC), and McDonald's.

Direct Marketing

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Direct marketing usually takes place when a product is sold on a one-time or irregular basis. Sri Lanka government tenders are one of the areas where Companies could be successful directly selling to the government. Companies with regional branches or representatives have successfully entered the market directly, but an agent is often necessary to penetrate the market. Companies venturing into direct marketing in the country will have a competitive-price advantage, as agency fees/commissions will not be factored into the price.

Joint Ventures/Licensing

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Joint ventures have become popular in recent years, particularly in export-oriented projects. Joint ventures are eligible for the same preferences and tax benefits as domestic companies. There are no restrictions on foreign ownership, except for certain specified sectors.

Selling to the Government

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Many government purchases are made by public tenders, which are usually advertised in the local media. Tender procedures are not fully transparent. Delays and reversals are common. Well-informed local agents can be the key to winning these tenders, though even the most-connected local firms have trouble navigating the labyrinth of the government-tender process. It is not uncommon for tender specifications to be drawn up to suit a particular company's product. It is common belief that the tender process lacks transparency and accountability. Corruption is wide-spread in government tenders. Local agents also often represent more than one foreign supplier so that when they encounter difficulties, including charges of possible corruption, they are reluctant to voice concerns fearing it will jeopardize other business interests. It can sometimes be difficult to get an objective appraisal from local agents.

Distribution and Sales Channels

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International trade is centered in the capital city, with more than 90% of all imports and exports passing through the port of Colombo. While there are many small to medium importers, 20 to 30 relatively large firms handle the bulk of international traffic. Only a few importers control distribution networks elsewhere in the country; most simply wholesale directly to regional distributors or to retailers. The government's role in trade and distribution has decreased a great deal due to severe financial constraints.

Selling Factors/Techniques

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Price is generally the most crucial factor in selling. As U.S. products have a reputation for high quality, product quality and after-sales service are becoming important selling factors in the Sri Lankan market.

Consumer education is also a vital selling factor. Advertising and participation in sales promotions and other trade events are often helpful for raising consumer awareness and gaining market share, but effectiveness will vary according to product. Appointing an agent/distributor is recommended for marketing and sales.

Most government purchases are made on the basis of cost, subject to meeting the required specifications.

Often specifications are drawn up to suit a preferred supplier.

Electronic Commerce

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E-commerce is not widely used, but is growing. A main e-commerce portal for automated cargo clearance www.eserviceslanka.com, has been established. All commercial banks have online banking services. Travel companies, hotels, and a few large retailers have online trading services.

Trade Promotion and Advertising

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Advertising is becoming increasingly important as new private television and radio stations open and expand operations and programming. There are more than five radio stations (operating 22 channels) and eight TV stations (operating eleven channels). Some are run by the state, others by the private sector. Newspapers, radio, and television all accept commercial advertising. There are several English-language newspapers, as well as dailies in Sinhala and Tamil (see below).

Trade exhibitions and fairs are limited. Chambers of commerce sometimes sponsor trade fairs.

Major Web Sites

Internet web sites featuring news and business reports on Sri Lanka:

Lanka Academic Network: www.theacademic.org

Lanka Page: www.lankapage.com

Sri Lankan Embassy in Washington DC: www.slembassyusa.org

US Embassy Colombo: <http://colombo.usembassy.gov>

Lanka Business Report: www.lankabusinessonline.com

Sri Lanka Web Server: www.lanka.net

Major English-Language Newspapers

Daily News	www.dailynews.lk
Daily Mirror	www.dailymirror.lk
Sunday Observer	www.sundayobserver.lk
The Island	www.island.lk
Sunday Times	www.sundaytimes.lk
The Sunday Leader	www.thesundayleader.lk
Sunday Island	www.island.lk

Major vernacular newspapers include Dinamina www.dinamina.com, Silumina www.silumina.lk, Divayina, and Lankadeepa www.lankadeepa.lk, all in Sinhala; and Thinakaran and Virakesari www.virakesari.lk, in Tamil.

Business Journals

Business Today	www.btoptions.com
Lanka Monthly Digest	www.lanka.net/LMD

Advertising Agencies

Grant McCann Erickson	www.Mccannworldgroup.com
JWT, Sri Lanka	www.jwt.lk
Phoenix Ogilvy	www.ogilvy.com
Leo Burnett Solutions Inc	www.leoburnett.lk

Pricing

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Price, the most critical buying factor, should be on par with the prevailing market price. A local agent or distributor can provide helpful suggestions and market intelligence to

enable companies to make informed pricing decisions. Some firms have successfully offered special, low introductory prices on consumer products to gain a foothold in the market and develop customer awareness and loyalty.

Sales Service/Customer Support

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After-sales service and customer support are becoming increasingly important factors in selling in this market. Local companies with comprehensive support services have proved successful over the years. U.S. firms should consider this factor when appointing an agent.

Protecting Your Intellectual Property

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Several general principles are important for effective management of intellectual property (“IP”) rights in Sri Lanka. First, it is important to have an overall strategy to protect your IP. Second, IP is protected differently in Sri Lanka than in the U.S. Third, rights must be registered and enforced in Sri Lanka, under local laws. Your U.S. trademark and patent registrations will not protect you in Sri Lanka. There is no such thing as an ‘international copyright’ that will automatically protect an author’s writings throughout the entire world. Protection against unauthorized use in a particular country depends, basically, on the national laws of that country. However, most countries do offer copyright protection to foreign works under certain conditions, and these conditions have been greatly simplified by international copyright treaties and conventions.

Registration of patents and trademarks is on a first-in-time, first-in-right basis, so you should consider applying for trademark and patent protection even before selling your products or services in the Sri Lankan market. It is vital that companies understand that intellectual property is primarily a private right and that the US government generally cannot enforce rights for private individuals in Sri Lanka. It is the responsibility of the rights’ holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. Companies may wish to seek advice from local attorneys or IP consultants who are experts in Sri Lankan law. The U.S. Commercial Service can provide a list of local lawyers upon request.

While the U.S. Government stands ready to assist, there is little we can do if the rights holders have not taken these fundamental steps necessary to securing and enforcing their IP in a timely fashion. Moreover, in many countries, rights holders who delay enforcing their rights on a mistaken belief that the USG can provide a political resolution to a legal problem may find that their rights have been eroded or abrogated due to legal doctrines such as statutes of limitations, laches, estoppel, or unreasonable delay in prosecuting a law suit. In no instance should U.S. Government advice be seen as a substitute for the obligation of a rights holder to promptly pursue its case.

It is always advisable to conduct due diligence on potential partners. Negotiate from the position of your partner and give your partner clear incentives to honor the contract. A good partner is an important ally in protecting IP rights. Consider carefully, however, whether to permit your partner to register your IP rights on your behalf. Doing so may create a risk that your partner will list itself as the IP owner and fail to transfer the rights should the partnership end. Keep an eye on your cost structure and reduce the margins (and the incentive) of would-be bad actors. Projects and sales in Sri Lanka require

constant attention. Work with legal counsel familiar with Sri Lankan laws to create a solid contract that includes non-compete clauses, and confidentiality/non-disclosure provisions.

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support efforts to protect IP and stop counterfeiting. There are a number of these organizations, based in both Sri Lanka or the U.S. These include:

- The U.S. Chamber and American Chamber of Commerce of Sri Lanka
- National Association of Manufacturers (NAM)
- International Intellectual Property Alliance (IIPA)
- International Trademark Association (INTA)
- The Coalition Against Counterfeiting and Piracy
- International Anti-Counterfeiting Coalition (IACC)
- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Biotechnology Industry Organization (BIO)

IP Resources

A wealth of information on protecting IP is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- For information about patent, trademark, or copyright issues -- including enforcement issues in the US and other countries -- call the STOP! Hotline: 1-866-999-HALT or register at www.StopFakes.gov.
- For more information about registering trademarks and patents (both in the U.S. as well as in foreign countries), contact the US Patent and Trademark Office (USPTO) at: 1-800-786-9199.
- For more information about registering for copyright protection in the US, contact the US Copyright Office at: 1-202-707-5959.
- For more information about how to evaluate, protect, and enforce intellectual property rights and how these rights may be important for businesses, a free online training program is available at www.stopfakes.gov.
- For US small and medium-size companies, the Department of Commerce offers a "SME IP Advisory Program" available through the American Bar Association that provides one hour of free IP legal advice for companies with concerns in Brazil, China, Egypt, India, Russia, and . For details and to register, visit: http://www.abanet.org/intlaw/intlproj/iprprogram_consultation.html
- For information on obtaining and enforcing intellectual property rights and market-specific IP Toolkits visit: www.StopFakes.gov This site is linked to the USPTO website for registering trademarks and patents (both in the U.S. as well as in foreign countries), the U.S. Customs & Border Protection website to record registered trademarks and copyrighted works (to assist customs in blocking imports of IP-infringing products) and allows you to register for Webinars on protecting IP.
- The U.S. Commerce Department has positioned IP attachés in key markets around the world. The attaché who covers Sri Lanka is based in New Delhi. You can get contact information for the IP attaché at: USPTOIndia@mail.doc.gov

IPR Climate in Sri Lanka

All trademarks, designs and patents must be registered with the Registry of Patents and Trademarks. Sri Lanka is a member of the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Sri Lanka has signed a bilateral agreement with the U.S. to protect intellectual property rights and is a signatory to the Paris and Berne Conventions.

In 2003, a new intellectual property law governing copyrights, patents, trademarks, and industrial design came into force. Registered trademarks are valid for 10 years, patents for 20 years, and industrial designs for 5 years. Infringement of IPR is a punishable offense under the IPR law, and IPR violations are subject to both criminal and civil jurisdiction. Sri Lanka also passed a new Computer Crimes Act in 2007, strengthening Sri Lanka's IPR regime pertaining to software. Notwithstanding the new laws, IPR enforcement is still a problem. Piracy levels are very high for sound recordings, movies, and software. Government use of unauthorized software is a problem. According to a study commissioned in 2006 by the Business Software Alliance, 90 percent of personal computers in Sri Lanka used pirated software. The study estimated retail revenue losses of \$86 million in 2006 due to software piracy. Further, redress through the courts is often a frustrating and time-consuming process. Police can legally take action without complaints by rights holders, but rarely do so. In 2008, the Business Software Alliance successfully worked with the government to prosecute IPR violators. In the apparel sector, right owners through their lawyers have scored some legal successes in combating piracy.

The U.S. Embassy, the American Chamber of Commerce of Sri Lanka, and the European Chamber of Commerce are working with the government of Sri Lanka to improve enforcement, provide enforcement training, and enhance public awareness. For more detailed information, see Chapter 6 – Investment Climate.

Contacts for local IPR registration and enforcement

National Intellectual Property Office

www.nipo.gov.lk

Due Diligence

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Publicly listed companies are required to publish audited financial results, which can be checked prior to entering into business agreements. Stock brokers also publish corporate evaluations for publicly listed companies. Fitch Ratings and Lanka Rating Agency provide rating information for banks and financial institutions and some conglomerates and large companies.

For major deals, business consultancy firms and law firms can perform due diligence. In smaller transactions, letters of credit are a standard requirement for potential customers, while bank references and track records can be checked prior to appointing agents.

The International Partner Search (IPS) and International Company Profile (ICP) provided by the Department of Commerce are available through the Embassy for U.S. companies looking to appoint a local representative in Sri Lanka. Interested companies should contact the U.S. Department of Commerce's Export Assistance Centers in their respective states (www.export.gov). The U.S. Commercial Service has a network of export and industry specialists located in more than 100 U.S. cities.

Local Professional Services

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There is an active and competent accounting profession, based on the British model. The source of accounting standards is the Institute of Chartered Accountants of Sri Lanka (ICASL) and standards are constantly updated to reflect current international accounting and audit standards. KPMG, Ernst and Young, PricewaterhouseCoopers, and Deloitte Touche are represented in Sri Lanka.

There is also a relatively competent legal profession. Sri Lankan commercial law is almost entirely statutory. The law was codified before independence in 1948 and reflects the letter and spirit of British law of that era. It has, by and large, been amended to keep pace with subsequent legal changes in the U.K. All agreements made with local partners and agents should be in writing. In the event any disputes or problems arise, it is helpful to have written records for the purpose of supporting a legal case. The Embassy's Consular Section maintains a list of attorneys in Sri Lanka, a copy of which may be obtained on request. The leading law firms in Sri Lanka are also listed in the International Law List published in the U.K.

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Registrar of Companies: www.drc.gov.lk

Colombo Stock Exchange: www.cse.lk

Lanka Academic Network: www.theacademic.org

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Commercial Sectors

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- Power and Energy
- Machinery and Mechanical Equipment
- Textile Fabric
- Medical Equipment
- Paper and Paper Products
- Apparel Industry Equipment
- Information Technology
- Infrastructure Projects

Telecommunications Equipment

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The telecommunications sector has demonstrated significant growth in the past few years, supported by improved technology, capacity, and coverage and resulting in higher subscriber network and quality of services. The growth of the sector in 2009 was impressive with the number of mobile phone users exceeding 13 million and the demand for internet and mobile broadband on the rise. According to the Telecommunications Regulatory Authority, Sri Lanka has the some of the most advanced technologies in the world such as GSM, 3G, 3.5G and HSPA (High Speed Packet Access). Sri Lanka is also one of the first countries to introduce Next Generation networks such as 4G.

The telecommunications sector in Sri Lanka is responsible for attracting the highest foreign direct investment (FDI) in recent years.

The telecommunications sector has undergone major changes during the last decade in terms of subscriber networks, private sector participation, modernization, and institutional reforms, making it one of the fastest growing sectors in the country. There has been a steady increase in the number of users of fixed telephony as well as mobile phones. Up to the first half of 2009, 3.3 million fixed line users, 12.6 million mobile phone, and 240,000 internet and email subscribers were registered. There is significant competition among the existing operators, consisting of four fixed-line operators, five mobile phone operators, 33 external gateway operators and 29 Internet Service Providers, and several others providing data services, paging, pay phone, trunk radio, and leased-circuit telephone facilities. The western province, with the capital city of Colombo, accounts for over 40 percent of all fixed lines. The subscriber network also registered growth following the end of hostilities and opening up of markets in the north-east. The country expects to increase telephone penetration in 2010 from the 50% penetration level achieved in 2009. The mobile-telephone operators dominate the sector, although fixed operators have also achieved significant growth in the past couple of years.

Several telecommunications development projects were implemented in 2007-2008 to improve capacity, technology, coverage, and efficiency of services. The newest mobile operator has invested \$100 million to operate the fourth mobile network in the country in 2009. A submarine cable with Dhiraagu of Maldives was commissioned in 2007. The introduction of Code Division Multiple Access (CDMA) technology in 2005 has resulted in the substantial growth in the fixed access services. Mobile operators are investing heavily in infrastructure to stay abreast of the latest technology and to perform in a highly competitive sector. There is potential for increased expansion of the telecommunications sector with services such as telemarketing, call centers, data processing, and internet-based products. This sector stimulated demand for import of modern telecommunication equipment and transmission apparatus.

Resources

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The Telecommunications Regulatory Commission of Sri Lanka

www.trc.gov.lk

Sri Lanka Telecom	www.slt.lk
Dialog Telekom	www.dialog.lk
Celltel	www.celltel.lk
Suntel	www.suntel.lk
Lanka Bell	www.lankabell.net
Mobitel	www.mobitellanka.com
Eureka	www.eureka.lk
AirTel	www.airtel.lk
Lanka Internet	www.lisl.lanka.net
Central Bank	www.cbsl.lk

Power and Energy

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Sri Lanka's total installed capacity is 2,443MW. Hydro power contributes 1,323MW, thermal 1,115MW and wind 3 MW. The government has identified developing renewable energy a priority and plans to achieve 10% of its total power needs through renewable sources by 2020. To achieve this, the Sustainable Energy Authority (SEA) was established to facilitate private-sector investment in renewable energy resources, such as wind, small hydropower, and biomass.

The country's efforts to increase capacity have been slowed by the lack of a power policy, protests by environmental and social groups, and limited technical capacity within the government to review private power projects, especially in terms of financing packages. Sri Lanka's power sector has struggled for decades to meet rising demand and to provide efficient and cost-effective electricity services. Around 20% of households still lack electricity access and the government-owned Ceylon Electricity Board (CEB), is weighed down with debt, reducing its ability to fund new infrastructure or attract private investment. In addition, the share of thermal power in the power generation mix has increased from 1% of the total in 1986 to around 58% in 2009. Sri Lanka has also moved to open several large coal fired plants to reduce their dependence on oil.

The Government has launched a 10-year development plan to address these constraints and will support the CEB and the Lanka Electricity Company to improve coverage and service efficiency. The initiatives will include modernizing and upgrading the country's transmission system and launching a demand-side management program for public lighting. Support for renewable energy will add 200 MW of hydro-generated electricity to the national grid and encourage private sector investment in the industry. At least 60,000 poor households will be connected to electricity services through micro-credit support.

Opportunities in the power sector include: new power plants (hydro, liquid natural gas, coal, other alternate sources) converting auto diesel-fired plants to dual fuel (liquid natural gas) plants, mini hydro electricity plants, home solar systems, electrical meters and switches, power transmission and control systems, and power cables.

Sri Lanka has vast wind-energy resources due to its location in the Indian Ocean. However, only one small wind power plant of 3MW owned by the CEB is connected to its

national grid. There are no private companies operating wind-power projects. In 2003, USAID conducted a comprehensive wind-energy resource assessment in Sri Lanka that showed many areas in Sri Lanka had good to excellent wind resources that are ideal for commercial development.

USAID has assessed wind and solar energy potential for Sri Lanka. This information is available on www.nrel.gov

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Ceylon Electricity Board www.ceb.lk
Asian Development Bank www.adb.org/srilanka/projects.asp
USAID/South Asia Regional Energy Program (SARI) <http://www.powersrilanka.com/>
USAID wind and solar maps www.nrel.gov

Machinery and Mechanical Equipment

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Machinery and mechanical imports to Sri Lanka were approximately \$1.3 billion in 2008, a slight increase over 2007 levels. Imports of investment goods grew by around 10 percent in 2008 and have maintained steady growth in the last few years. The construction, telecommunications, and IT sectors were the main contributors for the growth in this sector. This sector is gearing for significant opportunities in the north-east due to rapid development projects planned by the government. The private sector is also exploring opportunities in these areas in manufacturing and construction sectors. Incentives offered by the government for acquiring advanced technology also contribute to the growth of this sector. Sri Lanka imports various machinery required for its exporting industries, with manufactured exports amounting to 80% of total exports. Existing industries also need constant upgrading of technology and require many kinds of machinery for a range of applications. The main suppliers of machinery and mechanical appliances are India, Taiwan, Japan, and the European Union.

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Board of Investment: www.boi.lk

Textile Fabric

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Apparel exports continued to be the country's top foreign exchange earner, with approximately \$3.4 billion exports in 2009. Apparel exports grew 7% during the first quarter of 2009, but slack demand from the U.S. and Europe could affect medium term growth. The apparel sector accounts for around 33% of the manufacturing employment in the country. This sector offers good prospects for U.S. fabric and yarn suppliers.

Sri Lanka's apparel exports fall into four broad product categories: active/sportswear, casual wear, children's wear, and intimate wear. The industry has invested heavily in technology. Most of the larger factories are run by sophisticated local business houses in collaboration with international partners. U.S. companies such as Sara Lee, Kellwood, MAST industries, and A&E have invested in Sri Lanka. The sector is gearing up to face a challenging year ahead with the downturn in the U.S. economy and potential loss of GSP+ benefits from the European Union. While the sector has invested heavily to comply with ethical and green standards, exporters state that buyers are not willing to pay more for such products.

Sri Lankan apparel manufacturers import almost 90% of their fabric. Though domestic fabric and yarn production is increasing, Sri Lankan apparel and fabric manufacturers remain interested in fabric and yarn from the United States, which is also their largest buyer. In 2008 the industry imported fabric worth \$1.1 billion, yarn worth \$210 million, and accessories worth \$158 million. The import categories most in demand are woven fabric (\$800 million) and knitted fabric (\$300 million). Currently, the U.S. accounts for only about \$20 million of the \$1.3 billion fabric, yarn and fiber business in Sri Lanka. The U.S. supplies mostly woven fabric. China, South Korea, Taiwan, and India are the major exporters of textile fabric to Sri Lanka. Italy and France are the major suppliers of high quality niche fabric. Imported textile and yarn for export industries are duty free.

