



U.S. Country Commercial Guides



2017

Sri Lanka

U.S. Department of Commerce | International Trade Administration

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Doing Business in Sri Lanka

Market Overview

- Total U.S.-Sri Lanka bilateral trade of goods and services in 2016: \$3.2 billion
- U.S. exports of goods to Sri Lanka in 2016: \$369 million
- World Bank Ease of Doing Business 2017 Rank: 110 out of 189 (109 in 2016)
- Total annual imports are approximately \$19 billion, mainly from China, India, and Singapore.
- The United States is the largest single market for Sri Lankan exports, capturing nearly \$2.8 billion of the \$10.3 billion total exports from Sri Lanka in 2016 according to the Central Bank of Sri Lanka.
- Sri Lanka has been designated a Lower Middle Income Country (LMIC) by the World Bank. The Central Bank of Sri Lanka states the population was 21.2 million in 2016. Sri Lanka is focusing on long-term strategic and structural development challenges as it strives to transition to an upper middle-income country. Key challenges include boosting foreign investment, realigning public spending and policy with the needs of a middle-income country, enhancing the role of the private sector, including the provision of an appropriate environment for increasing productivity and exports, and ensuring that growth is inclusive. The bloated civil service and losses at state-owned enterprises are significant challenges for the Government of Sri Lanka (GSL). Future growth will also require deregulation of land and labor markets.
- Sri Lanka's Gross Domestic Product (GDP) reached \$81.3 billion in 2016 with a GDP per capita of \$3,835. The GDP growth rate in 2016 was 4.4 percent down from 4.8 percent in 2015.
- According to the Central Bank of Sri Lanka, GDP is projected to grow approximately 5.0 percent in 2017 amid the adverse impact of unfavorable weather conditions, and is expected to improve gradually thereafter to a projected 7.0 percent by 2020. The World Bank expects GDP to grow by approximately 4.7 percent in 2017 and marginally improve to 5.0 percent in the medium term driven by private consumption and investment. Inflation on a year-to-year basis was 8.4 percent in April 2017. Inflation is expected to be 6.0 percent in 2017 and remain at 6.0 percent in 2018 per Asia Development Bank projections.
- Compared to other South Asian countries, Sri Lanka is open to foreign investment. It offers a relatively open financial system, moderately stable monetary policy, improving infrastructure, and world class local companies.

Market Challenges

- Inconsistent and unpredictable policies (e.g. taxation, required approvals, regulations, investment incentives) are the top business concerns.
- Business leaders also complain of opaque tender procedures, corruption, slow decision-making, and Government failure to honor its commitments. Although the current Government declared its commitment to address these issues, there has been little improvement in this regard.
- Foreigners are not allowed to purchase land.
- The Government supports import substitution. Importers to Sri Lanka face high import duties and other taxes. A variety of taxes have effectively increased Sri

Lanka's tax rates on a range of imported items to between 60 and 100 percent of the cost, insurance, and freight (CIF) value of the product.

- Agricultural imports face stiff health regulations that sometimes exceed global standards. Genetically-modified (GM) regulations restrict imports of U.S. agriculture commodities.
- Congested 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. Electricity costs are higher than in other Asian countries (approximately \$0.14-\$0.17 per kilowatt hour).
- 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, make it difficult to adjust staff size and composition to market conditions, business representatives complain.
- Piracy is a problem for U.S. rights-holders in music, film, software, and some consumer products.
- Sri Lanka lacks anti-competition laws.
- Long-term financing (more than ten years) is not available.

Market Opportunities

- The private sector is the engine of the economy, led by services (tourism, information communication technologies (ICT), transport, international trade, banking) and export industries (apparel, tea, rubber-based products, gems).
- The GSL has identified the following key economic priorities: 1) integration of the economy into the global marketplace; 2) attracting increased foreign direct investment (FDI); 3) job creation; and 4) increased digitalization. The GSL regained the European Union's (EU) Generalized Scheme of Preferences (GSP+) privileges for Sri Lankan exports in May 2017. The GSL is eager to enter into trade pacts with Pakistan, China, and Singapore to boost trade and investment and seeks to expand the current Free Trade Agreement (FTA) with India to a broader Economic and Technology Agreement (ECTA). China is investing in strategic ports and port-related industries, and industrial zones. The Government's Western Region Megapolis Project aims to radically modernize urban infrastructure in and around Colombo utilizing innovative technology (e.g. smart city innovations) to propel it to 'high income developed nation' status by 2030. Details on certain projects and tenders are available as of May 2017 on the [website](#).
- Infrastructure development needs include: roads; power; rail roads; water; and cold-storage facilities for agriculture products.
- Textiles: Sri Lanka imports approximately \$2.7 billion of textiles and yarn annually for the apparel industry.
- Agriculture: wheat grain; lentils; cotton yarn; and fruits.
- Other products: Telecommunications and computer equipment; computer software; power and energy; electronics and electrical machinery; mechanical equipment; energy efficient machinery; medical equipment; and apparel industry equipment. Franchises offer another opportunity to appeal to tourists and a growing middle class.

- 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. Exporters, however, still encounter non-tariff barriers.
- Market Entry Strategy
- Competitive pricing - offer quality products and services at the right price.
- Invest in advertising and consumer education. Local agents are helpful to enter the Sri Lankan market. The U.S. Embassy can assist U.S. companies to find local agents and distributors through for fee U.S. Foreign and Commercial Service matching making and due diligence services.
- Sales to the Government may require a local agent.
- For firms investing locally, the [Board of Investment](#) (BOI) offers investment incentives and other services.

Political Environment

Selling US Products & Services

Using an Agent to Sell US Products and Services

Most exporters find using local distributors an easy first step for entering the Sri Lankan market. Generally, this is the best method to compete successfully, as local firms are well-versed in local business practices. 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 three percent to 15 percent, 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.

U.S. Department of Commerce's Commercial Services - International Partner Search (IPS), International Company Profile (ICP), Single Company Promotion and Gold Key Services (GKS) - are available through the U.S. Embassy in Colombo for U.S. companies looking to appoint a local representative in Sri Lanka. Interested companies should contact the U.S. Department of Commerce [Export Assistance Centers](#) in their respective state. The U.S. Commercial Service has a network of export and industry specialists located in more than 100 U.S. cities.

Establishing an Office

Potential investors should initiate discussions with the [Board of Investment](#) (BOI) prior to establishing a company or a liaison office in Sri Lanka. One-hundred-percent 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 [here](#).

The Government is revising investment laws, so investors should check websites or with the Embassy for current information. Under current rules, 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 form a limited liability company. Companies must register with the Department of Registrar of Companies; the registration fee is approximately \$150. The application for registration should be accompanied by Articles of Association, consent from initial directors and general 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 [here](#).

A company can be established in Sri Lanka by following the procedures specified by the Registrar General of Companies. A foreign company incorporated outside Sri Lanka, whose business has been granted permission for the purposes of the Exchange Control Act can apply for registration in Sri Lanka. The following documents need to be submitted for

review: 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 U.S. \$370.

Once the documents are in order, registration of a new company takes approximately three days. Registration of a branch office takes two to four 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

Franchising is not as common as agents/distributorships. U.S. franchises include Coca-Cola, Pepsi, Pizza Hut, UPS, Federal Express, Kentucky Fried Chicken (KFC), TGIFriday's, Subway, Coffee Bean and McDonald's. Recently, a major local company operating retail chains expressed interest in attracting top U.S. brands to Sri Lanka. Many local companies have expressed interest in sourcing international brands due to the increase in tourism and expansion of the economy. Companies interested in franchising in Sri Lanka are encouraged to contact the Embassy.

Direct Marketing

Direct marketing usually takes place when a product is sold on a one-time or irregular basis. 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 ostensibly have a competitive-price advantage, as agency commissions will not increase the price, but some firms encounter requests for additional "commissions" (or bribes – which are illegal) in certain sectors.

Joint Ventures/Licensing

Joint ventures have become common 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

Many Government purchases are made by public tenders, which are usually advertised in the local media. The Government has expressed their intentions to follow international Government procurement standards. 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 used to be standard practice 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. The GSL is reviewing a plan to award large development projects utilizing a "Swiss Challenge" process where an unsolicited project proposal by a company to the GSL is put forward for public review and other interested parties are invited to submit counter proposals. However, the practice of accepting unsolicited proposals without competing bids seems to be continuing.

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.

U.S. Commercial Service Liaison Offices at the Multilateral Development Banks (Asian Development Bank, World Bank)

The Commercial Service maintains Commercial Liaison Offices in each of the main Multilateral Development Banks, including the Asian Development Bank and the World Bank. These institutions lend billions of dollars in developing countries on projects aimed at accelerating economic growth and social development by reducing poverty and inequality, improving health and education, and advancing infrastructure development. The Commercial Liaison Offices help American businesses learn how to get involved in bank-funded projects, and advocate on behalf of American bidders. Learn more by contacting the [Commercial Liaison Offices to the Asian Development Bank](#)

Web Resources

[Commercial Liaison Office to Asian Development Bank](#)

[Commercial Liaison Office to the World Bank](#)

Many Governments finance public works projects through borrowing from the Multilateral Development Banks. Please refer to “Project Financing” Section in “*Trade and Project Financing*” for more information.

Distribution & Sales Channels

International trade is centered in the capital city, with more than 90 percent 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.

Express Delivery

FedEx, UPS, and DHL offer express delivery to Sri Lanka from the United States and have offices in Colombo.

- Transit times from the United States to Sri Lanka vary
- Promises next day delivery depending on pick-up time.

Web Resources

[United Postal Service \(UPS\) Sri Lanka](#)

[FedEx Sri Lanka](#)

[DHL Sri Lanka](#)

Selling Factors & Techniques

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. Appointing an agent/distributor is recommended for marketing and sales.

Most Government purchases are made on the basis of cost and available financing, subject to meeting the required specifications.

Participating in regional exhibitions is another effective method of creating awareness and introducing products to the local market. The events are well attended by both the trade and consumers.

eCommerce

Overview

eCommerce is growing. All commercial banks have online banking services. Travel companies, hotels, and a few large retailers have online trading services. Sri Lankan eCommerce companies offer customers in Sri Lanka access to millions of global products. The Government is also encouraging e-services. A main [eCommerce portal for automated cargo clearance](#) has been established. Further Government web portals for filing of tax returns, payment of taxes, renewing of revenue licences are also available in Sri Lanka.

Most of the global eCommerce sites including PayPal is available in Sri Lanka but has limitations due to an inadequate refund mechanism and inward receipts.

A 2.5 percent stamp duty applies to usage of credit cards issued by Sri Lanka banks for transactions converted into a foreign currency. Transactions in local currency are exempted from this duty.

Current Market Trends

IT related activities have seen a significant growth of about 21 percent in 2015, compared to just nine percent the year before. A significant portion of this growth can be accredited to eCommerce. Currently there is no local body which regulates eCommerce businesses in Sri Lanka.

Increased competition from international eCommerce sites such as booking.com and Airbnb concerns have resulted in demands by the Tourist Hotels Association of Sri Lanka (THASL) for government to consider regulating eCommerce businesses.

Domestic eCommerce (B2C)

Domestic eCommerce sites have seen a significant growth since within the last several years. A wide variety of consumer products can be purchased through eCommerce sites including groceries, apparel and electronics. It is noted that most delivery of goods from these sites are limited to Colombo and its suburbs.

Cross-Border eCommerce

Cross border eCommerce is limited to purchases of products from popular overseas sites such as ebay and Amazon. Numerous local eCommerce companies sell imported goods.

B2B eCommerce

Currently there are no B2B eCommerce sites which are operating in Sri Lanka.

eCommerce Services

The Internet penetration in Sri Lanka is growing, granting more people access to the World Wide Web. 2016 figures show 33.4 percent of the population have access to the internet. This is mainly attributed to the growth of Sri Lanka's mobile industry. The country now has a mobile penetration of 115 percent, with the accessibility of smartphones growing rapidly.

In 2006 the Electronic Transactions Act, No.19 was introduced which facilitates eCommerce by removing legal barriers and ensuring legal certainty both within Sri Lanka and internationally. Several other laws also support eCommerce such as the Evidence Act of No 14 of 1995, Payment and Settlement Systems Act No 28 of 2005, Payment Devices Frauds Act No 30 of 2006 and the Computer Crimes Act of No 24 of 2007. However, there are still gaps in laws relating to eCommerce. Following the ratification of the UN Electronic Commissions Convention by Sri Lanka in 2015, the Government is preparing to introduce amendments to the Electronic Transactions Act to provide greater legal validity for eCommerce and eBusiness providers, and ensure international validity of such e-contracts.

While awareness of online shopping is growing, financial institutions are also developing the related services of payment gateways to offer reliable online payment services to support the expansion of eCommerce.

The Government is currently using an e-service gateway to streamline certain Government services. The Inland Revenue Department has recently enabled filing of tax returns through the [Inland Revenue web service portal](#). Vehicle revenue licenses can be renewed [online](#).

eCommerce Intellectual Property Rights

eCommerce Intellectual Property Rights are protected under several laws:

Evidence (Special Provisions) Act No.14 of 1995; The Intellectual Property Act No. 36 of 2003; Electronic Transactions Act No. 19 of 2006 and the Computer Crimes Act No. 24 of 2007.

An infringer who offers counterfeit products for sale online could be held liable under the Intellectual Property law.

Popular eCommerce Sites

[kapruka](#)

[wow](#)

[takas](#)

[mydeal](#)

[keellssuper](#)

[tickets](#)

Online Payment

- Cash on Delivery: The most commonly used payment method in Sri Lanka. As per estimates, more than 95 percent of eCommerce users in Sri Lanka prefer the cash on delivery (COD) payment model.
- ezcash / mcash: Some eCommerce websites also prefer these payment models for transferring small amounts of money through a mobile service provider.
- Credit Card: Most of the eCommerce websites in Sri Lanka have merchant accounts integrated on portals to facilitate credit card transactions. This is the preferred method for overseas purchases.

Mobile eCommerce

Mobile eCommerce is still in its initial stages. With the growth of smartphone usage mobile eCommerce is expected to grow in the near future.

Digital Marketing

The use of text messaging is increasing in Sri Lanka. Due to high mobile phone penetration at 115 percent, rather than cold calling, sending a text about a product or brand is becoming more widely used in Sri Lanka. A recent survey shows that marketing through Facebook has influenced 79 percent of the users to purchase the products. Social media marketing is expanding as well.

Major Buying Holidays

There are no major buying holidays currently in Sri Lanka. Most popular shopping periods include local New Year during April and Christmas holiday period in December.

Social Media

Facebook is very popular in Sri Lanka. As per the statistics provided by Sri Lanka Police, Sri Lanka has over 1.2 Facebook users. Twitter, Instagram and LinkedIn are also used by Sri Lankan, however, not to the extent of Facebook.

Trade Promotion & Advertising

Advertising is becoming increasingly important with private television and radio stations expanding operations and programming. There are 50 radio channels and 19 television channels currently in operation; 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 the Sinhala and Tamil languages (see below).

Social media is a growing advertising channel.

