



Ministry of Foreign Affairs

Handbook on Doing Business in Sri Lanka

Commissioned by the Netherlands Enterprise Agency

*>> Sustainable. Agricultural. Innovative.
International.*



Handbook on Doing Business in Sri Lanka

Prepared for the Embassy of the Kingdom of the
Netherlands by KPMG in Sri Lanka

June 2018



Kingdom of the Netherlands



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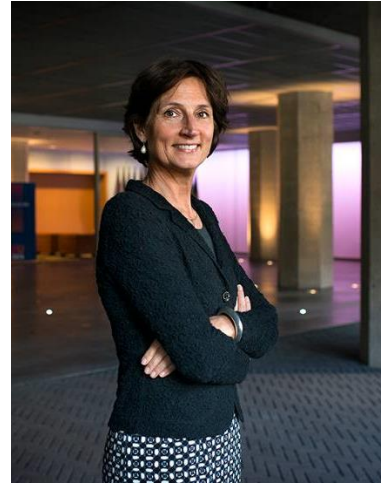
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Message from the Ambassador

Sri Lanka and the Netherlands share a long history. It started more than 400 years ago, with the Dutch interest in trading Sri Lankan spices. A lot may have changed since then, but business opportunities do still exist.

Since the end of the civil conflict in 2009, Sri Lanka has seen a rapid development and now classifies as a middle income country. This development has created many business opportunities and over the years the Embassy has supported many Dutch companies to find a foothold in Sri Lanka. We serve as a knowledge broker and match maker between Dutch and Sri Lankan companies.



The Embassy of the Kingdom of the Netherlands understands how challenging it might be to enter a foreign market. Solid preparation is required when taking the first steps of selecting a location for your business, learning about local laws and customs and finding reliable business partners. This handbook provides an introduction for newcomers to the Sri Lankan market.

The government of Sri Lanka has taken steps to create a conducive business climate for new foreign companies. These include simplifying tax laws, the announced Vision 2025 Plan which aims to strengthen the country through good governance, and the introduction of a new Foreign Exchange Act that will ensure the smooth flow of foreign exchange for investment. I hope this handbook will provide you with insights on the fastest growing and attractive business industries and will equip you with general information to help you navigate the Sri Lankan market.

I wish you good luck in your endeavors.
Yours sincerely,

Joanne Doornewaard
Ambassador



Embassy of the Kingdom of the Netherlands

Economic diplomacy is the core role of the Embassy as the official representation of the Dutch government in Sri Lanka. The Embassy supports companies that want to do business in Sri Lanka. We serve as a knowledge broker and match maker between Dutch and Sri Lankan companies. Whether you have a new or established business, the Embassy can provide information and advice you on the most attractive markets, the best steps to take and the support available. With our knowledge of the local market and our network, the Embassy can highlight opportunities and give practical advice. We can open doors for example by facilitating trade missions, presentations or meetings.

RVO

Netherlands Enterprise Agency (RVO.nl) encourages entrepreneurs in sustainable, agrarian, innovative and international business. It helps with grants, finding business partners, know-how and compliance with laws and regulations to improve opportunities for entrepreneurs and strengthen their position.

RVO, has several tools to support Dutch companies with ambitions abroad, both starting and seasoned entrepreneurs. These instruments vary from providing specific information, to supporting starter projects, grants, loans and positioning in foreign markets.

Netherlands Enterprise Agency is part of the Ministry of Economic Affairs and Climate Policy and works on the instigation of ministries and the European Union.

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TABLE OF CONTENTS

<u>Country Overview and Outlook</u>	6
Overview of the Economy	7
Potential Opportunities	10
Do's and Don'ts of Business	13
Considerations of Doing Business in Sri Lanka	14
Incentives Offered	16
Sri Lanka through the eyes of Dutch companies	18
<u>Capitalizing on Business Opportunities</u>	19
Free Trade Agreements	20
Tender Application Process	21
<u>Setting Up a Business</u>	22
Company Registration/Closure	23
Banking Facilities	26
Land Ownership Rights	29
Registration of a Website	30
Labour and Labour Relations	31
Public Issuance of Shares	35
<u>Exchange Control and Tax Considerations</u>	36
Overview of Key Taxes	37
Imports/ Exports Procedure	41
Repatriation of Profits	44
<u>Other Laws and Procedures</u>	46
Visa Information	47
Intellectual Property Protection	49
Enforcement of Contract	51
Vehicle Registration	52
Bibliography	54
Glossary	55
Useful Contacts	56
Important Acts	58

Country Overview and Outlook

A photograph of a business meeting. In the foreground, a person's hands are visible, holding a silver pen and writing on a white spiral-bound notebook. The person is wearing a light blue long-sleeved shirt. To the left of the notebook, a black flip phone is on the table. In the background, another person is partially visible, also wearing a light blue shirt and a dark tie, and holding a pen. The setting appears to be a professional office or conference room with a glass table.

Introduction

Sri Lanka is an island nation of 65,610 km² located in the Indian Ocean and is classified as a lower middle income country. Its Gross Domestic Product (GDP) reached an estimated USD 83.8bln in 2017 with a GDP per capita of USD 3,909.

The economy is currently attempting to transition from a rural based farming economy to an urbanized economy, oriented around becoming a manufacturing, shipping and service hub for the South Asian Region with a strong tourism sector. Tourism in particular has seen strong growth since the end of the civil war, serving as a driver to the Sri Lankan economy.

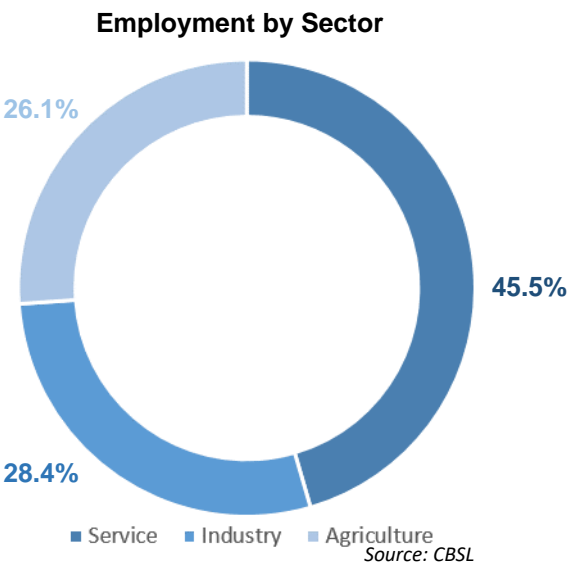
Sri Lanka fares better than its economic peers on the human development index, with social indicators that rank amongst the highest in the South Asian Region and are on par with middle-income countries. Notably, average life expectancy has seen a consistent increase, with the country now facing an aging population, while the poverty headcount has steadily decreased. Income disparity remains high. Sri Lanka ranks 20th of 156 on the Gini Index.

There has however, been an economic slowdown in the past three years due to a high debt schedule and a bloated civil service. In order to counter this, the Government announced its Vision 2025 Plan (http://www.pmooffice.gov.lk/download/press/D00000000061_EN.pdf) in September 2017, which aims to strengthen the country through good governance that promotes inclusive and equitable growth.

Facts and Figures

GDP growth rate fell, dropping to 3.1% in 2017 from 4.5% in 2016. 62.8% of the country’s GDP comes from the Services sector. Industry and Agriculture made up 29.5% and 7.6% respectively during 2017. Industry saw the largest growth in 2017, growing by 3.9%, this was largely due to growth in the sewerage, waste treatment and disposal activities, and mining and quarrying sub-sectors. The service sector grew by 3.2% due to the expansion of the information and communications subsector which saw strong year on year growth of 10.2% in 2017, up from 8% in 2016. Agriculture contracted by 0.8% due to flooding and drought that led to bad harvests of crops, notably rice and oleaginous fruits.

The estimated labour force for 2017 went up from 8.25mln (2016) to 8.93mln supported by an increase in job opportunities in the economy. Employment is split between the Agriculture and Industrial sectors fairly equally at 26.1% and 28.4% respectively. The Services on the other hand, employ 45.5% of the workforce, making up the largest sector for employment. Unemployment in Sri Lanka remains low at 4.2%.



In 2017, Sri Lanka’s export market performed well, growing at an annual rate of 10.2% to USD 11.3bln. This was spearheaded by agricultural exports that grew annually by 19%. A large portion of the growth of the exports market was to countries in the GSP+ agreement. Exports to these countries grew by 15.1% compared to the previous year, to USD 3.9bln.

Sri Lanka’s top export partners are the US (27.1%), the UK (15.7%), Italy (6.0%), India (5.6%), and Germany (5.1%). The Netherlands ranks 12th accounting for 1.8% of Sri Lankan Exports.