There is an opportunity to supply grey fabric, denim, polyester yarn, and specialized fabric used for lingerie, and sportswear. In addition, to consolidate economies of scale, U.S. exporters could look at Sri Lanka as a warehousing hub for U.S. yarn and fabric bound for other markets in the region.

Potential exporters should familiarize themselves with Sri Lanka industry standards, since many companies have established themselves as top-class suppliers to international-apparel labels. Distance, accompanying lead times and cost are also factors that affect prospects in the sector. Attractive incentives are also available for U.S. manufacturers to establish textile-manufacturing facilities to meet the demand of the sector, which is expected to grow, despite the potential loss of GSP-plus trade benefit. U.S. suppliers who want to compete in this market need to be flexible in order management and in negotiating payment terms. Sri Lanka could be considered a regional hub to supply fabric to other manufacturers in neighboring countries.

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[Joint Apparel Associations Forum of Sri Lanka: \(JAAF\) www.jaafsl.com/](http://www.jaafsl.com/)

Sri Lanka Textile News: www.sri-lanka.textilenews.org/
MAS Holdings: www.masholdings.com
Brandix Lanka: www.brandix.com
MAS Fabric Park: www.masfabricpark.com
Hirdaramani Group of Companies: www.hirdaramani.com

Medical Equipment

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Demand for health care services is rising due to an ageing population.

The government continues to support its long-standing policy of providing free health care to the public at government hospitals. Total government expenditure on health increased in 2008 to around \$750 million from \$600 million in 2007. The public sector health system is a major challenge for the government as the human resources and financial capital to maintain an efficient service is costly, accounting for around 2% of GDP. The private sector has invested considerable in health care, especially in Colombo and some of the major cities, which has eased some of the burden for the state. There are 619 government hospitals, nearly 200 private hospitals and nursing homes of varying sizes, 5,000 private pharmacies, and 1,000 laboratories in Sri Lanka.

The supply of high-tech medical equipment and pharmaceutical items to private and public sector hospitals is an area of opportunity for U.S. health-sector companies. Private hospitals in Colombo are equipped with up-to-date equipment and these hospitals provide good opportunities for U.S. suppliers. Government tenders for equipment, pharmaceutical items, and projects represent other opportunities for U.S. companies in health care. Engaging local representatives with experience in the medical sector and maintaining good connections to both public and private sector health providers are important for medical equipment suppliers to succeed. Well-known international brands can succeed in this sector. Diagnostic equipment, operating theater equipment, intensive care equipment, clinical analyzers, and hematology equipment continue to offer the best sales prospects for U.S. firms.

U.S. exports of medical equipment and pharmaceuticals to Sri Lanka were valued at approximately \$7 million and \$2 million respectively in 2009.

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Ministry of Health: www.health.gov.lk
World Bank: www.worldbank.org/lk (for World Bank assisted projects in the health sector)

Paper and Paper Products

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Total value of paper and paper-products imports was approximately \$300 million in 2009. The demand for paper and board is projected to reach around 330,000 tons per year by 2015, most of which will be met by imports. Print media, magazines, and books continue to record growth. This presents good prospects for paper and pulp exports. The printing industry in Sri Lanka is vibrant with around 3,000 printing establishments in the western province. The Sri Lankan print industry enjoys a pre-eminent position as a major supplier of tea tags and envelopes throughout South Asia, the Middle East, and Far East. One of the other prominent areas of printing exports is printed stationery. The Sri Lankan stationery products industry has reached international standards with products such as exercise books, diaries, albums, greeting cards, handmade paper items, and artists' materials that are exported largely to the European Union. Packaging and printing materials are exempt from import duty.

U.S. suppliers exported kraft liner, filter paper, and kraft paper to Sri Lanka worth over \$10 million in 2008. Prospects in areas such as labels, bobbins, and spools used in textiles, and newsprint also present opportunities for U.S. suppliers.

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Sri Lanka Customs: www.customs.gov.lk

Apparel Industry Equipment

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The apparel industry continues to adopt new technology and instill modern management techniques in order to meet challenges of the post-Multi Fiber Agreement era and remain competitive in the global market. This should represent considerable opportunities for U.S. suppliers providing technology and equipment.

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Sri Lanka Textile News: <http://sri-lanka.textilenews.org/>

Joint Apparel Associations Forum of Sri Lanka (JAAF): <http://jaafsl.com/>

Information Technology

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IT is a fast emerging sector in Sri Lanka and has seen remarkable growth over the past decade. While the private sector is largely computerized, most government institutions, while having basic IT facilities, need to upgrade their systems in order to provide a more efficient service. Several U.S. software providers have been successful in selling solutions to private customers and to some public-sector agencies. A recent tender by

the local banking association to implement an anti-money laundering system has also attracted the interest of a U.S. company.

The Information and Communication Technology Agency (ICTA) is at the forefront of driving the country's IT strategy and has implemented a number of programs to develop the sector. A World Bank-funded E-Sri Lanka initiative is aimed at improving rural connectivity and re-engineering government. Another initiative is underway to enhance the quality of services offered to the public via electronic media. Sri Lanka's software industry produces world class software and has grown significantly over the past decade. Exports of software and Information Technology-enabled services, such as IT-related business process outsourcing (BPO) services, continued to grow in 2008-09, supported by improvements in IT-related infrastructure facilities. Earnings from software and IT-enabled services exports average around \$150 million annually. The software industry aims to increase annual revenue to \$1 billion and 40,000 jobs by the year 2012. The country is making efforts to capitalize on the potential of the BPO industry. According to the World Bank, Sri Lanka has relatively low labor cost compared to other BPO destinations. HSBC, Office Tiger, Astron, Hellocorp, Innodata, and WNS Global Services have set up call centers or BPO operations in Sri Lanka. Numerous U.S. companies, many small- or medium-sized, are developing software in Sri Lanka. The Government seeks to further develop Sri Lanka as a base for information technology, call centers, and out-sourcing.

These developments present excellent marketing opportunities for U.S. BPOs, software, and hardware vendors. Computers are subject to a 6% import duty. They are exempted from the value added tax.

Infrastructure Projects

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The Government of Sri Lanka has placed a large emphasis on investing to improve the public infrastructure of the country, particularly in the post-conflict areas of the North and East. Government projects, however, are often slowed due to poor planning, slow decision making, opaque tender procedures, lack of implementation capacity and funds, protests by environmental and social groups, and a lack of technical capacity within the government to review projects. Decisions are often reversed even after approval.

Oil Exploration: Seismic surveys and airborne gravity surveys have indicated the likely existence of petroleum resources in Sri Lanka's territorial waters off the northern and western coasts, in the Cauvery basin in the Palk Straits (between Sri Lanka and India) and in the Mannar basin along the western coastal belt of Sri Lanka. The seismic surveys were conducted by the Australian subsidiary of Norwegian firm TGS-NOPEC in 2003 and 2005.

Sri Lanka's Ministry of Petroleum and Petroleum Resources Development has identified eight blocks for offshore oil exploration in Mannar Basin. The eight blocks comprise both shallow and deeper waters. The first exploration license was issued to Cairn India www.cairnindia.com in July 2008. Consequently, Cairn Lanka, a wholly owned subsidiary of Cairn India commenced three-dimensional (3D) seismic surveys of the block allocated to the company in December 2009. The company hopes to complete data acquisition and processing by mid 2010 and start drilling in 2011. Cairn plans to drill three wells in the initial three years of the eight year exploration period. Cairn is expecting to invest over \$100 million for these activities.

Sri Lanka has reserved two of the remaining five blocks, one each for China and India. The two countries have yet to start work on these blocks. The Government of Sri Lanka is planning to open several blocks for exploration in 2010-2011.

There will be opportunities to supply equipment and services needed for oil exploration.

For further information please visit www.prds-srilanka.com or contact Dr. Neil De Silva, Director General, Petroleum & Resources Development Secretariat, 80, Sir Ernest De Silva Mawatha, Colombo 7. Ph: 94-11-256 4353 fax: 94-11-247 7958. Seismic data from a two-dimensional survey carried out by TGS-NOPEC can be purchased from the Petroleum & Resources Development Secretariat. You may also contact Cairn Lanka Private Ltd Email: pscm@cairnindia.com Phone: 91-11-244-14-1360

Colombo Port Expansion: The Port of Colombo is served by 23 major shipping lines and seven feeder services, and is considered one of the most efficient and streamlined ports in the region. It has an annual cargo handling capacity of 3.4 million 20-foot equivalent units (TEU).

The Colombo Port Expansion project aims to increase the capacity of this main commercial port in Sri Lanka to 10 million TEUs by 2023 by adding three terminals so that it can continue to act as a hub port for the region. The project will be a public-private partnership with the public sector implementing the harbor infrastructure and the private sector implementing the container-terminal construction. The ADB provided a loan of \$300 million to fund the expansion of the Port's Southern breakwater. A foreign company is constructing the breakwater. The first terminal with a capacity of 2.4 million TEUs was tendered in 2007 but was canceled amidst various allegations. It has been re-tendered and the contract was awarded to a Chinese company. The other two terminals, with a capacity of 2.4 million TEUs each, will be tendered later and completed in 2016 and 2023 respectively. Longer term plans include the development of an additional breakwater and a container terminal in 2028.

Hambantota Port: The government is also trying to attract investors to a new port being developed in Hambantota District in the south. The port, being built with a loan from the Chinese government, is located about one hour from major shipping lanes that run just south of Sri Lanka. The port infrastructure construction work is expected to be completed by end of 2010. In the first phase, the port is expected to be an industrial/service providing port. The government hopes to invite investors to set up industrial and bunkering facilities, ship repairing yards, break-bulk facilities (for cement and fertilizer), food-processing industries, warehousing, and Liquid Petroleum Gas (LPG) storage facilities. In addition to private investors, the government hopes to set up an oil-tank-farm adjunct to the port.

Contact:

Sri Lanka Ports Authority www.slpa.lk

Bandaranaike International Airport (BIA): BIA is currently the only international airport in Sri Lanka. BIA recently upgraded its terminal facilities and air navigation systems and is to be expanded further. The project pipeline includes widening and overlaying of the present runway, although this project is currently suspended. A project for the construction of a new pier with 10-12 aero bridges is planned to begin in 2009-2010 with

Japanese funding. A design consultancy for the project is underway. Other long term plans include the construction of a second runway at the BIA. An airport expansion study, funded by the U.S. Trade and Development Agency, is nearing completion. The Government of Sri Lanka is also considering a second international airport near the Hambantota Port.

Contact:
Airport and Aviation Services (Sri Lanka) Limited
Email: chairman@airport.lk

Agricultural Sectors

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Wheat Grain: Sri Lanka imported 900,000 metric tons of wheat in 2009. All imports were commercial transactions. Most wheat imports were of Canadian origin; U.S. wheat exports to Sri Lanka totaled \$33 million in 2009.

Singapore-owned Prima Ceylon Ltd is the largest wheat miller in Sri Lanka, and until recently, the country's sole wheat processor. Prima was initially owned by the government and was privatized in 2001. The company operates one of the largest flour mills in the world in the eastern town of Trincomalee; it has a milling capacity of 3,600 metric tons of wheat grain per day. A second mill, owned by a company from the UAE, was commissioned in August 2008. The main competitors in the wheat-supply business are Canada, India, and Australia. Prima Ceylon exports wheat flour to several countries in the region.

Lentils: Sri Lanka is a major market for red lentils with annual imports valued at over \$40 million. India is a main exporter of lentils to Sri Lanka. U.S. suppliers have significant opportunities in this market subject to competitive pricing. The U.S. exported lentils to the value of approximately \$10 million in 2009.

Corn: Corn is used extensively in the feed-milling industry. The government has relaxed import duties of corn with effect from January 25th 2010 in order to meet the demand of the local feed sector. This presents a good opportunity for U.S. corn suppliers to export to the Sri Lankan market. Annual corn production is estimated at around 110,000 tons while imports brought in 82,000 tons in 2008.

Cotton, Yarn, and Fabric: Sri Lanka imports approximately \$500 million of cotton (raw cotton, yarn, fabric) annually. Imports from U.S. were about \$2.7 million in 2009. U.S. cotton suppliers have substantial opportunities to export to Sri Lanka's export-orientated apparel sector. Hong Kong, India, Indonesia, and South Korea are the major cotton suppliers to Sri Lanka.

Apparel manufacturers have taken several measures to face the challenges of the global economic downturn, which include low energy consumption, water conservation, solid-waste management, and low-carbon emissions. Major companies have introduced eco-friendly manufacturing process in response to world market preferences. Exporters could face short-term to medium-term difficulties due to reduced demand and potential loss of the GSP-plus preferential trade facilities with the EU. A leading apparel exporter has established a textile-processing zone with a view to expanding fabric manufacturing in the country. Currently, 90% of fabric is imported.

Tobacco: Tobacco consumption in Sri Lanka has recorded a decline since the government imposed stiff tobacco regulations in 2006. Around 80% of smoked tobacco is consumed in the form of cigarettes. Sri Lankan tobacco consumers belong to diverse segments and per capita annual consumption is around 200 cigarettes. The sole cigarette manufacturer, Ceylon Tobacco Company, reports declining sales, which also confirms a reduction in demand over the past few years. Smoking is banned in public places. U.S. tobacco exports to Sri Lanka were approximately \$3 million in 2009. The Netherlands, Indonesia, and Belgium are the other major tobacco suppliers.

Resources

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US Department of Agriculture: www.fas.usda.gov
(Trade Policy Monitoring Report for Sri Lanka and Grain and Feed Annual, Sri Lanka)
Central Bank of Sri Lanka Annual Report 2008: www.centralbanklanka.org
Sri Lanka Textile News: <http://sri-lanka.textilenews.org/>
Joint Apparel Associations Forum of Sri Lanka (JAAF): <http://jaafsl.com/>

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Chapter 5: Trade Regulations and Standards

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Import Tariffs

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Imports are subject to various taxes. U.S. exporters should be aware that fees incurred when exporting to Sri Lanka include the customs-import tariff, import-duty surcharge, Export Development Board levy, Value Added Tax (VAT), Social Responsibility Levy, Port and Airport tax, Nation Building Tax, Port Handling charges, and agent commissions, as well as a 0.1% tax on bank debits, all of which could add up to more than 100% of the CIF value for items at the higher tariff bands. The Embassy has received complaints from U.S. exporters regarding this “prohibitive” tariff regime.

Customs Import Tariff

Sri Lanka has a multi-band schedule of customs import tariffs based on the Harmonized System of Classification. The tariff structure is subject to frequent changes. The most commonly assigned bands are 0, 2.5, 6, 15, and 28%. Most agricultural and food products, consumer goods, chemicals, and other intermediate goods manufactured locally are subject to a 28% tariff. Basic raw materials are subject to a 2.5% tariff. Semi-processed raw material is at 6%. Intermediate products are at 15%, and most finished products are at 28%. A few selected agricultural products, such as rice, chilies, onions, and potatoes, have specific import duty rates. In addition, there are specific duties on footwear and ceramic products to protect the local industries.

Imported inputs for export industries are not subject to import duty. For example, all imports of textile materials, yarn, and related intermediate and capital goods required for the garment export industry are free of import duty. In addition, imports of gold, gems, telecommunications equipment, sports equipment, medical and dental equipment, agricultural seeds and a range of machinery and equipment needed for agriculture and the fisheries industry are duty-free.

Tobacco, cigarettes, and liquor do not come under the five-band rate structure and are taxed at very high rates. Sri Lanka has bound most agricultural tariffs and a few other non-agricultural tariffs at 50% under the World Trade Organization (WTO). Although

most items are already subject to duties below the bound rates, the GSL has not honored its WTO commitments on cigarettes, which remain subject to a 100% tax. As a result, the cigarette market remains effectively closed for significant legal imports, and smuggling is a problem.

Export Development Board (EDB) Levy

In November 2004, the Government introduced a new additional tax on a range of imports, including fruits, vegetables, processed and unprocessed food, shoes, bags, rubber and plastic products, textile products (both apparel and fabric), consumer items such as toiletry and perfumes, ceramic ware, glass ware, pens and electrical goods. The list has been expanded and taxes increased over the years. The tax is applied on the cost-plus-insurance-plus-freight (c.i.f.) value, and ranges from 1% to 35%. Most of the items are subject to an *ad valorem* or a specific duty and the rate with higher tax incidence is applied when calculating the tax. In some cases, such as on biscuits, chocolates, and soap, the tax is charged not on the import price but on 65% of the maximum retail price. These taxes, together with other charges applicable on imports (mentioned below), have moved Sri Lanka's tariff structure steeply upwards.

Value Added Tax

Sri Lanka has a value added tax (VAT) on sales by manufacturers, service providers, and importers. The VAT is charged at 12% (standard rate), and 20% (luxury items). Wholesale transactions are exempted from VAT but they are subject to a Business Turnover Tax (BTT) imposed by Provincial Councils. The BTT is currently set at 1%. Exports are excluded from VAT.

Other Charges on Imports

- Import duty surcharge of 15% on all dutiable imports.
- Ports and Airports Development Levy (PAL) of 5% on imports.
- Excise fees on some products such as aerated water, liquor, beer, motor vehicles, cigarettes, and certain household electrical items. When calculating the excise fee, an imputed profit margin of 15% is added on to the import price.
Note: Locally manufactured products are also subject to excise fees.
- Port handling charge, which varies by container size.
- Social Responsibility Levy, a surcharge of 1.5% assessed on the import duty to fund the National Action Plan for Children.
- Nation Building Tax of 3%.
- Regional Infrastructure Fee of 5% on automobiles.

Tax on Foreign Television Programs

The government imposes taxes on foreign movies, programs, and commercials to be shown on television.

- Imported English language movies shown on television are taxed at Rs 25,000 (approximately \$250).
- English language television programs are taxed at Rs 10,000 (approximately \$100) per half hour episode.

- Any foreign film or program dubbed in the local language Sinhala is taxed at Rs 90,000 (approximately \$900) per half hour.
- Foreign television commercials are taxed at Rs 500,000 (approximately \$5,000) per year.

Rates for non-English foreign programming are higher. Government approval is required for all foreign films and programs shown on television.

Trade Barriers

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Sri Lanka prohibits the importation of chicken meat in order to protect the market for local chicken producers. Sri Lanka has cited, but not justified, health-related concerns for this barrier. GM regulations restrict entry of genetically-modified products. Excessive health requirements for agricultural products also curtail imports of US products. High tariffs affect US exports across a wider range of food and agricultural products.

Import Requirements and Documentation

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Payments for import of goods can be made under Letters of Credit (LC), Documentary collections (Documents against Payment (DP) or Documents against Acceptance (DA) terms), or Advance Payment (AP) terms. Goods can also be imported to Sri Lanka on a consignment-account basis, where the goods imported are books and periodicals or ornamental fish imported for re-export. Letters of Credit are valid for up to 365 days. Imports on Advance Payment terms are allowed where the total value of the goods does not exceed \$10,000. Payments for imports made on Advance Payment basis can be made through bank draft, mail transfer, or telegraphic transfer. Goods for which advance payment has been made should be received by the importer within 90 days of payment.

Basic documents required by commercial banks for imports include an invoice, insurance certificate (if applicable), and transport documents. Depending on the product and the mode of payment, documents such as certificates of origin, inspection certificates, and packing lists may also be required. Shipments by air cargo may require the same documentation as those arriving by sea. All shipping documents in relation to imports made on DP or DA terms should be forwarded by the supplier's bank or by the supplier to a commercial bank in Sri Lanka for release to the importer of goods. In the event the original documents are not received on time, the importer, at the discretion of the bank, may submit copies of those documents for certification by the bank for clearance of the goods. The importer should arrange the original shipping documents to be received by the bank concerned within 30 days from the date of certification of the copies.