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](#)

[Lanka Page](#)

[Sri Lankan Embassy in Washington DC](#)

[US Embassy Colombo](#)

[Lanka Business Report](#)

[Sri Lanka Web Server](#)

[Economynext](#)

Major English-Language Newspapers

[Daily FT](#)

[Daily Mirror](#)

[Daily News](#)

[The Island](#)

[The Sunday Leader](#)

[Sunday Observer](#)

[Sunday Times](#)

Major local newspapers include [Dinamina](#), [Silumina](#), Divayina, and [Lankadeepa](#), all in Sinhala; and Thinakaran and [Virakesari](#), in Tamil.

Business Journals

[Echelon](#)

[Business Today](#)

[Lanka Monthly Digest](#)

Major Advertising Agencies

[Grant McCann Erickson](#)

[JWT, Sri LankaPhoenix Ogilvy](#)

[Leo Burnett Solutions Inc.](#)

Pricing

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

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 Intellectual Property

Sri Lanka is a party to major intellectual property agreements. Sri Lanka adopted an intellectual property law in 2003 that was intended to meet both U.S.-Sri Lanka bilateral

intellectual property right (IPR) agreements and, to a great extent, trade-related aspects of intellectual property rights (TRIPS) obligations.

In any foreign market, companies should consider several general principles for effective management of their intellectual property. For background on these principles, please link to our article on [Protecting Intellectual Property](#) and also [Corruption](#).

IP Attaché Contact

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Due Diligence

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, Moody's and Standard and Poor's provide rating information for banks and financial institutions and some conglomerates and large companies

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 historical records can be checked prior to appointing agents.

U.S. companies doing business initially with local companies or distributors are advised to carry out proper due diligence to ensure the reliability of these companies. The U.S. Embassy can also assist in verifying the authenticity of local companies.

The International Company Profile (ICP) offers low-cost, quick background checks and due-diligence reports on potential buyers and partners. The report includes factual data as well as the Embassy's evaluation to help U.S. firms assess risk, reliability, and capability for U.S. companies looking for background checks on local partners. Interested companies should contact the [U.S. Department of Commerce's Export Assistance Centers](#) in their respective states. The U.S. Commercial Service has a network of export and industry specialists located in more than 100 U.S. cities.

Local Professional Services

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 and standards are regularly updated to reflect current international accounting and audit standards. KPMG, Ernst and Young, PricewaterhouseCoopers, and Deloitte are represented in Sri Lanka.

There is also a 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 United Kingdom. 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 some attorneys in Sri Lanka, a copy of which may be obtained upon request. The leading law firms in Sri Lanka are also listed in the International Law List published in the United Kingdom. The legal system, however, is slow and cumbersome, and there are concerns about politicization of the judiciary.

Principle Business Associations

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 consider becoming members of the Chamber.

The American Chamber of Commerce in Sri Lanka brings together more than 225 leading Sri Lankan and American companies engaged in trade, business, and investment activities between Sri Lanka and the United States.

AmCham Sri Lanka is affiliated with the U.S. Chamber of Commerce, the largest business federation in the United States. AmCham is also a member of the Asia-Pacific Council of American Chambers of Commerce (APCAC).

AMCHAM offers several advantages for member companies:

- Networking events and business services
- Lobbying/advocacy efforts
- Industry-specific development programs
- Trade events
- Quarterly newsletter

For more information on the American Chamber of Commerce in Sri Lanka, visit their [website](#).

Limitations on Selling US Products and Services

A previous ban on beef and pork imports from the United States has been lifted. Imports of beef and pork are now permitted for special purposes including for use in the tourism and hospitality industries. The importation of chicken meat is prohibited for the domestic market (a protectionist trade measure to protect Sri Lankan suppliers). Sri Lanka reserves the right to prohibit GM agricultural commodities.

The importation of drugs is subject to the approval of the Drugs and Cosmetic Devices Committee of the Ministry of Health. In October 2016, the Government of Sri Lanka issued regulations setting maximum retail prices for 48 medicinal product formulations, which would be effective for two years. The price control applies to all branded and generic versions of drug-formulations in the schedule. Medical device registration is a cumbersome process and can take anywhere from six months to two years to obtain. Additionally, in the event a foreign principal wants to discontinue services of a local agent,

the foreign principal must convince the existing agent to provide a no-objection letter. Without this no-objection letter, the foreign principal cannot appoint a new representative/agent

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.

Web Resources

[Registrar of Companies](#)

[Colombo Stock Exchange](#)

Leading Sectors for US Exports & Investments

The following are the leading sectors in Sri Lanka and they provide best opportunities for exports from the United States to the Sri Lankan economy.

Energy

Overview

The Sri Lankan Government is aiming for an energy self-sufficient nation by 2030. In addition to self-sufficiency, the Sri Lankan Government's Energy Sector and Development Plan 2015-2025 expects to increase the share of electricity generation from renewable energy sources from 50 percent in 2014 to 60 percent by 2020 and finally to meet the total demand from renewable and other indigenous energy resources by 2030. Sri Lanka has already achieved a grid connectivity of 98 percent, which is commendable by South Asian standards. Electricity in Sri Lanka is generated using three primary sources — thermal power (which includes energy from biomass, coal, and all other fuel-oil sources), hydro power (including small hydro), and other non-conventional renewable energy sources (solar power and wind power).

In 2016, total installed power generation capacity of the country was 4,018 MW, consisting of 1,384 MW of coal power, 1,215 MW of oil burning thermal power, 1,384 MW of hydro power and 519 MW of non-conventional renewable energy sources such as wind, mini hydro, biomass and solar power plants. The annual total electricity demand is about 14,150 GWh. The overall annual demand for electricity is expected to increase by 6 to 8 percent, a number constrained by high prices.

Issues with the quality of power supply remains with the frequent breakdown of a Chinese-built coal power plant, rising fuel costs and droughts. The Government is considering proposals for LNG facilities and a new oil refinery. The current oil refinery is over 45 years old and needs urgent modernization in order to meet the demand in the petroleum sector. The Government is also having discussions with India and Japan to build new coal power plants.

The Sri Lanka Sustainable Energy Authority (SLSEA) actively promotes all forms of renewable energy. By end 2016, there were 342 MW of mini-hydro power, 128 MW of wind power, 24 MW of biomass power and 21 MW of solar power connected to the national grid.

Leading Sub-Sectors

Power Generation Plants

Opportunities

Opportunities in the power sector include: new power plants, converting auto diesel-fired plants to duel fuel (liquid natural gas) plants, mini hydroelectricity plants, home solar systems, wind energy, electrical meters and switches, power transmission and control systems, and power cables.

SLSEA is actively promoting renewable energy options and statistics reveal renewable energy contribution is steadily increasing. Sri Lanka has vast wind-energy resources due to its location in the Indian Ocean. Already eleven wind power plants are connected to the national grid. USAID has assessed wind and solar energy potential for Sri Lanka. This information is available on [here](#).

Web Resources

[Ceylon Electricity Board](#)

Agricultural Sector

This is a best prospect industry sector for this country.

Overview

The agriculture sector contributes about 7.5 percent to the national GDP out of which fisheries sector contributes around 1.4 percent and livestock sector accounted for 0.8 percent. Over 30 percent of Sri Lankans are employed in the agricultural sector. Sri Lanka is a fertile tropical land with the potential for the cultivation and processing of a variety of crops.

Sri Lanka's primary food crop is rice. Rice is cultivated during two seasons. Tea is cultivated in the central highlands and is a major source of foreign exchange. Vegetables, fruits and oilseed crops are also cultivated in the country. One of President Sirisena's top priorities is to increase productivity in the agriculture sector. There has been low adoption of mechanization in farming. The president wants to increase mechanization and grow higher value cash crops such as fruit, flowers, and other export oriented crops.

Sri Lanka imports a variety of agricultural products and food including wheat, lentils, sugar, fruits, milk and milk products. Further, Sri Lanka is emerging as an important market for international business and tourism. A variety of upscale international and local hotels, resorts, and restaurants have opened in Colombo, Kandy, Galle, and around major tourist sites. They offer a good platform for introducing new-to-market imported food products. Additionally, upscale retailers are creating avenues for imported foods and beverages. Sri Lanka also imports animal feed. Total agriculture, food and beverage imports were \$1.9 billion in 2017. and U.S. suppliers have significant opportunities in this market.

Leading Sub-Sectors and Opportunities

Wheat Grain: Sri Lanka imported approximately 948,000 metric tons of wheat in 2016. All imports were commercial transactions. Most wheat imports were of Canadian origin; U.S. wheat exports to Sri Lanka were estimated at around \$12 million in 2016. Prima Ceylon Ltd, a Singapore-based wheat miller, is the largest producer of wheat flour in the country. The flour produced by Prima is for domestic consumption, as well as for exports. The company operates one of the largest flour mills in the world in the eastern town of Trincomalee; A second mill, owned by a company from the UAE, was commissioned in 2008. The main competitors in the wheat-supply business are Canada, India, and Australia.

Lentils: Sri Lanka is one of the major importers of red lentils with annual imports estimated at approximately \$140 million. India is a main exporter of lentils to Sri Lanka. U.S. suppliers have significant opportunities in this market if a competitive pricing structure can be developed with a view to long-term selling in the market. Many local buyers have expressed an interest in working with U.S. suppliers due to the superior quality of U.S. lentils.

Animal feed/Corn: Currently, some 150,000 metric tons of corn are being imported to the country annually to supplement the local production, which is only 30,000 – 40,000 metric tons. Corn is one of the main ingredients used in the animal feed industry, which formulates around 500,000 metric tons of animal feed annually. Sri Lanka spends approximately \$68 million annually to import animal feed. The United States exported approximately \$44 million of animal feed to Sri Lanka in 2016. GM restrictions are not applicable for animal feed.

Cotton, Yarn, and Fabric: Sri Lanka imports approximately \$208 million of cotton (raw cotton, yarn, and fabric) annually. Imports of cotton, yarn and fabric from the United States were about \$1.3 million U.S. cotton suppliers have substantial opportunities to supply to Sri Lanka's export-orientated apparel sector. Hong Kong, India, Indonesia, and South Korea are the current major cotton suppliers to Sri Lanka.

Soya bean: U.S. soy bean exports to Sri Lanka were estimated at \$17 million in 2016.

Web Resources

[U.S. Department of Agriculture](#)

(Trade Policy Monitoring Report for Sri Lanka and Grain and Feed Annual, Sri Lanka)

[Central Bank of Sri Lanka Annual Report](#)

[Joint Apparel Associations Forum of Sri Lanka \(JAAF\)](#)

[U.S. Department of Commerce – Census Bureau Foreign Trade Data](#)

Infrastructure

This is a best prospect industry sector for this country.

Overview

The previous Government placed a large emphasis on investing and improving public infrastructure, including in the post-conflict areas of the North and East. These projects were believed to be riddled with mass-scale corruption. China funded many infrastructure projects, which have been consistently awarded to Chinese firms. After the change in Government in January 2015 some of the ongoing projects, including the multi-billion-dollar Port City project in Colombo, underwent re-evaluation due to environmental impact and other concerns that were not properly assessed prior to commencement of the project. The Government has subsequently approved the Port City project. Several new infrastructure projects, including a refinery modernization, water projects, new refinery and highways are being evaluated by the Government.

Leading Sub-Sectors

Urban Development Projects

The Urban Development Authority (UDA), a state agency, has plans to develop many areas of Colombo for tourism, housing, leisure, and entertainment. The Government is reviewing all projects under the Urban Development Authority, from low-income housing to mega development schemes, to ascertain their feasibility.

Opportunities

Western Region Megapolis: The Government announced the Western Region Megapolis Project that hopes to radically modernize urban infrastructure in and around Colombo utilizing innovative technology (e.g. smart city innovations) to propel it to 'high income developed nation' status by 2030. Details on specific projects and tenders will be available [here](#) as and when Government commences the project in stages.

Web Resources

[Western Region Megapolis project](#)

[Urban Development Authority](#)

[Sri Lanka Ports Authority](#)

[Board of Investment of Sri Lanka](#)

Transportation Industry

This is a best prospect industry sector for this country.

Overview

Transport in Sri Lanka is based mainly on a road network which is centered on Sri Lanka's capital, Colombo. The railway network, largely a legacy of British colonial rule, only handles a small fraction of the country's transport needs. Rail services are primarily for passengers with very little capacity available for goods transportation. Rail travel is extremely slow by modern standards. There are navigable waterways, harbors and two international airports located in Katunayake, 22 miles north of Colombo and in Hambantota. The lack of non-military airports outside Colombo limits the availability of

air service in-country. The main roads around the country are in good condition but are not an efficient means of travel and transportation as the majority of roads are single lane in each direction with no divider. There are two highways from the Katunayake airport to Colombo and from near Colombo to southern parts of the country. A highway to the central province is being planned.

Leading Sub-Sectors

Airports

Rail

Ports

Opportunities

Ministry of Transport will be releasing a tender for 10 narrow gauge locomotives with requisite financing that are able to service the North.

Minister of Transport stated in January 2016 that a new railway track will be constructed from Kurunegala to Hambarana through Dambulla as a solution for heavy traffic on the Kurunegala-Dambulla road. The Minister said the feasibility studies are finished and land acquisition will be completed soon. The estimated cost of the project is approximately \$100 million.

Web Resources

[Sri Lanka Railways](#)

[Ministry of Transportation](#)

[Investment projects 2015–2020](#)

[Urban Development Authority](#)

[Sri Lanka Ports Authority](#)

[Board of Investment of Sri Lanka](#)

Oil and Gas

This is a best prospect industry sector for this country.

Overview

Oil Exploration: Seismic surveys and airborne gravity surveys have indicated the likely existence of petroleum resources in Sri Lankan territorial waters off the northern and western coasts – the Cauvery Basin in the Palk Straits (between Sri Lanka and India) and the Mannar Basin along the western coastal belt of Sri Lanka. Based on seismic surveys, the Government has stated there is potential for over one million barrels of oil in a 30,000-square-kilometer area in the north. The seismic surveys were conducted by an Australian subsidiary of Norwegian firm TGS-NOPEC in 2003 and 2005.

Sri Lanka's Petroleum Resources Development Secretariat (PRDS) has identified several blocks for offshore oil exploration in Mannar Basin and Cauvery Basin. The blocks comprise both shallow and deeper waters. The first exploration license in the Mannar Basin was issued to [Cairn India](#) in July 2008. The test wells have produced natural gas, and Cairn India had been negotiating with the Government regarding terms to monetize the

discovered gas resources, but the company decided to exit oil exploration activities in Sri Lanka in 2015 due to declining petroleum prices.

In December 2016 the Ministry of Petroleum Resources Development signed a marketing agreement with US-based IHS Energy. The agreement aims to develop a marketing strategy, bid documents and partner selection criteria for consideration by the Government of Sri Lanka specifically for Block M2.

Several major oil and gas companies have also expressed interest in the broader deep water Mannar basin, the Ministry is implementing further seismic and airborne gravity/magnetic data acquisition programmes prior to Sri Lanka's next international licensing round, scheduled for Q3 2017.

Petroleum Refinery and Oil Pipeline: Sri Lanka's only refinery and the main port-to-refinery pipeline are in urgent need of upgrading and expansion. The state-owned Ceylon Petroleum Corporation (CPC), which runs the refinery, stated it will invite bids to modernize the existing refinery and to build a new refinery. CPC expects to increase the refinery capacity from the current 50,000 barrels per day to 100,000 barrels per day. Sri Lanka's main 5.8-kilometer, oil pipeline also needs urgent replacement, and the CPC is evaluating bids for a new oil pipeline including an offer by a U.S. company.