Import expenditure also rose in 2017, rising by 9.4% compared to the previous year to a record high of USD 20bln in 2017. These increases were attributed to the increased import of intermediate goods which grew by 54.5%. Consumer and Investment goods made up 21.5% and 23.3% of total imports respectively.

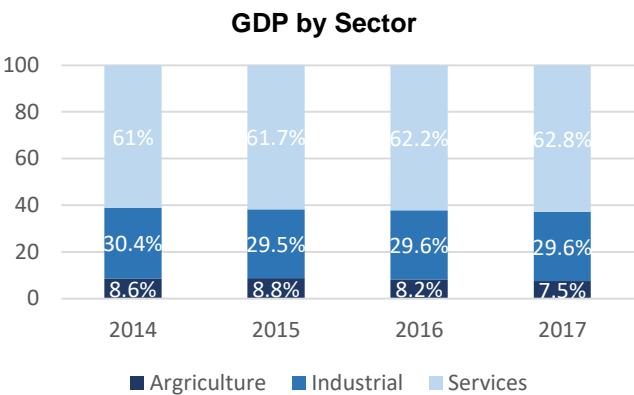
Sri Lanka’s top import partners were India (23.9%), Singapore (12.9%), Iran (11.3%), China (6.9%), and Hong Kong (5.2%). The Netherlands ranked 24th, accounting for 0.6% of all imports.

Sri Lanka is currently ranked 111th in the Ease of doing business rankings with a score of 58.86, above the regional average of 53.64.

Overview of 2017

The Government of Sri Lanka (GoSL) has made strong attempts to stabilize the country’s macro-economic outlook in the last year through fiscal consolidation and the maintenance of a disciplined monetary stance that has been supported by a three year program supported by the International Monetary Fund (IMF). The arrangement, which began in 2016, has been continually reviewed and rated successful with the most recent review taking place in December 2017. Externally, continued low oil prices and increased tea prices further bolstered economic growth.

The GoSL has continued to maintain a tight monetary policy stance, aimed at curtailing inflation caused by demand driven pressures that were caused by excessive monetary and credit expansion in the past. While the Central Bank of Sri Lanka (CBSL) aimed for an inflation rate of between 4-6%, adverse supply side shocks due to bad harvests led to inflation rising over this target, peaking at 8.7% in October 2017.

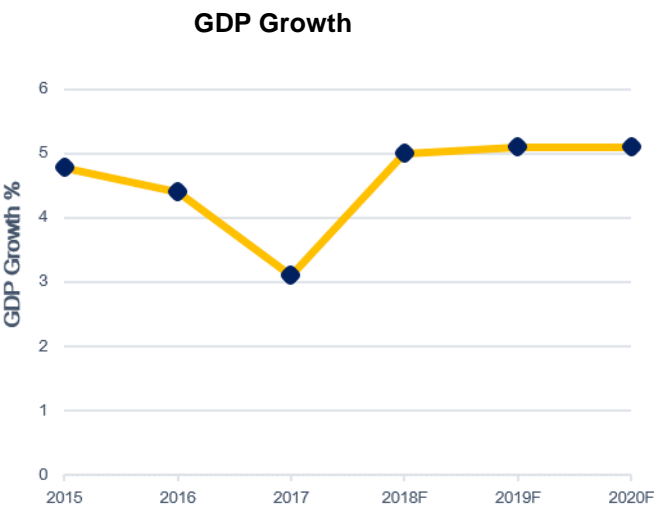


Export Composition	(% of total)
Textiles and Garments	44%
Tea	13%
Rubber & Rubber Based Products	8%
Petroleum Products	4%
Spices	4%
Food, Beverages, and Tobacco	3%
Machinery and Mechanical Appliances	3%
Seafood	2%
Transport Equipment	1%
Leather, Travel Goods, and Footwear	1%
Other	16%

Source: CBSL

As a result, GDP growth slowed down in 2017. Agencies including Fitch Ratings, the World Bank, and the IMF expect the economy to recover to rates of approximately 5% growth in 2018 and 2019.

The GoSL has also made shifts towards more free floating exchange rates that have strengthened the country’s overall external position. The Central Bank’s foreign currency reserve reached a peak of 4 months of merchandise imports (USD 8.0bln). However, Sri Lanka’s decentralization of exchange rate controls, has led to a growing current account deficit. Credit growth declined to more sustainable levels of approximately 15% in 2017, down from 16% the previous year.



Source: CBSL

Tax reforms including updated VAT rates of 15% and the implementation of a new Inland Revenue Act which was implemented recently, aiming at simplifying tax laws and improving efficiency, is expected to lead to a further growth of GoSL revenue streams and is expected to support a further narrowing of the budget deficit to 4.8% of GDP in 2018 from an estimated 5.2% in 2017.

High external debt combined with a weak foreign asset base continued to be a burden on the country’s development. Sri Lanka’s Debt to GDP ratio remains exceptionally high at a provisional value of 77.6% in 2017 and also hampers the country’s ability to raise further debt at a competitive rate.

Useful Contacts

Central Bank of Sri Lanka

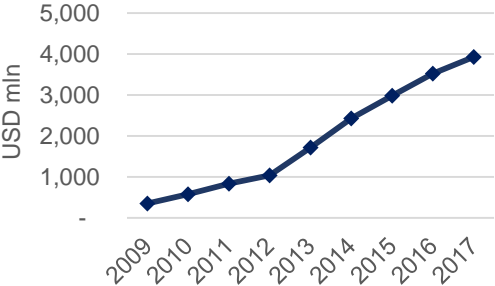
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The Board of Investment (BOI) has identified several areas in which it believes Sri Lanka has a strategic advantage in:

Sector	Information																		
Maritime Sector	<p>Sri Lanka is situated in a prime location in the Indian Ocean with a developed shipping and maritime sector. It currently serves as a major trans-shipping destination for consolidation and de-consolidation of cargo. The Port of Colombo was ranked by the World Shipping Council as the busiest port in South Asia and the 26th busiest in the world with a volume of 5.19 Twenty-Foot Equivalent Unit (TEU) in 2015. In addition, the port was ranked 13th most connected in the world in the Dewry Port connectivity index. The GoSL has expressed interest in growing this sector through a combination of building new terminals to expand ports, supporting logistical infrastructure development and modernization of existing facilities.</p>																		
Aviation Sector	<p>The country is situated close to several of the world’s air routes with 2 international airports and 15 domestic airports. The GoSL has also previously shown interest in investing in a domestic airline carrier and creating a service hub.</p>																		
Knowledge Services	<p>The GoSL is committed to developing Sri Lanka into a Knowledge hub through expansion of the country’s higher education system, particularly in the fields of computer science and software development. The 15 state universities, 7 post graduate institutes, and 13 other degree granting universities currently service less than 20% of the 140,000 students that qualify every year.</p>																		
Energy Provision	<p>In order to move away from its reliance on oil and its consequent price shock, the GoSL has begun promoting the creation of non-conventional energy sources. Sri Lanka currently has 17 hydropower plants, 9 thermal plants, 1 wind power plant, and 165 small power producers that range from mini hydro power, solar power, and wind power, to biomass power. Regardless, the country still faces energy shortages at peak consumption and this issue is expected to grow as the country develops, thereby creating scope for investments into the energy sector.</p> <div><p>Sri Lankan Energy Consumption</p><table><caption>Sri Lankan Energy Consumption Data</caption><tr><th>Category</th><th>2015</th><th>2035F</th></tr><tr><td>Coal</td><td>25</td><td>45</td></tr><tr><td>Oil</td><td>30</td><td>30</td></tr><tr><td>Major Hydro</td><td>35</td><td>15</td></tr><tr><td>Non-Conventional Renewable</td><td>10</td><td>20</td></tr><tr><td>LNG</td><td>0</td><td>20</td></tr></table><p>Source: Ceylon Electricity Board</p></div>	Category	2015	2035F	Coal	25	45	Oil	30	30	Major Hydro	35	15	Non-Conventional Renewable	10	20	LNG	0	20
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Sector	Information																				
Commercial Hub related Services	<p>The GoSL has introduced several initiatives that aim to develop Sri Lanka’s Infrastructure and develop Sri Lanka into a Commercial Hub in the South Asian region. Opportunities exist in supply chain management, logistical services, establishment of shopping malls and introduction of foreign brands.</p>																				
Tourism	<p>Tourism has consistently been a key area of focus for the development of the country. Tourist arrivals have consistently increased since the end of the civil war, increasing by 400% between 2009 and 2016. As the GoSL is continuing to focus on increasing tourist arrivals into the country, opportunities exist for companies to service these tourists through the provision of hotels, leisure, and entertainment complexes.</p> <div><p>Earnings from Tourism</p><table border="1"><thead><tr><th>Year</th><th>Earnings (USD mln)</th></tr></thead><tbody><tr><td>2009</td><td>500</td></tr><tr><td>2010</td><td>600</td></tr><tr><td>2011</td><td>700</td></tr><tr><td>2012</td><td>800</td></tr><tr><td>2013</td><td>1,500</td></tr><tr><td>2014</td><td>2,200</td></tr><tr><td>2015</td><td>2,800</td></tr><tr><td>2016</td><td>3,500</td></tr><tr><td>2017</td><td>3,900</td></tr></tbody></table><p>Source: Ministry of Tourism</p></div>	Year	Earnings (USD mln)	2009	500	2010	600	2011	700	2012	800	2013	1,500	2014	2,200	2015	2,800	2016	3,500	2017	3,900
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Manufacturing	<p>Manufacturing of apparels, rubber and tea based products for export is a significant contributor to the Sri Lankan GDP. The GoSL intends to continue supporting export oriented manufacturing businesses, especially in technologically advanced industries such as automobiles, electronics and chemicals. The GoSL also supports import replacement industries such as pharmaceuticals, textiles, dairy products and fertilizer.</p>																				
Infrastructure	<p>In order to support the long term development of the country, the GoSL has begun investing in supporting infrastructure. Several investment and business opportunities exist such as the northern expressway, multiple mixed development and commercial facilities, housing complexes, industrial zone support and warehousing and logistical centers.</p>																				
Information Technology	<p>The Information and Communication Technology (ICT) sector in Sri Lanka is one of the fastest growing sectors with 120% growth over the past five years, making it the fifth largest export segment. Sri Lanka’s IT/business process management sector vision, according to SLASSCOM, for 2022 is USD 5bln in revenue, 200,000 direct jobs and 1,000 start-ups. Multiple IT companies from various countries (including the USA, the UK, Australia, the Netherlands, Canada, Norway) have begun operations in Sri Lanka due to a large base of skilled programmers and relatively cheaper labour.</p>																				