To clear goods from customs, the importer should submit relevant shipping documents certified by a commercial bank and customs declaration forms to the Sri Lanka Department of Customs. In the case of an import made on an AP basis, goods will be released on submission of satisfactory proof of payment, such as bank confirmations. In the case of an import made on a consignment-account basis, goods will be released by customs on the submission of clearance documents.

The government of Sri Lanka (GSL) implemented the WTO Customs Valuation Agreement in January 2003 and follows the transaction-value method to determine the cost, insurance, freight (CIF) value. The scheme has operated smoothly and major companies have not faced problems.

Sri Lanka Customs, however, regards undervaluing in customs declarations as a common tactic in import trade. As a result, even genuine importers can face problems. In one instance, a local agent representing a major U.S. company was charged for declaring a nominal value for product literature and software, despite its assurances that the declaration was accurate.

The government, which currently uses an electronic system for all exports destined for the United States, hopes to introduce a comprehensive electronic-data system to expedite import/export clearance procedures.

U.S. Export Controls

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Under Section 699G of the "Department of State, Foreign Operations, and Related Programs Appropriations Act, 2008" as approved by Congress and signed by the President on December 27, 2007, the following limits are currently in place:

(a) None of the funds appropriated by this Act under the heading "Foreign Military Financing Program" may be made available for assistance for Sri Lanka, no defense export license may be issued, and no military equipment or technology shall be sold or transferred to Sri Lanka pursuant to the authorities contained in this Act or any other Act, unless the Secretary of State certifies to the Committee on Appropriations that--

(1) the Sri Lankan military is suspending and the Sri Lankan Government is bringing to justice members of the military who have been credibly alleged to have committed gross violations of human rights or international humanitarian law, including complicity in the recruitment of child soldiers;

(2) the Sri Lankan Government is providing access to humanitarian organizations and journalists throughout the country consistent with international humanitarian law; and

(3) the Sri Lankan Government has agreed to the establishment of a field presence of the Office of the United Nations High Commissioner for Human Rights in Sri Lanka with sufficient staff and mandate to conduct full and unfettered monitoring throughout the country and to publicize its findings.

(b) Subsection (a) shall not apply to technology or equipment made available for the limited purposes of maritime and air surveillance and communications.

Temporary Entry

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Temporary entry for exhibition material is allowed under the Carnet system of the International Chamber of Commerce. The exporter should ensure that required documents under the Carnet system are certified in the country of origin of the material. These documents should be presented at the time the goods are cleared from Customs.

Goods brought into the country under the Carnet system must be re-exported within six months. For additional information, contact the approving authority: Director of Customs, Times Building, Colombo 1, telephone 94-11-421141~9, fax 94-11-446364. Any products subject to import controls (as described above) also require approval from the relevant government authority.

Labeling and Marking Requirements

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All labeling of packages should be in large bold lettering in indelible ink or paint. For container cargo, the weight, center of gravity, and sling or grab points, may be marked to encourage careful handling. Goods shipped to Sri Lanka should be well-packed in order to withstand heat, humidity, rough handling, and pilferage. Shipping marks should show consignee order number and port of entry.

Food labeling: Government food-labeling regulations require that food products cannot be sold, offered for sale, transported, or advertised unless labeled in accordance with these regulations. Detailed instructions of these regulations can be found in the government Gazette No. 1323/2 of January 12, 2004.

Genetically Modified Food (GMO) labeling: In January 2007, the Ministry of Health implemented a regulation for mandatory labeling of genetically modified food.

Prohibited and Restricted Imports

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The import of illegal drugs is prohibited.

The government has eliminated most license controls, with a few items remaining under license control mainly for health and national security reasons. Poultry and most agriculture commodities are under license control. Beef imports from Canada and the United States are prohibited due to unfounded concerns regarding Bovine Spongiform Encephalopathy (BSE - "mad cow disease"). The importation of chicken meat is prohibited entirely; however this is a protectionist trade measure, as noted above. Sri Lanka reserves the right to prohibit GM agricultural commodities on the basis of the precautionary principle.

The import of drugs is subject to the approval of the Drugs and Cosmetic Devices Committee of the Ministry of Health.

The Ministry of Defense controls the import of firearms and ammunition, for use by the armed forces, police, and civil security. Certain military-related or dual-use items are prohibited or controlled. Radars, night-vision devices, beta lights, armored vehicles, explosion-detection equipment, digital-jamming equipment, infrared illuminators, GPS equipment and laser designators are prohibited. Imports of laser/radar range finders and thermal-image devices are subject to Ministry of Defense approval. Remote-controlled toys are also under license control for public security reasons. There are restrictions on the import of toxic and hazardous chemicals and pesticides. Used and reconditioned air conditioners and refrigerators are under license control for environmental protection.

Customs Regulations and Contact Information

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Director General
Sri Lanka Customs Department
Customs House, Times Building
Bristol Street, Colombo 1
Phone: 94-11-243-6354
Fax: 94-11-244-6364
Home page: www.customs.gov.lk

Standards

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- [Accreditation](#)
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Overview

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The Sri Lanka Standards Institute (SLSI), a member of the International Standards Organization (ISO), is the national standards organization in Sri Lanka. SLSI sets product standards, approves imports covered under a mandatory import-inspection scheme, and performs product testing, pre-export inspection, registration of fish and fishery products, and ISO quality management training.

NIST Notify U.S. Service

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: <http://www.nist.gov/notifyus/>

Standards Organizations

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There are over 1,250 Sri Lanka standards relating to manufactured products, agricultural commodities, industrial raw materials, and production processes. But, only about 30 of them (mainly on building materials, household electrical items, food, and consumer products) are mandatory.

A mandatory SLSI import inspection scheme applies to 103 items identified on the basis of national health and safety requirements. The scheme guarantees the quality of these imported items against the relevant Sri Lanka standards. SLSI accepts certificates issued by labs accredited by the national accreditation body of the exporting country. SLSI also accepts quality certificates issued by the national standards body of the exporting country or certificates issued by registered manufacturers. All these consignments are subject to random checking. Products without certificates are sampled and tested.

Sri Lanka has adopted ISO 9000 series standards on quality management and assurance, ISO 14000 standards on environment-management systems, Hazard Analysis and Critical Control Points (HACCP) assurance for food-safety standards, and Good Management Practice Certificate (GMP).

Accreditation

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Sri Lanka Accreditation Board for Conformity Assessment www.slab.lk is the national accreditation authority for Sri Lanka established under Act 32 of 2005. The board is responsible for accrediting testing labs, medical labs, and inspection and certification bodies involved in conformity assessment. A list of accredited institutions is available at the above website.

Sri Lanka Standards Institute (SLSI) operates an accreditation scheme for testing laboratories in Sri Lanka. SLSI accreditation is voluntary and accredits laboratories for conformity to ISO/IEC 17025: General requirements for competence of testing and calibration laboratories.

NIST Notify U.S. Service

Member countries of the World Trade Organization (WTO) are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: <http://www.nist.gov/notifyus/>

Publication of Technical Regulations

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Technical Regulations regarding the import inspection scheme of the Sri Lanka Standards Institute (SLSI) are published in Gazette Extraordinary 1447/28 of June 01, 2006 and available on www.slsi.lk.

Contacts

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Sri Lanka Standards Institution www.slsi.lk

Trade Agreements

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Sri Lanka has free-trade agreements with India and Pakistan. The agreements provide for duty-free entry as well as duty preferences for manufactured goods. Sri Lanka hopes to attract foreign investors interested in entering the Indian and Pakistan markets to establish operations in Sri Lanka under the FTAs.

Under the India-Sri Lanka Free Trade Agreement (http://www.doc.gov.lk/web/indusrilanka_freetrade.php), tariff concessions for Sri Lankan products include zero tariffs on 4,235 items; 50 to 100% reduction for tea and garments

under quota; 25% reduction for 553 textile items; and no reduction for 431 items on India's "negative list." Discussions are underway to reduce the negative lists of both countries. Sri Lanka and India had planned to expand the Indo-Lanka FTA to include the services sector under a Comprehensive Economic Partnership Agreement (CEPA), but the CEPA negotiations are stalled.

Under the Pakistan-Lanka Free Trade Agreement (http://www.doc.gov.lk/web/pakissrilanka_freetrade.php), Pakistan offers duty-free entry to all Sri Lankan exports except for items on a negative list. Pakistan's negative list contains 541 items with no duty concessions. Sri Lanka has offered duty-free entry to 102 items Pakistan. Sri Lanka's negative list contains 697 items. Import tariffs on all other items from Pakistan are to be phased out over a 5 year period.

Foreign investors in Sri Lanka can enjoy duty-free or preferential access to India and Pakistan under the two FTAs. Domestic-value addition of 35% is required to qualify for concessions granted under the agreements. Under the India-Sri Lanka FTA, rules of origin criteria are further reduced to 25% if the product contains at least 10% Indian raw material. Additional information about these and other agreements is available at www.boi.lk and www.doc.gov.lk.

On January 1, 2006, South Asian nations belonging to the South Asian Association for Regional Cooperation (SAARC) established a South Asia Free Trade Area (SAFTA). Operational since July 1, 2006, SAFTA offers regionalized tariff reductions for imports from member countries. SAARC members aim to reduce duties for imports from member countries to between zero and 5% over a period of 7-10 years, under the SAFTA. Less Developed Countries -- Nepal, Bangladesh and Bhutan -- will have a longer period to reduce duties. The SAFTA agreement has had limited impact in trade to date.

Web Resources

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Sri Lanka Customs www.customs.gov.lk (for the tariff schedule and information on other duties)
Board of Investment of Sri Lanka (for information on Free Trade Agreements) www.boi.lk
Department of Commerce: www.doc.gov.lk
Sri Lanka Standards Institution: www.slsi.lk
Sri Lanka Accreditation Board for Conformity Assessment: www.slab.lk

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Openness to Foreign Investment

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The end of Sri Lanka's long-running civil war in May 2009 should usher in an era of sustained positive economic growth. Sri Lanka can still be a difficult place to do business, however, with an erratic policy environment and cumbersome bureaucracy. Nonetheless, compared to other South Asian countries, Sri Lanka is relatively open to foreign investment. It offers a relatively open financial system, moderately good infrastructure, and generally capable workers. Some U.S. and other foreign investors have realized worthwhile returns on investment in Sri Lanka; others have tried and departed frustrated.

Sri Lanka is a lower-middle income developing nation with a gross domestic product of about \$42 billion in 2009. This translates into a per capita income of just over \$2,000, among the highest in the region.

The Sri Lankan economy is remarkable for its resilience. Despite the 1983-2009 civil war, GDP growth averaged around 5% in the last ten years. Even the December 2004 Indian Ocean tsunami failed to dent GDP growth, which was over 6% in 2005-2008, due in part to tsunami reconstruction. While inflation soared in 2007 and 2008, it has dropped to 5% in 2009.

Despite directing resources to end the civil war, Sri Lanka saw its gross domestic product (GDP) grow by an estimated 3.5% in 2009. Main contributors to growth were government services, fisheries, food and beverage, telecommunications, banking, and

transport. Sri Lanka's trade deficit narrowed sharply as both imports and exports declined, but imports fell much faster than exports, mainly due to lower oil prices. The trade deficit was fully offset by workers' remittances estimated around \$3 billion. The current account recorded a small surplus after many years. Overall, the Balance of Payments (BOP) is expected to record a surplus of about \$2.7 billion, the highest ever, thanks partly to heavy government borrowing. FDI was much lower than previous years with only about \$350 million in the first nine months.

While Sri Lanka's exposure to the global financial crisis is limited due to controls on its capital account, Sri Lanka experienced capital flight in early 2009 by foreign investors who had invested in government debt instruments. Central Bank reserves declined sharply in early 2009. However, business confidence rebounded with the end of the war and an IMF agreement in July 2009, allowing gross official reserves to increase to a historic high of \$5.2 billion as of November 2009, providing 6.3 months of imports cover. The rupee has stabilized around Rs 114.50 to the dollar. Credit ratings were revised upward to stable.

2010 will be an important year for the Sri Lankan economy. The Central Bank expects the economy to grow by 7% in 2010, aided by growth in agriculture, manufacturing, construction, tourism and other services, and the Central Bank forecasts inflation to remain at single digit levels. The government has postponed the presentation of the 2010 budget until after the parliamentary elections in March/April. The Government fiscal situation will be a concern in 2010 especially due to spending on two national elections as well as numerous promises to woo voters. However, defense expenditures should decline. Furthermore, the potential loss of the EU's GSP Plus trade benefit could further hinder Sri Lanka's economic growth.

Sri Lanka is a stable parliamentary democracy. In 1978, it shifted away from a socialist orientation and opened to foreign investment, although changes in government have often been accompanied by reversals in economic policy. Of the two major parties, the more pro-business United National Party has been in opposition in recent years. When it last held power, from 2002 to 2004, it pursued privatization and regulatory reform welcomed by domestic and foreign investors.

Currently, the ruling Sri Lanka Freedom Party has a more statist economic approach, guided by President Rajapaksa's 2005 election manifesto Mahinda Chintana ("Mahinda's Thoughts"). Mahinda Chintana seeks to reduce poverty by steering investment to disadvantaged areas; developing small and medium enterprises; promoting agriculture; and expanding the already enormous civil service. The Rajapaksa government has halted privatization and advocates state control of what it deems "strategic" enterprises such as state-owned banks, airports, and electrical utilities. There are also private banks which compete with the state owned banks. The government has increased direct and indirect taxation to fund increased government expenditure. The government has adopted import substitution strategies and has increased taxes on imports to protect local industries.

Multinational companies complain that increasing government bias in favor of local businesses is harming the local investment climate. Though many multinational companies perform better than the local private sector, international MNCs and SMEs feel the government is blatantly biased towards local companies. Some investors believe, and are concerned, that Sri Lanka is becoming a highly nationalistic

environment where the government often blames foreigners for its economic and social ills.

Other impediments to investment in Sri Lanka are workers' declining English language skills, inflexible labor laws, overburdened infrastructure, and its unreliable court system. Sri Lanka boasts a 90% literacy rate in the local Sinhala and Tamil languages, but English, which was once widely spoken, is now far less prevalent. Sri Lanka's labor laws include many model protections, but can make it nearly impossible for companies to lay off workers even when market conditions fully warrant doing so. The cost of dismissing an employee in Sri Lanka is, percentage-wise, one of the highest in the world. Sri Lanka has not invested in infrastructure to keep pace with its growth. Its roads are narrow and congested. With the conclusion of the war, Sri Lanka is renovating and constructing roads in the North and East. Multi-year projects to expand the ports in Colombo and Hambantota are underway.

Sri Lanka's electricity supply is generally reliable but can fail to meet peak demand in years of low rainfall and is priced higher than in other Asian countries. Businesses in Sri Lanka also face high interest rates, although rates have come down in the past few months. Sri Lanka's courts cannot be relied upon to uphold the sanctity of contracts. The courts are not practical for resolving disputes or obtaining remediation, because their procedures make it possible for one side in a dispute to prolong cases indefinitely. Aggrieved investors (especially those dealing with the government of Sri Lanka on projects) have frequently pursued out-of-court settlements, in hopes of speedier resolution. In late 2008, the Supreme Court, in an interim order, halted payments to five international and local banks involved in oil hedge contracts with the government. One of the involved banks is American. The case is now proceeding to international arbitration.

Trade

According to preliminary data for 2009, Sri Lanka's exports (mainly apparel, tea, rubber, gems and jewelry) were \$6.9 billion and imports (mainly oil, textiles, food, and machinery) were \$9.6 billion. Exports to the United States, Sri Lanka's second largest market, are projected around \$1.6 billion in 2009, or 23% of total exports. The United States is Sri Lanka's second biggest market for garments, taking about 40% of total garment exports. India is Sri Lanka's largest supplier, with exports of over \$3.8 billion. The United States' exports to Sri Lanka are projected at \$230 million in 2009. U.S. exports consist primarily of wheat as well as industrial machinery, medical instruments, aircraft parts, lentils, paper, specialized fabrics and textiles for use in the garment industry, fruits and pharmaceuticals.

Board of Investment

The Board of Investment (BOI) (www.investsrilanka.com), an autonomous statutory agency, is the primary government authority responsible for investment, with a focus on foreign investment. The BOI is authorized to manage a number of export processing zones which feature business-friendly regulations and improved infrastructure for foreign investors. The BOI is intended to provide "one-stop" service for foreign investors, with duties including approving projects, granting incentives, and arranging services such as water, power, waste treatment and telecommunications. It also assists in obtaining resident visas for expatriate personnel and facilitates import and export clearances. The

Public-Private Partnership Unit, a new division of BOI, has responsibility for coordinating all public-private infrastructure projects. The BOI has special investment incentives for investors interested in the post conflict Northern and Eastern sections of Sri Lanka.

BOI incentives are attractive and real, but the BOI is not the "one stop shop" it aspires to be. Although it is relatively effective in assisting investors who want to establish operations within its industrial processing zones, it is less effective in facilitating and servicing large investments outside these zones. Sri Lanka's large, inefficient, and dated bureaucracy often works at cross-purposes with BOI authorities and commitments. Additionally, major investments in Sri Lanka, such as infrastructure projects, require approval from the full cabinet, a process which is not transparent and which can politicize even the most urgently needed investments. Registration of foreign company branch offices in Sri Lanka can be cumbersome as well.

Although there are cases in which it appears that the BOI has been used for political purposes, generally the treatment given to foreign investors is non-discriminatory. However, even with incentives and BOI facilitation, foreign investors face difficulties operating in Sri Lanka. Problems range from difficulty clearing equipment and supplies through customs speedily to difficulty obtaining a factory site. Legal challenges to environmentally sensitive projects have been burdensome, even when objections are unfounded. Slow and indecisive application of bureaucratic requirements has also obstructed investment. In part to avoid these delays, and to overcome land allocation problems, the BOI encourages investors to locate their operations in BOI-established industrial processing zones. Investors locating in industrial zones also get access to relatively better infrastructure facilities such as reliable power, telecommunication and water supplies.

Laws Affecting Investment

The principal law governing foreign investment is Law No. 4, created in 1978 (known as the BOI Act), as amended in 1980, 1983 and 1992, along with implementation regulations established under the Act. The BOI Act provides for two types of investment approvals. Under Section 17 of the Act, the BOI is empowered to grant concessions (see details below) to companies satisfying certain eligibility criteria on minimum investment, exports and in some cases employment. Investment approval under Section 16 of the Act permits entry for foreign investment to operate under the "normal" laws of the country and applies to investments that do not satisfy eligibility criteria for BOI incentives. Other laws affecting foreign investment are the Securities and Exchange Commission Act of 1987 as amended in 1991 and 2003, and the Takeovers and Mergers Code of 1995 revised in 2003. A new Companies Act came into effect in 2007 replacing the Companies Act of 1982. The new law aims to improve trade and commerce as well as corporate governance in the business sector. It features simplified regulations concerning company formation; provisions specifying the duties of company directors; provisions to prevent the abuse of powers by directors; provisions to protect creditors; and a dispute board to settle disputes among directors. Various labor laws and regulations also affect investors. See sections below.

Foreign Equity Shares by Sector

The government allows 100% foreign investment in the following services: banking, finance, insurance, stock-brokering, construction of residential buildings and roads,

supply of water, mass transportation, telecommunications and information technology (software development and business process outsourcing), energy production and distribution, professional services, and the establishment of liaison offices or local branches of foreign companies. These services are regulated and subject to approval by various government agencies. The screening mechanism is non-discriminatory and, for the most part, routine.

Investment in other sectors is restricted and subject to screening and approval on a case-by-case basis when foreign equity exceeds 49%. The affected sectors are: shipping and travel agencies; freight forwarding; fishing; timber-based industries; growing and primary processing of tea, rubber, coconut, rice, cocoa, sugar and spices; and the production for export of goods subject to international quota. Foreign investment restrictions and government regulations also apply to international air transport; coastal shipping; lotteries; large-scale mechanized gem mining; and sensitive industries such as military hardware, dangerous drugs and currency.