Leading Sub-Sectors

- Refurbishment of oil refinery
- Appraisal and development of gas discoveries

Opportunities

- The refurbishment of the Government-owned Sapugaskanda Oil Refinery is a high priority for the Government of Sri Lanka. The Sapugaskanda project would increase the refinery's production from 40,000 barrels per day (bpd) to 100,000 bpd. The Sapugaskanda Oil Refinery produces only 40 percent of SL's demand for fuel; the Government imports the remaining 60 percent. The Ministry of Petroleum is drafting specifications for a tender and will submit the tender documents to the Cabinet for approval at an unspecified time in the future. The Government has stated they plan to maintain ownership and take on debt to finance the refurbishment and will conduct a public and transparent tender process.
- The Government is also interested in construction of a private sector owned refinery that could serve both the domestic market and export market. The Ministry of Petroleum will consider these proposals on a regular basis (no tender required) and will seek Cabinet's approval on vetted viable projects. Companies must secure requisite financing to be a serious contender.
- There will be opportunities to supply equipment and services needed for oil exploration.
- International licensing round for the appraisal and development of gas discoveries block M2 of the Mannar Basin oil exploration, The block will be offered for licensing in 2017, this includes the Barracuda and Dorado gas-condensate discoveries.
- The remainder of Sri Lankan acreage will be released in a bid round in the 4th quarter of 2017.

Web Resources

Director General

Petroleum Resources Development Secretariat

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Seismic data from a two-dimensional survey carried out by TGS-NOPEC can be purchased from the [Petroleum Resources Development Secretariat](#).

Chairman

Ceylon Petroleum Corporation

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Colombo 9. Sri Lanka

Ph: 94-11-545 5107 Fax: 94-11-545 5421

Email: chairman@cey petco.gov.lk

[Ministry of Petroleum Industries](#)

Information and Communication Technologies

This is a best prospect industry sector for this country.

Overview

Information and communication technology (ICT) is one of the fastest growing sectors in Sri Lanka. Sri Lanka has been quick to adopt new information technology and has a high mobile phone penetration rate, approximately 115 percent. The private sector is mostly computerized, with many public institutions also having access to IT facilities. However, most Government agencies based in rural areas are still not fully IT-based, and hardware and software upgrades are required to provide a more efficient service to the public. U.S. software providers have been successful in selling solutions to private customers and to some public-sector agencies.

Sri Lanka's information technology and business process outsourcing sector tripled exports and doubled the workforce in a little over five years. According to the Sri Lanka Association of Software and Services Companies (SLASSCOM), export revenues grew to an estimated \$858 million in 2016. The sector grew by 120 percent over the past five years making it one of the highest growth areas in the economy and is the fifth largest export segment. Sri Lanka's IT/business process management sector vision, according to SLASSCOM, for 2022 is \$5 billion in revenue, 200,000 direct jobs, and 1,000 start-ups. The state-owned Information and Communication Technology Agency (ICTA) is at the forefront of driving IT and implementing programs to ensure development of IT in cities as well as the villages. The ICTA is involved in a five-pronged strategy of the e-Sri Lanka initiative, which encompasses building information infrastructure and an enabling environment, developing ICT human resources, modernizing Government and delivering citizen services, leveraging ICT for economic and social development and promoting Sri Lanka as an ICT destination.

Sri Lanka is emerging as a global IT Business Process Outsourcing (BPO) destination of choice in a number of key areas. Sri Lanka is ranked among the top 50 global outsourcing destinations by AT Kearney. Sri Lanka's software industry produces world-class products and has grown significantly over the past decade. The software services sector includes telecommunications, banking, financial services and insurance (BFSI) and software testing. The BPO sector includes financial & accounting services, investment research, engineering services, and UK-based legal services. According to the World Bank, Sri Lanka has relatively low labor costs compared to other BPO destinations. HSBC, RR Donnelley, Sysco LABS, Astron, 3SG, 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.

The telecom sector in Sri Lanka is one of the country's most dynamic sectors, contributing significantly, both directly and indirectly, to investment, employment, productivity, innovation, and overall economic growth. Sri Lanka's telecommunication market is overcrowded, with five mobile operators serving a population of 21 million. With recent substantial taxes imposed on telecommunication companies, it is expected that the smaller companies will exit or merge with the larger firms. The telecom sector in Sri Lanka is responsible for substantial foreign direct investment (FDI) in recent years. Telecom use has been rising, and total fixed line and mobile telephone density increased to 120 per 100

persons led by an increase in mobile subscribers. The demand for basic voice services appears to be reaching saturation point. The mobile-telephone operators dominate the sector. The continued expansion infrastructure has enabled a sophisticated level of telecommunication services throughout the whole country. There is significant competition among the existing operators, consisting of three fixed-line operators, five mobile phone operators, and 11 Internet Service Providers. The U.S. exported \$2.1 million of telecommunications equipment to Sri Lanka in 2016.

Sri Lanka is connected to the South East Asia-Middle East-West Europe 4 (SEA-ME-WE IV) project, the submarine cable system linking South East Asia to Europe via the Indian Sub-Continent and Middle East. The project aims to take these regions to the forefront of global communication by significantly increasing the bandwidth and global connectivity of users along its route between Singapore and France.

SEA-ME-WE 4 fiber optics cables provide a bandwidth capacity of 1.28 terabits per second, with a 25 year guaranteed lifespan for the technology. This submarine cable system offers Sri Lanka an immense bandwidth advantage, and paves the way to make Sri Lanka a globally competitive business hub.

Leading Sub-Sectors

Telecommunications Equipment

Computers

Opportunities

The Ministry of Telecommunications is finalizing an international tender for digital identification cards that should be released by the end of 2017. Total cost is over \$55 million and will cover almost the entire population.

Opportunities for digitizing the Government procurement system

There are opportunities for U.S. software and hardware vendors.

There are opportunities for software application (app) development.

There are opportunities for telecommunications equipment.

Web Resources

[Information and Communication Technology Agency](#)

[Sri Lanka Association for Software and Services Companies](#)

Medical Equipment/Pharmaceuticals

This is a best prospect industry sector for this country.

Overview

Demand for health care services is rising due to an aging population. Nearly sixteen percent of the population was 65 years of age and over at end-2016 and that figure is likely to double by 2030.

The Government continues with its policy of providing free health care at public hospitals. The Government expenditure for the health sector was approximately \$1.2 billion in 2016.

The increased burden on the Government for public health care provides opportunities for private sector operators to expand their presence in this sector.

Increasing access to private health services is also a focus of the Government, as it is difficult for the public sector alone to meet the demand for healthcare services. The private sector has invested considerably in health care, especially in Colombo and some of the major cities, which has eased some of the burden for the state. The demand for private sector health care has increased with higher income levels and changing preferences. The provision of health insurance has also supported the growth in the private health care sector. There are 598 Government hospitals, nearly 221 private hospitals and nursing homes of varying sizes, 5,000 private pharmacies, and 1,000 laboratories in Sri Lanka.

The health care industry provides good opportunities for U.S. medical equipment and pharmaceutical companies. However, in October 2016, the Government of Sri Lanka issued regulations setting maximum retail prices for 48 medicinal product formulations.

Approximately 70 percent of that market share is held by the private sector while public institutions hold the remaining market share. According to pharmaceutical industry experts, the local pharmaceutical industry has grown at a rate of about 15 percent in the past five years and the industry has good prospects for high-volume growth in the future. The Government is encouraging investment in the pharma sector to manufacture drugs locally. Registering of drugs can be time consuming with extensive details required by the authorities. Dismissal of local agents by foreign principals is also complex as the agent has to provide a no objection letter to the authorities for a new agent to be appointed.

The Cosmetic Drugs and Devices Regulatory Authority regulates the pharmaceutical sector to ensure the quality, safety, and efficacy of drugs and medical equipment. Although many pharmaceutical imports are from regional sources, the higher quality and efficacy of Western manufactured drugs is widely acknowledged by medical practitioners and consumers.

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 command a premium. 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 \$18 million in 2016.

Leading Sub-Sectors

Supplying of medical equipment to the Government

Opportunities

Government's medicine and equipment purchases are done on a tender basis, the health ministry updates their website regularly, more information can be found on [here](#).

Web Resources

[Ministry of Health](#)

[World Bank](#) (for World Bank assisted projects in the health sector):

[Durdans Hospital](#)

[Asiri Group of Hospitals](#)

[Lanka Hospitals](#)

[Nawaloka Hospitals](#)

Textiles

This is a best prospect industry sector for this country.

Overview

Sri Lanka's apparel export industry is one of the most significant contributors to the economy. The industry has recorded substantial growth levels over the past four decades and is currently the country's leading export, accounting for approximately 45 percent of total exports, and it provides about 33 percent of the manufacturing employment in the country. This industry, which is entirely privately owned, has been successful in the international market. Sri Lanka's apparel exports were \$4.8 billion in 2016.

Sri Lanka has built its competitive edge on value-addition rather than cheap production cost, with greater emphasis on product quality and its ability to manufacture niche products. Despite increased international competition, exporters seem to be faring quite well. Sri Lanka is seeking a better than average growth in 2017 with the restoration of EU GSP+ which provides concessional access to the EU.

Leading Sub-Sectors

- Establishing textile-manufacturing facilities
- Providing technological equipment
- Warehousing hub for U.S. yarn

Opportunities

- The apparel industry is a key sector that needs continuous upgrading and acquisition of new technology and equipment.
- There are prospects to supply grey fabric, denim, polyester yarn, and specialized fabric used for lingerie and sportswear.
- U.S. exporters could evaluate Sri Lanka as a warehousing hub for U.S. yarn and fabric bound for other markets in the region. Many Sri Lankan apparel companies manufacture for top U.S. apparel brands.
- Attractive incentives are available for U.S. manufacturers to establish textile-manufacturing facilities. U.S. suppliers who want to compete in this market need to be flexible in negotiating payment terms.

Web Resources

[Joint Apparel Associations Forum of Sri Lanka](#) (JAAF)

[MAS Holdings](#)

[Brandix Lanka](#)

[MAS Fabric Park](#)

[Hirdaramani Group of Companies](#)

Travel and Tourism

This is a best prospect industry sector for this country.

Overview

Tourism has grown rapidly from 500,000 tourist arrivals several years ago to 2 million in 2016, with an estimated \$3.5 billion in earnings. Sri Lanka offers a mix of attractions including beaches, wild life parks, rain forests, tea plantations, ancient ruins, Buddhist cultural sites, and festivals. Sri Lanka is ranked 64th out of 141 countries in the Travel & Tourism Competitiveness Report 2017 of the World Economic Forum. The Government aims to increase tourist arrivals to 2.5 million in 2017. India and China contributed the largest number of tourist arrivals, followed by Germany, the UK and France.

To reach the target of 2.5 million arrivals, Sri Lanka has approved 41 new hotel projects with 1,526 rooms at a cost of approximately \$126 Million in 2016. A few local conglomerates control most of the luxury hotels in Sri Lanka. In addition, the boutique hotel concept is fast catching on. During the war (which ended in 2009), international hotel companies were absent from Sri Lanka. Hilton had been the only global player in Sri Lanka, managing a luxury hotel (which is Government owned) and an apartment complex in Colombo for many years. The Government wants to attract global names to Sri Lanka. Recently, several international and regional hotel chains have begun building or operating hotels in Sri Lanka, including the Marriott, Shangri-La, Six Senses, and Movenpick.

Tourism offers both investment and trade opportunities. The Government is offering beach land and islets for tourism development. The board of investments has been trying to attract investors to develop 14 islets off Kalpitiya offering land on a lease basis, BOI highlighted recently that the minimum investment for each acre should be \$100Million. Questionable tender procedures in the past have made it difficult for U.S. companies to bid for Government projects. Eastern Sri Lanka is an area that offers significant potential as the beaches in this area are considered world-class, and locations such as Pasekudah and Arugam Bay are premier destinations, including for surfing enthusiasts. The country has several parks and forests that are home to a multitude of wildlife, and it is considered a biodiversity hotspot by several international environmental groups and has many unique fauna and flora species. A recent prohibition on sales of land to foreigners may complicate development of new properties. Eco-friendly resorts are also gaining popularity with many developers opting to establish “green” hotels to attract a growing market segment. Increasing tourism is driving significant growth in the restaurant industry.

According to industry experts, an emerging tourism trend has brought a large influx of tourists seeking a more authentic experience, rather than the conventional tourism offerings. These tourists, who are mostly younger, are seeking out cheaper accommodation units and home stays, and they utilize internet applications to find their way about and seek adventure and authenticity.

Leading Sub-Sectors

- Casual Dining Restaurants
- Hotel Equipment

Opportunities

- The tourism sector should represent considerable opportunities for U.S. suppliers in a range of areas such as infrastructure, technology and consultancy services, hotel equipment, furniture, water purification systems, electrical systems, energy efficient equipment, restaurant and kitchen equipment, food and beverage, bathroom accessories, spa and fitness equipment and water sports equipment.
- Sri Lanka is also planning to introduce aviation services including air taxis and helicopter services to support its tourism drive.
- The increased expansion of the hotel sector, upgrading of current properties, and construction of international hotel chains that require high end inputs and technology, provide significant prospects for U.S. companies.
- The number of casual dining restaurants (CDR), fine dining, and quick service restaurant (QSR) outlets have significantly increased in the number in Sri Lanka during recent years. International and domestic restaurants are expanding their operations. Various new-to-market restaurant companies continue to explore opportunities and make investments. U.S. suppliers with an interest in Sri Lanka have increasing options to introduce U.S. products to the growing culinary and hospitality sectors.

Web Resources

[The Hotels Association of Sri Lanka](#)

[Sri Lanka Tourism Development Authority](#)

Customs, Regulations & Standards

Trade Barriers

Sri Lanka prohibits the importation of chicken meat in order to protect local producers. Regulations restrict entry of genetically-modified products. Authorities apply ad hoc standards for testing of meat shipments upon arrival, which are disadvantageous to importers who comply with health protocol stipulated in import permits. These measures are believed to be applied in order to pressure importers to purchase locally produced items at higher cost. Other excessive health requirements for agricultural products also curtail imports of U.S. products. High tariffs affect U.S. exports across a wider range of food and agricultural products.

For more information and help with trade barriers please contact:

International Trade Administration

[Enforcement and Compliance](#)

(202) 482-0063

ECCCommunications@trade.gov

Import Tariff

Sri Lanka imposes a variety of import duties, which combined can result in high duty rates. U.S. exporters should be aware that fees incurred when exporting to Sri Lanka include the

customs-import tariff, Export Development Board levy, Value Added Tax (VAT), Port and Airport tax, Nation Building Tax, Port Handling charges, and agent commissions, all of which could add up to more than 100 percent of the cost-plus-insurance-plus-freight (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 schedule of customs import tariffs based on the Harmonized System of Classification. The tariff structure is subject to frequent changes. The current tariff bands are: 0 percent; 5 percent; 10 percent; 15 percent; 25 percent and 30 percent. Basic raw materials, textiles, pharmaceuticals, medical equipment, telecommunications equipment, software, machinery and selected consumer electronics have a zero tariff. Semi-processed raw material is at 5 percent. Intermediate products are at 15 percent or 25 percent and most agricultural and food products, consumer goods, and most finished products are at 30 percent. A few selected agricultural products have specific import duty rates. In addition, there are specific duties on footwear and ceramic products to protect the local industries.