Sector	Information
Agriculture	<p>Sri Lanka has a strong history in agricultural production, especially in tea, rubber, and coconuts. The country also produces several animal based products in the dairy, poultry and fisheries sub-sectors.</p> <p>There is therefore scope for investment that increases production either by new facility openings, or targets improving productivity of existing facilities and their supply chains. This includes technological innovation that improves breeding, harvesting and new seed development, thereby creating value addition.</p>

Useful Contacts

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Do's:

- Consider Sri Lanka's strategic location and demographic structure
- Look at finding a reliable business professional who can assist to navigate the local landscape and understands government workings
- Liaise with the BOI about concessions that foreign businesses may be entitled to
- Create marketing material that can be presented to government bodies, investors or customers
- Employ an efficient company secretary who can manage the administration side of the business, including company incorporation
- Work closely with local parties to ensure they are aware of your needs, especially during set up and initial stages of the business
- Sri Lankans have a formal business attitude. Give a firm handshake. When greeting a woman, wait until she initiates a handshake
- The exchange of business cards is as usual. Always hand your card over with both hands

Understand:

- Building up business relations takes time. The first meeting is often only for introductory purposes
- Sri Lankans may not always be very direct. Always listen carefully to what is meant between the lines
- The board of directors might not necessarily be present at meetings. You will most likely be met by the middle management. If there is a good and solid business proposal it will be forwarded to the board of directors. Your patience could thus be put to the test. To be successful in Sri Lanka, patience, persistence and finding the right partner are of importance

Don'ts:

- Begin operations without fully understanding the market, including feasibility studies and other due diligence procedures
- Ignore the local market, especially for consumer products, but remember that significant marketing efforts may need to be made in order to capture this base

According to the Foreign Exchange Act No. 12 of 2017, foreign entities should be aware of the following constraints on foreign owned businesses that operate in Sri Lanka.

An overseas company registered under the Companies Act No. 7 of 2007, may carry on in Sri Lanka:

- Any commercial, trading, or industrial activity, other than the activities specified below
- Any non-commercial, non-trading or non-industrial activity such as the activities undertaken or carried on by a liaison office, representative office, regional office or other similar office, provided such activities do not provide any income directly or indirectly to the company
- In case of a place of business such as a branch office, project office or other similar office, the company shall invest a minimum of United States Dollars (USD) 200,000 or equivalent amount in other designated foreign currencies

The following commercial, trading and industrial activities are not permitted to be carried out by an overseas company:

- Money lending (other than the branches of foreign banks registered in Sri Lanka under the Banking Act No. 30 of 1988)
- Pawn brokering
- Retail trade where the capital contributed by persons resident outside Sri Lanka is and less than USD 5mIn after such investment
- Coastal fishing
- Growing and primary processing of tea, rubber, coconut and rice
- Mining and primary processing of non-renewable national resources
- Freight forwarding
- Shipping agency business
- Mechanized mining of gems
- Lotteries

Furthermore, the following activities are permitted to be carried out, with the prior permission of the GoSL or any legal or administrative authority established to grant the relevant approval:

- Production of goods where Sri Lanka's exports are subject to internationally determined quota restrictions
- Growing and primary processing of sugar, cocoa and spices
- Timber based industries using local timber
- Deep sea fishing
- Mass communication
- Education
- Outbound travel agency business
- Local air transportation
- Any industry manufacturing or producing:
 - Arms, ammunitions, explosives, military vehicles and aircraft equipment and other military hardware
 - Poison, narcotics, alcohol, dangerous drugs and toxic hazardous or carcinogenic material
 - Currency, coins and security documents
- Large Scale mechanized mining of gems
- Lotteries

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Through the BOI and other relevant Government agencies, foreign businesses in Sri Lanka are provided with additional benefits to operating in the Sri Lankan economy. Note that these may be subject to being a BOI approved company.

Duty Free Facilitation

Companies signing an agreement with the BOI are entitled to obtain duty free facilities under Sec. 17 of BOI Law No. 4 of 1978. Companies that export more than 90% of goods produced (60% for apparel and Ceramic) or services (with 70% turnover in convertible foreign currency), are entitled to be free of Customs Duty on capital goods and raw materials.

Non-export oriented companies are entitled to import project related capital goods free of Customs Duty, during the project implementation period.

Prior to signing an agreement, the company should forward the list of items that it requires to set up and operate the project. These lists will be evaluated and approved by the BOI's relevant sector groups.

Exchange Control Exemptions

Exchange Control exemption is granted for export-oriented projects under Section 17 of BOI Law and Strategic Development Projects. At present, a project is considered as an export oriented project only if it exports 90% of goods produced (60% for Apparel and Ceramic) or services (with 70% turnover in convertible foreign currency). Parts I, IA, II, III, IV V & VI of the Exchange Control Act are exempted for these companies and they are entitled to open and operate a Foreign Currency Banking Unit (FCBU) account in any commercial bank in Sri Lanka.

Access to BOI Zones

The BOI operates 11 export processing and industrial park zones in Sri Lanka. Companies may lease land in zones which are granted privileges such as power tariffs, existing infrastructure and accelerated import/export procedures.

Investment Protection

A number of protections are granted to potential investors. Article 157 of Sri Lanka's constitution guarantees the safety of investment protection treaties and agreements approved by Parliament by a two thirds majority. Sri Lanka has also signed Investment Protection Agreements with 28 countries, including the Netherlands. The country is also a founding member of the Multilateral Investment Guarantee Agency (MIGA), an investment guarantee agency of the World Bank. This provides a safeguard against expropriation and non-commercial risks.

Enhanced Capital Allowance

An entity that invests in Sri Lanka (not including the expansion of existing business) is also entitled to the following enhanced capital allowances for expenses incurred on depreciable assets, other than intangible assets during the year of investment:

- 100% of total expenses incurred that are greater than USD 3mIn and smaller than USD 100mIn in provinces other than the Northern Province
- 150% of total expenses incurred that are greater than USD 100mIn in provinces other than the Northern Province
- 200% of total expenses incurred that are greater than USD 3mIn in the Northern Province

A capital allowance of 150% is also granted on expenses incurred on assets or shares of state owned companies, where the asset is valued at greater than USD 250mln.

Headquarter Relocation Incentives

Under the Inland revenue Act No. 24 of 2017, any company that chooses to relocate the headquarters or regional office of institutions in an international network to Sri Lanka may be entitled to a tax rate of 0% for 3 years of assessment.

Note that the BOI has indicated that it is in the process of revising these incentives at the time of writing this report, and therefore, potential investors/businesses should refer their website for the most up to date incentives offered.

Useful Contacts

Board of Investments,

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In order to gain more insight into the opportunities and pitfalls faced by international companies, more specifically Dutch companies, interviews were conducted with a few key individuals of the Dutch companies operating within Sri Lanka. The companies interviewed include : *Agio Tobacco Processing Co Pvt Ltd, The Control Union Inspections Pvt Ltd, Heineken Lanka Limited, and ISM APAC*

"It is important to close the culture gap by merging the cultures of east and west"

-General Manager
ISM-APAC (Pvt)Ltd.
Mr. Gurbe Scheenstra

Key Takeaways

"Sri Lanka's productive workforce makes it a good prospect for investments"

-Managing Director
Heineken Lanka
Ltd.
Mr. Dusty Alahakoon

Demographics

- Sri Lanka's workforce is affordable, easy and fast to recruit and is of good quality (in terms of knowledge and productivity).