Foreign investment is not permitted in the following businesses: non-bank money lending; pawn-brokering; retail trade with a capital investment of less than \$1 million (with one notable exception: the BOI permits retail and wholesale trading by reputed international brand names and franchises with an initial investment of not less than \$150,000); coastal fishing; and the awarding of local university degrees. Foreign degree courses can be offered in Sri Lanka by affiliating with foreign universities. However, there is no system to monitor the quality assurance or accreditation of the foreign courses offered in Sri Lanka.

Privatization Halted

The current Government has halted privatizations, preferring to maintain state-owned enterprises. Government treatment of foreign investors in past privatization processes has been largely non-discriminatory. In 2003, however, the government sold part of the retail operations of state-owned Ceylon Petroleum Corporation to Indian Oil Corporation without a formal tender process. In 2008, the Supreme Court cancelled a privatization of a government-owned bunkering company, done in 2002, citing it was illegal. In 2009, the Supreme Court cancelled a 2003 sale of a government-owned large insurance company.

Labor unions in state-owned enterprises are often opposed to privatization and restructuring and seem particularly averse to foreign ownership. In the past, this made the privatization of government entities problematic for new foreign owners.

International Business Rankings

Measure	Year	Index/Ranking
TI Corruption Index	2009	3.1/97
Heritage Economic Freedom	2009	56/111
World Bank Doing Business	2010	N.A/105
MCC Gov't Effectiveness	2008	0.50/92%
MCC Rule of Law	2008	0.88/98%
MCC Control of Corruption	2008	0.63/94%
MCC Fiscal Policy	2008	-7.1/8%

MCC Trade Policy	2009	62.2/27%
MCC Regulatory Quality	2008	0.35/87%
MCC Business Start Up	2009	0.96/85%
MCC Land Rights Access	2009	0.60/47%
MCC Natural Resource Mgmt	2009	89.79/100%

Conversion and Transfer Policies

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In accordance with its Article VIII obligations as a member of the International Monetary Fund (<http://www.imf.org/external/pubs/ft/aa/aa08.htm>), Sri Lanka has liberalized exchange controls on current account transactions. In times of balance of payments difficulties the government tends to impose controls on foreign exchange transactions. Most recently, in October 2008, the Central Bank required importers to keep a 100% deposit on letters of credit on a range of imports. The deposit requirement on the import of cars was 200% of the value of the import. These restrictions were later lifted.

Exporters must repatriate export proceeds within 120 days to settle export credit facilities. Other export proceeds can be retained abroad in a local bank's correspondent bank. Currently, contracts for forward bookings of foreign exchange are permitted for a maximum period of 360 days for the purposes of payments in trade.

There are no barriers, legal or otherwise, to the expeditious remittance of corporate profits and dividends for foreign enterprises doing business in Sri Lanka. Remittance of business fees (management fees, royalties and licensing fees) is also freely permitted for companies with majority foreign investment approved under Section 17 of the BOI Act. Repatriation of funds for debt service and capital gains of companies exempted by the BOI from exchange control regulations is permitted. Other foreign companies remitting funds for debt service, business fees and capital gains require Central Bank approval.

The average delay period for remitting investment returns such as dividends, return of capital, interest and principal on private foreign debt, lease payments, royalties and management fees through normal, legal channels is in the range of 1 to 4 weeks. All stock market investments can be remitted without prior approval of the Central Bank through a special bank account. Investment returns can be remitted in any convertible currency at the legal market rate.

While controls on capital account (investment) transactions usually prohibit foreigners from investing in Sri Lankan debt instruments, the government allows limited access to foreigners to invest in government rupee bonds and treasury bills. The Central Bank's dollar-denominated bond issues in the local market are also open to foreign investors. Local companies require Central Bank approval to invest abroad. The process of granting approval for such investments was streamlined in 2002, resulting in a substantial increase in approvals.

The government is planning to relax existing controls on capital account transactions. The proposed plans include permission for Sri Lankans to open foreign bank accounts and invest in shares and short term debt of foreign companies; foreign nationals to invest in debentures of local companies; insurance companies to invest funds in foreign

assets; Sri Lankan companies to list in foreign stock exchanges; foreign tourists to open Sri Lanka Rupee accounts; and relaxation of import payment mechanisms.

Expropriation and Compensation

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Since economic liberalization policies began in 1978, the Sri Lankan Government has not expropriated a foreign investment. The last expropriation dispute was resolved in 1998.

Dispute Settlement

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Sri Lanka's legal system reflects diverse cultural influences. Criminal law is fundamentally British. Basic civil law is Roman-Dutch. Laws pertaining to marriage, divorce, and inheritance are communal. Sri Lankan commercial law is almost entirely statutory. The law was codified before independence in 1948 and reflects the letter and spirit of British law of that era. Its amendments have, by and large, kept pace with subsequent legal changes in the U.K. Several important legislative enactments regulate commercial matters: the Board of Investment Law, the Intellectual Property Act, the Companies Act, the Securities and Exchange Commission Act, the Banking Act, the Industrial Promotion Act and Consumer Affairs Authority Act. Most of these laws were revised recently.

Sri Lanka's court system consists of the Supreme Court, the Court of Appeal, Provincial High Courts and the Courts of First Instance viz. district courts (with general civil jurisdiction) and magistrate courts (with criminal jurisdiction). The provincial high courts have original, appellate and reversionary criminal jurisdiction. The Court of Appeal sits as the intermediate appellate court with a limited right of appeal to the Supreme Court. The Supreme Court exercises final appellate jurisdiction for all criminal and civil cases. Citizens may apply directly to the Supreme Court for protection if they believe any government or administrative action has violated their fundamental human rights.

All commercial matters exceeding the value of Rs 3 million (approximately \$26,000) fall within the jurisdiction of the Commercial High Court of Colombo. There are also a number of tribunals which exercise judicial functions, such as the Labor Tribunals to hear cases brought by workers against their employers. Until recently, the court system was largely free from government interference. There are allegations that the judiciary is sometimes subject to political influence, but this has not been evident in commercial litigation so far. Litigation can be slow and unproductive, though. Monetary judgments are usually made in local currency. Procedures exist for enforcing foreign judgments.

In late 2008, acting on a fundamental human rights petition, the Supreme Court, in an interim order, halted payments to five international and local banks involved in oil hedge contracts with the government. One of the banks involved is American. The banks are taking the case to international arbitration.

Bankruptcy Laws

The Companies Act and the Insolvency Ordinance provide for dissolution of insolvent companies, but there is no mechanism to facilitate the re-organization of financially-troubled companies. Other laws make it difficult to keep a struggling company solvent.

The Termination of Employment of Workmen Act (TEA), for example, makes it difficult to fire or lay off workers who have been employed more than six months for any reason other than serious, well-documented disciplinary problems. The Labor Commissioner's approval or the affected employee's consent is required to fire workers. The government has introduced a standard compensation formula under the TEA to facilitate termination for other than disciplinary reasons. Employers protest that compensation is excessive compared to similar formulae in the Asian region, with terms in Sri Lanka about twice as generous as the East Asian average. (See section on "Labor" for further details.)

In the absence of proper bankruptcy laws, extra-judicial powers granted by law to financial institutions protect the rights of creditors. When a company cannot meet the demands of a creditor for a sum exceeding Rs 50,000 (approximately \$440) the creditor may petition for the company to be dissolved by the court. Lenders are also able to enforce financial contracts through powers that allow them to foreclose on loan collateral without the intervention of courts. However, loans below Rs 5 million (\$435,000) are exempt from the application of the law. Additionally, a judgment ruled that these powers would not apply with respect to collateral provided by guarantors to a loan. These two moves have weakened creditors' rights. Financial institutions also face other legal challenges as defaulters obtain restraining orders on frivolous grounds due to technical defects in the recovery laws. Also, for default cases filed in courts, the judicial process is extremely slow.

The new Companies Act of 2007 introduced a "solvency test" to determine the financial health of a company. There are provisions relating to the responsibilities of a company's directors in cases of serious loss of capital. The solvency test is intended to prevent companies without sufficient assets from obtaining loans and to protect rights of creditors.

The Companies Act does not provide for the revival of struggling companies. However, as in the past, it is expected that the courts would take a liberal attitude towards any restructuring plans that may be of benefit to a company.

Investment Protection

In principle, foreign investments are guaranteed protection by the Constitution of Sri Lanka. The government has entered into 24 investment protection agreements with foreign governments (including the United States) and is a founding member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank. Under Article 157 of the Constitution of Sri Lanka, investment protection agreements enjoy the force of law and no legislative, executive or administrative action can be taken to contravene them. The government has ratified the Convention on Settlement of Investment Disputes, which provides the mechanism and facilities for international arbitration through the World Bank's International Center for the Settlement of Investment Disputes (ICSID).

The U.S.-Sri Lanka Bilateral Investment Treaty (BIT) was ratified by both governments in 1993 (www.state.gov/documents/organization/43588.pdf).

Arbitration

The Arbitration Act of 1995 gives recognition to the New York Convention on Recognition and Enforcement of Foreign Arbitral Awards. Arbitral awards made abroad

are now enforceable in Sri Lanka. Similarly, awards made in Sri Lanka are enforceable abroad. A center for arbitration known as the Institute for the Development of Commercial Law and Practice (ICLP) (www.iclparbitrationcentre.com) has been established in Colombo for the expeditious, economical, and private settlement of commercial disputes. However, the ICLP appears unlikely to become involved in disputes involving the Sri Lankan Government, which is often a party to disputes involving foreign investors.

Sri Lanka's first commercial mediation center was established in 2000 and became operational in mid 2001. Commercial mediation is conducted under the Commercial Mediation Act. Interest in mediation is still low.

The Labor Department has a process involving labor tribunals for settling industrial disputes with workers or unions, and arbitration is required when attempts to reconcile industrial disputes fail. The Labor Commissioner typically becomes involved in labor-management mediation. Other senior officials, including the Labor Minister, and the President, have intervened in particularly difficult cases.

The government record in handling investment disputes is problematic. Disputes often become politicized, causing the government to put political interests ahead of its respect for the sanctity of contracts. For example, in 2006, the Indian Oil Corporation's petroleum retailing subsidiary in Sri Lanka temporarily closed its operations when the government failed to honor its commitment to reimburse the company for fuel sold at the government-controlled price.

Investment Disputes Involving U.S. Companies

U.S. companies have experienced problems with payment of valid contracts; implementation of agreements with the government; and inexplicable failure to secure contracts, despite demonstrated superior performance, high value, and competitive bids.

A U.S. power company producing electricity in Colombo has been unable to obtain payment since 2004 for power that it produced under a temporary, more costly, operating mode following a fire in its plant. The company had intended to suspend operations to conduct repairs following the fire, but agreed to the government's request that it keep producing power even at a higher cost. However, the government withheld payment on the basis of a questionable Attorney General finding that the higher than usual electricity price was imposed on the government "under duress."

As mentioned previously, the Ceylon Petroleum Company (CPC) entered into a contract with five banks on an oil hedging contract. Once the international price of oil rose substantially, the CPC and Government of Sri Lanka (GSL) refused to honor the oil hedging contracts. One American bank is involved. The GSL has not resolved the case, and the banks have filed for international arbitration.

Performance Requirements and Incentives

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The Board of Investment specifies certain minimum investment amounts for both local and foreign investors to qualify for incentives. Firms enjoying preferential incentives in the manufacturing sector in most cases are required to export 80% of production, while

those in the service sector must earn at least 70% of income in foreign exchange. Sri Lanka complies with WTO Trade Related Investment Measures (TRIMS) obligations.

Sri Lanka encourages foreign investment in information technology, electronics assembly, light engineering, automobile parts and accessories manufacturing, industrial and information technology parks, rubber based industries, information and communication services, tourism and leisure related activities, agriculture and agro processing, port-related services, regional operating headquarters, and infrastructure projects. Foreign investors are generally not expected to reduce their equity over time, nor are they expected to transfer technology within a specified period of time, except for build-own-transfer or other such projects in which the terms are specified within pertinent contracts.

In some BOI-approved enterprises, businesses are required to maintain certain levels of employment to enjoy incentives. In addition, privatization agreements generally prohibit new owners from dismissing workers, although the owners are free to offer voluntary retirement packages to reduce their workforce. Some foreign investors have received political pressure to hire workers from a particular constituency or a given list, but have successfully resisted such pressure with no apparent adverse effects.

Foreign investors who remit at least \$250,000 can qualify for a one-year resident visa, which can be renewed. Employment of foreign personnel is permitted when there is a demonstrated shortage of qualified local labor. Technical and managerial personnel are in short supply, and this shortage is likely to continue in the near future. In the past, foreign employees attached to BOI-approved companies received preferential tax treatment for an initial period. This concession was withdrawn in April 2008. BOI is planning to appeal to the Finance Ministry to reverse this decision. Foreign employees in the commercial sector do not experience significant problems in obtaining work or residence permits.

Investment Incentives

The Board of Investment (www.investsrilanka.com) has various incentives, with such investments typically requiring prior approval by various ministries. Please see the note at the end of this section on proposed changes to the incentive programs listed:

Incentive Program I

Qualifying industries:

- Non-traditional manufacturing exports and companies supplying to exporting companies. Minimum investment of \$500,000(a);
- Export oriented services. Minimum investment of \$500,000;
- Manufacture of industrial tools and/or machinery. Minimum investment of \$150,000;
- Small-scale infrastructure. Minimum investment of \$500,000;
- Research and development. Minimum investment of \$100,000;
- Agriculture and agro processing industries. Minimum investment of \$150,000;
- Export trading houses of rural sector. Annual turnover of \$5,000,000.

Incentives: Currently, the above industries qualify for a five-year tax holiday. A preferential tax of 10% in the 6th and 7th years follows the tax holiday for some industries. Some of these industries qualify for duty-free imports (generally, during the

life of the project for export-oriented projects, and during the project implementation period for others). Exporting companies and export-oriented services will be exempted from exchange control regulations. They will also qualify for free repatriation of profits and dividends and free transferability of shares. An Economic Service Charge (ESC) at 0.25% of income applies to all companies including BOI-approved companies with tax holidays. A three year tax holiday is available for investments between \$250,000 and \$500,000.

Incentive Program II

Qualifying Industries:

- Information technology (IT) or information technology enabled services. Minimum investment of \$150,000. Minimum employment levels apply;
- Information technology training institutes. Minimum invest of \$100,000. Minimum number of students applies;
- Business Process Outsourcing (BPO). Minimum investment of \$150,000. Minimum employment levels apply;
- Regional operating headquarters providing the following services to related businesses outside Sri Lanka: administration, business planning, sourcing raw materials, research and Development, technical support, financial and treasury management, marketing and sales promotion. Minimum investment of \$250,000.

Incentives: Currently, IT services, IT training institutes, and BPO firms qualify for tax holidays of 5-12 years provided they meet minimum employment and student levels. Otherwise, a preferential tax of 10% applies for 2 years. Regional operating headquarters qualify for a tax holiday of 3 years. A preferential tax of 10% will apply in the 4th and 5th years. From the 6th year onwards, a preferential tax of 20% will apply for IT training institutes while a tax of 15% will apply for others. Capital goods for these projects will be exempted from import duty for above investments. An Economic Service Charge at 0.25% of income applies to BOI-approved companies enjoying tax holidays, from the fourth year of operation.

Incentives for Regional Development

The BOI has a separate incentive program to promote regional development, with the aim of establishing new factories or service companies (such as hotels, hospitals, or training institutes) in the regions outside the capital Colombo. The incentives include 10-20 year tax holidays for investments in Northern and Eastern Provinces and 2-10 year tax holidays for investments located in other provinces. In addition, imports of machinery and equipment are exempted from both customs duty and the value-added tax. Minimum investment levels apply.

Incentives for North And East Development

Investments in the Northern and Eastern Provinces receive generous tax incentives including 10-20 year tax holidays. Incentives are targeted at producers of textile and apparel, food, wood, paper, rubber and plastic products, fishing gear and fishing boats. In addition, hotels, agriculture-based industries, and fisheries are also entitled to these incentives. Exporting companies can import raw material, capital goods and construction material free of import duty under this program. Companies producing for

the local market can import capital goods and construction material without duty. In addition, state lands will be made available at concessionary rates for these projects.

Incentives for Infrastructure Development

Companies acquiring existing companies in petroleum, power generation, transmission, development of highways, seaports, airports, railways, water services, public transport, agriculture and agro processing and other infrastructure projects approved by the BOI will qualify for tax holidays ranging from 5 to 8 years depending on the magnitude of investment. A preferential tax of 15% will follow after the tax holiday period. These companies will also qualify for duty free imports of capital goods. A minimum investment of \$12.5 million is required.

Large-scale new infrastructure projects in power generation, transmission and distribution; development of highways, seaports, airports, public transport and water services; establishment of industrial parks, and other infrastructure projects approved by the BOI will qualify for tax holidays ranging from 6 to 15 years depending on the size of the investment. A preferential tax of 15% will follow the tax holiday. They will also qualify for duty free imports of capital goods. A minimum investment of \$12.5 million is required.

Incentives for Other Investments

- Industrial estates. Minimum investment of \$500,000 to \$75 million; tax holidays ranging from 3 to 15 years;
- Textile fabric manufacturing, processing. Minimum investment of \$500,000 to \$10 million; tax holidays ranging from 5 to 15 years.

For further information on investment incentives and other investment-related issues, potential investors are encouraged to contact the Board of Investment directly. The BOI can be found at www.investsrilanka.com and www.boi.lk, or reached via e-mail at info@boi.lk. The BOI has introduced an investor matchmaking service via the BOI website. Information regarding this service can be found at www.boi.lk/partnership.

TRADE AGREEMENTS ENHANCE MARKET ACCESS TO SOUTH ASIA AND EUROPE

A preferential trade agreement, the Indo-Lanka Free Trade Agreement (ILFTA) (www.doc.gov.lk) between Sri Lanka and India, is now in effect. Under this agreement, most products manufactured in Sri Lanka with at least 35% domestic value addition (if raw materials are imported from India, domestic value addition required is only 25%), qualify for duty free entry to the Indian market. Tariff concessions for Sri Lankan products include zero tariffs on 4,235 items; 50 to 100% reduction for tea and garments under quota; 25% reduction for 553 textile items; and no reduction for 431 items on India's "negative list." Discussions are underway to reduce the negative lists of both countries. The two countries are also discussing services sector liberalization, under a proposed Comprehensive Economic Partnership Agreement (CEPA). Other areas potentially covered by the CEPA are investment and economic cooperation. Because production constitutes a portion of value addition, ILFTA and the proposed CEPA enables foreign firms operating in Sri Lanka to gain preferential entry into the Indian

market. The CEPA negotiations have stalled, however, and it is not clear that Sri Lanka is interested in finalizing the deal.

Some U.S. companies currently avail themselves of the ILFTA by adding at least 35% value in Sri Lanka and getting import duties into India reduced from as much as 15% to as little as zero. The American Chamber of Commerce in Sri Lanka, in a study on the ILFTA, identified agro-processing, food preparation, tea, rubber products, coconut products, spices, furniture, ceramic and confectionary as having growth potential in India. The study also found vehicles and vehicle parts, aircraft parts and motorcycles to be possible attractive sectors for U.S. manufacturers under the Indo-Lanka Agreement.

Sri Lanka's Board of Investment promotes the following product sectors under ILFTA: beverages, confectionary, rubber products, plastics, coconut products, footwear, paper, textiles and garments, artificial plants, ceramics, glassware, jewelry, iron and steel products, aluminum extrusions, machinery and mechanical appliances, electronics and electrical products, automobiles and spare parts, furniture, and doors.

The 2005 Sri Lanka-Pakistan Free Trade Agreement (SLPKFTA) (www.doc.gov.lk) provides duty-free entry into Pakistan for almost all Sri Lankan exports except those on the negative list. Pakistan's negative list contains 541 items with no duty concessions. Sri Lanka's Board of Investment promotes the following product sectors under SLPKFTA: spices, coconut based products, animal or vegetable oils, confectionary, processed food, rubber products, ceramics, jewelry, iron and steel, copper and aluminum articles machinery and mechanical appliances, electronics and electrical appliances, medical instruments, and automobiles and spare parts.