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.

Tobacco, cigarettes, and liquor do not come under the four-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 less than 50 percent under the World Trade Organization (WTO) rules. 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 percent 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 Sri Lankan 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, glassware, and pens. The tax is applied on CIF value, and ranges from 1 percent to 35 percent. 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. For some items, such biscuits, chocolates, and soap, the tax is charged not on the import price, but on 65 percent of the maximum retail price.

Since November 2011, the Government has imposed an all-inclusive tax under the EDB levy on imported textiles not intended for use by the apparel export industry. As of May 2017, this all-inclusive tax was Rs 100 per kg (approximately \$0.66). No other taxes apply to these textiles.

In November 2015, the Government introduced an all-inclusive tax under the EDB levy on apparel imports replacing the 25 percent import tariff, the 12 percent VAT, the Rs 75 (approximately \$0.57) per unit EDB Levy, the five percent PAL, and the two percent NBT. As of May 2017, this all-inclusive tax was 15 percent or Rs 200 per unit, whichever is higher

Value Added Tax

Sri Lanka has a value added tax (VAT) on sales by manufacturers, service providers, and importers. The Sri Lankan government increased the VAT rate from 11 percent to 15 percent from November 1, 2016. When calculating the VAT, an imputed profit margin of 10 percent is added to the import price. Locally manufactured products are also subject to VAT, but not the imputed profit margin. As VAT policy has frequently changed, it is advisable to verify VAT rates with the Government.

Exports are excluded from VAT. Wholesale and retail traders earning more than Rs 500 million per quarter are subject to the VAT.

Other Charges on Imports

- A Ports and Airports Development Levy (PAL) is applied on most imports. The Government increased the PAL from 5 percent to 7.5 percent in January 2016. Locally manufactured products are not subject to the PAL.
- Excise duties are charged on some products, including aerated water, liquor, beer, and cigarettes. Excise duties were also imposed on refrigerators and washing machines in November 2015. When calculating the excise duty, an imputed profit margin of 15 percent is added to the import price. The excise duty is applied on the price inclusive of other duties. Locally manufactured products are also subject to excise duties.
- Port handling charge, which varies by container size.
- Nation Building Tax of 2 percent

In October 2014, the Government introduced an all-inclusive tax under the Excise Special Provisions Law on cars replacing the VAT, the NBT, the EDB levy, the import tariff, and the PAL. The tax is based on the engine capacity. As of November 2016, the excise tax on cars ranged from 150 percent for small cars to 250 percent for large vehicles. Hybrid vehicles and electric cars are taxed at lower rates.

- A 2.5 percent stamp duty applies to usage of credit cards issued by Sri Lanka banks for transactions converted into a foreign currency. Transactions in local currency are exempted from this duty.

Special Commodity Levy

A special commodity levy (SCL) is charged on some imported food items. The SCL rates are changed frequently creating uncertainty to importers. Locally manufactured products are not subject to SCL. Items subject to SCL include sugar, canned fish, chickpeas, potatoes, onions, vegetable oil, margarine, dairy products and fruits.

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 \$200).
- English language television programs are taxed at Rs 10,000 (approximately \$80) per half hour episode.

- Any foreign film or program dubbed in the local language Sinhala is taxed at Rs 90,000 (approximately \$700) per half hour.
- Foreign television commercials are taxed at Rs 500,000 (approximately \$3,800) per year.

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

The 2017 budget proposed to extend the tax to cover foreign commercials on cable and satellite television networks. As of early December 2016, neither the date of implementation nor the implementation mechanism of this proposal had been announced.

Import Requirements & Documentation

Sri Lanka requires import licenses for over 400 items at the six-digit level of the Harmonized Tariff System, mostly for health, environment, and national security reasons. Importers must pay a fee equal to 0.222 percent of the import price with a minimum fee of Rs 1,000 (approximately \$6.90) to receive an import license.

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 through 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.

Sri Lanka 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 regards undervaluing in customs declarations as a common tactic by importers seeking to avoid paying duties. As a result, Sri Lankan Customs closely scrutinizes documentation to the point that even genuine importers can face problems. In one instance, a local agent representing a 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 has introduced a comprehensive electronic-data system to expedite the import/export clearance procedures but this system is not yet in full-use.

Labeling/Marking Requirements

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.

Soft drink- sugar content

The Government published regulations cited as the Food (Color Coding for Sugar levels) Regulations 2016, which required labeling of carbonated beverages, ready to serve drinks other than milk based products and fruit juices. The labels need to display a numerical description of the sugar content, a description of the relative sugar level and a color code.

U.S. Export Controls

Licensing restrictions relating to Sri Lanka articulated in §7044(e) of the Consolidated Appropriations Act, 2015, Pub. L. No. 113-235, and in previous appropriations acts, were not carried forward in §7044(e) of the Consolidated Appropriations Act, 2016, Pub. L. No. 114-113. Effective immediately (May 4, 2016) the Directorate of Defense Trade Controls (DDTC) will review applications for licenses to export or temporarily import defense articles and defense services to or from Sri Lanka under the International Traffic in Arms Regulations (ITAR) on a case-by-case basis. DDTC will publish a Federal Register notice to implement a conforming update to ITAR §126.1(n).

Temporary Entry

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, telephone 94-11-421141, fax 94-11-446364. Any products subject to import controls (as described above) also require approval from the relevant Government authority.

Prohibited & Restricted Imports

The Government has eliminated most license controls, with a few items remaining under license control mainly for health and national security reasons. Poultry and some types of agriculture commodities are under import license control with agricultural commodities also requiring non-GMO certification. A ban on beef and pork imports from the United States has been lifted, and imports are now permitted for special purposes meaning for use in the tourism and hospitality industries. The importation of chicken meat is prohibited entirely; however this is a protectionist trade measure. 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

Director General of Customs

Sri Lanka Customs

40 Main Street

Colombo 11

Email: dgc@customs.gov.lk

[Home page](#)

Standards for Trade

Overview

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](#).

Standards

There are over 1,400 Sri Lankan standards relating to manufactured products, agricultural commodities, industrial raw materials, and production processes. These standards are primarily voluntary, as only 32 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), ISO 18000 on Occupational Safety, ISO 22000 on food safety management, and ISO 27000 on information security management.

Testing, inspection and certification

The main conformity assessment body is [the Sri Lanka Standards Institute](#) (SLSI)

The [Sri Lanka Accreditation Board for Conformity Assessment](#) (SLAB), is the national accreditation authority for Sri Lanka established under Act 32 of 2005. SLAB is a member of the International Laboratory Accreditation Co-operations, the Asia Pacific Laboratory Accreditation Co-operation (APLAC) and the Pacific Accreditation Cooperation (PAC). 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. Information on product certification can be found at the Sri Lankan Standards Institution [website](#). Test certificates from foreign laboratories are not accepted.

Publication of technical regulations

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 1627/3 of November 09, 2009.

Contact Information

[Sri Lanka Standards Institution](#)

Trade Agreements

Some Sri Lankan exports to the United States qualify for duty free-privileges under the U.S. Generalized System of Preferences (GSP) program, which offers preferential duty-free treatment for up to 5,000 products (apparel products are excluded) from designated

beneficiary countries. The U.S. – Sri Lanka bilateral Trade and Investment Framework Agreement (TIFA) provides a framework for the two Governments to discuss and resolve trade and investment issues at an early stage. The most recent TIFA discussions occurred in April 2016 (with an intersessional discussion in September 2016).

In May 2017, Sri Lanka regained the European Union's (EU) Generalized Scheme of Preferences (GSP+) privileges for Sri Lankan exports. The GSP+ scheme is conditional on Sri Lanka advancing human and labor rights and working towards sustainable development. The trade preferences under GSP+ will consist of the full removal of duties on 66 percent of tariff lines, covering a wide array of products including textiles and fisheries.

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 aims to attract foreign investors interested in entering the Indian and Pakistan markets to establish operations in Sri Lanka under the FTAs, but progress has been slow. Sri Lankan exporters still face significant non-tariff barriers. Trade between Sri Lanka and India has substantially increased since the beginning of the FTA, although Sri Lanka has yet to realize the full potential of the FTA.

Under the India-Sri Lanka Free Trade Agreement, tariff concessions for Sri Lankan products include zero tariffs on 4,235 items; 50 to 100 percent reduction for tea and garments under quota; 25 percent 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).

Under the Pakistan-Lanka Free Trade Agreement, 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 from Pakistan. Sri Lanka's negative list contains 697 items. Import tariffs on all other items from Pakistan are to be phased out over a five-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 percent 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 percent if the product contains at least 10 percent Indian raw material. Additional information about these and other agreements are available [here](#) and [here](#).

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 percent 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.

Licensing Requirements for Professional Services

There are limitations on market access for professionals to work in Sri Lanka. Employment of foreign personnel is permitted when there is a demonstrated shortage of qualified local

labor. Intracompany transferees are allowed to work in foreign companies, and approval is granted on a case-by-case basis.

Medical Specialists

Sri Lanka allows foreign medical specialists to offer health care services in BOI-approved hospitals, under a strict registration process. Temporary licenses are issued by Sri Lanka Medical Council for such medical personnel.

Lawyers

There is no limited license scheme for foreign lawyers. Foreign lawyers may either requalify as Sri Lankan lawyers, work as employees or outside the scope of reserved legal services.

Information on practicing law in Sri Lanka is available [here](#).

Accounting

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 and standards are constantly updated to reflect current international accounting and audit standards.

KPMG, Ernst and Young, PricewaterhouseCoopers, and Deloitte are represented in Sri Lanka but staffed by local Sri Lankans. Foreigners generally are not able to provide accounting services in Sri Lanka.

Web Resources

[Lanka Customs](#) (for the tariff schedule and information on other duties):

[Board of Investment of Sri Lanka](#) (for information on Free Trade Agreements):

[Department of Commerce](#)

[Sri Lanka Standards Institution](#)

[Sri Lanka Accreditation Board for Conformity Assessment](#)

Investment Climate Statement

Executive Summary

Sri Lanka is a lower middle-income country located in South Asia off the southern coast of India on the main east-west Indian Ocean shipping lanes. In January 2015, President Maithripala Sirisena was elected to a six-year term, later reduced to five years under the 19th Amendment to the Sri Lankan constitution. He campaigned on a platform of good governance and anti-corruption as well as ethnic reconciliation. Candidates running on a similar platform gained a majority of seats in parliamentary elections held in August 2015. Sirisena leads a coalition Government comprising the pro-business United National Party (UNP), the reformist wing of the Sri Lanka Freedom Party (SLFP) and several smaller political parties. The coalition has made progress with regard to governance and political reforms including constitutional reforms aimed at reducing the powers of the executive president. The Sirisena-led Government of Sri Lanka's (GSL) initial attempts to introduce economic reforms received mixed reactions. As a result, the GSL has reversed several reforms, creating uncertainty among investors. The GSL is working to improve its relations with other countries and to develop its economy to compete more effectively in the global marketplace. Specifically, Sri Lanka is working to position itself as a financial and trading hub in South Asia.

The GSL has identified the following key economic priorities: 1) integration of the economy into the global marketplace; 2) attracting increased foreign direct investment (FDI); 3) job creation; and 4) increased digitalization.

The GSL is eager to enter into trade pacts with Pakistan, China, and Singapore to boost trade and investment and seeks to expand the current Free Trade Agreement (FTA) with India to a broader Economic and Technology Agreement (ECTA). China is investing in strategic ports and port-related industries. The GSL faces considerable domestic opposition to these trade and investment deals and must work hard to win over opponents. The GSL is hopeful of regaining the European Union's (EU) Generalized Scheme of Preferences (GSP+) privileges for Sri Lankan exports in 2017. The EU withdrew GSP+ status from Sri Lanka in 2010 due to alleged human rights abuses committed by the military and security forces during the 26 year long civil war that ended in 2009. Additionally, several GSL agencies are investigating suspected corruption by the previous administration. A special Presidential Commission is investigating alleged corruption related to GSL bond issuance.

The Sri Lankan economy grew by 4.4 percent in 2016 compared to 4.8 percent in 2015 and 5.0 percent in 2014. Gross domestic product (GDP) reached \$81 billion in 2016, and the per capita GDP was \$3,835. Sri Lanka experienced inclement weather during the year and the agriculture sector contracted 4.2 percent. Exports also declined in 2016. GDP growth is expected to be approximately 4.8 percent in 2017. Sri Lanka's annual exports are approximately \$10.3 billion, mostly tea and garments. Imports are approximately \$19.4 billion creating an annual trade deficit of over \$9 billion. The United States is the largest single market for Sri Lankan exports, capturing over \$2.8 billion of the total per U.S. Census Bureau data. Remittances from migrant workers, approximately \$7.2 billion per year, are Sri Lanka's largest source of foreign exchange and help to partially offset the external deficits. Tourism is a \$3.5 billion industry with two million tourist arrivals in 2016. Sri

Lanka's Foreign Direct Investment (FDI) has dropped 35 percent to about \$450 million in 2016 from \$700 million in 2015 primarily as a result of economic policy inconsistency.

Sri Lanka suffers from a large foreign debt burden. Foreign debt is comprised of concessional debt and commercial debt, including debt owed to China for infrastructure projects. While official reserves amounted to \$5.6 billion in February 2017, external debt obligations payable are approximately \$2.5 billion in 2017 increasing to \$3.2 billion in 2018 and \$3.7 billion in 2019. The GSL entered into a three-year, \$1.5 billion Extended Fund Facility (EFF) with the International Monetary Fund (IMF) in June 2016. Under the terms of the EFF, the GSL is committed to a program of fiscal consolidation, increasing GSL revenue, rebuilding foreign exchange reserves, state owned enterprise reform, a transition to flexible inflation targeting and reforms to the trade and investment regime. In March 2017, after reviewing the reform program, the IMF commended Sri Lanka for achieving all fiscal quantitative targets but raised concerns about low foreign reserves. The IMF also highlighted the importance of introducing new tax laws and structural reforms in public financial management and state-owned enterprises. In February 2017, Fitch Ratings affirmed Sri Lanka's sovereign debt rating at 'B+' and revised the outlook to stable from negative citing fiscal consolidation and steady progress made on the IMF program. As of April 2017, Standard & Poor's credit rating for Sri Lanka was B+ with a negative outlook and Moody's rated Sri Lanka B1 with a negative outlook.

Future growth will require structural changes to the economy, including a shift away from agriculture, as well as greater diversification of exports, improvements in productivity levels across all sectors, deregulation of land and labor markets and the establishment of a more transparent regulatory and procurement framework. Sri Lanka needs to modernize education and improve Government administration in order to build the foundation for long-term economic growth. The bloated civil service and losses at state-owned enterprises are significant challenges for the GSL.

Table 1

Measure	Year	Index/Rank	Website Address
TI Corruption Perceptions Index	2016	95 of 176	Transparency International
World Bank's Doing Business Report "Ease of Doing Business"	2016	110 of 190	Doing Business Rankings
Global Innovation Index	2016	91 of 128	Global Innovation Index
U.S. FDI in partner country (\$M USD, stock positions)	2015	\$111 million	The Bureau of Economic Analysis
World Bank GNI per capita	2015	\$3,800	The World Bank

Openness to and Restrictions upon Foreign Investment

Policies towards Foreign Direct Investment

Sri Lanka is a constitutional multiparty republic. In 1978, Sri Lanka shifted away from a socialist orientation and opened up to foreign investment, although changes in Government have often been accompanied by reversals in economic policy. The current coalition Government led by President Sirisena and Prime Minister Wickremesinghe follows a pro-business stance with an emphasis on expanding exports, upgrading industry, and boosting private investment and public-private partnerships. President Sirisena's Sri Lanka Freedom Party has a socialist orientation. Prime Minister Ranil Wickremesinghe represents the pro-business United National Party.