Political Stability

- Policy instability within Sri Lanka may lengthen any business process as foreign entities may face difficulties in adjusting to government changes. Therefore strong relationships with government entities are recommended. Despite this instability, post war policy has become increasingly economically liberal.

"Government transitions did not affect us since we mostly dealt with the Board of Investments"

- Deputy Director
Agio Tobacco
Processing
Mr. Herman Kuiper

"Sri Lanka's strategic location, allowed the company to service many countries in Asia, the Middle East and even Africa with ease"

-Managing Director
Control Union
Mr.Sumith Ponnampereuma

Strategic Location

- Sri Lanka's strategic location gives it advantages such as: geo-political benefits, being a global logistics hub, and being able to work with clients in several different time zones.

Infrastructure

- Positives of Sri Lankan infrastructure include good ports, advancements in information and technology and other developments. However, it was also noted that current transportation infrastructure needs improving and that internet costs were higher here.

"The IT infrastructure in Sri Lanka has advanced which is very helpful for our business"

-Managing Director
Control Union
Mr.Sumith Ponnampereuma

Capitalizing on Business Opportunities



Sri Lanka currently holds several key free trading agreements (FTA's) with other countries that Dutch owned businesses should be aware of.

Regional FTA's

Sri Lanka has existing bilateral FTA's with India, Pakistan, and Singapore which aim to lower trade barriers and support cross region relations:

- Under the India-Sri Lanka FTA, tariff concessions for Sri Lankan products include zero tariffs on 4,235 items; 50 to 100% reduction for tea and garments under quota; 25% reduction for 553 textile items. No reductions are provided for the 431 items on India's "negative list." However, discussions are underway to reduce the negative lists of both countries
- Under the Pakistan-Lanka FTA, Pakistan offers duty-free entry to all Sri Lankan exports, except for the country's negative list of 541 items. Sri Lanka has offered duty-free entry to 102 items from Pakistan. Sri Lanka's negative list contains 697 items

Domestic value addition of 35% is required from foreign entities to qualify for concessions granted under the above agreements. Under the India-Sri Lanka FTA, rules of origin criteria are further reduced to 25% if the product contains at least 10% Indian raw material.

- Under the Sri Lanka-Singapore FTA, Sri Lanka has agreed to remove duties from 80% of all tariff lines during the next 15 years, starting in 2018. Other tariff lines may also become exempt, subject to approval by the relevant ministries of the GoSL. Singaporean investors also gain additional investment protections when investing in Sri Lanka. Both countries have also agreed to grant each other better access to their respective service markets, enabling Sri Lanka to benefit from Singaporean expertise and best practice knowledge

Sri Lanka is also part of the South Asian Association for Regional Cooperation (SAARC) which comprises Sri Lanka, Bangladesh, Bhutan, Nepal, India, Maldives, and Pakistan and aims to reduce trade barriers between the countries. A key initiative of the Association was the Agreement on the South Asian Free Trade Area, which grants duty free trade on select goods. SAARC has also stated that it is committed to encourage the reduction of trade barriers between its member states going forward.

European FTA's

In May 2017, Sri Lanka regained its GSP+ status within the EU, which gave it trade preferences consisting of the removal of tariff on 66% of tariff lines covering several industries including fisheries and textiles. This caused exports to the EU to grow by 10.3% in 2017 to USD 2.5bln. The EU currently accounts for 53.4% of total Sri Lankan export income.

GSP+ status is currently granted to only 9 countries and aims to contribute to poverty eradication by promoting sustainable development and good governance. It also aids in the maintenance of the EU's economic interests ensuring stability in the region. The scheme applies to exports to all the EU's member states and is valid till 2023. The GSP+ scheme is subject to the GoSL's commitment to advancing human and labour rights of the workforce and making advancements towards sustainable and fair development.

Other FTA's

A full list of existing FTA's can be found using the link below:

<http://www.customs.gov.lk/tradeagreements/home>

All government tender notices are required to be published in a newspaper. Several GoSL ministries also choose to publish them on their respective websites, however, there is no government central system for tenders. Private companies have begun amalgamating tenders into central databases and offer subscription based services to entities who wish to be updated on current tender notices. Some examples include:

- <http://tenders.lk/>
- <http://www3.etenders.lk/>

Note that these are private services that may not be complete and are not endorsed by the Embassy of the Kingdom of the Netherlands. For the full list of ministry specific tenders, visit the relevant ministries website.

The application process and marking criteria for these tenders will differ and may consist of one or a combination of a request for information, expression of interest, request for proposal, request for offer, and project proposal. Government tenders are also subject to being contested by losing bidders which may involve internal tribunals, committee review, or court.

Several non-governmental bodies also offer tenders including:

- ADB - <https://www.adb.org/projects/tenders/country/sri>
- UNDP - <http://www.lk.undp.org/content/srilanka/en/home/operations/procurement.html>
- World Bank - <http://projects.worldbank.org/procurement/procurementsearch?lang=en&qterm=Sri%20Lanka&srce=both>

In this case, applicants will be required to follow the tender procedure of the tendering agency.

Setting Up a Business



The GoSL, in collaboration with the Ministry of Finance and Mass Media and the World Bank has begun testing a single portal scheme that aims to streamline the process of company set up. While this is still currently in the testing phase, potential entrants may wish to visit their website, in order to stay up to date with its release:

<https://nationalsinglewindow.gov.lk/>

Company Registration

In order to incorporate a company in Sri Lanka, an entity must register under the Companies Act. 07 of 2007. Equal treatment for local/foreign nationals is guaranteed under this Act. The incorporation procedure and the registration of a company will need to be done through the Registrar of Companies and may be liaised by a Company Secretary.

Availability of company names can be checked online through the Registrar of Companies' website (<http://www.drc.gov.lk/>).

The following documents will need to be submitted to the Registrar of Companies:

- Relevant Company Registration forms for:
 - Incorporation of a Company limited by shares – Form 1, 18 and 19
 - Incorporation of a Company limited by Guarantee/Association – Form 5, 18 and 19
 - Allotment of shares immediately after incorporation – Form 6
- Articles of Association which lay down the rules relating to the internal administration of the company
- Statutory declaration signed by the shareholders applying for registration for the proposed company
- Registered address of the office location
- The details of initial Directors (at least one director in the case of a private company and at least 2 directors in the case of a public company) and details of initial company secretaries

A breakdown of registration fees may be found on the Registrar of Companies website (http://www.drc.gov.lk/?page_id=11). Note that a company secretaries may charge additional fees for their assistance.

Where relevant, companies with BOI approved projects under section 16 or 17 are required to obtain prior approval to the Articles of Association of the company from the Legal Department of the BOI, before submitting papers to the Registrar of Companies.

Investment Requirements to set up an Overseas Company

In terms of the Companies' Law of Sri Lanka, any company incorporated outside Sri Lanka could register as a Sri Lankan establishment, primarily via either of the following types of establishments:

- Incorporation of a subsidiary
- An overseas company registered under Chapter XVIII of the Companies Act No.7 of 2007 which could be in the form of a Branch office, Project office, Liaison office or Representative office

Branch or a Project Office

Where an overseas company wishes to carry out any activities mentioned above, via a branch office or project office, it would be required to make a minimum investment of USD 200,000 or equivalent amount in any other designated foreign currency via an Inward Investment Account (IIA) (Refer Banking Facilities section), in accordance with the regulations made under the Foreign Exchange Act No. 12 of 2017.

Subsequently the company would be required to provide evidence of such remittance to the Registrar of Companies within 30 days of registration. The company is also required to record such funds remitted in the company's books as an investment and maintain such records until the company ceases its business in Sri Lanka.

Liaison Office or Representative Office

For setting up of either a Liaison Office or a Representative Office, there would not be any minimum investment threshold, as in the case of a Branch/Project Office. However, the funds required for the maintenance of such place of business should be remitted from abroad via an IIA in a designated foreign currency.

Company Closure

A company may be wound up either voluntarily or by court. Voluntary wind up may occur where:

- The company resolves by special resolution that the company be wound up voluntarily
- Where the company resolves by special resolution to the effect that it cannot by reason of its liabilities continue its business and that it is advisable to wind up

The Company's directors (or the majority if there are more than 2) must make a statutory declaration to the effect that they have made a full inquiry into the affairs of the company and that they are of the opinion that the company will be able to pay its debts in full within such period not exceeding 12 months, from the date of commencement of the winding up. Such declaration should be made within 5 weeks immediately preceding the date of the passing of such resolution for winding up of the company and should be delivered to the Registrar of Companies. Thereafter, the company at a general meeting, shall appoint one or more liquidators for the purposes of winding up its affairs and distributing the assets of the company.