Sri Lanka and six other South Asian nations belonging to the South Asian Association for Regional Cooperation (SAARC) agreed in 2004 to establish a South Asian Free Trade Area (SAFTA) (<http://www.saarc-sec.org/main.php>), which began operation on July 1, 2006. SAFTA offers regionalized tariff reductions for imports from member countries. Stated goals of SAARC members under SAFTA are to reduce duties for imports from member countries to between zero and 5% over a period of 7-10 years. The SAARC trade talks have had limited effect to date on trade and investments.

These agreements could help make Sri Lanka a gateway to South Asia for foreign investors.

Sri Lankan exports to the European Union (EU) are also duty free under the "GSP-Plus" incentive agreement in effect since July 2005. Under this program, 7,200 Sri Lankan products meeting rules-of-origin criteria can enter the EU duty free. The GSP Plus scheme for Sri Lanka was renewed in January 2009 for a period of three years, subject to the results of an on-going investigation of the government's actions at the end of the civil war. Depending on the findings of the investigation, benefits could be withdrawn by July 2010.

Right to Private Ownership and Establishment

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Private entities are free to establish, acquire, and dispose of interests in business enterprises. Private enterprises enjoy benefits similar to those granted to public enterprises, and there are no known limitations to access to markets, credit, or licenses. Foreign ownership is allowed in most sectors. Private land ownership is limited to fifty

acres per person. The government owns about 80% of the land in Sri Lanka, including the land housing most tea, rubber, and coconut plantations. The government has leased most of these plantations to the private sector on 50-year terms. Although state land for industrial use is usually allotted on a 50-year lease, 99-year leases may also be approved on a case-by-case basis, depending on the nature of the project. There are also substantial land disputes arising from the end of the war, as the Government regains control of areas after many years of war.

While foreign investors can purchase land from private sellers, the government has imposed a 100% tax on land transfers to foreigners. For this purpose, Sri Lanka has defined foreign investment to involve as little as 25% foreign ownership – a definition that can be particularly difficult for companies listed on the Colombo Stock Exchange since on any particular day, their ownership characteristics may vary. Apartments above the third floor of condominium buildings, land for the development of large housing schemes, hospitals and hotels with a minimum investment of \$10 million, exporting companies with a minimum investment of \$1 million, and large infrastructure projects with a minimum investment of \$50 million are exempted from the tax. Regulations regarding these exceptions have been published in Gazette No 1386/18 dated March 30, 2005.

Protection of Property Rights

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Secured interests in property are recognized and enforced. The legal system is nondiscriminatory and protects and facilitates acquisition and disposition of property rights by foreigners, although it has recently become subject to political influence. A fairly reliable registration system exists for recording private property including land, buildings and mortgages. There are likely to be difficult land disputes in the recently freed northern and eastern regions of the country, following the end of the war. However, there are problems due to fraud and forged documents.

Intellectual Property Rights Protection

Sri Lanka is a party to major intellectual property agreements including the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Madrid Agreement for the Repression of False or Deceptive Indication of Source on Goods, the Nairobi Treaty, the Patent Co-operation Treaty, the Universal Copyright Convention, and the Convention establishing the World Intellectual Property Organization (WIPO). Sri Lanka and the United States in 1991 signed a Bilateral Agreement for the Protection of Intellectual Property Rights. Sri Lanka, a WTO member, is also a party to the Trade Related Intellectual Property Rights (TRIPS) agreement in the World Trade Organization. Sri Lanka has not acceded to the WIPO Performances and Phonograms Treaty (WPPT); the WIPO Copyright Treaty (WCT); or the WTO Information Technology Agreement.

In November 2003, a new intellectual property law came into force that was intended to meet both U.S.-Sri Lanka bilateral IPR agreement and TRIPS obligations to a great extent. The law governs copyrights and related rights, industrial designs, patents, trademarks and service marks, trade names, layout designs of integrated circuits, geographical indications, unfair competition, databases, computer programs, and undisclosed information. All trademarks, designs, industrial designs and patents must

be registered with the Director General of Intellectual Property. Sri Lanka introduced regulations to regulate the commercial use of local creations in 2008.

Infringement of intellectual property rights (IPR) is a punishable offense under the law. Intellectual property rights come under both criminal and civil jurisdiction. Recourse available to owners includes injunctive relief, seizure and destruction of infringing goods and plates or implements used for the making of infringing copies, and prohibition of imports and exports. Penalties for the first offence include a prison sentence of 6 months or a fine of up to Rs 500,000 (\$4,425), but smaller penalties are the norm. Penalties can be doubled for a second offense. Aggrieved parties can seek redress for any IPR violations through the courts, though this can be a frustrating and time-consuming process.

Since the passage of the 2003 IPR law Sri Lanka has slowly begun enforcing its provisions. The Police occasionally raid counterfeit CD/VCD stores as well as counterfeit garment sellers. However, it is rare for the police to act without a formal complaint and assistance from an aggrieved party. Several offenders have been charged or convicted by courts. However, the minimal damages and suspended sentences imposed suggest that the court system still fails to recognize the significance of intellectual property rights.

Counterfeit goods continue to be widely available in Sri Lanka. Local agents of well-known U.S. and other international companies representing recording, software, movie, clothing and consumer product industries continue to complain that lack of IPR protection is damaging their businesses. Piracy of sound recordings and software is widespread, making it difficult for the legitimate industries to protect their market and realize their potential in Sri Lanka. Software companies complain of the lack of IPR enforcement within government institutions and even some larger corporations, including several banks. In December 2009, the government of Sri Lanka approved a new Information Technology (IT) policy for the government sector which includes rules on hardware and software procurement. The implementation date of the new policy is not known. The embassy and the American Chamber of Commerce of Sri Lanka are working to pursue more aggressive enforcement and enhance public awareness.

Patents, Copyrights and Trademarks

Patents are valid for 20 years from the date of application but must be renewed annually. Patents are granted for inventions, with the following exceptions: discoveries, scientific theories and mathematical methods, plant or animal varieties (other than micro biological processes) and essential biological processes for the production of plants and animals (other than non-biological and microbiological processes), business rules and methods, methods of treatment by surgery or therapy, and diagnostic methods practiced on a human or animal body. The law also permits compulsory licensing and parallel imports of pharmaceutical products. Compulsory licensing will allow the government to grant licenses to manufacture certain patented drugs, overruling patent licenses in a national emergency. The parallel imports will allow the import of a branded drug from an alternative source.

Copyrights are not registered. A work is protected automatically by operation of law. Original literary, artistic, and scientific works including computer programs and

databases are protected under the new law. There are enforcement limitations applying to copyrights, including software.

Sri Lanka recognizes both trademarks and service marks. The exclusive right to a mark is acquired by registration. A mark may consist of words, slogans, designs, etc. Protection also is available to well known marks not registered in Sri Lanka. Registered trademarks are valid for ten years and renewable. The law also recognizes both certification marks and collective marks.

Transparency of Regulatory System

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The Board of Investment strives to inform potential investors about laws and regulations that may affect operations in Sri Lanka. Laws are in place pertaining to tax, labor and labor standards, exchange controls, customs, environmental norms, and building and construction standards. However, some of the laws and regulations are difficult to access.

Foreign and domestic investors often complain that the regulatory system is unpredictable due to outdated regulations, rigid administrative procedures, and excessive leeway for bureaucratic discretion. Effective enforcement mechanisms are sometimes lacking, and coordination problems between the BOI and relevant line agencies frequently emerge. Lethargy and indifference on the part of mid- and lower-level public servants compound transparency problems. Lack of sufficient technical capacity within the government to review financial proposals for private infrastructure projects also creates problems during tendering. An example of weakness in regulations occurred in mid-2006, when police and government agencies closed two satellite television broadcasting stations for not possessing required licenses. The two stations remained closed for over five months, before various government agencies reauthorized their operations.

In 2005-2009, the Government awarded several key infrastructure projects to Chinese companies outside the tender process. They included a 300 megawatt coal power project, a fuel bunkering project, and a large port construction project and an airport project in the southern district of Hambantota. In addition, the Government has promised oil exploration rights to India and China outside the tender process. Similarly, in 2008, the government-owned Ceylon Petroleum Corporation signed an agreement with the government of Iran to finance the expansion of the country's oil refinery. The government had previously signed a Memorandum of Understanding with an American company to negotiate an agreement for the same project. Despite the purported agreement with Iran, the refinery project is still on hold.

Although many foreign investors, including U.S. firms, have had positive experiences in Sri Lanka, some have encountered significant problems with government practices and regulations. Some multinational firms have experienced extensive unexplained delays in trying to reach agreement on investment projects. Others have had contracts arbitrarily canceled without compensation, even though the Sri Lankan Cabinet had approved those contracts.

Proposed laws and regulations are generally made available for public comment. However, occasionally they are published without public discussion.

Retained profits finance about 70% of private investment, with short term borrowing financing a further 20% of investment. The stock market and corporate securities market have not been significantly used to raise capital. Foreign direct investment (FDI) finances about 4% of overall investment. Foreign investors are allowed to access credit on the local market. They are also free to raise foreign currency loans.

The state consumes over 50% of the country's domestic financial resources and has a virtual monopoly on the management and use of long-term savings in the country. This inhibits the free flow of financial resources to product and factor markets. For 2009, the government's net borrowing from the local market is forecast to be Rs 183 billion (\$1.6 billion). Due to high inflation and increased government borrowing, interest rates were high in 2007 and 2008. Most companies cite high interest rates as a major impediment to doing business and investment in Sri Lanka. With the decline in the rate of inflation in 2009, the Central Banks reduced key interest rates. Consequently, lending rates to blue chip companies declined to 12% in January 2010 from about 20% in January 2009. Other companies including SME's face higher rates.

Credit Instruments

Commercial banks are the principal source of bank finance. Bank loans are the most widely used credit instrument for the private sector. Financial institutions also raise syndicated bank loans to fund large-scale investment projects undertaken by the private sector.

The domestic debt market in Sri Lanka is still at a nascent stage. The first credit rating agency in Sri Lanka was Fitch Rating Lanka (www.fitchratings.lk), which opened an office in Colombo in 1999. Fitch Ratings Lanka is a joint venture between Fitch Ratings Inc, International Finance Corporation (IFC), the Central Bank of Sri Lanka, and several leading local financial institutions. Credit ratings are now mandatory for all deposit-taking institutions and for all varieties of debt instruments and have helped numerous Sri Lankan companies raise funds through debt markets.

Sri Lanka received its first sovereign credit ratings in December 2005, with a "BB-minus" from Fitch Ratings and a "B-Plus" from Standard and Poor's (S&P). Current ratings are "B-Plus" (Fitch) and "B" (S&P). Fitch has assigned a stable rating outlook for Sri Lanka. S&P's rating outlook is positive.

Accounting Standards

There is an active and fairly competent accounting profession, based on the British model. The source of accounting standards is the Institute of Chartered Accountants of Sri Lanka (ICASL), and standards are constantly updated to reflect current international accounting and audit standards adopted by the International Accounting Standards Board (IASB). In addition, Sri Lanka is following the worldwide move to adopt International Financial Reporting Standards (IFRS) for financial reporting purposes set by the IASB. The proposed full convergence is expected to be in 2011 for financial periods on or after January 1, 2012. A significant change is expected with full convergence. Due to the lack of an adequate enforcement mechanism, problems with the quality and reliability of financial statements still exist.

Sri Lankan accounting standards are applicable for all banks, stock exchange listed companies and all other large and medium-sized companies in Sri Lanka. Accounts of such business enterprises are required to be audited by professionally qualified auditors holding ICASL membership. ICASL has published accounting standards for small companies as well. The Accounting Standards and Monitoring Board (ASMB) is responsible for monitoring compliance with Sri Lankan accounting and auditing standards. British professional accounting bodies are quite active in Sri Lanka. The Chartered Institute of Management Accountants (CIMA), a leading professional accounting body based in the UK and spread over the Commonwealth, has its largest overseas presence in Sri Lanka. CIMA UK suspended the Sri Lanka divisional council over a governance issue in December 2008 and a new council was appointed in January 2010. CIMA programs and operations in Sri Lanka continued undisrupted during this period.

Securities And Exchange Commission

The Securities and Exchange Commission (SEC) regulates the securities market in Sri Lanka. The SEC law was revised in 2003, enhancing the SEC's coverage and investigative powers. The SEC now covers stock exchanges, unit trusts, stock brokers, listed public companies, margin traders, underwriters, investment managers, credit rating agencies and securities depositories.

Foreign investors can purchase up to 100% of equity in Sri Lankan companies in numerous permitted sectors. In order to facilitate portfolio investments, country funds and regional funds may obtain Ministry of Finance approval to invest in Sri Lanka's stock market. These funds make transactions through share investment external Rupee accounts maintained in commercial banks.

Colombo Stock Exchange

The Colombo Stock Exchange (CSE) has fully automated trading, clearing and settlement systems. The CSE maintains a rolling settlement period of 3 days. Twenty one local and foreign joint venture brokers currently operate at the CSE. Foreign stockbrokers are permitted to hold up to 100% equity in stock brokerage firms operating at the CSE. The SEC has a settlement guarantee fund with an initial capital of Rs 100 million (\$88,500), which aims to guarantee the settlement of trades between clearing members of the exchange.

There are 232 companies listed on the stock exchange with the top ten positions by market capitalization held by conglomerates, telecommunication companies, banks, and food and beverage companies. The CSE, which suffered in 2007-2008 due to increased conflict-related violence and the global financial crisis, was the second best performing market in the world after Russia in 2009. The market gained 125% in 2009. The post-war optimism led to a surge in investor interest.

The CSE suffered somewhat after insider trading charges were filed in the U.S. against Raj Rajaratnam of Galleon fund, but quickly recovered. The U.S. based Galleon fund was a major investor in the CSE, and held shares in over 70 companies. Galleon has now exited from most of the CSE companies. Investors have also been discouraged by various Supreme Court decisions negatively impacting businesses in 2008-2009. One

ruling, citing bias by government officials in favor of the eventual contract winner, reversed the 2002 privatization of a bunkering unit to a large conglomerate listed in the stock exchange. A similar case reversed the sale of a large government-owned insurance company to another listed conglomerate. In yet another case, the Supreme Court temporarily stopped payments due to local and foreign banks for oil hedging contracts. Other issues include lack of liquidity and limited market size.

Improvements are also needed in corporate governance, accountability, and public disclosure. The Accounting and Auditing Standards Monitoring Board, the Ceylon Chamber of Commerce, the Colombo Stock Exchange, and professional accounting bodies are taking initiatives in these areas.

Acquisition of companies through mergers and acquisitions is governed by the Takeovers and Mergers Code of 1995 made under the Securities and Exchange Commission of Sri Lanka Act. This law applies only to companies listed on the Colombo Stock Exchange. It is modeled on the lines of the London City Code on Takeovers and Mergers. Acquisition of more than a 30% stake of a listed company requires the buyer to make an offer to all other shareholders. The articles of association of a few listed companies restrict foreign equity to certain levels.

Banking System

Sri Lanka has a fairly well diversified banking system. There are 23 commercial banks – eleven local and twelve foreign. In addition, there are 14 local specialized banks. Citibank NA is the only U.S. bank operating in Sri Lanka.

In late 2008, the Central Bank dissolved the board of directors of a private local bank, Seylan Bank, and appointed the state-owned Bank of Ceylon to carry on the business of the bank. This was done to ensure stability in the overall financial sector following a financial scandal at a non regulated large finance company connected to the bank.

Since then, the Seylan Bank has been restructured with equity from new shareholders. The bank has returned to normal business activity with a board of directors appointed by the new shareholders.

The Central Bank also took control of several non-bank finance companies connected to the failed finance company. These companies are being restructured through mergers. The Central Bank also launched a stimulus package for finance and leasing companies with the aim of avoiding a crisis in them. However, weaknesses in smaller finance and leasing companies exposed to real estate remains a concern.

Sri Lanka experienced its first bank failure in December 2002 when the Central Bank took action to revoke the license of a small licensed specialized bank as it approached insolvency. There was no fallout for other banks from this incident. Two other small troubled banks were restructured under Central Bank guidance.

The Central Bank is responsible for supervision of all banking institutions. It has driven improvements in banking regulations, provisioning, and public disclosure of banking sector performance. Since 2004, credit ratings have been mandatory for all banks operating in Sri Lanka. In 2006, the Central Bank introduced higher capital requirements for commercial banks to further stabilize the banking system, promote consolidation, and

facilitate entry of larger banks. Notable progress in 2008 includes mandatory provisioning on performing loans and acceptance of the Basel II standardized approach framework. In addition, the Central Bank issued corporate governance rules for banks. The new rules are aimed at promoting the safety and soundness of the banking system. In 2009, the Central Bank carried out capacity building programs on Basel II. The Bank issued regulations for service providers of payment cards regulations. The Central Bank will regulate all payment card systems. The Central Bank has also developed a road map for the full implementation of International Accounting Standards on Financial Instruments for banks by January 1, 2011. In addition, the Central Bank plans to introduce new Sri Lanka accounting standards to the banking sector in 2011. Nevertheless, the Central Bank still suffers from lack of autonomous authority, especially with regard to the large state owned banks.

Sri Lanka has enacted laws to deal with money laundering and terrorist financing. The Bank Supervision Department of the Central Bank supervises and examines financial institutions for compliance with anti-money laundering and terrorist financing regulations. A Financial Intelligence Unit (FIU) was created in 2006, and operates under the Central Bank. The Financial Intelligence Unit has issued instructions to banks, finance and insurance companies, and the securities industry regarding anti-money laundering and terrorist financing regulations and, in 2008, extended its rules on "know your customer" and "customer due diligence" to insurance companies and the securities industry.

State-Owned Banks

Total assets of commercial banks stood at Rs 2,200 billion (\$19 billion) as of December 31, 2008. The two state-owned commercial banks, Bank of Ceylon and People's Bank, with assets of Rs 492 billion (\$3.3 billion) and Rs 416 billion (\$3.6 billion) respectively, are still important players, accounting for about 40% of all assets.

The two state banks are inefficient and have accumulated extensive bad debt. However, as these banks are implicitly guaranteed by the state, their problems have not harmed the credibility of the rest of the banking system. Progress has been made in restructuring the two banks -- their nonperforming loan ratios declined from 18% in 2003 to 5-7% in 2008, while provisioning and profitability have improved. Nonetheless, both these banks have significant exposure to the state and state-owned companies, which are treated as performing loans.

Private Commercial Banks and Foreign Banks

Private commercial banks and foreign banks operating in Sri Lanka generally follow more prudent credit policies and, as a group, are in better financial shape. Foreign banks tend to make provisions in line with international best practices, as most foreign bank branches are subject to host country supervision in addition to that of the Central Bank of Sri Lanka.

Non-performing loans to total loans ratio increased from 4.9% in 2007 to 6% in 2008. It is estimated to have increased sharply in 2009, with significant variations among individual banks. There are concerns regarding credit exposure to housing and consumer sectors, impact of high interest rates and the impact of prevailing economic conditions on the banking system.

Capital Adequacy

Sri Lanka adopted capital adequacy standards set by the Basel Committee on banking regulations and supervisory practices in 1993. The minimum capital adequacy ratio required by the Central Bank is 5% for core capital (Tier I) and 10% for risk weighted assets (Tier I and Tier II). The Central Bank adopted Pillar 1 of Basel II capital adequacy standard for all banks in 2008.

Risk-based capital adequacy in the banking sector was 13% in 2008. The Bank of Ceylon's capital adequacy ratio is well within Central Bank requirements. Following a capital injection from the Ministry of Finance, People's Bank reported core and total CAR ratios of 6.48% and 10.46%, under the Basel II framework in 2008.

Competition from State Owned Enterprises (SOE)

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SOE's are active in transport (bus and railways, ports and airport managements, air line operations), utilities such as electricity, petroleum imports and retail, water supply, and telecommunications, TV and Radio broadcasting, newspaper publishing, banking and insurance.

Directors of SOE's are appointed by the cabinet or a line Ministry. They report to line Ministries. The board seats are allocated to both senior government officials and politically-affiliated individuals. Senior management positions such as the post of CEO are most often allocated to politically-affiliated individuals.

Sri Lanka does not currently have a sovereign wealth fund (SWF).