Former President Rajapaksa (2005–2015) followed a statist economic policy, advocating for Government control of strategic enterprises and expanding the role of the state. The Rajapaksa administration also introduced a substantial Government infrastructure development program, largely financed with Chinese loans.

Sri Lanka will require high levels of FDI to meet its growth targets. The tourism sector is a promising source of FDI with two million tourists per year visiting Sri Lanka. International hotel franchises are expanding their presence. Investors are capitalizing on Sri Lanka's environment, culture, religious history, and wildlife to attract high-end tourists and to tap into the growing markets of India and China. Property development has also attracted substantial foreign investment. Ports are another important driver of growth. The Colombo Port is one of the most active in the region and is situated on a major global shipping lane. The GSL expects substantial strategic FDI from China into ports and port related industries. The GSL is debating selling a stake of the Chinese-funded and built Hambantota Port to a Chinese company and has approved a Chinese logistics and industrial zone in Hambantota. Colombo Financial City (formerly called Colombo Port City) is a large-scale land reclamation and city development project being developed by a Chinese company. FDI from the United States, Europe and elsewhere has not materialized.

The business process outsourcing sector is growing and has strong involvement by U.S. firms. With a growing middle class, investors see opportunities in franchising, retail and services as well as light manufacturing. However, importers to Sri Lanka face high taxes. According to a World Bank study, Sri Lanka's present import regime is one of the most complex and protectionist in the world. The GSL is keen to improve education and skills development. Sri Lanka's free trade agreements (FTA) with India and Pakistan offer preferential access to those markets and Sri Lanka is currently negotiating an Economic and Technology Agreement (ETCA) with India and an FTA with China. Many expatriates view Colombo, the capital, as offering a good quality of life relative to other major cities in the region.

Sri Lanka is a challenging place to do business, with high transaction costs caused by an unpredictable economic policy environment. While some GSL departments and ministries boast competent staff, the GSL's overall provision of services is impeded by inefficiency. While the administration has started to implement more transparent procurement practices, economic growth is stymied by lingering opaque GSL procurement practices.

Local investors cite the risks of contract repudiation, cronyism, damage to reputation, and de facto or de jure expropriation as concerns, although the GSL has started to address these issues. From an investor viewpoint, the power and petroleum sectors are particularly

challenging, as decision-making authority is highly fragmented, and the capital investments required are substantial. Trade union opposition at both the Ceylon Petroleum Corporation and the Ceylon Electricity Board (CEB) make reform of these loss-generating state-owned enterprises very difficult.

The GSL has directed banks to register with the U.S. Internal Revenue Service (IRS) to comply with the U.S. Foreign Accounts Tax Compliance Act (FATCA). Almost all commercial banks have registered with the IRS.

Investors report that starting a business in Sri Lanka is relatively simple and quick – especially when compared to other frontier markets – and 20 percent cheaper than in neighboring countries. Scalability is a problem, however, as the lack of skilled labor and a smaller talent pool means companies can take years to double in size. Investors claim employee retention is good in Sri Lanka, but numerous public holidays, reluctance of workers to work at night (which is especially problematic in the information technology and business process outsourcing sectors), lack of labor mobility, and a difficulty in recruiting women (the labor force participation rate of women is approximately 36 percent or half of the male labor force participation rate) can reduce efficiency and increase start-up times. The garment industry has had more difficulty with employee retention, especially in the North and East, due to the largely female workforce which leaves the labor pool to raise families. Many service sector companies can rely on Sri Lankan engineers, researchers, technicians, and analysts to deliver high-quality, high-precision products. Foreign and local companies report a strong worker commitment to excellence in Sri Lanka, with rapid adaptation to quality standards.

Limits on Foreign Control and Right to Private Ownership and Establishment

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 in accessing markets, credit, or licenses.

Foreign ownership is allowed in most sectors, although the land ownership law prohibits foreigners from owning land with some exceptions. Most investors cite acquiring land as the biggest challenge for any new business in Sri Lanka. Private land ownership is limited to fifty acres per person. The GSL owns approximately 80 percent of the land in Sri Lanka including land housing most tea, rubber and coconut plantations which are leased to the private sector on 50-year terms. Although state land for industrial use is usually allotted on a 50-year lease, the GSL may approve 99-year leases on a case-by-case basis depending on the nature of the project. Many land title records were lost during the war and significant disputes remain over property ownership in the North and East. The GSL has started a program to hand back property taken by the GSL during the war to residents in the North and East.

Foreigners are prohibited from purchasing land and real estate except for apartments above the 3rd floor. Currently, the Cabinet can approve a land purchase for an investment in the national interest, provided there is a substantial foreign remittance for the purchase of the land. The 2017 budget promised to relax restrictions on apartment ownership. Other policies of concern include the November 2011 Underutilized Assets Act, which resulted in the seizure of 37 companies. The current GSL also imposed a one-time 25 percent tax on companies making profits over LKR 2 billion (\$15 million) in the 2013/14 financial year.

Foreign investors enjoying tax holidays were exempted from the tax. The GSL has said that they would refrain from introducing such retroactive policies and taxes in the future.

The GSL allows 100 percent foreign investment in any commercial, trading, or industrial activity other than a few specified sectors: air transportation; coastal shipping; large scale mechanized mining of gems; lotteries; manufacture of military hardware, military vehicles, and aircraft; dangerous drugs; alcohol; toxic, hazardous, or carcinogenic materials; currency; and security documents. (These sectors are regulated and subject to approval by various GSL agencies including the Board of Investment.)

Foreign investments in the following areas are restricted to 40 percent ownership: the production for export of goods subject to international quotas; growing and primary processing of tea, rubber, coconut; timber-based industries using local timber; deep-sea fishing; mass communications; education; freight forwarding; travel services; and businesses providing shipping services. Foreign ownership in excess of 40 percent must be preapproved on a case-by-case basis by the Board of Investment. The GSL is considering opening higher education to foreign investment. 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; and coastal fishing.

In areas where foreign investment is permitted, foreign investors are treated equally with domestic investors and may benefit from the incentives provided by the Board of Investment or from the Treasury.

The Board of Investment, an autonomous statutory agency, is the primary GSL authority responsible for [investment](#), with a focus on foreign investment. Foreign investors applying for incentives offered under the Board of Investment law are screened by the Board of Investment. Some investments, especially in utilities, are screened by respective statutory agencies or line ministries.

Other Investment Policy Reviews

Sri Lanka has been a member of the World Trade Organization (WTO) since 1995. The most recent WTO Trade Policy Review for Sri Lanka was conducted in 2016. This is Sri Lanka's fourth Trade Policy Review. Additional information may be found [here](#).

The GSL has not conducted investment policy reviews through the Organization for Economic Cooperation and Development (OECD) or the U.N Conference on Trade and Development (UNCTAD) within the last few years.

Business Facilitation

[The Board of Investment](#), an autonomous statutory agency, is the primary GSL authority responsible for investment with a focus on foreign investment. The Board of Investment is intended to provide "one-stop" service for all foreign investors with duties including the approval of projects, granting incentives and arranging utility services. It also assists in obtaining resident visas for expatriate personnel and facilitates import and export clearances. The Board of Investment is not yet a one-stop shop. Although the Board of Investment is relatively effective in assisting investors who want to establish operations within its export processing zones, it is less effective in facilitating and servicing large investments outside these zones. Sri Lanka's bureaucracy often works at cross-purposes with Board of Investment authorities. For example, the registration of foreign company branch offices in Sri Lanka can be expensive.

The GSL is working to establish an apex body named the Agency for Development to facilitate policy regarding investments, tourism and exports and supervise state institutions - such as the Board of Investment - in these sectors. The GSL has also promised to introduce a new investment law and an incentive regime.

[The Department of Registrar of Companies](#) has the responsibility for business registration. The registration system is all done in-person except for the on-line submission of the name approval application for a business registration. Registration at the Companies Registry takes on average seven to 10 days. The business registration regime does not require a notary to sign the documents. In addition to the Registrar of Companies, businesses must register with the Inland Revenue Department to obtain a taxpayer identification number for payment of taxes and the Department of Labor for payment of social security payments. The 2016 budget proposed to increase liquidation fees and annual registration fees of companies. However, the GSL has not yet enforced this new fee structure.

According to the [World Bank](#) it takes six procedures and 65 days to establish a foreign-owned limited liability company (LLC) in Sri Lanka.

Outward Investment

The GSL supports outward investment subject to limits specified by the Exchange Control Department of the Central Bank of Sri Lanka. Investments over the specified limit require the Finance Minister's approval. Domestic investors are allowed to invest in subsidiary companies, joint ventures and marketing/branch/liaison offices overseas.

Bilateral Investment Agreements and Taxation Treaties

The GSL has signed investment protection agreements with the United States (which came into force in May 1993) and with the following countries: Australia, Belgium-Luxembourg, China, Denmark, Egypt, Finland, France, Germany, Indonesia, India, Iran, Italy, Japan, Korea, Kuwait, Malaysia, the Netherlands, Norway, Pakistan, Romania, Singapore, Sweden, Switzerland, Thailand, the United Kingdom and Vietnam. Under Article 157 of the Sri Lankan Constitution, investment protection agreements enjoy the force of law and no legislative, executive, or administrative action can contravene them.

Sri Lanka signed a bilateral taxation treaty with the United States in 1985, which was amended in 2002. Information about the treaty can be found at [here](#)

The U.S. Embassy encourages prospective U.S. investors to contact an international auditing firm operating in Sri Lanka to assess their tax liability.

Legal Regime

Transparency of the Regulatory System

The Institute of Chartered Accountants of Sri Lanka (ICASL) is responsible for setting and updating accounting standards to comply with current accounting and audit standards adopted by the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB) respectively. Sri Lanka follows International Financial Reporting Standards (IFRS) for financial reporting purposes set by the IASB.

Sri Lankan accounting standards are applicable for all banks, companies listed on the stock exchange and all other large and medium-sized companies in Sri Lanka. Accounts of such 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 Monitoring Board (ASMB) is responsible for monitoring compliance with Sri Lankan accounting and auditing standards. British professional accounting bodies are active in Sri Lanka. The Chartered Institute of Management Accountants (CIMA), a leading professional accounting body based in the United Kingdom covering the Commonwealth of Nations member countries, has its largest overseas presence in Sri Lanka.

At pre-enactment stage, bills are drafted by respective ministries. Public consultation at this stage is limited in most instances. Every bill must be published in the Government gazette at least seven days before it is placed on the Order Paper of the Parliament. This is the first occasion the public is officially informed of proposed laws. Until this time the draft is treated as a confidential document. Any member of the public can challenge the bill in the Supreme Court if they do so within one week of its placement on the Order Paper of the Parliament. If the Supreme Court orders amendments to the bill, these have to be incorporated before can be debated and passed.

Entrenched corruption has made it difficult for U.S firms to compete against foreign bidders not subject to the U.S. Foreign Corrupt Practices Act when competing for public tenders. While the GSL has started to implement its platform of good governance and transparency, the administration has yet to eliminate all elements of corruption in the bidding process.

International Regulatory Considerations

Sri Lanka is a member of the WTO and has made many WTO notifications that pertained to customs valuation, agriculture, import licensing, sanitary and phytosanitary measures, the Agreement on Technical Barriers to Trade, the Agreement on Trade-Related Investment Measures and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

Legal System and Judicial Independence

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 ethnic. Sri Lankan commercial law is almost entirely statutory. The law reflects colonial British law but amendments have largely kept pace with subsequent legal changes in the United Kingdom. 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 the Consumer Affairs Authority Act. Sri Lanka's court system consists of the Supreme Court, the Court of Appeal, provincial high courts and the Courts of First Instance (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 is 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 including intellectual property claims exceeding the value of LKR 3 million (approximately \$20,000) fall within the jurisdiction of the Commercial High Court of Colombo. A number of tribunals also exercise judicial functions such as the Labor Tribunals that hear cases brought by workers against their employers. Litigation can be slow. Monetary judgments are usually made in local currency but procedures exist for enforcing foreign judgments. Overall, Sri Lanka's record in handling investment disputes is problematic. Disputes have become politicized and the stability of contracts in general could be improved.

Laws and Regulations on Foreign Direct Investment

The Board of Investment strives to inform potential investors about laws and regulations affecting operations in Sri Lanka and the GSL has stated a commitment to reform and reorganize relevant GSL agencies to improve services. However, existing laws remain hard to find and proposed laws and regulations, while generally made available for public comment, are occasionally published without public discussion. Foreign and domestic investors complain 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 investors cite coordination problems between the Board of Investment and relevant line agencies. Lethargy and indifference on the part of mid- and lower-level public servants compound transparency problems. Lack of sufficient technical capacity within the GSL to review financial proposals for private infrastructure projects also creates problems during tendering. Under the former Government, the Sri Lankan Cabinet had to approve strategic projects in order for private investors to receive incentives. It is unclear what the current Government's approval process is.

Competition and Anti-Trust Laws

Sri Lanka does not have a specific competition law. Instead, the Board of Investment or the respective regulatory authority may review transactions for competition-related concerns.

Expropriation and Compensation

Since economic liberalization policies began in 1978, the GSL has not expropriated a foreign investment. The last expropriation dispute was resolved in 1998. However, in 2011, the previous Government approved the Revival of Underperforming Enterprises and Underutilized Assets Act allowing for the expropriation of assets belonging to 37 companies the GSL considered as underperforming. These companies had leased land from the GSL but the GSL claimed the companies were not meeting the conditions of the agreement. Although many of the companies were defunct, several others were viable businesses. The Central Bank stated that the Act was to be considered a one-off measure. The law increased investor uncertainty regarding property rights in Sri Lanka and is often cited as having a chilling effect on foreign direct investment.

Apart from the Underutilized Assets Act, the land acquisition law empowers the GSL to take over private land for public purposes. Compensation is paid based on GSL valuation which some local investors consider relatively fair. There are cases, however, of the military taking over businesses in the North and East – on claims they are on GSL land – with little

or no compensation. Many land records were lost or destroyed during the war which complicates land tenure issues and delays resolution. Under the previous regime, there were reports of GSL taking over private lands throughout the country purportedly for public purposes. The current Government has pledged to refrain from the takeover of private assets.

In January 2015 the GSL imposed a one-time 25 percent tax entitled the “super gain tax” on companies or individuals who reported more than LKR 2 billion (\$13 million) in profits (before income tax) in the tax year ending March 2014. Foreign investors enjoying tax holidays were exempted.

Dispute Settlement

ICSID Convention and New York Convention

Sri Lanka is a member state to the International Centre for the Settlement of Investment Disputes (ICSID convention). It is also a signatory to the convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention) without reservations.

Sri Lanka’s Arbitration Act of 1995 recognizes within its legal framework the terms of the New York Convention.