If the company that seeks winding up is a BOI approved company, notification will have to be given to the BOI, prior to the filing of an application for the voluntary winding up of its affairs.

A company may be wound up in court if:

- By special resolution that resolves that the company be wound up by the Court
- The company is unable to pay its debts as defined in the Companies Act
- The company does not commence its business within a year from its incorporation or suspends its business for one year
- The Court is of the opinion that it is just and equitable that the company should be wound up

An application to Court for the winding up of a company is made by way of petition presented either by the company or by the creditors and contributories of the company, which are supported by an affidavit verifying the facts contained in such petition. Parties either supporting or objecting to the application to wind up the company are provided the opportunity to make submissions to court.

In this case, the Court may appoint a liquidator, provisionally, at any time after receiving the winding up application, to maintain the status quo of the company.

Useful Contacts

Registrar of Companies

400 D. R. Wijewardena Mawatha

Colombo 01

Sri Lanka

Tel: +94 112689209

Web: <http://www.drc.gov.lk/>

Introduction

CBSL regulates and supervises the banking sector in Sri Lanka. There are three types of financial institutions: Licensed Commercial Banks, Registered Finance Companies and Licensed Specialized Banks. Foreign entities have many options to open accounts with licensed commercial banks to facilitate business and investments into Sri Lanka. All commercial banks in Sri Lanka operate foreign currency banking units and also conduct off-shore business and finance projects approved by the BOI.

Types of Bank Accounts

The following are the most relevant bank accounts that entities should consider opening when investing in the Sri Lankan Economy.

1. Inward Investment Account – IIA

- IIA is an account designated for eligible entities residing in or outside Sri Lanka to route funds to invest in permitted investments. IIA may be maintained in Sri Lankan rupees or in any foreign currency designated by the CBSL. An IIA may be held jointly by eligible investors
- An IIA may be opened for liaisons and representative offices as well
- According to Gazette number 2045/56 dated 17.11.2017, all funds required for capital investments and operational costs must be made through an Inward Investment Account. Funds may then be transferred to a corporate account for day-to-day running of the business, but must be remitted to the IIA, prior to remitting the funds abroad
- All income received from such investments and proceeds of disposal, liquidation, maturity of the investments must be credited to the Inward Investment Account through which the investment was made

Eligibility

- A Sri Lankan citizen, resident outside Sri Lanka
- A company incorporated outside Sri Lanka
- Country and regional funds, mutual funds, unit trusts, and other institutional investors who are established outside Sri Lanka
- A receiver or liquidator of a company that maintained an IIA with that authorized dealer until proceedings are concluded
- Any other person or category of persons who may be authorized by the CBSL from time to time

Permitted Credits

- In summary, permitted credits include remittances, transfers from accounts (Personal Foreign Currency Accounts, IIA, etc.), dividends, sale or maturity proceeds, disposal of liquidation or any other related income received from capital transactions, transfers between various combinations of accounts (Example: Transfers from Diplomatic Foreign Currency Accounts and Diplomatic Rupee Accounts of the same account holder) and Interest earned on the funds held in the account
- These are applicable at varying brackets of USD. Refer page 19 of the link below for a detailed list of these credits

<http://www.dfe.lk/web/images/rdevelopment/746c5bfe09dabd6139f57ff854f0f549-2045-56-E.pdf>

Permitted Debits

- In summary, permitted debits include disbursements, outward remittances, IIAs, Personal Foreign Currency Accounts or accounts maintained in the Offshore Banking Units, payments relating to capital transactions, various transfers (example: Transfers to an Inward Investment Account of another person (*i.e.*, seller) in respect of the purchase of any permitted investment from such seller by the account holder)
- Refer page 20 of the link below or a detailed list of these debits

<http://www.dfe.lk/web/images/rdevelopment/746c5bfe09dabd6139f57ff854f0f549-2045-56-E.pdf>

2. Corporate Account

Following the initial investment funding, a company may open a corporate account for all day to day operations and transactions.

Eligibility

- An entity must satisfy at least one of the following criteria to open an IIA
- A non-national resident in or outside Sri Lanka
- A non-national of Sri Lankan origin, who is a resident outside Sri Lanka

Requirements to Open a Bank Account

Foreigners opening Sri Lankan bank accounts are required to hold a work or resident visa. According to Gazette No. 1699/10 dated 28.3.2011, when a foreigner (non-resident) opens a rupee account, every financial institution shall use a foreign address as a permanent address for all correspondence. Moreover, the reason for choosing to open the account in a foreign jurisdiction should also be recorded.

To open an IIA, the bank will also need the following documents:

- Mandate/Account Opening form
- The bank's Know Your Client (KYC) form and all other supporting documents
- Copy of a valid passport
- Copy of your visa

Procedure for Obtaining a Loan Facility

1. Hand over the completed application with relevant documents to the relevant bank official
2. Application is processed by the credit officer
 - This includes clearance from the legal department, project evaluation, and customer evaluation
 - When evaluating the customer, a cash flow analysis will be conducted. The credit worthiness of the customer will also be evaluated with necessary authorities such as Credit Information Bureau (CRIB) of Sri Lanka
3. Submit the application for approval by the credit officer based on the delegation of authority
4. Send a copy of the approval to the bank's Legal Department
5. Providing the offer letter
6. Disbursement of the loan

Prerequisites

In the process of obtaining a loan, the bank will verify details of the customer. These include:

- Customer's financial position and repayment capacity
- Business background
- Tax payments
- Identity of the customer
- Viable cash flows of the project

Requirements

Documents required upon application submission:

- Deed / Title Report for properties that may be used to guarantee the loan including deed extracts
- Survey plan within 30 years, if relevant
- Tax Documents
- Company Valuation Report
- Title Insurance Policy, if necessary
- In the event the applicant is a company, a certified copy of the resolution passed by the Board of Directors in respect of obtaining the loan, details of authorized signatories, etc.
- Necessary documents from the respective Local Authority (receipts of payment of rates, building line certificate, street line certificate and non-vesting certificate etc.)
- Other guarantees, personal or otherwise, if necessary
- Any other documents that may be requested by the bank

As with many emerging economies, the outright purchase of land (state owned or privately owned) by foreigners is prohibited to the following entities as outlined in the Land (Restrictions on Alienation) Act No. 38 of 2014 (as amended).

- A foreign national
- A foreign company
- A company incorporated in Sri Lanka of which 50% or more of its shareholding is held by a foreign national or a foreign company

The prohibition will not apply for the following:

- The transfer to a Diplomatic Mission or an Inter-Governmental or International Multilateral or Bilateral Mission recognized in terms of the Diplomatic Privileges Act No. 9 of 1996
- The transfer is that of a Condominium Parcel situated on the 4th floor or above (excluding the ground floor and other floors containing only common elements) of a building coming under the provisions of Apartment Ownership Law No. 11 of 1973. In this case, the entire purchase price must be remitted into the country through a single inward remittance of foreign currency
- Projects that are in the interest of the national economy, or projects where there is substantial foreign remittance for the purpose of purchase of land exempt a foreign national/foreign company, subject to approval by the Minister-in-Charge of Finance in consultation with the Minister-in-Charge of the Land, who may obtain cabinet approval

A foreigner/foreign company can lease a land subject to a maximum period of 99 years, subject to payment of land tax for the consideration of the total lease value.

Any purchase of land which is permitted under the exemptions stated above, is subject to the payment of stamp duty mandated under the law.

If the land is situated within the BOI Zone, Industrial Zone or Tourism Zone, the concessionary rate of land tax at 7.5% of the total value of the lease must be paid. Outside the Zones, land tax of 15% of the total lease value shall be paid, in addition to the stamp duty. If the company has been in operation continuously in Sri Lanka for more than 10 years, they will not be liable to pay the above land tax.

Note that the GoSL has stated that they will be further loosening regulations around foreigners opening land during the 2018 budget conference. Though these changes have not been gazetted and thereby made into law, foreign investors/businesses should be aware that the above regulations may be further relaxed post publication of this document.

.lk Domain availability may be checked via the GoSL’s official portal:
<http://www.nic.lk/>

Procedure

- 1. Check domain availability. Should the Domain be available, it is possible to register, pay, and process the application online via the site
- 2. Once submitted, an automated email will be delivered to the provided contact email address. The link in the email will need be clicked, in order to verify the request for the domain
- 3. An email with the payment options and details will be sent if the request is approved by the Registry (generally done within 24 hours of request submission)
- 4. Once received, the payment will be verified and the domain will be queued for registration

Supporting documents required for domain registration.