Corporate Social Responsibility (CSR)

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Leading companies in Sri Lanka are actively promoting CSR. Some SME companies have also started to promote CSR. The Ceylon Chamber of Commerce (CCC), the largest business chamber in Sri Lanka, has a CSR section promoting CSR among its membership. CCC also has an annual "Best Corporate Citizens" award to encourage CSR activities. In addition, a professional accounting body has a program to promote sustainability reporting. Internationally, some of Sri Lanka's leading companies have joined the UN Global Compact initiative. In fact, Sri Lanka won the Asia Award 2009 for the "best performing global compact principles by a local network." The apparel industry, Sri Lanka's largest export industry, has a specially designated CSR program for the industry under the title "Garments without Guilt" (www.garmentswithoutguilt.com). The ethical sourcing and sustainable development practices under the program aim to empower women and their communities through poverty alleviation and opportunities for education and personal growth. In addition, it also endeavors to promote sustainable eco-friendly manufacturing practices in the apparel industry. Firms who pursue CSR are viewed favorably by Sri Lanka's business sector resulting in positive media attention.

Political Violence

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The Sri Lankan government's military campaign against the Liberation Tigers of Tamil Eelam (LTTE) ended in May 2009 with the defeat of the LTTE. Prior to that, from January 2008 to June 2009 fighting between the Sri Lankan military, paramilitary groups

and the LTTE increased. Bomb attacks in densely populated areas killed dozens of civilians, including in some areas frequented by foreign tourists. LTTE conducted several air attacks in Colombo during this period. There were a series of other incidents throughout the country targeting armed forces personnel, politicians and civilians in 2007-2009.

In 1997, the United States designated the LTTE as a Foreign Terrorist Organization (FTO). In 2007, the United States froze the assets of, and blocked transactions with, the Tamils Rehabilitation Organization (TRO), a U.S.-registered non-profit group, on the grounds that it provided support for the LTTE.

During the two and half decades of war, foreign tourists and foreign business representatives were not LTTE targets, but they were injured in attacks on other targets. In 2001, the LTTE attacked Colombo's international airport and destroyed commercial and military aircraft. Sri Lankan Airlines lost several commercial aircraft in the attack. Prior to 2001 the LTTE attacked several foreign-flagged commercial ships in the waters off the north and east of the country. The LTTE also bombed Colombo's financial and business districts, causing numerous casualties and extensive damage to property.

Currently, Sri Lanka is included in the Lloyds Joint War Risk Committee's war, strikes, terrorism and related perils areas list. Insurers have the option of imposing war risk premiums on ships using Sri Lankan ports. Lines which call on Sri Lanka regularly are not charged the war risk charge now, but could affect new businesses.

Corruption

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Corruption, including bribery, raises the costs and risks of doing business. Corruption has a corrosive impact on both market opportunities overseas for U.S. companies and the broader business climate. It also deters international investment, stifles economic growth and development, distorts prices, and undermines the rule of law.

It is important for U.S. companies, irrespective of their size, to assess the business climate in the relevant market in which they will be operating or investing, and to have an effective compliance program or measures to prevent and detect corruption, including foreign bribery. U.S. individuals and firms operating or investing in foreign markets should take the time to become familiar with the relevant anticorruption laws of both the foreign country and the United States in order to properly comply with them, and where appropriate, they should seek the advice of legal counsel.

The U.S. Government seeks to level the global playing field for U.S. businesses by encouraging other countries to take steps to criminalize their own companies' acts of corruption, including bribery of foreign public officials, by requiring them to uphold their obligations under relevant international conventions. A U. S. firm that believes a competitor is seeking to use bribery of a foreign public official to secure a contract should bring this to the attention of appropriate U.S. agencies, as noted below.

U.S. Foreign Corrupt Practices Act

In 1977, the United States enacted the Foreign Corrupt Practices Act (FCPA), which makes it unlawful for a U.S. person, and certain foreign issuers of securities, to make a corrupt payment to foreign public officials for the purpose of obtaining or retaining

business for or with, or directing business to, any person. The FCPA also applies to foreign firms and persons who take any act in furtherance of such a corrupt payment while in the United States. For more detailed information on the FCPA, see the FCPA Lay-Person's Guide at: <http://www.justice.gov/criminal/fraud/docs/dojdocb.html>.

Other Instruments

It is U.S. Government policy to promote good governance, including host country implementation and enforcement of anti-corruption laws and policies pursuant to their obligations under international agreements. Since enactment of the FCPA, the United States has been instrumental in the expansion of the international framework to fight corruption. Several significant components of this framework are the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (OECD Antibribery Convention), the United Nations Convention against Corruption (UN Convention), the Inter-American Convention against Corruption (OAS Convention), the Council of Europe Criminal and Civil Law Conventions, and a growing list of U.S. free trade agreements. Sri Lanka ratified the UN Anti-Corruption Convention in 2004. Sri Lanka has signed but not ratified the UN Convention against Transnational Organized Crime. Sri Lanka became a signatory to the OECD-ADB Anti-Corruption Regional Plan in May 2006.

OECD Antibribery Convention

The OECD Antibribery Convention entered into force in February 1999. As of December 2009, there are 38 parties to the Convention including the United States (see <http://www.oecd.org/dataoecd/59/13/40272933.pdf>). Major exporters China, India, and Russia are not parties, although the U.S. Government strongly endorses their eventual accession to the Convention. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Antibribery Convention through the U.S. FCPA. Sri Lanka is not a party to the OECD Convention.

UN Convention

The UN Anti-Corruption Convention entered into force on December 14, 2005, and there are 143 parties to it as of December 2009 (see <http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>). The UN Convention is the first global comprehensive international anti-corruption agreement. The UN Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption. The UN Convention goes beyond previous anti-corruption instruments, covering a broad range of issues ranging from basic forms of corruption such as bribery and solicitation, embezzlement, trading in influence to the concealment and laundering of the proceeds of corruption. The Convention contains transnational business bribery provisions that are functionally similar to those in the OECD Antibribery Convention and contains provisions on private sector auditing and books and records requirements. Other provisions address matters such as prevention, international cooperation, and asset recovery. Sri Lanka is a party to the UN Convention.

OAS Convention

In 1996, the Member States of the Organization of American States (OAS) adopted the first international anti-corruption legal instrument, the Inter-American Convention against Corruption (OAS Convention), which entered into force in March 1997. The OAS Convention, among other things, establishes a set of preventive measures against corruption, provides for the criminalization of certain acts of corruption, including transnational bribery and illicit enrichment, and contains a series of provisions to strengthen the cooperation between its States Parties in areas such as mutual legal assistance and technical cooperation. As of December 2009, the OAS Convention has 33 parties (see <http://www.oas.org/juridico/english/Sigs/b-58.html>). Sri Lanka is not a party to the OAS Convention.

Council Of Europe Criminal Law And Civil Law Conventions

Many European countries are parties to either the Council of Europe (CoE) Criminal Law Convention on Corruption, the Civil Law Convention, or both. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and account offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia. The Group of States against Corruption (GRECO) was established in 1999 by the CoE to monitor compliance with these and related anti-corruption standards. Currently, GRECO comprises 46 member States (45 European countries and the United States). As of December 2009, the Criminal Law Convention has 42 parties and the Civil Law Convention has 34 (see www.coe.int/greco). Sri Lanka is not a party to the Council of Europe Conventions.

Local Laws

U.S. firms should familiarize themselves with local anticorruption laws, and, where appropriate, seek legal counsel. While the U.S. Department of Commerce cannot provide legal advice on local laws, the Department's U.S. and Foreign Commercial Service can provide assistance with navigating the host country's legal system and obtaining a list of local legal counsel.

Assistance for U.S. Businesses:

The U.S. Department of Commerce offers several services to aid U.S. businesses seeking to address business-related corruption issues. For example, the U.S. and Foreign Commercial Service can provide services that may assist U.S. companies in conducting their due diligence as part of the company's overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign and Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at www.trade.gov/cs. In Sri Lanka, this service is provided by the Economic and Commercial Section at the U.S. Embassy (commercialcolombo@state.gov).

The Departments of Commerce and State provide worldwide support for qualified U.S. companies bidding on foreign government contracts through the Commerce Department's Advocacy Center and State's Office of Commercial and Business Affairs. Problems, including alleged corruption by foreign governments or competitors, encountered by U.S. companies in seeking such foreign business opportunities can be

brought to the attention of appropriate U.S. government officials, including local embassy personnel and through the Department of Commerce Trade Compliance Center "Report A Trade Barrier" Website at tcc.export.gov/Report_a_Barrier/index.asp.

Guidance on the U.S. FCPA

The Department of Justice's (DOJ) FCPA Opinion Procedure enables U.S. firms and individuals to request a statement of the Justice Department's present enforcement intentions under the antibribery provisions of the FCPA regarding any proposed business conduct. The details of the opinion procedure are available on DOJ's Fraud Section Website at www.justice.gov/criminal/fraud/fcpa. Although the Department of Commerce has no enforcement role with respect to the FCPA, it supplies general guidance to U.S. exporters who have questions about the FCPA and about international developments concerning the FCPA. For further information, see the Office of the Chief Counsel for International Counsel, U.S. Department of Commerce, Website, at http://www.ogc.doc.gov/trans_anti_bribery.html. More general information on the FCPA is available at the Websites listed below.

Exporters and investors should be aware that generally all countries prohibit the bribery of their public officials, and prohibit their officials from soliciting bribes under domestic laws. Most countries are required to criminalize such bribery and other acts of corruption by virtue of being parties to various international conventions discussed above.

Corruption in Sri Lanka

Public sector corruption, including bribery of public officials, remains a significant challenge for U.S. firms operating in Sri Lanka. While the country has generally adequate laws and regulations to combat corruption, enforcement is weak and inconsistent. U.S. firms identify corruption as a constraint on foreign investment, but, by and large, it is not a major threat to operating in Sri Lanka – at least once a contract has been won. Corruption appears to have the greatest effect on investors in large projects and on those pursuing government procurement contracts.

There is a consensus that corruption is rampant in Sri Lanka. In Transparency International's Corruption Perception Index for 2009 Sri Lanka ranks 97th with a score of 3.1 out of a possible 10 points. The World Bank Control of Corruption Index which ranges from -2.5 to +2.5 has shown an improvement to -0.13 in 2006 and 2007 from -0.26 in 2005. In a 2006 USAID Democracy and Governance assessment, anecdotal evidence from the private sector indicated that the percentage of a public sector contract paid in bribes nearly tripled. According to Transparency International, corruption is perceived as most pervasive in political appointments to government institutions and in government procurement awards, as well as in high frequency/low value transactions. The police force and the judiciary are perceived to be the most corrupt public institutions. Corruption is also a persistent problem in customs clearance and enables wide smuggling of certain consumer items, to the detriment of legitimate manufacturers and importers.

In 2008-2009, the Supreme Court, examining public interest litigations against the sale of three government properties, faulted a former President and the Secretary to the Treasury for wrongdoing. Both were fined. The Supreme Court also reversed the sales.

Also in 2008, the Supreme Court also removed the Secretary to the Treasury from his position and ruled that he cannot hold any public office in the future. However, in 2009 the Supreme Court chaired by a new Chief Justice allowed the former the Treasury Secretary to resume his duties, thereby reversing the 2008 decision.

In January 2007, a parliamentary Commission found evidence of serious and widespread waste, fraud, and abuse in the management of Sri Lanka's numerous government enterprises. Privatization of a handful of government enterprises between 2001 and 2004 also appears to have been done in a corrupt manner. The mismanagement and corruption reviewed by the Commission have cost Sri Lanka an estimated USD 1.3 billion. However, the government has taken little concrete action to date to address the Commission's findings, and it later replaced the Commission's chairman and some of its members; one new appointee is the President's brother. Following the Commission's report, several other large scale corruption incidents and frauds materialized, including at the government's tax office.

Sri Lanka ratified the UN Anti-Corruption Convention in 2004. Sri Lanka has signed but not ratified the UN Convention against Transnational Organized Crime. Sri Lanka became a signatory to the OECD-ADB Anti-Corruption Regional Plan in May 2006.

Bribery Commission Not Effective

The Bribery Commission is the main body responsible for investigating allegations of bribery and corruption. The function of the Commission, under Act No 19 of 1994, is to investigate allegations brought to its attention and to institute proceedings against responsible individuals in the appropriate court. The law states that a public official's offer or acceptance of a bribe constitutes a criminal offense and carries a maximum sentence of seven years imprisonment and a fine at the discretion of the courts. A bribe by a local company to a foreign official is not covered by the Bribery Act.

Although highly publicized, efforts to investigate bribery and corruption by the Bribery Commission and Presidential Commissions have failed, damaging public confidence in such processes. In February 2008, the President removed the Bribery Commission's Director General, the sole individual able to serve indictments and appointed a new Director General.

Several other government entities try to address corruption, the most important being the Auditor General's Department. However, there is a confusion of mandates and these institutions frequently interpret their mandates narrowly, inhibiting their effectiveness.

Anti-Corruption Resources

Some useful resources for individuals and companies regarding combating corruption in global markets include the following:

Information about the U.S. Foreign Corrupt Practices Act (FCPA), including a "Lay-Person's Guide to the FCPA" is available at the U.S. Department of Justice's Website at: <http://www.justice.gov/criminal/fraud/fcpa>.

Information about the OECD Antibribery Convention including links to national implementing legislation and country monitoring reports is available at:

http://www.oecd.org/department/0,3355,en_2649_34859_1_1_1_1_1,00.html. See also new Antibribery Recommendation and Good Practice Guidance Annex for companies: <http://www.oecd.org/dataoecd/11/40/44176910.pdf>

General information about anticorruption initiatives, such as the OECD Convention and the FCPA, including translations of the statute into several languages, is available at the Department of Commerce Office of the Chief Counsel for International Commerce Website: http://www.ogc.doc.gov/trans_anti_bribery.html.

Transparency International (TI) publishes an annual Corruption Perceptions Index (CPI). The CPI measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is available at: http://www.transparency.org/policy_research/surveys_indices/cpi/2009. TI also publishes an annual Global Corruption Report which provides a systematic evaluation of the state of corruption around the world. It includes an in-depth analysis of a focal theme, a series of country reports that document major corruption related events and developments from all continents and an overview of the latest research findings on anti-corruption diagnostics and tools. See <http://www.transparency.org/publications/gcr>.

The World Bank Institute publishes Worldwide Governance Indicators (WGI). These indicators assess six dimensions of governance in 212 countries, including Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law and Control of Corruption. See http://info.worldbank.org/governance/wgi/sc_country.asp. The World Bank Business Environment and Enterprise Performance Surveys may also be of interest and are available at: <http://go.worldbank.org/RQQXYJ6210>.

The World Economic Forum publishes the Global Enabling Trade Report, which presents the rankings of the Enabling Trade Index, and includes an assessment of the transparency of border administration (focused on bribe payments and corruption) and a separate segment on corruption and the regulatory environment. See <http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm>.

Additional country information related to corruption can be found in the U.S. State Department's annual Human Rights Report available at <http://www.state.gov/g/drl/rls/hrrpt/>.

Global Integrity, a nonprofit organization, publishes its annual Global Integrity Report, which provides indicators for 92 countries with respect to governance and anti-corruption. The report highlights the strengths and weaknesses of national level anti-corruption systems. The report is available at: <http://report.globalintegrity.org/>.

Bilateral Investment Agreements

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The Government of Sri Lanka has signed investment protection agreements with the United States (which came into force in May 1993) and with the following other countries:

1. Belgium
2. People's Republic of China
3. Denmark

4. Egypt
5. Finland
6. France
7. Germany
8. Indonesia
9. India
10. Iran
11. Italy
12. Japan
13. Korea
14. Luxembourg
15. Malaysia
16. Netherlands
17. Norway
18. Romania
19. Singapore
20. Sweden
21. Switzerland
22. Thailand
23. United Kingdom

Taxation

A bilateral treaty between Sri Lanka and the United States to avoid double taxation was ratified and entered into force on June 12, 2004.

Foreign investors not qualifying for Board of Investment incentives such as tax and exchange control exemptions or concessions are liable to pay taxes on corporate profits, dividends, and remittances of profits. They are also liable to pay a Value Added Tax on goods and services. The government has also imposed a tax of 0.1% on debits to any current or savings account maintained at any bank in Sri Lanka. Debits made to accounts of government and international organizations are excluded. Accounts maintained at Foreign Currency Banking Units, accounts maintained for stock exchange transactions (SIERA), and resident and non-resident foreign currency accounts are exempted from the tax.

An Economic Service Charge (ESC) at 0.25% of income applies to BOI-approved companies enjoying tax holidays. The Embassy encourages prospective U.S. investors to contact an international auditing firm operating in Sri Lanka to assess their tax liability.

OPIC and Other Investment Insurance Programs

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The United States and Sri Lanka concluded in 1966 (and renewed in 1993) an agreement that allows the Overseas Private Investment Corporation (OPIC) to provide investment insurance guarantees for U.S. investors. OPIC currently provides coverage to banking and power sector investments in Sri Lanka. Sri Lanka's membership in the Multilateral Investment Guarantee Agency (MIGA) offers the opportunity for insurance against non-commercial risks.

The U.S. Embassy and other U.S. Government institutions spend over \$13 million annually in Sri Lanka. This amount can potentially be utilized by OPIC to honor an

inconvertibility claim; however, no such claims have been made to date in Sri Lanka. The Embassy purchases local currency at the financial rate.

Labor

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Sri Lanka's labor force is literate (particularly in local languages) and trainable, although weak in certain technical skills and the English language. The average worker has eight years of schooling. Two-thirds of the labor force is male.

In 2009, 7.6 million Sri Lankans were employed, with 43% in services, 25% in industry and 32% in agriculture jobs. Overall, 41% of the workforce is in the private sector and 16% in the government. Self employed workers constitute 30% of all employed while another 11% were unpaid family workers. About 61% of the employed are in the informal sector.

The unemployment rate has declined in recent years to around 5%. The rate of unemployment among women and high school and college graduates, however, has been proportionally higher than the rate for less-educated workers. Youth and entry-level unemployment and underemployment remain a problem. A significant proportion of unemployed people seek "white collar" jobs. However, most sectors seeking employees offer manual or semi-skilled jobs or require technical or professional skills such as management, marketing, information technology, accountancy and finance, and English language proficiency. The construction, plantation and apparel industries report a shortage of workers. Some investors have faced problems in finding sufficient employees with the requisite skills.

The government has initiated educational reforms it hopes will lead to better preparation of students and better matches between graduates and jobs. The government declared 2009 to be the year of English and Information Technology. More computer, accounting and business skills training programs and English language programs are becoming available. But the demand for these skills still outpaces supply.

Migrant Workers Abroad

There are an estimated 1.5 million Sri Lankan workers abroad. Remittances from migrant workers, at around \$3 billion, are one of Sri Lanka's largest sources of foreign exchange. The majority of this labor force is unskilled (housemaids and factory laborers) and located primarily in the Middle East, but Sri Lanka is also losing many of its technically and professionally qualified workers to more lucrative jobs abroad. Despite the global slowdown, remittances from migrant workers abroad actually increased in 2009. At least one labor importing country, South Korea, temporarily stopped importing labor from Sri Lanka in 2009.

Wages and Holidays

Labor is available at relatively low cost, though it is priced higher than in some other South Asian countries. Productivity lags behind other countries in Asia. Child labor is prohibited and is virtually nonexistent in the organized sector, although child labor occurs in informal sectors. The minimum legal age for employment is set at 14. Most permanent full-time workers are covered by laws pertaining to maximum hours of work, minimum wage, leave, the right of association, and safety and health standards.

Many believe that Sri Lanka's labor laws and its numerous official holidays dampen productivity. The full moon day of each month (sacred in the Buddhist faith), if it falls on a weekday, is a paid holiday. There are eight other public holidays. The public sector and banks enjoy additional holidays. These statutory holidays are in addition to 21 days of annual/casual leave and approximately 21 days of sick leave (the number of days for sick leave is at the discretion of the management). Further, female employees are entitled to 84 days fully paid maternity leave for the first two pregnancies. Female workers are permitted 60 hours of overtime work per month.