Investor-State Dispute Settlement

Sri Lanka has signed a Bilateral Investment Treaty (BIT) with the United States. Over the past ten years, according to the United Nations two investment disputes have involved foreign investors: 1. a dispute between Deutsche Bank and Ceylon Petroleum Corporation regarding an oil hedging agreement concluded with the proceeding being decided in favor of Deutsche bank; and 2. an ongoing arbitration involving British and local investors with the Attorney General as respondent with regard to a tourism development project.

International Commercial Arbitration and Foreign Courts

Many investors tend to prefer arbitration over litigation. Arbitral awards made abroad are now enforceable in Sri Lanka. Similarly, awards made in Sri Lanka are enforceable abroad. There is a considerable delay in enforcing arbitral awards and the respondents are often seen making objections based on technicalities or on public policy considerations.

[The Institute for the Development of Commercial Law and Practice \(ICLP\)](#) and [Sri Lanka National Arbitration Centre](#) engage in private settlement of commercial disputes through arbitration.

Bankruptcy Regulations

The Companies Act and the Insolvency Ordinance provide for dissolution of insolvent companies but there is no mechanism to facilitate the reorganization of financially-troubled companies. Other laws make it difficult to keep a struggling company solvent. The Termination of Employment of Workmen Special Provisions Act (TEWA), for example, makes it difficult to fire or lay off workers who have been employed for more than six months for any reason other than serious, well-documented disciplinary problems unless the employee agrees to such termination.

In the absence of proper bankruptcy laws, extra-judicial powers granted by law to financial institutions protect the rights of creditors. A creditor may petition the court to dissolve the

company if it cannot meet a creditor's demands for payment of money in excess of LKR 50,000 (\$330.00). Lenders are also empowered to foreclose on loan collateral without court intervention. However, loans below LKR 5 million (\$33,000) are exempt and lenders cannot foreclose on collateral provided by guarantors to a loan. Financial institutions also face other legal challenges as defaulters obtain restraining orders on frivolous grounds due to technical defects in the recovery laws.

The Companies Act of 2007 introduced a solvency test to determine the financial stability of a company. The solvency test is intended to prevent companies without sufficient assets from obtaining loans and to protect rights of creditors. The law sets forth the responsibilities of a company's directors in cases of serious loss of capital. While the Companies Act does not provide for the revival of struggling companies, the courts generally take a liberal attitude towards any restructuring plans that would benefit a company.

Industrial Policies

Investment Incentives

The GSL plans to introduce a new investment regime based on capital allowances and concessionary tax rates. According to the proposed incentive package announced in the 2017 GSL budget (announced November 2016), investments in the Northern, Eastern and UVA provinces will be eligible for 100 to 200 percent capital allowances (capital expenditure to be deducted from revenues of the company before tax is imposed). All other investments will qualify for concessionary tax rates for three to five years. These incentives will be available only to investors meeting certain criteria such as minimum capital levels and a minimum number of employees. The 2017 budget also proposed to design a special incentive package with specific tax concessions for landmark investments of over \$100 million. In addition, international organizations that locate in Sri Lanka will be given tax exemptions. As of April 2017, Parliament had yet to approve these proposed investment incentives.

For further information on investment incentives and other investment-related issues, potential investors should contact the [Board of Investment](#) directly or email info@BoardofInvestment.lk.

Foreign Trade Zones/Free Ports/Trade Facilitation

The Board of Investment is the central facilitation point for foreign investors. The Board of Investment provides assistance and advice throughout the investment process. Sri Lanka has 12 free trade zones, also called export processing zones, administered by the Board of Investment. Foreign investors have the same investment opportunities as local entities in these zones. Export oriented companies located within and outside the zones are eligible to import project related material and inputs free of customs import duties. The imports may be subject to other taxes. In addition, a large private apparel company runs a fabric park. 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 the 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 a scarcity of labor. The Board of Investment and the GSL overall now encourage export-

oriented factories to locate in industrial zones farther from Colombo although Sri Lanka's poor roads make these outlying zones more challenging.

Sri Lanka plans to create a China Logistics and Industrial Zone (SLCLIZ) in Hambantota in the Southern Province which would be open for Chinese investors to establish factories. The GSL plans to allocate 1,000 acres of land for the zone. SLCIZ is expected to include the Hambantota Port which may be sold to a Chinese state-owned company.

Performance and Data Localization Requirements

There are no performance requirements. In most cases, firms enjoying preferential incentives in the manufacturing sector must export 80 percent of production while those in the service sector must earn at least 70 percent of their income in foreign exchange. 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.

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. Foreign employees in the commercial sector do not experience significant problems in obtaining work or residence permits. Sri Lanka offers dual citizenship status to Sri Lankans who have obtained foreign citizenship in seven designated countries. Tourist and business visas are granted for one month with possible extensions.

Sri Lanka has no specific requirements for foreign information technology providers to turn over source code or provide access to surveillance. Provisions relating to interception of communications for cybercrime issues are subject to court supervision under the Computer Crimes Act of 2007. Sri Lanka became a party to the Budapest Cybercrime Convention in 2015. As a result, safeguards based on this convention are in force. Although there is no comprehensive legislative protection of electronic data, the Computer Crimes Act has a provision to protect data and information. Steps are being taken by the GSL to formulate data protection legislation. There is no ban on the sale of electronic data for marketing purposes.

Sri Lanka ratified the UN Electronic Commerce Convention in July 2015 and began implementing it on February 1, 2016 by taking steps to amend the Sri Lanka Electronic Transactions law to comply with the convention.

Protection of Property Rights

Real Property

Secured interests in property in Sri Lanka are generally recognized and enforced but many investors claim protection can be flimsy. A fairly reliable registration system exists for recording private property including land, buildings and mortgages, although problems exist due to fraud and forged documents. Redress by courts is slow. A legal framework that enables the state to takeover private land relatively easily has also led to disputes and an erosion of investor confidence. In the World Bank's 2017 "Doing Business Index" Sri Lanka ranked 155 out of 190 countries in the category of registering a property. Property registration required, on average, completion of nine procedures lasting 51 days.

Foreigners are prohibited from the purchase of lands. A regulation imposing a 15 percent tax on leases to foreigners was removed in January 2016.

Intellectual Property Rights

IPR enforcement is improving in Sri Lanka although counterfeit goods continue to be widely available making it difficult for legitimate industries to protect their markets. 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 damages their businesses. Sri Lanka has a comprehensive IPR law and several offenders have been charged or convicted. Overall, IPR protection is improving in the country. For instance, the GSL's information technology (IT) policy requires GSL agencies to use licensed or open source software. Software companies have reported an increased interest by large companies in improving IPR regimes. Sri Lanka does not track and report on seizures of counterfeit goods.

Sri Lanka is a party to major intellectual property agreements. Sri Lanka adopted an intellectual property law in 2003 that was intended to meet both U.S.-Sri Lanka bilateral IPR agreements and, to a great extent, trade-related aspects of intellectual property rights (TRIPS) obligations. 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 (e.g., trade secrets). All trademarks, designs, industrial designs, and patents must be registered with the Director General of Intellectual Property. No legal provisions exist for registration of copyrights and trade secrets.

The National Intellectual Property Office has stepped up efforts to improve the trademarks and patents administration regime. Infringement of intellectual property rights is a punishable offense under the IP law with criminal and civil penalties. 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 offense include up to six months imprisonment or a fine of up to LKR 500,000 (\$33,300), but smaller penalties are the norm. Aggrieved parties can seek redress for any IPR violations through the courts though this can be a frustrating and time-consuming process. In recent times warning letters have proved to be an effective alternative to litigation in cases of minor copyright and trademark infringements. Sri Lanka Customs' regulatory code provides *ex officio* authority to seize suspected counterfeit shipments at the borders. However, police and customs authorities generally do not proactively initiate action against IPR violators unless the victims bring it to the authorities' attention and work with them on enforcement actions. Judicial cooperation continues to improve. The GSL has established a special antipiracy and counterfeit unit in the Criminal Investigation Division (CID) of the police to specifically address IPR concerns. There is also an IPR unit in the Social Protection Unit of Sri Lankan Customs, and a trademark database to advance IPR protection. The GSL has yet to make full use of this database.

U.S. Embassy Colombo, the United States Patent and Trademarks Office (USPTO), and the American Chamber of Commerce of Sri Lanka are working to pursue more aggressive enforcement and enhance public awareness. Sri Lanka is not listed in USTR's Special 301 report.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles [here](#).

Resources for Rights Holders

Contact at U.S. Embassy Colombo:

William Humnicky, Economic Officer

94-11-2498500

Email: commercialcolombo@state.gov

[Local lawyers list](#)

Country/Economy Resources:

[American Chamber of Commerce in Sri Lanka](#)

[National Intellectual Property Office of Sri Lanka](#)

Financial Sector

Capital Markets and Portfolio Investment

The Securities and Exchange Commission (SEC) governs the Colombo Stock Exchange (CSE), unit trusts, stock brokers, listed public companies, margin traders, underwriters, investment managers, credit rating agencies and securities depositories. Portfolio investment is encouraged. Foreign investors can purchase up to 100 percent of equity in Sri Lankan companies in numerous permitted sectors. In order to facilitate portfolio investments, country and regional funds may obtain SEC approval to invest in Sri Lanka's stock market. These funds make transactions through share investments in external rupee accounts maintained in commercial banks. Currently, 295 companies representing 20 business sectors are listed on the CSE. As stock market liquidity is limited investors need to manage their exit strategy carefully. Investors will be affected by the exchange rate as well. During the past two years, the Sri Lankan rupee has depreciated by approximately 15 percent.

The management of the SEC, appointed in 2015, is focusing their efforts to restore public confidence in the capital market. The SEC law is to be amended to align the regulatory framework with international standards. The SEC has intensified oversight of regulated entities and conducted investigations on insider trading and market manipulation. Several cases have been forward to the Attorney General for further action. Previous attempts to investigate insider trading and fraud at the CSE during 2011-2014 had to be abandoned as the SEC came under pressure from powerful market players. Four senior SEC officials resigned over regulatory issues during this period citing pressures from high net-worth local investors.

In accordance with its IMF Article VIII obligations, the GSL and the Central Bank generally refrain from restrictions on current international transfers. When the GSL experiences balance of payments difficulties, it does tend to impose controls on foreign exchange transactions but in recent years has exercised restraint in resorting to such measures.

The state consumes over 50 percent 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. High budget deficits have caused interest rates to rise and resulted in higher inflation. On a year-to-year basis inflation was approximately 8.2 percent in February 2017 and the Average Prime Lending rate was 11.6 percent. Retained profits finance a significant portion of private investment in Sri Lanka. Commercial banks are the principal source of bank finance. Bank loans are the most widely used credit instrument for the private sector. Large companies raise funds through corporate debentures as well. Credit ratings are now mandatory for all deposit-taking institutions and for all varieties of debt instruments. Local companies are allowed to borrow from foreign sources. Foreign direct investment finances about six percent of overall investment. Foreign investors are allowed to access credit on the local market and are free to raise foreign currency loans.

Money and Banking System

Sri Lanka has a fairly well-diversified banking system. There are 25 commercial banks – 13 local and 12 foreign. In addition, there are seven local specialized banks. Citibank NA is the only U.S. bank operating in Sri Lanka. Several domestic private commercial banks have substantial GSL equity acquired through investment agencies controlled by the GSL. In 2014, the Central Bank actively promoted consolidation in the banking and financial sector. The current GSL is reviewing consolidation plans.

The Central Bank is responsible for supervision of all banking institutions and has driven improvements in banking regulations, provisioning and public disclosure of banking sector performance. Credit ratings are mandatory for all banks operating in Sri Lanka. The Central Bank has accepted the Basel II standardized approach framework and has introduced accounting standards corresponding to International Financial Reporting Standards for banks. In addition, the Central Bank has issued Basel III capital requirements that banks are expected to comply with commencing July 2016. The liquidity coverage ratio under Basel III was implemented in Sri Lanka in 2015. Banking sector penetration has increased. Banking has expanded to rural areas and by 2015 there were over 6,500 banking outlets and 3,500 Automated Teller Machines spread throughout the country. However, the GSL believes rural areas need more banking and has encouraged banks to open branches in lagging areas. In February 2017, the Central Bank issued instructions on mandatory credit allocations to six priority sectors.

Total assets of commercial banks stood at LKR 6,974 billion (\$46.5 billion) as of December 31, 2015. The two fully state-owned commercial banks – Bank of Ceylon and People's Bank – are significant players, accounting for about 40 percent of all banking assets. The two state banks have a large portfolio of non-performing loans. Both these banks have significant exposure to state-owned companies which are treated as performing loans. However, as these banks are implicitly guaranteed by the state their problems have not harmed the credibility of the rest of the banking system.

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 follow international best practices as most foreign bank branches are subject to supervision in their own country in addition to that of the Sri Lankan Central Bank. Asset quality of the banking sector improved during the first eight months of 2016. The non-performing loans (NPLs) ratio decreased to three percent in August 2016 from 3.2 percent in December 2015 due to the combined effect of loan recoveries and increased loan growth. However, in January 2017 Fitch revised its Sri Lanka banking sector outlook to negative from stable,

citing challenging operating conditions. Rating agencies expect rising macroeconomic pressures to strain banks' credit metrics and increase NPLs. Capitalization could be a significant issue with the proposed implementation of Basel III capital requirements. Fitch believes most banks will need to raise capital to meet the targets set for 2019 although there may be no immediate issues regarding compliance.

Foreign Exchange and Remittances

Foreign Exchange

Sri Lanka generally has investor-friendly conversion and transfer policies. Companies note they can repatriate funds relatively easily. In accordance with its Article VIII obligations as a member of the [IMF](#), Sri Lanka liberalized exchange controls on current account transactions in 1994 and in 2010–2012 the GSL relaxed exchange controls on several categories of capital account transactions. When the GSL experiences balance of payments difficulties the GSL tends to impose controls on foreign exchange transactions.

Sri Lanka follows a flexible exchange rate regime with the Central Bank intervening to smoothen volatility. The rupee has depreciated sharply in the last two years. The rupee depreciated by over six percent in 2016 following nine percent depreciation in 2015. Capital outflows intensified in 2015–16, and foreign exchange reserves declined.

Foreigners are permitted to invest in Sri Lankan debt instruments, both Government and corporate debt. The Central Bank's rupee-denominated T-bill and T-bond issues in the local market are also open to foreign investors. Both foreign and local companies are permitted to borrow from foreign sources.

Remittance Policies

No barriers exist, legal or otherwise, to the expeditious remittance of corporate profits and dividends for foreign enterprises doing business in Sri Lanka provided required documents are in place. The average delay for remitting investment returns, interest, and principal on private foreign debt, lease payments, royalties and management fees through normal legal channels is one to four 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. Sales proceeds and gains from real estate can be transferred provided there is sufficient evidence to prove the funds used to originally purchase the property were remitted into the country to acquire the property. Exporters must repatriate export proceeds within 120 days to settle export credit facilities. Other export proceeds can be retained abroad provided such funds are not used for acquisition of property or other capital assets outside Sri Lanka. An informal money transfer/exchange system is available to facilitate Sri Lankans working overseas and sending money home, although with higher rates. In June 2013, the Financial Action Task Force (FATF) removed Sri Lanka from the list of countries that are subject to FATF's monitoring process. A Financial Intelligence Unit (FIU) operates under the Central Bank.