Entity	Requirement
Schools	A letter from the Principal
Religious places	A letter from the Head Priest/Head
Banking related domains	Copy of the license from the Central Bank of Sri Lanka
Insurance related domains	Copy of the license from the Insurance Board of Sri Lanka
Sports related domains	Approval from the Ministry of Sports or relevant authorized body
Gambling related domains	Approval from Ministry of Finance
Associations/Unions	Letter from the Secretary of the Association / Union
Other similar domain	A letter from an appropriate person

Useful Contacts

LK Domain Registry
106, Bernard's Business Park
Dutugemunu Street, Dehiwela
Tel: +94 114216061
Email: hostmaster@nic.lk
Web: <http://www.nic.lk>

Labour laws of Sri Lanka are applicable to all enterprises including BOI/EPZ enterprises. The Ministry and Department of Labour are responsible for labour administration functions, including labour law enforcement and industrial relations. Employees who are occupied in an office or shop will be administered by the Shop and Office Employees (Regulation of Employment and Remuneration) Act No. 19 of 1954 ("SOEA").

The labour standards will be governed, among other things, by the following:

- The right of the workers to form and join trade unions of their own choosing and to bargain collectively through said trade unions must be respected
- Eliminating forced or compulsory labour
- Abolishing child labour: child labour either directly or indirectly through sub-contractors is prohibited
- Eliminating discrimination (in employment, occupation or remuneration) against workers on grounds such as race, sex, religion or political opinion
- Providing stability in employment
- Providing safe and hygienic working conditions
- Offering fair wages and benefits to workers
- Eliminating excessive working hours and overtime work

Recruitment and Retirement

The minimum age for recruitment is 18 years, whereas the usual age of retirement is 55 years. However, in certain circumstances, at the discretion of the management, extension of employment beyond 55 years may be granted.

Persons between 16 and 18 years can also be employed, subject to the following conditions:

- They cannot be employed for more than 50 hours of overtime during any month
- They cannot be employed before 6.00 a.m. or after 10.00 p.m.

Contract of Employment

A written contract of employment must be issued to every worker (including trainees) and an acknowledgement of receipt must be obtained by the employer. The contract must include terms and conditions of service, the designation or category of the employee, normal hours of work, rate of pay, period of training if any, probationary period, leave, holidays and superannuation benefits.

Hours of Work

- Working hours for single-shift operations on a weekday can total 9 hours per day (inclusive of an interval of one hour for a meal or rest) and 8 hours per day (interval of half an hour for a meal or rest) for a two/ three-shift operation
- Working hours for one-shift operations on a Saturday can be a short working day of 6, 6 ½ or 7 hours (interval of one hour for a meal or rest) and a short working day of 5 ½ (interval of half an hour for a meal or rest) for a double/triple-shift operation
- Employment of female workers for night shifts (from 10.00 p.m. to 6.00 a.m.) will be allowed, subject to the following conditions:
 - Written consent of the worker
 - Prior approval must be obtained by the employer from the Department of Labour for night work. The Industrial Relations Department of the BOI will provide assistance upon request
 - Only a maximum of 10 days night work per female is permitted in any one month
 - A worker employed between 6.00 a.m. and 6.00 p.m. should not be employed for a night shift on the same day

Wages and Overtime Payment

The minimum monthly wage for all employees (irrespective of industry) is LKR 10,000 and the minimum daily wage will be LKR.400. This is as per the National Minimum Wage of Workers Act No.3 of 2016, with effect from the 1st January 2016. Other wage regulations include:

- Eliminating excessive working hours and overtime work
- Payment of wages are to be done monthly with all employees being paid within ten (10) days of the expiry of the wage period
- Proper wage records must be maintained and kept in the enterprise. These records must indicate basic wage, allowances, overtime, Sunday/ Public Holiday earnings and deductions
- Overtime is paid when an employee is necessitated to work beyond the prescribed hours of working. The SOEA regulation confines overtime to 12 hours per week. This restriction however is not strictly imposed
- Wages paid for every hour of overtime work should be 1 ½ times the normal hourly rate

Holidays

Office and shop workers are permitted to a salaried holiday on all constitutional holidays (National day, Sinhala and Tamil New Year, Christmas Day etc.). In addition to this, the full moon Poya Day of each month is also a holiday with pay for monthly paid employees.

Employees are granted leave on the basis of annual leave, casual leave, sick leave and maternity leave.

- An office or shop worker shall be granted 14 days of annual leave with pay for each concluded year of service
- An office employee has to be granted 7 days casual leave with pay from the second year of employment and on the basis of one day per every two month's service during the first year of employment
- Sick leave may be granted at the discretion of the management
- Under the SOEA, for the birth of an employee's child, the employee is permitted eighty four (84) days paid maternity leave

Industrial Safety

- Machinery, vessels, structures, sumps or pits that are deemed dangerous must be guarded by covering or fencing them to prevent accidents
- Employees working in hazardous environments should be provided with suitable personal protective equipment such as gloves, goggles, ear protectors, respirators etc., as necessary
- Female workers should not be employed in cleaning or lubricating any machinery which is in motion
- Testing of lifting machines (hoists, lifts, cranes) should be done at least once every 12 months with safe working loads indicated on said machines. All lifting equipment should be kept in good condition and weight limits should not be exceeded
- Precautionary steps should be taken to prevent fires and explosions in the work place
- Fired and non-fired pressure vessels and their fittings should be manufactured to the British standard or any other equivalent standard
- Electrical wiring and fittings should be maintained properly and should conform to the requirements of the Ceylon Electricity Board
- A fire alarm, and means of escape in case of fire should be provided in every factory
- A plan for the evacuation of employees in an emergency such as fire or an explosion to be prepared and practiced, so that all persons employed are familiar with the routine to be followed in such situation

Industrial Hygiene and Workers' Welfare

- **Overcrowding:** To avoid overcrowding in factories, a cubic space of 400 cu.ft. per person employed should be maintained in every room
- **Temperature and Ventilation:** Reasonable temperatures should be maintained in each work room so that employees could work in comfort. Circulation of fresh air in each work room must be maintained and facilities should be provided to remove all fumes, dust and other impurities injurious to health
- **Lighting:** Sufficient and suitable lighting should be provided in every part of the workplace
- **Sanitary Conveniences:** Sufficient number of sanitary conveniences with accessible water taps should be provided and maintained for male and female workers separately on the ratio of one per every 25 workers
- **Drinking Water & Washing Facilities:** An adequate supply of drinking water must be provided

Trade Union and Collective bargaining Rights of Employees

- All employees have the right to form and join trade unions of their own choosing and to bargain collectively, subject to the provisions of the Trade Unions Ordinance and the Industrial Disputes Act.
- Employers are prohibited from using rewards (employment conditions, inducements or promises) to entice employees to forego member, office bearer or representative positions of trade unions
- Employers may not dismiss an employee merely for the reasons of trade union membership or activity
- Employers may not prevent employees from forming a trade union or supporting trade unions through financial or other means. They must also not interfere with the activities of a trade union

Termination of Employment

- An employer can terminate the services of an employee on disciplinary grounds (e.g.: misconduct, fraud, refusal to carry out lawful orders, etc.) provided the normal disciplinary procedure has been followed
- For workers who have been in employment for more than one (01) year, lay-off, retrenchment or termination of services for reasons other than on disciplinary grounds can be effected, only with either the prior written consent of the worker, or the prior written approval of the Commissioner of Labour
- Upon termination of employment, a certificate of service must be issued to the employee, indicating the nature of work performed, period of employment and the rate of wages received by the employee

Superannuation Benefits

Employees Provident Fund

- From the date of commencement of employment, an amount equivalent to 20% of the employee's total earnings must be remitted to the fund before the last working day of the succeeding month in respect of all employees
- Employee contributions toward the fund must be 8%, whereas the employer has to contribute an amount equivalent to 12% of the employee's total earnings
- All contributions to the EPF shall be remitted to the Central Bank of Sri Lanka before the last working day of the succeeding month. Failure to do so will result in the payment of a surcharge ranging from 5% to 50%

Employees Trust Fund

Employer must remit an amount equivalent to 3% of the total monthly earnings of the employee before the last working day of the succeeding month. There is no contribution from the employee towards this fund.

Gratuity

An employee who has completed five years' service must be paid a gratuity upon the termination of his employment. Such gratuity shall be computed at the rate of half a month's salary for every year of completed service, based on the consolidated salary last drawn by the employee.

Useful Contacts

Ministry of Labour

2nd Floor, Labour Secretariat

Colombo 05

Sri Lanka

Tel : +94 112581991

Email : slmol@slt.lk

Web: <http://www.labourmin.gov.lk/web/>

The Colombo Stock Exchange (CSE) recommends enlisting the assistance of the following firms when planning to carry out an issuance of shares:

- Investment bank
- Broker firm
- External Auditor
- Legal counsel
- Bank
- Independent Valuer
- Registrar
- Underwriters
- Rating Agency

Process to Getting Listed

Once the management and advisors are confident that the company is ready to be a listed entity, the next step in the listing process is contacting the CSE. It is recommended that this be done immediately in order to avoid delays.