The Government continues to interfere with private sector wage setting. In October 2005 the Government, through an act of Parliament, took steps to mandate a wage increase (of approximately Rs 1,000 (\$8.85) per month) to private sector workers. The private sector is concerned about such interference in wage setting, which could damage competitiveness in certain sectors.

Termination Laws

The Termination of Employment of Workmen Act (TEA) makes it difficult to fire or lay off workers who have been employed more than six months for any reason other than serious, well-documented disciplinary problems. Disputes over dismissals can be brought to a labor tribunal administered by the Ministry of Justice. The labor tribunals have large backlogs of unresolved cases. Certain labor disputes founded upon fundamental rights (allegations of termination/transfers based upon discrimination, etc.) can be brought directly to the Supreme Court. Recent amendments to the Industrial Disputes Act (IDA) include labor dispute resolution rules to expedite the dispute process.

The government has introduced a standard compensation formula under the TEA to facilitate termination. The compensation formula takes into account the number of years of service and offers 2.5 months salary as compensation for 1 year of service, 12.5 months salary for 5 years of service; 38 months for 20 years and up to a maximum of 48 months salary for 34 years service. According to the World Bank's Doing Business 2009 report, Sri Lanka's firing cost is among the highest in the world. For example, Sri Lanka's firing cost for 20 years of service, at 38 months, compares with Pakistan and Nepal's 22.5 months, India's 19.6 months, Malaysia's 18.5 months, China's 13.2 months and Bangladesh's 11.7 months. The Labor Commissioner's approval or the affected employee's consent is required to fire workers. The Labor Commissioner's approval is often subject to delays of around 6-7 months. Employers complain that the package is excessive, especially compared to international norms. They have also pointed out that higher compensation could adversely affect companies requiring restructuring, and discourage investment.

Trade Unions

About 20% of the 7 million-strong work force is unionized, but union membership is declining. There are more than 1,900 registered trade unions (many of which have 50 or fewer members), and 19 federations. About 15% of labor in the industry and service sector is unionized. Most of the major trade unions are affiliated with political parties, creating a highly politicized labor environment. In many cases several unions, affiliated with different political parties, work together at state-owned enterprises. This is not the case for private companies, which only have one union or perhaps a workers' council to

represent the employees. Several trade unions with affiliations to major political parties have formed themselves into an organized group, the National Association for Trade Union Research and Education (NATURE), to promote education and training among trade unionists.

All workers, other than police, armed forces, prison service, and those in essential services, have the right to strike. By law, workers may lodge complaints to protect their rights with the commissioner of labor, a labor tribunal, or the Supreme Court. The president retains the power to designate any industry as an essential service.

Unions represented workers in many large private firms, but workers in small-scale agriculture and small businesses usually did not belong to unions. Public sector employees were unionized at very high rates. Labor in export processing zone enterprises tends to be represented by non-union worker councils.

Unions have complained that the Board of Investment and some employers, especially in the BOI-run export processing zones, prohibit union access and do not register unions on a timely basis. Employers allege that the JVP, a Marxist political party opposed to private enterprise, could provoke labor to strike under the pretense of trade union activity. Due to the JVP's violent past, employers are generally not in favor of it or its trade union arm, the Inter-Company Trade Union.

In BOI enterprises, including those in the export processing zones, worker councils composed of employees generally engage in labor and management negotiations. These worker councils have functioned well in some companies in providing for worker welfare. The BOI has requested that companies recognize trade unions and accept the right to collective bargaining. According to the BOI, where both a recognized trade union with bargaining power and a non-union worker council exist in an enterprise, the trade union will represent the employees in collective bargaining.

The International Labor Organization's (ILO) Freedom of Association Committee has observed that Sri Lankan trade unions and employee councils can co-exist, but advises that there should not be any discrimination against those employees choosing to join a union. The right of employee councils to engage in collective bargaining has been held as valid by the ILO. The ILO has, however, noted weaknesses in rules governing operation of employee councils and low prevalence of collective bargaining agreements and requested that the Government address these issues.

In response to these observations, the BOI revised its labor manual in March 2004, requesting that companies located in export processing zones allow union access to zones and provide official time off to union members to attend meetings. Along with this revision, the BOI also issued new guidelines for the formation and operation of employee councils, giving powers to employee councils to negotiate binding collective agreements.

In 2008, the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) submitted a petition to the United States Trade Representative seeking suspension of Generalized System of Preferences (GSP) benefits for Sri Lanka due to alleged labor rights violations in some factories in the export processing zones. AFL-CIO submitted a similar petition in 2002, which was rejected. USTR did not act on the 2008 petition and the AFL-CIO submitted a revised petition in July 2009. The United States Government has not yet made a decision whether to accept the GSP petition for

review. If accepted, the governments of the United States and Sri Lanka would enter into consultations. A Sri Lanka trade union made a similar case with the European Union (EU) when Sri Lanka applied for benefits under the special incentive arrangements of the GSP. After an audit, the EU, in January 2004, granted significant benefits to Sri Lanka under EU GSP+ in recognition of the country's efforts to implement core labor standards. The EU, however, urged improvements in freedom of association. The current review of GSP+ benefits centers on alleged violations of human rights relating to the end of the war and treatment of internally displaced persons, not labor rights.

Key public sector entities such as the Ceylon Electricity Board, Ceylon Petroleum Corporation and the Sri Lanka Ports Authority also have large unions which have protested anticipated moves towards privatization or restructuring. They staged a "work to rule" campaign in 2009 demanding higher wages. They returned to work as the industries were made essential services by the President. The government granted the striking workers salary increases, although not as much as demanded. Trade unions in the plantations also staged a "go-slow" campaign demanding higher wages, when a plantation sector collective bargaining agreement came up for renewal. They were granted a 40% increase.

In July 2006, the Supreme Court broke a port slowdown which had disrupted shipping through the Colombo Port for over a week. However, in response to a challenge lodged by several unions, the ILO Freedom of Association Committee noted that the port "go-slow" action did not disrupt an essential service, i.e. one whose disruption would endanger life, personal safety or health of the whole or part of the population.

Collective Bargaining

Collective bargaining is not yet popular. Employers' Federation of Ceylon, the apex employers association in Sri Lanka, assists its member companies to negotiate with unions and sign collective bargaining agreements. While about half of the 520 members of the Employers' Federation of Ceylon is unionized, currently 135 of these companies (including a number of foreign-owned firms) are bound by collective agreements. As of January 2010, there were only four collective bargaining agreements signed in companies located in export processing zones.

Labor-Management Relations

Formerly confrontational labor-management relations have improved in the last few years as employers have worked harder to motivate and care for workers. Work stoppages and strikes in the private sector are on the decline, and there were few strikes in 2009. While labor-management relations vary from organization to organization, managers who emphasize communication with workers and offer training opportunities generally experience fewer difficulties. U.S. investors in Sri Lanka (including U.S. garment buyers) generally promote good labor management relations and labor conditions that exceed local standards.

ILO Conventions

Sri Lanka is a member of the International Labor Organization (ILO) and has ratified 31 international labor conventions. The labor laws of Sri Lanka are laid out in almost 50

different statutes. The Ministry of Labor has published a Labor Code, consolidating important labor legislation. Sri Lanka has ratified all eight of the core labor conventions included in the 1998 ILO Declaration on Fundamental Principles and Rights at Work. ILO Convention 138 on minimum age for admission to employment and Convention 182 on worst forms of child labor were ratified during 2000-2001. Sri Lanka ratified ILO convention 105 on Forced Labor in 2003. The ILO and the Employers' Federation of Ceylon are working to improve awareness of core labor standards. The ILO also promotes its Decent Work Agenda program in Sri Lanka.

Foreign-Trade Zones

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Sri Lanka has 12 free trade zones, also called export-processing zones, administered by the BOI. The oldest, the Katunayake and Biyagama Zones, located north of Colombo near the Bandaranaike International Airport, are fully occupied. The third zone is located at Koggala on the southern coast. Several mini export-processing zones are located in provinces. There are nearly 200 foreign export processing enterprises operating in these zones. There are also two industrial parks that have both export-oriented and non-export oriented factories. They are located in Pallekelle, near Kandy in central Sri Lanka, and in Seethawaka in Avissawela about 60 kilometers from Colombo. In addition, a large private apparel company opened Sri Lanka's first privately run fabric park in 2007. The company invites local and foreign companies to set up fabric and apparel factories in this eco-friendly park.

In the past, firms preferred to locate their factories near Colombo harbor or airport to reduce transport time and cost. However, excessive concentration of industries around Colombo has caused heavy traffic, higher real estate prices, environmental pollution, and scarcity of labor. The BOI and the government now encourage export-oriented factories to set up in industrial zones farther from Colombo. However, Sri Lanka's poor roads make these outlying zones less appealing. There have been two garment factories established in Eastern Sri Lanka, for example. The Government has embarked on a substantial plan to improve road infrastructure island-wide.

Foreign Direct Investment Statistics

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From 1998-2001, foreign direct investment (FDI) flows to Sri Lanka averaged only about \$150 million per year (excluding privatization receipts). In 2007, FDI increased to about \$600 million and in 2008 to about \$750 million. There was \$350 million as of September 2009.

U.S. Investments

Total cumulative U.S. investment in Sri Lanka is estimated to be in the range of \$200 million. Major U.S. investors include: Energizer Battery, Mast Industries, Smart Shirts (a subsidiary of Kellwood Industries), Chevron, Citibank, Caterpillar, 3M, Coca-Cola, Tandon Corporation, Pepsi Co, Sportif, Worldquest, Fitch IBCR, AES Corporation, American International Group (AIG), American Premium Water, Virtusa, Avery Denison, North Sails, Amsafe Bridport, RR Donnelly (through Office Tiger and Revlon (through its Indian subsidiary). Several Sri Lankan-Americans have started IT and BPO companies in Sri Lanka serving the US market. In addition, IBM, Lanier, NCR, GTE, Motorola, Procter & Gamble, Liz Claiborne, Tommy Hilfiger, J.C. Penney, Sun Microsystems,

Microsoft, Bates Strategic Alliance, McCann-Erickson, Pricewaterhouse Coopers, Ernst and Young, and KPMG all have branches, affiliated offices or local distributors/representatives. Kentucky Fried Chicken, Pizza Hut, Federal Express, UPS, and McDonald's are represented in Sri Lanka through franchises. Numerous other American brands and products are represented by local agents.

Non-U.S. Investments

Leading sources of foreign direct investment in Sri Lanka are Malaysia, the United Kingdom, the United States, Singapore, India, China, the UAE, and Korea. Major non-U.S. investors include: Unilever, Nestle, British American Tobacco Company, Mitsui, Pacific Dunlop/Ansell, Prima, FDK, Telekom Malaysia Bhd, S.P. Tao, HSBC and the Indian Oil Corporation. In 2008/9, India's Bharathi Airtel invested in mobile cellular services. Leading U.S. and foreign investors that have acquired significant stakes in privatized companies include Chevron, Hanjung Steel of Korea, Mitsubishi Corporation and C. Itoh (A.K.A. Itochu) of Japan, Emirates Airlines of United Arab Emirates, Shell Oil of the UK, and the Indian Oil Corporation.

Web Resources

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Board of Investment of Sri Lanka: www.boi.lk or www.investsrilanka.com

International Monetary Fund (IMF) Sri Lanka country information:
www.imf.org/external/country/LKA/index.htm

Article VIII obligations of the International Monetary Fund:
www.imf.org/external/pubs/ft/aa/aa08.htm

U.S.-Sri Lanka Bilateral Investment Treaty:
www.state.gov/documents/organization/43588.pdf

Institute for the Development of Commercial Law and Practice:
www.iclparbitrationcentre.com

Indo-Lanka Free Trade Agreement: www.doc.gov.lk

South Asian Free Trade Area: www.saarc-sec.org/main.php

Fitch Ratings Lanka: www.fitchratings.lk

Garments without Guilt program of the apparel industry: www.garmentswithoutguilt.com

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Chapter 7: Trade and Project Financing

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How Do I Get Paid (Methods of Payment)

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Payments for import of goods can be made under letters of credit (LC), Documentary collections (Documents against Payment (DP) or Documents against Acceptance (DA) terms) or Advance Payment (AP) terms. Goods can also be imported to Sri Lanka on a consignment-account basis, where the goods imported are books and periodicals, or ornamental fish imported for re-export. Letters of Credit are valid for up to 365 days. Imports on Advance Payment terms are allowed where the total value of the goods does not exceed \$10,000. Payments for imports made on Advance Payment basis can be made through bank draft, mail transfer, or telegraphic transfer. Goods for which advance payment has been made should be received by the importer within 90 days of affecting the remittance.

Basic documents required by commercial banks for imports include an invoice, insurance certificate (if applicable), and transport documents. Depending on the product and the mode of payment, certificates such as certificates of origin, inspection certificates, and packing lists may also be required. Shipments by air cargo may require the same documentation as those arriving by sea. All shipping documents in relation to imports made on DP or DA terms should be forwarded by the supplier's bank or by the supplier to a commercial bank in Sri Lanka for release to the importer of goods. In the event the original documents are not received on time, the importer, at the discretion of the bank, may submit copies of those documents for certification by the bank for clearance of the goods. The importer should arrange the original shipping documents to be received by the bank concerned within 30 days from the date of certification of the copies.

To clear goods from customs, the importer should submit relevant shipping documents certified by a commercial bank and customs declaration forms to the Sri Lanka Department of Customs. In the case of an import made on AP basis, goods will be released on submission of satisfactory proof of payment such as bank confirmations. In the case of an import made on consignment-account basis, goods will be released by customs on the submission of clearance documents.

How Does the Banking System Operate

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Sri Lanka has a fairly well diversified banking system, which includes the Central Bank of Sri Lanka (CBSL), two large state-owned commercial banks, nine private domestic commercial banks, twelve foreign banks, a national savings bank, six regional

development banks, two long term lending institutions, three housing banks, two private savings banks, and 12 merchant banks. Citibank N.A. is the only American bank operating in Sri Lanka. The domestic commercial banks operate branches throughout the island. All commercial banks operate foreign currency banking units (FCBU) and conduct off-shore business and finance projects approved by the BOI. The Central Bank is responsible for regulation and supervision of Sri Lanka's banking system. The legal framework consists of the Monetary Law Act and the Banking Act. The Central Bank is empowered to issue detailed directives to the commercial banks. In 1993, Sri Lanka adopted the Basel Accord capital guidelines of 8% of risk-adjusted assets as the minimum capital requirement for commercial banks. The capital-adequacy ratio was raised to 10% effective January 2003. In January 2008, Sri Lanka adopted International Convergence of Capital Measurement and Capital Standards widely known as the Basel II Framework for computation of the capital adequacy ratio. Commercial banks are also required to comply with Sri Lanka Auditing and Accounting Standards and Central Bank guidelines on loan loss provisioning.

Foreign-Exchange Controls

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Sri Lanka removed exchange control restrictions on current-account transactions effective March 15, 1994. Controls do exist on capital-account transactions, but these are generally avoided on projects receiving Board of Investment (BOI) approval.

In times of balance of payments difficulties, however, the government tends to impose controls on foreign exchange transactions involving the current account. Most recently, in October 2008, the Central Bank required importers to keep a 100% deposit on letters of credit on a range of imports. The deposit requirement on the import of cars is 200% of the value of the import. These requirements were removed in 2009.

Contracts for forward bookings of foreign exchange are currently permitted for a maximum period of 360 days for the purpose of payments for trade in goods and services. Forward bookings for a maximum of 720 days are allowed for loan repayment.

Currently, exporters need to repatriate export-proceeds within 120 days to settle export credit facilities. Other export proceeds can be retained abroad in a local banks correspondent bank.

The Central Bank has introduced an export proceeds monitoring system. All exporters are required to provide details regarding export proceeds to the Central Bank on a quarterly basis.

U.S. Banks and Local Correspondent Banks

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Citibank is the only U.S. bank present in Colombo. All Sri Lankan commercial banks have correspondent relationships with U.S. banks.

Project Financing

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Funds provided through multilateral agencies have been the major source of long-term lending for government projects. The Asian Development Bank (ADB), the World Bank, and the Japan International Cooperation Agency (JICA) are the major sources of project

financing. In addition, bilateral donors, such as China, India, Japan and Germany, also fund major government projects by providing long-term concessional loans. Recently, Sri Lanka has received funds from Iran for an irrigation project. It has sought Iranian funds to upgrade an oil refinery.

The Government also seeks foreign commercial borrowing for project finance. A sovereign-bond issue in October 2009 raised \$500 million at an interest rate of 7.4% for five years. Sri Lanka received its first sovereign-credit ratings in December 2005, with a "BB-minus" from Fitch Ratings and a "B-Plus" from Standard and Poor's (S&P). Current ratings are B-Plus (Fitch) and B (S&P). Fitch has assigned a stable-rating outlook for Sri Lanka. S&P's rating outlook is positive.

In addition to public sector lending, the ADB also lends directly to the private sector to finance projects. The World Bank's International Finance Corporation (IFC) supports private sector projects in Sri Lanka in the form of equity and long-term debt financing. IFC also supports SME's.

Retained profits finance about 70% of private investment, with short-term borrowing financing a further 20% of investment. The stock market and, to a lesser extent, the corporate-securities market are also used to raise capital. Foreign direct investment (FDI) finances about 4% of overall investment. Foreign investors are allowed to access credit on the local market. They are also free to raise foreign currency loans.

Commercial banks are the principal sources of local bank finance for projects. Bank loans are the most widely used credit instrument in the private sector. Financial institutions also raise syndicated bank loans to fund large-scale investment projects undertaken by the private sector. Due to high inflation and increased government borrowing, interest rates rose sharply in 2007-2009, limiting the expansion of credit to the private sector. Inflation was 6.5% in January 2010. Interest rates applying to prime customers dropped to around 12% in January 2010 from 19% in January 2009.

The U.S. Trade and Development Agency (TDA) funds feasibility studies, orientation visits, specialized training grants, business workshops, and other forms of technical assistance to help American businesses compete for infrastructure and industrial projects. Further information on TDA programs is available at www.tda.gov.

Existing World Bank IDA Loans:

- \$75 million for Renewable Energy for Rural Economic Development Project
- \$39 million for Community Water Supply
- \$40 million for Improving Quality and Relevance of Undergraduate Education Project
- \$51 million for Community Development (Gemi Diriya)
- \$84 million for Health sector
- \$77 million for Livelihoods in Conflict areas
- \$53 million for e-Lanka (ICT)
- \$75 million for North/East Housing I
- \$100 million for Road Sector I
- \$60 million for Education Sector I
- \$1 million for Avian Influenza Control and Preparedness Project
- \$32 million for Housing
- \$10 million for Education Development II

- \$40 million for Renewable Energy
- \$65 million for Dam Safety
- \$22 million for Public Sector Capacity Building
- \$43 million for North East Housing II
- \$98 million for Road Sector II
- \$65 million for Emergency Northern Recovery
- \$105 million for Provincial Roads
- \$75 million for Community Development and Livelihoods

Proposed World Bank/IDA loans:

- \$18 million for Sustainable Tourism
- \$40 million for Higher Education for the 21st Century
- \$20 million for Eco Systems Conservation and Management

Existing ADB Loans:

- \$60 million for Financial Markets Program for Private Sector Development
- \$20 million for Technical Education Development
- \$35 million for Secondary Education Modernization
- \$150 million for National Highways
- \$45 million for North East Community Restoration
- \$70 million for Power Sector Development
- \$300 million for Colombo Port South Harbor
- \$60 million for Secondary Town Water Supply
- \$20 million for North East Province Coastal Community Development
- \$80 million for Conflict-affected Area Rehabilitation
- \$45 million for Distance Education Modernization
- \$75 million for Third Water Supply and Sanitation
- \$10 million for Fiscal Management Reform
- \$10 million for South Asia SME Development
- \$10 million for People's Leasing Company
- \$15 million for Education for Knowledge Society Project
- \$65 million for Education for Knowledge Society Project
- \$50 million for SME development
- \$85 million for Dry Zone Water & Sanitation
- \$98 million for Southern Transport Development
- \$20 million for Aquatic Resources Development
- \$100 million for Greater Colombo Wastewater Management
- \$70 million for Eastern and North Central Provincial Roads
- \$160 million for Clean Energy and Access Improvement

Proposed ADB projects:

- \$154 million for Northern Road Connectivity
- \$90 million for Sustainable Power Sector
- \$40 million for Fiscal Management Reform

To obtain further information on Asian Development Bank funded projects in Sri Lanka, visit www.adb.org.