Sovereign Wealth Funds

Sri Lanka does not have a sovereign wealth fund. Instead the GSL manages and controls large retirement funds from private sector employees and uses these funds for budgetary purposes (through investments in GSL securities), stock market investments and corporate debenture investments. In the past, the GSL and the Central Bank have been accused of misusing the Employees' Provident Fund (EPF), a large retirement fund of private sector

workers managed by the Central Bank, for unwise stock market investments and to help supporters of the governing party. When funds are invested in stock market listed companies, GSL representatives have played an active role in the management of such companies. Experts argue the fund must be segregated from politics and professionalized. The current Government has vowed to improve the management of the pension funds. GSL-managed pension funds must meet Sri Lankan accounting standards.

State-Owned Enterprises

State Owned Enterprises (SOEs) are active in transport (bus and railways, ports and airport management, airline operations); utilities such as electricity; petroleum imports and refining; water supply; retail; banking; telecommunications; television and radio broadcasting; newspaper publishing; and insurance. Since the end of the war, Sri Lankan armed forces have begun operating air services, tourist resorts, and farms for civilian purposes crowding out some private investment. In total, there are 245 SOEs of which 55 have been identified by the Sri Lanka Treasury as strategically important SOEs. SOEs employ over 219,500 people. There is widespread recognition that SOEs are poorly managed and in urgent need of reforms. SOEs make purchases from private companies and foreign firms and have easy access to credit from state-owned-banks and to GSL-owned land. SOEs do not engage in research and development.

Privatization Program

The GSL is seeking to improve the efficiency of SOEs through private sector style management practices. It also proposes to list SOEs on the Colombo Stock Exchange and partially privatize non-strategic SOEs. Foreign investors are expected to be able to participate in these privatization programs. However, the GSL does not always follow an open bidding process when selling outside the stock exchange. For instance, in the case of the proposed privatization of the Hambantota Port, the GSL has allowed Chinese companies to secure projects without an open bidding process. The GSL claims that the deals have been driven by debt-for-equity swaps owing to debt owed to China.

The GSL is reviewing a plan to award large development projects utilizing a “Swiss Challenge” process where an unsolicited project proposal by a company to the GSL is put forward for public review and other interested parties are invited to submit counter proposals.

SOE labor unions and opposition political parties often oppose privatization and are particularly averse to foreign ownership. There is severe opposition to the plan to sell the Hambantota Port to a Chinese company. Privatization through the sale of shares in the stock market is likely to be less problematic.

The previous Government (2005-2015) halted privatizations preferring to maintain SOEs and even reversed several privatizations it had granted in the past.

Responsible Business Conduct

The concept of Corporate Social Responsibility (CSR) is more widely recognized among Sri Lankan companies than Responsible Business Conduct (RBC). Leading companies in Sri Lanka are actively promoting CSR and some small and medium enterprises have also started to promote CSR. Several organizations promote good business practices through programs and awards to recognize sustainability policies, good corporate governance and sound management practices. CSR Sri Lanka is an apex body initiated by 40 leading

companies to foster CSR among businesses. The United States Agency for International Development (USAID) is working with CSRLanka to increase the impact of corporate social responsibility activities by creating a cluster of business corporations that work together to improve relationships between businesses and their employees, and improve both social and environmental impact.

The Ceylon Chamber of Commerce, the largest business chamber in Sri Lanka, promotes CSR among its membership. 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. Internationally, some of Sri Lanka's leading companies have joined the UN Global Compact initiative. The majority of private sector CSR programs in Sri Lanka are professional and competent but the GSL does not regulate the programs.

The Securities and Exchange Commission together with the Institute of Chartered Accountants of Sri Lanka published a Code of Best Practices on Corporate Governance in order to establish good corporate governance practices in the Sri Lankan capital markets. The Sri Lanka Institute of Directors, under the auspices of the Ceylon Chamber of Commerce, Sri Lanka's largest business chamber, is another organization working to improve corporate governance and ethical business conduct among company directors.

The GSL has not launched an initiative to promote RBC principles such as the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights endorsed by the UN Human Rights Council.

Sri Lanka has a number of mineral resources including graphite, mineral sands and gemstones. The GSL does not participate in the Extractive Industries Transparency Initiative (EITI).

Corruption

While Sri Lanka has generally adequate laws and regulations to combat corruption, enforcement is considered weak and inconsistent. U.S. firms identify corruption as a constraint on foreign investment but generally not a major threat to operating in Sri Lanka once contracts have been established. The business community claims that corruption has the greatest effect on investors in large projects and on those pursuing GSL procurement contracts. Some claim that the level of corruption makes it difficult to compete with bidders not subject to the U.S. Foreign Corrupt Practices Act. Projects geared toward exports face fewer problems. Local investors site weak internal enforcement of anti-corruption policies as a problem within the GSL. A new Right to Information Act came into effect from February 2017 and is expected to increase transparency.

The Commission to Investigate Allegations of Bribery or Corruption (CIABOC or Bribery Commission) is the main body responsible for investigating bribery allegations. The Bribery Commission institutes proceedings against responsible individuals in the appropriate court. The law states 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.

In response to allegations of corruption during the previous Rajapaksa administration, the GSL has appointed a multitude of agencies and commissions to probe allegations.

Some of the newly created agencies are:

- Anti-Corruption Secretariat under the Prime Minister's Office
- A Presidential Commission of Inquiry to probe allegations of corruption and abuse of power
- Police Financial Crimes Investigation Division (FCID)
- State Asset Recovery Task Force (START)
- National Executive Council's Subcommittee on Corruption

In addition a special Presidential Commission is investigating apparent corruption related to Treasury bond issuance at the Central Bank.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Sri Lanka signed and ratified the UN Convention against Corruption in March 2004. Sri Lanka has signed but not ratified the UN Convention against Transnational Organized Crime. Sri Lanka is a signatory to the OECD-ADB Anti-Corruption Regional Plan but has not joined the OECD Anti-Bribery Convention.

Resources to Report Corruption

Contact at GSL agency responsible for combating corruption:

Commission to Investigate Allegations of Bribery or Corruption

No 36, Malalasekara Mawatha, Colombo 7

Phone: 94-11- 2595039

Email: dgbribery@gmail.com

Contact at “watchdog” organization:

Transparency International, Sri Lanka

183/5 High Level Road, Colombo 6

Phone: 94-11- 4369783

Email: tisl@tisrilanka.org

Political and Security Environment

The GSL's military campaign against the Liberation Tigers of Tamil Eelam (LTTE) ended in May 2009 with the defeat of the LTTE. During the war, the LTTE had a history of attacks against civilians, although none of the attacks were directed against U.S. citizens. There have been no terrorist attacks since the end of the conflict. The GSL maintains authority throughout the country. Demonstrations take place in Sri Lanka from time to time in response to world events or local developments. Demonstrations near Western embassies are not uncommon but have been well-contained with support from the Sri Lankan police and military.

Business-related Violence

Business related violence is not common and has little impact on the investment environment. Businesses related violence over the last ten years includes the following examples. In December 2016, striking workers at Sri Lanka's GSL-operated Hambantota port prevented two foreign cargo ships from leaving the port. The Navy intervened to release the ships. In January 2017, hundreds of protesters refused to vacate their land and clashed with police at the opening of a Chinese industrial zone in Hambantota. There are on-going protests over a private medical college in Sri Lanka; the protests have not interfered with the college operations. In August 2013, a large rubber glove manufacturing factory was forced to move to a new location due to protests. Residents near the factory protested, alleging it had polluted water in the area. An army crackdown on protesters resulted in three deaths. In March 2014, residents near another rubber factory protested against water pollution. In mid-2013, a leading international food company temporarily suspended operations in Sri Lanka citing precautionary measures to ensure the safety of its employees after it faced product bans, court cases and angry demonstrators over the sale of contaminated milk powder. In 2013, a group of local politicians were charged with killing a Sri Lankan tea estate manager.

Labor Policies and Practices

Sri Lanka's labor market is relatively small with a limited pool of skilled workers. Engineering, accounting, legal and architectural professions follow high standards although local design talent is still underdeveloped. Labor is available at relatively low cost though higher than in other South Asian countries. Many of Sri Lanka's top graduates seek employment outside the country. For those who remain, Sri Lanka's labor laws afford many employee protections. Many investors consider this legal framework somewhat rigid making it difficult for companies to reduce their workforce even when market conditions warrant doing so. The cost of dismissing an employee in Sri Lanka is calculated based upon a percentage of wages over an average of 54 salary weeks, one of the highest in the world. There is no unemployment insurance or other social safety net for laid off workers. 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 and two-thirds of the labor force is male. Retention is fairly good in the IT/BPO sector but the garment industry reports up to a 40 percent staff turnover rate. Lack of labor mobility in the North and East is also a problem with workers reluctant to leave their families and villages for employment elsewhere.

In 2016, eight million Sri Lankans were employed with 46 percent in services, 27 percent in industry and 27 percent in agriculture. Approximately 60 percent of the employed are

in the informal sector. Of the eight million employed, more than one million are self-employed as drivers of three-wheel taxis. An unknown percentage of three-wheel taxi drivers pursue other forms of employment as well.

The unemployment rate has declined in recent years to an estimated 4.5 percent although low unemployment rates are due in part to a large outflow of Sri Lankan migrant labor. Unemployment among women and high school/college graduates has been proportionally higher than the rate for less-educated workers due to an oversupply of liberal arts educated graduates. The supply of engineers, computer programmers and other graduates with science and technology degrees does not meet demand. Youth and entry-level unemployment and underemployment remain a problem. Youth are increasingly uninterested in high labor-intensive jobs causing labor shortages in the industrial sector. A significant proportion of the unemployed seek "white collar" employment, often preferring stable Government jobs. 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 also report a shortage of workers. Some investors have faced problems in finding sufficient employees with the requisite skills, a situation the tourism industry is likely to face as more hotels open in the near future. The GSL has initiated educational reforms to better prepare students for the labor market. More computer, accounting, business skills and English language training programs are becoming available. The demand for these skills still outpaces supply.

Migrant Workers Abroad

There are an estimated 1.8 million Sri Lankan workers abroad. Remittances from migrant workers, at about \$ 7 billion per year, make up Sri Lanka's largest source of foreign exchange. The majority of this labor force is unskilled (housemaids and factory laborers) and located primarily in the Middle East. Sri Lanka is also losing many of its skilled workers to more lucrative jobs abroad. Approximately 60,000 Sri Lankans work as managers in Bangladeshi garment factories, for instance.

Trade Unions

Approximately 20 percent of the workforce 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 percent 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. Several unions are affiliated with different political parties and work 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. Some employers have alleged that the People's Liberation Front of Sri Lanka (JVP), a Marxist political party opposed to private enterprise, can provoke strikes under the pretense of trade union activity. Due to the JVP's violent past, employers generally are reluctant to deal with its trade union arm, the Inter-Company Trade Union. There are also some independent unions.

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 represent workers in many large private firms, but workers in small-scale agriculture and small businesses usually do not belong to unions. The tea industry, however, is highly unionized, and public-sector employees are unionized at very high rates. Labor in the export processing zone (EPZ) enterprises tend to be represented by non-union worker councils, although unions also exist in the EPZs. The Board of Investment has requested companies recognize trade unions, allow union access to export processing zones and accept the right to collective bargaining. The Board of Investment has issued guidelines for employee councils giving them the power to negotiate binding collective agreements. According to the Board of Investment, where both a recognized trade union with bargaining power and a non-union worker council exist in an enterprise, the trade union will have the power to represent the employees in collective bargaining. The International Labor Organization's (ILO) Freedom of Association Committee has observed that Sri Lankan trade unions and worker councils can co-exist but advises that there should not be any discrimination against those employees choosing to join a union. The right of worker councils to engage in collective bargaining has been recognized by the ILO.

Unions have complained that the Board of Investment and some employers, especially in the export processing zones, prohibit union access and do not register unions on a timely basis.

Collective bargaining exists but is not universal. The Employers' Federation of Ceylon, the main employers' association in Sri Lanka, assists its member companies to negotiate with unions and sign collective bargaining agreements. While about a quarter of the 592 members of the Employers' Federation of Ceylon are unionized, approximately 100 of these companies (including a number of foreign-owned firms) are bound by collective agreements. A further 30 have signed memorandums of understanding with trade unions. However, there were only a few collective bargaining agreements signed with companies located in EPZs.

Law prohibits all forms of forced and compulsory labor. In March 2016, Parliament approved a law to introduce a national minimum wage for the first time. The national minimum wage is set at Rs 10,000 (\$66) per month or Rs 400 (\$2.60) per day. Previously, 44 "wage boards" were established by the Ministry of Labor to set minimum wages and working conditions by sector and industry in consultation with unions and employers. The minimum wages established by these sector-specific wage boards tend to be higher than the new national minimum wage. The minimum wages established by these wage boards are limited to their respective sector.

Sri Lankan law does not require equal pay for equal work for women. The law prohibits most full-time workers from regularly working more than 45 hours per week without receiving overtime (premium pay). In addition, the law stipulates a rest period of one hour per day. Regulations limit the maximum overtime hours to 15 per week. The law provides for paid annual holidays, sick leave and maternity leave. Occupational health and safety regulations do not fully meet international standards.

Despite private sector condemnation, the GSL occasionally interferes in private sector wage setting. In 2016, the GSL announced an Rs 2,500 (\$17) monthly wage increase to private sector workers earning a salary below Rs 40,000 (\$266) per month. Child labor is prohibited and virtually nonexistent in the organized sectors although child labor occurs in informal sectors. The minimum legal age for employment is set at 14. The minimum

age for employment in hazardous work is 18 years. The Hazardous Occupations Regulation contains a list of 51 occupations considered to be hazardous forms of child labor in Sri Lanka.

Previously confrontational labor-management relations have improved in the last few years as private sector employers have worked harder to motivate and care for employees. 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. Strikes are common in the public sector.

Sri Lanka is a member of the ILO and has ratified 31 international labor conventions including all eight of the ILO's core labor conventions. The labor laws of Sri Lanka are laid out in almost 50 different statutes and the Ministry of Labor and Trade Union Relations has consolidated these in a Labor Code. The ILO and the Employers' Federation of Ceylon are working to improve awareness of core labor standards and the ILO also promotes its Decent Work Agenda program in Sri Lanka

OPIC and Other Investment Insurance Programs

Sri Lanka and the Overseas Private Investment Corporation (OPIC) concluded an agreement in 1966 which was subsequently renewed in 1993. This agreement provides investment insurance guarantees for U.S. investors.

Sri Lanka is a founding member of the Multilateral Investment Guarantee Agency (MIGA) of the World Bank which offers the opportunity for insurance against non-commercial risks.

Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

Host Country Statistical source*	USG or international statistical source	USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other		
Economic Data	Year	Amount	Year	Amount
Host Country				
Gross Domestic Product (GDP) (\$M USD)	2016	\$81	2015	\$82.3bn World Bank
Foreign Direct Investment	Host Country Statistical source*	USG or international statistical source	USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other	

U.S. FDI in partner country (\$M USD, stock positions)	2015	N/A	2015	\$111	BEA data available here
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Host country's FDI in the United States (\$M USD, stock positions)	2015	N/A	2015	\$57	BEA data available here
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Total inbound stock of FDI as % host GDP	2015	N/A	2015	N/A	
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*Source: Department of Census and Statistics, GDP estimates for 2016

Table 3: Sources and Destination of FDI

Direct Investment from/in Sri Lanka (Stock Positions – 2015)

From Top Five Sources/To Top Five Destinations (*US Dollars, Millions*)

Inward Direct Investment			Outward Direct Investment		
Total Inward	9,927	100%	Total Outward	660	100%
Netherlands	1,768	18%	Singapore	289	44%
India	1,193	12%	Malaysia	130	20%
Malaysia	1,128	11%	Maldives	54	8%
China	789	8%	Mauritius	38	6%
Switzerland	757	8%	India	30	4%

Contact for More Information

William Humnicky

Economic Officer

U.S. Embassy Colombo

TELEPHONE: 94-11-2498500

EMAIL: commercialcolombo@state.gov

Trade & Project Financing

Methods of Payment

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. Advance payments 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 obtain a shipping guarantee and may submit copies of these 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 through 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.

Banking Systems

Sri Lanka has a fairly well-diversified banking system, which includes the Central Bank of Sri Lanka (CBSL), two large state-owned commercial banks (Ceylon Bank and People's Bank), 10 private domestic commercial banks, 12 foreign banks, a national savings bank, a regional development bank, two long-term lending institutions, two housing banks, two private savings banks, and 12 merchant banks. Citibank N.A. is the only U.S. bank operating in Sri Lanka. The domestic commercial banks operate branches throughout the island. All commercial banks operate foreign currency banking units 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 eight percent of risk-adjusted assets as the minimum capital requirement for commercial banks. The capital-adequacy ratio was raised to 10 percent 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. Progressing towards Basel III, the Central Bank issued new capital requirements for banks in 2016.

Sri Lanka adopted International Financial Reporting Standards in January 2012 by issuing Sri Lanka Financial Reporting Standards and Sri Lanka Accounting Standards. Commercial banks are required to comply with these accounting standards and Central Bank guidelines on loan loss provisioning.

Foreign Exchange Controls

Sri Lanka removed exchange control restrictions on current-account transactions effective March 15, 1994. Sri Lanka relaxed exchange controls on several categories of capital account transactions in the last five years. If a project receives BOI approval, the project generally avoids capital controls.

In times of balance of payments difficulties, however, the Government tends to impose controls on foreign exchange transactions involving the current account.

Contracts for forward bookings of foreign exchange are permitted. Export proceeds can be retained abroad.

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.

US Banks & Local Correspondent Banks

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

Project Financing

China is the largest lender for Government projects. Multilateral agencies also provide 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 India, Japan, and Germany, fund major Government projects by providing long-term concessional loans. The Government also seeks foreign commercial borrowing for project finance.

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 SMEs.

Retained profits finance approximately 70 percent of private investment, with short-term borrowing financing an additional 20 percent of investment. The stock market and, to a lesser extent, the corporate-securities market are also used to raise capital. The Colombo Stock Exchange decreased during 2016 and the all share price index (ASPI) declined by 9.7 percent to 6,228.30 points and S&P SL20 index declined by 3.6 percent to 3,496.40 points.

Foreign Direct Investment (FDI) including foreign loans amounted to \$1.07 billion in 2016, down slightly from 2015 at \$1.1 billion, still a relatively modest two percent of GDP. The Government's 2017 target is to attract \$2 billion in FDI. 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. As of April 2017, the commercial bank monthly lending rate applying to prime customers was 11.74 percent. The average lending rate to other customers was 13.4 percent.

During 2013–2015, companies registered in Sri Lanka had been allowed to borrow up to \$10 million abroad annually up to a maximum limit of \$30 million without approval. In June 2016 the Central Bank removed the maximum borrowing limit. Currently, the maximum loan limit is dependent on the financial soundness of the company to repay the loan, based on audited financials with a minimum loan tenor of three years.

The U.S. Trade and Development Agency (USTDA) 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 USTDA programs is available [here](#).

Existing World Bank IDA Loans:

- \$213 Metro Colombo Urban Development
- \$102 Million Catastrophe Deferred Drawdown Option
- \$50 Million for N&E Local Services Improvement
- \$100 Million for Transforming School Education
- \$200 Million for Second Health Sector Development
- \$110 Million for Improving Climate Resilience
- \$147 Million for Sri Lanka Strategic Cities Dev Project
- \$83 Million for Dam Safety & Water Resources Planning
- \$21 Million for Skills Development
- \$79 Million for Skills Development
- \$50 Million for Early Childhood Development Project
- \$165 Million for Water and Sanitation Improvement Project
- \$20 Million for N&E Local Services Improvement
- \$42 Million for Improving Climate Resilience
- \$45 Million for Ecosystem Conservation and Management
- \$55 Million for Sri Lanka Strategic Cities Dev Project
- \$125 Million for Agriculture Sector Modernization
- \$100 Million for Sri Lanka Competitiveness DPL
- \$75 Million for Social Safety Nets Project

To obtain further information on World Bank funded projects in Sri Lanka, visit [here](#).

Existing ADB Loans:

- \$225 thousand for Solar Rooftop Power Generation Project
- \$95 million for Green Power Development and Energy Efficiency Improvement Investment Program – Tranche 2

- \$250 million for Capital Market Development Program
- \$60 million Local Government Enhancement Sector Project – Additional Financing
- \$24.42 million for Transport Project Preparatory Facility
- \$1.50 million for National Port Master Plan
- \$1.80 million for Supporting Electricity Supply Reliability Improvement
- \$2 million for Sri Lanka Flood and Landslide Disaster Response
- \$500 thousand for Mobilizing Finance for Sri Lanka
- \$2 million for Wind Power Generation Project
- \$100 million for Small and Medium-Sized Enterprises Line of Credit Project

To obtain further information on Asian Development Bank funded projects in Sri Lanka, visit [here](#).

Asian Development Bank (ADB) funding: 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.

Asian Development Bank Liaison Office: The U.S. Commercial Service's Liaison Office to the Asian Development Bank (CS ADB), based out of the U.S. Embassy in Manila, is part of the U.S. Department of Commerce's global network of export development offices. CS ADB works directly with U.S. firms to target major project, consulting and procurement opportunities generated from the Asian Development Bank's direct lending and grant activities. CS ADB captures these opportunities and sends them out as monthly reports entitled "Foreign Government Tenders". CS ADB also works with U.S. sponsors/developers of private projects who can benefit from the lending and risk mitigation activities of the ADB's Private Sector Department, and the ADB's Office of Co-financing Operations. CS ADB invites American firms to work with it in pursuing ADB commercial, financial services, and infrastructure project development opportunities.

The Office's contact information is:

Margaret Keshishian,

Director/Senior Commercial Officer

U.S. Commercial Service Liaison Office to the Asian Development Bank (CS ADB)

US Embassy – NOX 2

1201 Roxas Boulevard, Ermita Manila,

Philippines 1000

E-mail: Office.ManilaADB@trade.gov

Phone: (63-2) 516 5093; (63-2) 301-6222; (+63-2) 301-2000 loc. 6222

Facsimile: (+63-2) 516-6958

[Website](#)

U.S. Mailing Address:

Director/ Senior Commercial Officer
CS/ADB Unit 8600
Box 1565

DPO AP 96515-1565

Multilateral Development Banks:

U.S. Commercial Service Liaison Offices at the Multilateral Development Banks (Asian Development Bank, World Bank)

The Commercial Service maintains Commercial Liaison Offices in each of the main Multilateral Development Banks, including the Asian Development Bank and the World Bank. These institutions lend billions of dollars in developing countries on projects aimed at accelerating economic growth and social development by reducing poverty and inequality, improving health and education, and advancing infrastructure development. The Commercial Liaison Offices help American businesses learn how to get involved in bank-funded projects, and advocate on behalf of American bidders. Learn more by contacting the Commercial Liaison Offices to the [Asian Development Bank](#) and the [World Bank](#).

Financing Web Resources

[Commercial Liaison Office to Asian Development Bank](#)

[Commercial Liaison Office to the World Bank](#)

[Export-Import Bank of the United States](#)

[Country Limitation Schedule](#)

[Overseas Private Investment Corporation](#)

[Trade and Development Agency](#)

[Small Business Administration's Office of International Trade](#)

[USDA Commodity Credit Corporation](#)

[U.S. Agency for International Development](#)

[World Bank](#)

[UN Development Business](#)

[The Development Gateway Market](#)

[Asian Development Bank](#)

[Central Bank of Sri Lanka](#)

Business Travel

Business Customs

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

Travel Advisory

Embassy Consular Information Sheet is available [here](#) and [here](#).

Visa Requirements

For current information on obtaining business visas, please visit the Embassy of Sri Lanka [website](#).

Specific inquiries regarding entry and exit requirements should be addressed to the:

Embassy of Sri Lanka
2148 Wyoming Avenue NW
Washington, D.C. 20008
Telephone: (202) 483-4025
Fax: (202) 232-7181

Sri Lankan Consulate General in Los Angeles
3250 Wilshire Blvd
Suite 1405, Los Angeles
CA 90010
Telephone (213) 387-0210

There are several honorary Sri Lankan consuls general and consuls in the United States. Visit the Embassy of Sri Lanka website for current visa information.

SMART TRAVELER ENROLLMENT PROGRAM (STEP):

If you are going to live in or visit Sri Lanka, please take the time to tell our Embassy about your trip. If you enroll, we can keep you up to date with important safety and security announcements. It will also help your friends and family get in touch with you in an emergency. Here's the link to the Smart Traveler Enrollment Program.

Smart Traveler Enrollment Program: <https://step.state.gov/>

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

State Department Visa [Website](#)

Local embassy information is available below and at the Department of State's list of embassies and consulates.

U.S. Embassy Colombo

210 Galle Road

Colombo 03

Sri Lanka

Telephone: 94 11 249 8500

Emergency after-hours telephone: 94 77 725 6307

Facsimile: 94 11 249 8590

Email for American Citizens Services issues: ColomboACS@state.gov

Consular Section of the U.S. Embassy Colombo

Currency

The rupee (signs: රු, Rs; code: LKR) is the currency of Sri Lanka, divided into 100 cents. It is issued by the Central Bank of Sri Lanka and is generally written Rs (though SLRs. may occasionally be used for disambiguation). As of May 2, 2017: \$1.00 = Rs 150.45

ATMs are widely available and generally accept U.S. ATM network cards (e.g. MasterCard and Visa). ATM fraud (stealing card information) is a risk. Be cautious of your surroundings while using ATMs and monitor your bank accounts closely.

Major U.S. credit cards are widely accepted to purchase goods and services. Be cautious of using credit cards as credit card fraud (stealing credit card information) is a risk.

Telecommunications/Electric

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. Sri Lanka has 4G LTE internet network available in Colombo. 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.

Electricity in Sri Lanka is expensive for the South Asia region. It ranges from \$0.14 to \$0.17 per kilowatt hour. In 2016, Sri Lanka experienced a few island-wide blackouts, however, blackout are rare.

Transportation

Sri Lanka is served by several airlines. U.S. airlines do not serve Sri Lanka except indirectly through partner airlines. There are no direct flights to Colombo from the United States or to the United States from Colombo. A common way to travel to Sri Lanka from the East Coast is through London, Dubai or Doha. Visitors flying from the U.S. West Coast may transit in Japan, Hong Kong, Singapore, or Bangkok.

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.

In-country air travel is extremely limited and road travel is relatively slow and dangerous. Charter helicopter service is available as are rental cars with drivers. Taxis are readily

available in Colombo but must be telephoned, not hailed on the road. Uber rides are available in Colombo.

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, motorcycles 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. If you are renting a vehicle, you should specifically request one with working seatbelts.

Please refer to our Road Safety page for more information. Also, we suggest that you visit the website of Sri Lanka's [national tourist office](#) and the [National Council for Road Safety](#)

Language

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

Health

For up-to-date information on health services in Sri Lanka, please visit the U.S. Department of State's [website](#) which contains information specific to Sri Lanka:

Good information on vaccinations and other health precautions can be found on the Center for Disease Control and Prevention (CDC) [website](#) or by calling the hotline for international travelers at 1-877-FYI-TRIP (1-877-394-8747). For information about outbreaks of infectious diseases abroad, consult the World Health Organization (WHO) [website](#). The WHO website also contains additional health information for travelers, including detailed country-specific health information.

Medical Insurance:

You can't assume your insurance will go with you when you travel. It's very important to find out BEFORE you leave. You need to ask your insurance company two questions:

1. Does my policy apply when I'm out of the United States?
2. Will it cover emergencies like a foreign hospital stay or an evacuation?

In many places, doctors and hospitals still expect payment in cash at the time of service. Your regular U.S. health insurance may not cover doctors' and hospital visits in other countries. If your policy doesn't go with you when you travel, it's a very good idea to take out another one for your trip. For more information, please see our medical insurance overseas page.

Local Time, Business Hours and Holidays

Prior to travel to Sri Lanka, businesspersons should check whether any local holidays will occur during their trips. There are about 20 public holidays, when Government offices and banks are 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. Sri Lanka does not observe daylight-savings time. 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 8:30 a.m. to 4:15 p.m. (Monday through Friday).

Holidays – 2017 / 2018

10-May 17	Vesak Full Moon Poya Day*
11-May 17	Day after Vesak Full Moon Poya Day*
8-Jun 17	Poson Full Moon Poya Day*
26-Jun 17	Eid-al-Fitr (End of Ramadan)
8-Jul 17	Adhi Esala Full Moon Poya Day*
7-Aug 17	Nikini Full Moon Poya Day*
1-Sep 17	Eid-al-Adha (Feast of Sacrifice)
5-Sep 17	Binara Full Moon Poya Day*
5-Oct 17	Vap Full Moon Poya Day*
18-Oct 17	Deepavali
3-Nov 17	Il Full Moon Poya Day*
1-Dec 17	Milad-Un-Nabi (Holy Prophet's Birthday)*
3-Dec 17	Unduvap Full Moon Poya Day*
25-Dec 17	Christmas Day*
1-Jan 18	Duruthu Full Moon Poya Day*
14-Jan 18	Tamil Thai Pongal Day*
31-Jan 18	Adhi Duruthu Full Moon Poya Day*
4-Feb 18	National Day*
14-Feb 18	Mahasivarathri Day
1-Mar 18	Madin Full Moon Poya Day*
30-Mar 18	Good Friday
31-Mar 18	Adhi Madin Full Moon Poya Day*
13-April 18	Day prior to Sinhala & Tamil New Year Day*
14-April 18	Sinhala & Tamil New Year Day*
29-April 18	Bak Full Moon Poya Day*
1-May 18	May Day*

Note: Private companies are closed on holidays marked with *

Temporary Entry of Materials or Personal Belongings

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 being 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 General of Customs, 40 Main Street, Colombo 11, telephone 94-11-2347881, fax 94-11-2446364; e-mail: dgc@customs.gov.lk.

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 installed software which comes as personal baggage but, removable software has to be declared. Global Positioning System or similar devices are technically prohibited from entry into country without prior special permission.

Travel Related Web Resources

[U.S. Embassy in Colombo](#)

[Consular Information Sheets](#)

[Centers for Disease Control and Prevention](#)

[Sri Lanka Tourism](#)

[Sri Lankan Embassy in Washington DC](#)

[United States Visas](#)

[U.S. Travel Documents](#)

[Department of Immigration Sri Lanka](#)

[Electronic Travel Authorization](#)