In preparing for an Initial Public Offering (IPO), a company must engage with the external advisory team to develop a long term strategic business plan. The group may need to be restructured or reorganized in order to comply with public company standards and adhere by minimum corporate governance requirements of the CSE. Finally, the Company may wish to employ a PR & investor relations company to assist in promoting the IPO.

Before going public, the company must finalize all preparations of documents and obtain CSE approval for a listing application. The CSE approval process is expected to take 80 to 90 days up to the listing of shares.

At the public phase of listing, the company must issue a prospectus and educate the investors. Subscriptions must be closed and further steps must be taken in the run up to trading.

The Cost of Listing Equity

- Initial listing fee: LKR 150,000
- Annual listing fee: LKR 100,000 or 0.003% of the market capitalization of the listed entity as at 31st December of the year immediately preceding, whichever is higher, subject to a LKR 2mIn ceiling

Useful Contacts

Colombo Stock Exchange

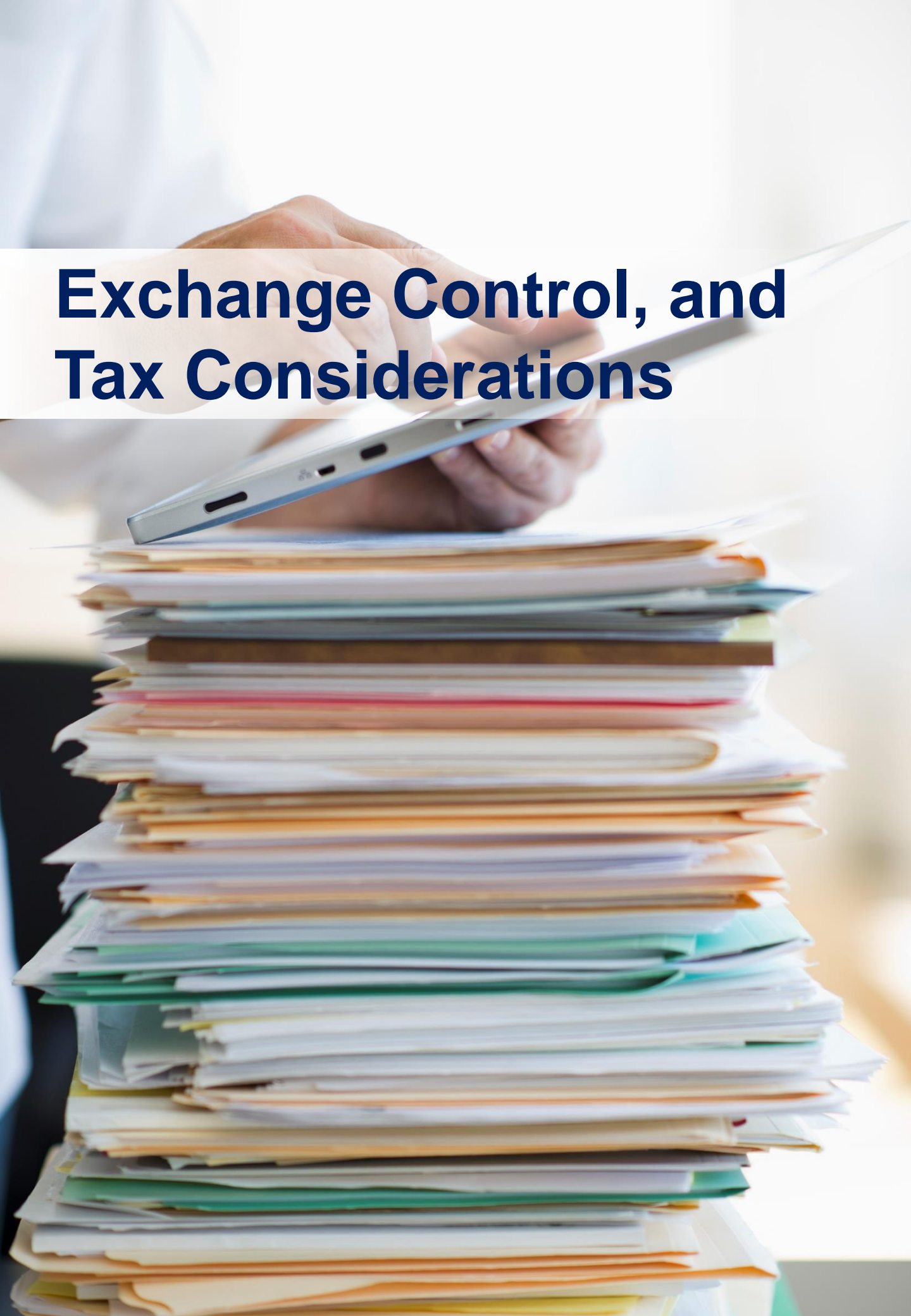
#04-01, West Block
World Trade Center, Echelon Square
Colombo 01

Tel: +94 112356456

E-mail: info@cse.lk

Web: <https://www.cse.lk/>

Exchange Control, and Tax Considerations



Outlined below are several important taxes investors and businesses should be aware of when examining the prospect of investing in Sri Lanka. In order to maximize ease of doing business, companies may wish to use the Revenue Administration Information system which allows for online monitoring and management:

<https://eservices.ird.gov.lk/Authentication/LoginForCompany>

Income Tax

Income Taxation in Sri Lanka is governed by the Inland Revenue Act No. 24 of 2017 (IR Act) and amendments thereto. According to the IR Act, companies resident in Sri Lanka are subject to Sri Lanka income tax on their worldwide income.

Tax rates for non-residential individuals are as follows:

Taxable Income	Rate
First LKR 1.2mln	0%
Next LKR 0.6mln	4%
Next LKR 0.6mln	8%
Next LKR 0.6mln	12%
Next LKR 0.6mln	16%
On Balance	24%

Pay As You Earn (PAYE) taxes should also be deducted from employees' salaries for each month and should be remitted to the Department of Inland Revenue on or before the 15th day of the following month.

These deductions can be complicated and differ depending on an employee's wage and company profits. For a full list of deductibles refer the following link:

<http://www.ird.gov.lk/en/publications/sitepages/PAYE%20Tax%20Tables.aspx?menuid=1502>

Corporate Tax

Corporate tax is payable by all companies operating in Sri Lanka. These rates apply as follows:

Company Type	Rate
Small and Medium Enterprises	14%
Renewable Energy (provided the entity enters into a standardized power agreement)	14%
Business of exporting Goods and Services	14%
Agriculture	14%
Educational Service Providers	14%
Promotion of Tourism	14%
Information technology Service Providers	14%
Business of betting, gambling, liquor, and tobacco	40%
Other Sectors	28%

Note that entities engaged in research and development are also entitled to a tax deduction of 100% of the total value of research and development expenses during the year of assessment

The GoSL allows for preferential depreciation rates of the following items:

Item	Rate
Software Developed in Sri Lanka	100%
The cost of any IT over a period of 4 years	25%
Plant, machinery, or equipment over a period of five years	20%
The cost of acquisition of any motor vehicle or furniture over a period of five years	20%
The cost of any qualified building for a period of 20 years	5%

Interest expenses made by members of a group of companies, including holding companies, are also deductible but restricted to a debt-equity ratio of 3:1 for manufacturing companies and 4:1 for other companies.

Value Added Tax (VAT)

VAT is imposed under the Value Added Tax Act No.14 of 2002 as amended (VAT Act) at the time of:

- the taxable supply of goods and services made by a registered person in the course of carrying on a taxable activity in Sri Lanka
- the importation of goods into Sri Lanka

Effective 1st November 2016, the Sri Lankan VAT system consists of 2 tiers which are as follows:

- Zero rate – 0%
- Standard rate – 15%

Zero Rate

A zero rate will apply to goods that have been exported and services that are directly connected with:

- Any movable or immovable property outside Sri Lanka
- The repair of any foreign ship, aircraft or any merchant ship registered in Sri Lanka, or the refurbishment of marine cargo containers
- Any goods imported into Sri Lanka for the purpose of re-export
- Any copyright, patent, license, trade mark or similar intellectual property right, to the extent that such right is for use outside Sri Lanka
- Under the specifications of the Commissioner-General by a Notification published in the Gazette, any international transportation of goods or passengers
- Development of computer software:
 - For use wholly outside Sri Lanka
 - Upon providing documentary evidence to the bank (approved by the Commissioner-General of the supply of such services) payment is received in foreign currency through that bank

- Client support services provided, over the internet or the telephone by an enterprise set up exclusively for the provision of such services to one or more identified clients outside Sri Lanka, for which payment is received in foreign currency, through a bank

Standard Rate

According to the Value Added Tax Act No.14 of 2002, for any period commencing on November 1, 2016 and any taxable period thereafter, the standard VAT rate will be fifteen *per centum* (of which the tax fraction is 3/23) on the value of such goods or services supplied, or goods imported, other than the goods or services chargeable with tax at zero *per centum*.