Selling to the Asian Development Bank (ADB): The ADB, a non-profit international financial institution headquartered in Manila, Philippines, maintains a Resident Mission in Sri Lanka. In addition to public-sector lending, ADB also lends directly to the private sector to mobilize additional investment and financing for projects. ADB's lending program provides significant commercial opportunities for U.S. companies. The U.S. and Japan are the largest shareholders of the ADB. The U.S. Department of Commerce maintains a Commercial Liaison Office for the ADB (CS ADB). CS ADB works closely with other Commercial Service offices worldwide and U.S. embassies – including the U.S. Embassy in Sri Lanka – to help U.S. companies benefit from the ADB's lending program. The U.S. Commercial Liaison Office for the ADB offers various services for free, such as advance project information and updates, counseling, advocacy and outreach. The contact information is:

Senior Commercial Officer
American Business Center
25th Floor, Ayala Life-FGU Building
6811 Ayala Avenue,
Makati City, Philippines 1226.
Telephone: (632) 887-1345(-6)
Fax: (632) 887-1164

U.S. mailing address:

PSC 500 Box 33
FPO AP 96515-1000

Web Resources

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Export-Import Bank of the United States: <http://www.exim.gov>

Country Limitation Schedule: http://www.exim.gov/tools/country/country_limits.html

OPIC: <http://www.opic.gov>

Trade and Development Agency: <http://www.tda.gov/>

SBA's Office of International Trade: <http://www.sba.gov/oit/>

USDA Commodity Credit Corporation: <http://www.fsa.usda.gov/cc/default.htm>

U.S. Agency for International Development: <http://www.usaid.gov>

World Bank www.worldbank.org

-- UN Development Business www.dev.business.com

--The Development Gateway Market www.dgmarket.com

Asian Development Bank www.adb.org

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Chapter 8: Business Travel

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Business Customs

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The business language is English. Business cards are a necessity. Courtesy is highly valued in Sri Lanka, and personal graciousness may play a role in clinching deals. While punctuality is not as highly prized as in the United States, most appointments and similar commitments are reliably honored.

Travel Advisory

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Embassy Consular Information Sheet is available at http://travel.state.gov/travel/cis_pa_tw/cis/cis_1025.html

Travel Warning

The travel warning alerts American citizens about the risk of travel to Sri Lanka due to continued security concerns, especially in the northernmost areas and most of its Eastern Province, as there are still uncleared landmines. Stability in the southern and western areas of the country has improved with the cessation of hostilities. The Department of State urges U.S. citizens to remain vigilant while traveling in Sri Lanka.

The full text of the travel warning issued on November 19, 2009 is available at http://travel.state.gov/travel/cis_pa_tw/tw/tw_3011.html

For the latest security information, Americans traveling abroad should regularly monitor the Department's Internet web site at <http://travel.state.gov> where the current [Worldwide Caution Public Announcement](#), Travel Warnings and other Public Announcements can be found. Warden messages issued by the Embassy's Consular Section are available at http://colombo.usembassy.gov/warden_information.html

The Department of State urges American citizens to take responsibility for their own personal security while traveling overseas. For general information about appropriate measures travelers can take to protect themselves in an overseas environment, see the Department of State's pamphlet [A Safe Trip Abroad](#).

REGISTRATION / EMBASSY LOCATION: American citizens, including those of Sri Lankan origin, whether living in Sri Lanka or traveling there even for only a few days, are strongly urged to register with the Embassy. Registration will allow the embassy to provide direct information on the security situation as necessary. Registration is done on-line and can be done in advance of travel at <https://travelregistration.state.gov/ibrs/>. Information on registering can also be found at the Embassy website: <http://srilanka.usembassy.gov> or at the Department of State's Consular Affairs website: http://travel.state.gov/travel/tips/registration/registration_1186.html.

The U.S. Embassy is located at 210 Galle Road, Colombo 3, Sri Lanka. The Embassy's telephone number during normal business hours Monday through Friday is (94) (11) 249 8500. The after-hours emergency telephone number is (94) (11) 249 8888. The Consular Section fax number is (94) (11)-249 8590. The Embassy's web site is <http://srilanka.usembassy.gov/>. The Consular Section has a specific email address dedicated to American Citizens Services at ColomboACS@state.gov. The general email address for the consular section is consularcolombo@state.gov. The Embassy in Colombo also covers the Republic of Maldives.

Visa Requirements

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ENTRY/EXIT REQUIREMENTS: A passport and onward/return ticket and proof of sufficient funds are required. A no-cost landing visa, valid for 30 days, will be granted only to tourists at the time of entry into Sri Lanka. Business travelers are required to have a visa prior to arrival.

Individuals traveling to Sri Lanka for purposes other than tourism (e.g., religious work, volunteering, or working) must obtain an entry visa from the nearest Sri Lankan embassy or consulate before their arrival in Sri Lanka. Foreigners entering Sri Lanka on a landing/tourist visa cannot convert their visa to a non-tourist one, and risk deportation if they engage in activities other than tourism without the appropriate visa.

Visitors staying more than 30 days for any purpose must obtain a visa extension from the Department of Immigration and Emigration in Colombo and pay the relevant visa fees. Travelers must have yellow-fever and cholera immunizations if they are arriving from an infected area. Sri Lankan law requires all foreign guests in private households to register in person at the nearest local police station. Individuals who stay in private households without registering may be temporarily detained for questioning. This requirement does not apply to individuals staying in hotels or guesthouses.

Specific inquiries should be addressed to the Embassy of the Democratic Socialist Republic of Sri Lanka, 2148 Wyoming Avenue NW, Washington, DC 20008, telephone (202) 483-4025, fax (202) 232-7181, contact the Sri Lanka Embassy by e-mail; the Sri Lankan Consulate General in Los Angeles at 3250 Wilshire Blvd., Suite 1405, Los Angeles, CA 90010, telephone (213) 387-0210; or the UN Mission in New York City, telephone (212) 986-7040. There are several honorary Sri Lankan consuls general and consuls in the United States. Visit the Embassy of Sri Lanka website <http://www.slembassyusa.org/> for the most current visa information.

The U.S. Department of State is unaware of any HIV/AIDS entry restrictions for visitors to or foreign residents of Sri Lanka; however, Sri Lankan law does allow immigration officials to refer visitors and foreign residents to a physician for examination if a public health risk is suspected. In practice this is a rare occurrence, but travelers should be aware that Sri Lankan law allows for the denial of entry to any foreigner who, upon referral from an immigration officer, is certified by a physician as posing a public health risk. Travelers who refuse a medical examination under these circumstances may be refused entry. Please verify this information with the Embassy of Sri Lanka before traveling.

U.S. Companies that require travel of foreign businesspersons to the United States should be advised that security options are handled via an interagency process. Visa applicants should go to the following links.

State Department Visa Website: <http://travel.state.gov/visa/index.html>

United States Visas.gov: <http://www.unitedstatesvisas.gov/>

Consular Section of the US Embassy Colombo: <http://srilanka.usembassy.gov/visas.html>

Visa Appointment Scheduling in Colombo (TT Services): www.ttsusvisas.lk

Telecommunications

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International direct dialing and cellular telephones are widely available. Mobile phones with GSM roaming facilities and wireless communication devices can be used in Sri Lanka. International mail and courier services (including FedEx, UPS and DHL) are also available. A number of local providers offer Internet and e-mail services. Because the phone-line quality varies, connections are sometimes unreliable.

Transportation

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Sri Lanka is served by several airlines. There are no direct flights to Colombo from the U.S. The best way to travel to Sri Lanka from the east coast is through London or Dubai. The national carrier Sri Lankan Airlines (UL) flies daily to London and Dubai. Sri Lankan Airlines also flies to Paris and Frankfurt. Several middle-eastern airlines such as Qatar Air, Oman Air, Etihad and Royal Jordanian also fly to Colombo. Visitors flying from the U.S. west coast may transit in Japan, Hong Kong, Singapore or Bangkok. Sri Lankan Airlines, Cathay Pacific, Singapore Airlines, Emirates and Thai Airlines operate flights to these cities from Colombo.

As there is no direct commercial air service to the United States by carriers registered in Sri Lanka, the U.S. Federal Aviation Administration (FAA) has not assessed the government of Sri Lanka's Civil Aviation Authority for compliance with International Civil Aviation Organization (ICAO) aviation safety standards. Further information may be found on the FAA's safety assessment page.

While in a foreign country, U.S. citizens may encounter road conditions that differ significantly from those in the United States. Vehicular traffic in Sri Lanka moves on the left (British style). Traffic in Colombo is very congested. Narrow two-lane

highways, overloaded trucks, dangerously-driven buses and a variety of conveyances on the road, ranging from ox carts and bicycles to new four-wheel-drive vehicles, make driving challenging and dangerous. Unexpected road blocks and one-way streets are common and may not be clearly marked. Many visitors hire cars and drivers for long trips through the country. Individuals choosing to hire three-wheeled vehicles (“trishaws”) should negotiate prices beforehand to avoid confrontations. Please refer to our Road Safety page for more information. Visit the web site of Sri Lanka's national tourist office and national authority responsible for road safety.

Language

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The business language is English. Sinhala, Tamil and English are official languages.

Health

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MEDICAL FACILITIES AND HEALTH INFORMATION: There are six large hospitals in the Colombo area, including three with emergency trauma service: Asiri Surgical Hospital, Apollo Hospital, and the government-run General Hospital. Medical facilities outside Colombo are limited. The U.S. Embassy maintains a list of private physicians, which may be obtained upon request. The availability of medical supplies is uneven; as such, travelers should carry any special medications with them. Serious medical conditions may require evacuation to the United States or to a nearby country with more advanced medical facilities, such as Thailand or Singapore. Neither Thailand nor Singapore requires U.S. citizens to have an entry visa.

Several mosquito-borne diseases, including chikungunya, dengue fever, Japanese encephalitis, and malaria, are present in Sri Lanka. Adequate mosquito protection is strongly advised. See the section on Entry/Exit Requirements (above) for information on communicable diseases such as HIV/AIDS.

Information on vaccinations and other health precautions, such as safe food and water precautions and insect bite protection, may be obtained from the Centers for Disease Control and Prevention's (CDC) hotline for international travelers at 1-877-FYI-TRIP (1-877-394-8747) or via the [CDC website](#). For information about outbreaks of infectious diseases abroad, consult the infectious diseases section of the [World Health Organization \(WHO\) website](#). The WHO website also contains additional health information for travelers, including [detailed country-specific health information](#).

Medical Insurance: The Department of State strongly urges U.S. citizens to consult their medical insurance company prior to traveling abroad to determine whether the policy applies overseas and whether it covers emergency expenses such as a medical evacuation. For more information, please see our [medical insurance overseas page](#).

Local Time, Business Hours, and Holidays

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Prior to travel to Sri Lanka, businesspersons should check whether any local holidays will occur during their trip. There are about 20 public holidays, when government offices and banks will be closed for business. Private companies also close on most of these holidays.

Sri Lankan holidays are connected with the country's four religions: Buddhism, Hinduism, Islam, and Christianity. Dates change from year to year. Holidays with fixed dates include Independence Day (February 4), Labor Day (May 1) and Christmas (December 25). Each full moon is marked by a Poya Day holiday.

Sri Lanka is GMT+5.30 hours. Business hours are generally from 8:30 a.m. to 5:00 p.m. (Monday through Friday). Government offices are open for business usually from 9:00 a.m. to 4:30 p.m. (Monday through Friday).

Holidays – 2010

January	14	Thai Pongal *
January	29	Navam Poya*
February	04	National Day*
February	27	Holy Prophet's Birthday*
February	28	Medin Poya*
March	13	Mahasivarathri Day
March	29	Bak Poya*
April	02	Good Friday
April	13	Sinhala/Tamil New Year's Eve*
April	14	Sinhala/Tamil New Year*
April	28	Adhi Veska Poya Day*
May	01	May (Labor) Day*
May	27	Vesak Poya*
May	28	Day Following Vesak Poya*
June	25	Poson Poya*
July	25	Esala Poya*
August	24	Nikini Poya*
September	10	Id-UI-Fitr (Ramazan Festival)
September	22	Binara Poya*
October	22	Vap Poya *
October	05	Deepavali Festival
November	17	Id-UI-Allah (Hajj Festival)
November	21	Il Poya*
December	20	Unduvap Poya*
December	25	Christmas*

Note: Private companies are closed on holidays marked with *

Temporary Entry of Materials and Personal Belongings

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Temporary entry for exhibition material is allowed under the Carnet system of the International Chamber of Commerce. The exporter should ensure that required documents under the Carnet system are certified in the country of origin of the material. These documents should be presented at the time the goods are clearing Customs. Goods brought into the country under the Carnet system must be re-exported within six

months. For additional information, contact the approving authority: Director of Customs, Times Building, Colombo 1, telephone 94-11-242-1141 through 9, fax 94-11-244-6364.

Business travelers and visitors can enter with a portable computer, with or without encrypted software, as personal baggage. No duties or taxes are charged. Customs does not check for software. Global Positioning System or similar devices are technically prohibited from entry into country without prior special permission.

Web Resources

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US Embassy in Colombo	http://colombo.usembassy.gov
Consular Information Sheets	www.travel.state.gov
Centers for Disease Control and Prevention	www.cdc.gov/travel
Sri Lanka Tourism	www.srilankatourism.org
US State Department Visa Website	www.travel.state.gov/visa/index.html
Sri Lankan Embassy in Washington DC	www.slembassy.org
United States Visas.gov	www.unitedstatesvisas.gov/
TT Services (Visa Appointments in Colombo)	www.ttsusvisas.lk
Department of Immigration and Emigration Sri Lanka	www.immigration.gov.lk

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Chapter 9: Contacts, Market Research, and Trade Events

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- [Market Research](#)
- [Trade Events](#)

Contacts

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Government Agencies and Offices

Ministry of Finance and Planning	www.treasury.gov.lk
Ministry of Foreign Affairs	www.slmfa.gov.lk
Ministry of Plan Implementation	www.fabm.gov.lk
Ministry of Trade, Marketing Development, Co-operative and Consumer Services	www.commerce.gov.lk (no display)
Ministry of Industry and Investment Promotion	www.industry.gov.lk
Ministry of Ports and Aviation	www.ports-aviation.gov.lk
Ministry of Power and Energy	www.mope.gov.lk
Central Bank of Sri Lanka	www.cbsl.lk
Board of Investment of Sri Lanka (BOI)	www.investsrilanka.com or www.boi.lk
Department of Commerce	www.doc.gov.lk
Department of Immigration & Emigration	www.immigration.gov.lk
Sri Lanka Customs Department	www.customs.gov.lk
Department of Labor	www.labourdept.gov.lk
Ceylon Electricity Board	www.ceb.lk
Securities and Exchange Commission of Sri Lanka	www.sec.gov.lk
Telecom Regulatory Commission of Sri Lanka	www.trc.gov.lk
Sri Lanka Standards Institution	www.slsi.lk
National Intellectual Property Office of Sri Lanka	www.nipo.gov.lk
Department of the Registrar of Companies	www.drc.gov.lk
Civil Aviation Authority	www.caa.lk
ICT Agency	www.icta.lk
Sri Lanka Tourism	www.srilankatourism.org
Sri Lanka Tourism Development Authority	http://www.sltda.gov.lk/

Information on other Sri Lankan Government Ministries and Departments can be obtained from: www.priu.gov.lk /www.info.gov.lk

Chambers of Commerce

American Chamber of Commerce of Sri Lanka	www.amcham.lk
Ceylon Chamber of Commerce	www.chamber.lk
Federation of Chamber of Commerce and Industry	www.fccisl.lk
Sri Lanka National Chamber of Industry	www.ncni.biz

U.S. Government Contacts for Sri Lanka

Edward Heartney
Head of Economic and Commercial Section
U.S. Embassy, 210 Galle Road, Colombo 3
Phone: 94-11-2498500 Fax: 94-11-2437345/2498820
E-mail: commercialcolombo@state.gov
<http://srilanka.usembassy.gov>

Kenneth Kero-Mentz
Commercial Attaché
U.S. Embassy, 210 Galle Road, Colombo 3
Phone: 94-11-2498500 Fax: 94-11-2437345/2498820
E-mail: commercialcolombo@state.gov
<http://srilanka.usembassy.gov>

Rebecca Cohn
Director
USAID, 44 Galle Road, Colombo 3
Phone: 94-11-2498000 Fax: 94-11-2472850/2472860
<http://www.usaid.gov/lk/>

U.S. Embassy-accredited Officials not Resident in Sri Lanka

Holly Higgins
Agricultural Counselor, U.S. Embassy New Delhi
Santhipath, Chanakyapuri, New Delhi, India 110021
Phone: 91-11-2419-8342 Fax: 91-11-2419-8530

Elliott Harbin
Special Agent, Immigration and Customs Enforcement
Department of Homeland Security
U.S. Embassy New Delhi
American Center, 24 Kasturba Gandhi Marg. New Delhi, India 110001
Phone: 91-11-2419-8000 Fax: 91-11-2331-8382

Aaron Wilkins
Senior Resident Representative, South and Southeast Asia
Federal Aviation Administration (FAA)
U.S. Embassy New Delhi
Shantipath, Chanakyapuri, New Delhi 110021, India
Phone: 91-11-2419-8403 Fax: 91-11-2419-0019

Other U.S. Agencies

U.S. Trade and Development Agency (USTDA)
Henry Steinglass

Regional Director for Asia
1000, Wilson Blvd, Suite 1600
Arlington, VA 22209-3901
Phone: 703-875-4357
Fax: 703-875-4009
www.tda.gov

U.S. Export and Import Bank
International Business Development
811 Vermont Avenue, NW Washington DC 20571
Phone: 202-565-3716 Fax: 202-565-3839
www.exim.gov

Market Research

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To view market research reports produced by the U.S. Commercial Service please go to the following website: <http://www.export.gov/marketresearch.html> and click on Country and Industry Market Reports.

Please note that these reports are only available to U.S. citizens and U.S. companies. Registration to the site is required, but free of charge.

To view tender notifications/market opportunity reports produced by the Embassy please go to the following website: <http://colombo.usembassy.gov>

Trade Events

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The following events will be held in Sri Lanka during 2010

Colombo International Yarn & Fabric Show	March 04-10, 2010
Consumer Fair	April 02 -11, 2010
POWER Sri Lanka	June 03-05, 2010
Construct Exhibition	August 13-15, 2010
The Facets Show	September 08-11, 2010
Jaffna Education Fair	September 21-22, 2010
ADYAPANA Expo (Education)	October 15-17, 2010
Apparel Industry Suppliers Exhibition	November 25-27, 2010
Office Today-Sri Lanka	December 03-05, 2010

Further information is available at Lanka Exhibition and Conference Services (Pvt) Ltd
<http://www.biztradeshows.com/sri-lanka/>

Please click on the link below for information on upcoming trade events.

<http://www.export.gov/tradeevents.html>

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

The Embassy's Commercial Section offers customized solutions to help your business enter and succeed in the Sri Lankan Market. A fee is levied for most of the Commercial services offered by the Embassy. Services for U.S. Firms include:

- Gold Key Services (GKS): offered to U.S. Companies visiting Sri Lanka and the Maldives. We can set up meetings and provide market information and other assistance.
- International Partner Search (IPS): identifies potential business partners in Sri Lanka.
- International Company Profile (ICP): due diligence on local firms.
- Trade and Catalog shows.
- Advocacy: provides advocacy support on behalf of U.S. companies for government tenders/contracts.
- Information and support: The Economic/Commercial Section is a source for information regarding economic situation, market data, regulatory procedures and other pertinent trade issues.

To contact the Embassy's commercial section please write to commercialcolombo@state.gov or visit our website at: http://colombo.usembassy.gov/commercial_section.html

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.