In terms of the VAT Act, it is a compulsory requirement to register for VAT if the taxable supplies made by a person exceeds LKR 3mIn per quarter or LKR 12mIn per annum. In the case of a retailer the turnover threshold for registration is LKR 12.5mIn per quarter.

VAT payable to the Department of Inland Revenue should be calculated in accordance with the VAT Act. Only a VAT registered person has the right to claim input tax as credit, subject to certain restrictions against the output tax.

Every VAT registered person must pay VAT and file the return on or before the 30th day after the end of the taxable period. A taxable period could be a quarter, or a month in the case of zero rated supply.

Economic Service Charge (ESC)

ESC is chargeable on every person and partnership in respect of the “*relevant turnover*” for each *relevant quarter*, at the rate of 0.5%.

ESC is not chargeable for any relevant quarter, if the relevant turnover of that person or partnership for that relevant quarter, does not exceed LKR 12.5mIn.

For the purpose of computing ESC, “*turnover*” for any quarter means “the total amount receivable, whether received or not, from every transaction entered into in that relevant quarter in the course of such trade, business, profession or vocation, carried on or exercised by such person or partnership in Sri Lanka, subject to the following deductions:

- VAT on such transactions (if registered under Section 10 of the VAT Act)
- Disposal proceeds of capital assets
- Bad debts incurred in that year of assessment (adjusted for recovery of bad debts written-off in any previous year of assessment)

ESC paid could be set off against any income tax payable and in the event of an overpayment, it could be carried forward up to a maximum of 2 years.

Nation Building Tax (NBT)

NBT was introduced in the year 2009 in terms of the Nation Building Tax Act No. 9 of 2009 (as amended) and is payable at the rate of 2% on liable turnover. NBT is levied on:

- Imports of any article
- Carries on the business of manufacture of any article
- Carries on the business of providing a service of any description
- Carries on the business of wholesale or retail sale of any article

Chargeability to NBT

Type of Person	Turnover Liable for NBT	Rate
Wholesale or retail sale of any article		
• In the case of distributor	25% of liable turnover	2%
• Other than distributor	50% of liable turnover	
Every other person	100% of liable turnover	2%

Ports and Airport Levy (PAL)

PAL is applicable for imports of certain items. Levied items are currently charged at a concessionary rate of 2.5%.

The majority of items applicable for PAL are chemicals. A full list may be found using the link below and its amendment:

<http://www.customs.gov.lk/public/files/tariff/pal2018.pdf>

<http://www.customs.gov.lk/public/files/tariff/20180407pal.pdf>

Note that a business may be able to obtain exemptions for PAL through the BOI.

Notable Exceptions

Foreigners are currently not required to pay withholding tax on returns from government securities.

Useful Contacts

Board of Investments,
Level 26, West Tower,
World Trade Center,
Colombo 01,
Sri Lanka
Tel: +94 112432227
Email: info@boi.lk
Web: <http://www.investsrilanka.com/>

Department of Inland Revenue
Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka
Tel: +94 11215135
Web: <http://www.ird.gov.lk/SitePages/Default.aspx>

The GoSL in collaboration with the Ministry of Finance and Mass Media and the World Bank, has begun testing a single portal that collates all relevant trade information for importers/exporters. While the service has not been launched at the time of writing, it is expected to be released in July 2018. The trade portal may be accessed using the link below:

<http://singlewindow.lk/tradeportal/>

Import Procedures

The Sri Lanka Customs Ordinance was enacted in December 1869 and enforced since 1st of January 1870. This Ordinance created the post of Principal Collector of Customs (currently Director General of Customs) and the Customs Service. Imports and Exports are governed by Imports and Exports (Control) Act No.1 of 1969. When importing goods:

- An entity should first register itself with customs. These details may be obtained through the Taxpayer Identification Number (TIN)/ VAT Unit > Custom House Agent (CHA) Registration
- An entity should first register with Automated System for Customs, Data and Tax (ASYCUDA). These details may be obtained through the ICT Directorate > Importers Registration
- Import consignments should be declared to the customs through a Customs House Agent and submit the Customs Declaration online
- The Customs Declaration (Entry) should be submitted after arrival of goods and also after obtaining the Delivery Order from the Shipping Agent. (Refer the Tariff Guide to find the HS code and if there is any uncertainty in finding the correct HS code, it may be obtained via an advance ruling from the Commodity Classification Branch)
- The Customs value for the duty calculation should be the actual transaction value of the goods and the value for Motor Vehicles is decided by the Valuation committee of the Customs Department
- Once the HS code is obtained, the duty rates applicable to each HS code is mentioned in the Customs Tariff Guide
- In Addition to the charges mentioned in the Tariff Guide, LKR 250 is charged for each and every customs declaration as computer charges and LKR 100 per containerized cargo as seal charges and LKR 1600 as overtime charges are applicable only for a Full Container Load (FCL) of cargo
- Payment can be made at any Bank of Ceylon Branch or People's Bank branch or the payment can be made online if the consignee has internet payment facilities with those two Banks. Payment can also be made at the Customs Headquarters Banks by Bank Drafts

For the process of Imports documents, duly filled customs form (CUSDEC 1 & 11) signed by the consignee and the declarant should be submitted to the office with all the required documents.

The Customs Declaration (CUSDEC) should be submitted in the copies of the following:

- Warrant copy
- Delivery copy
- Statistical copy
- Exchange copy
- RMV copy for Motor Vehicles
- Consignee's copy
- Excise copy (if applicable)

The documents mentioned below should always be presented with the CUSDEC:

- Delivery Order
- Bill of Lading
- Invoice
- Exchange Document
- Packing list
- Certificate of Origin
- Import Control License (if applicable)
- Certificate of registration and translation for used motor vehicles
- Load port survey certificate for food items
- Quarantine certificate (if applicable)
- Catalogues (if applicable)

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% of the import price with a minimum fee of LKR 1,000 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 USD 10,000. Payments for imports made on an 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.

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 for 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 the 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.

Restricted and prohibited goods according to schedule B of the customs ordinance are found at the following link: <http://www.customs.gov.lk/public/files/law/rules/ScheduleB.pdf>

Export Procedures

The following procedures are required for a company to begin exporting goods out of Sri Lanka:

- An entity should first register itself with customs. These details may be obtained through the TIN / VAT Unit > CHA Registration
- An entity should first register with ASYCUDA. These details may be obtained through the ICT Directorate > Importers Registration
- Export consignments should be declared to the Customs through a Customs House Agent and submit a Customs Declaration online once the Exporter is ready to carry out the export
- The Customs Declaration (CUSDEC) should be submitted before export of goods (after obtaining necessary approvals, where necessary). However, Export should be effected within 30 days from the CusDec registration date
- Export CusDecs can be processed at the following offices:
 - Export Office at Customs Headquarters - LCL cargo and Air Freight Cargo
 - Export Facilitation Centre (EFC) - FCL cargo (when necessary LCL cargo)
 - Air Cargo Export Office - All air freight cargo shipments including perishables
- The HS Code can be found in the Tariff Guide in Sri Lanka Customs website. Further assistance may be obtained from the Customs Information Centre and the Commodity Classification Branch
- In addition, a fee of LKR 550 (Computer Fee - LKR 250 and Examination Fee - LKR 300) for each declaration should be paid
- A few commodities are liable for exports levies, depending on the commodity and the HS Code. Customs Duty, EDB Cess, Tea Board Cess, Tea Medical Aid Cess, Coconut Cess and Rubber Cess should be paid according to the declared rates
- Once the HS code is identified, the duty rates applicable for all HS codes are mentioned in the National Export Tariff Guide
- Payment can be made at any Bank of Ceylon Branch or People's Bank branch or the payment can be made online, if the consignee has internet payment facilities with those two Banks. Payment can also be made at the Customs Headquarters Banks by Bank Drafts/ Bank Branch Cheques
- Permits mentioned in the National Export Tariff Guide should be obtained from the respective institutes before exportation

All the restricted and prohibited goods can be seen in schedule B of the Custom Ordinance. Refer the link given below.

<http://www.customs.gov.lk/public/files/law/rules/ScheduleB.pdf>

For further information on export procedures and related documentation refer the link given below.

<http://www.srilankabusiness.com/pdf/export-procedure-21-10-2014.pdf>

Subsidiaries

In the case of remittance of dividends, the following is required:

- A copy of the audited profit or loss account and the balance sheet of the company for the year to which the remittance relates
- A certificate from the auditors of the company that the amount sought to be remitted represents dividends earned during the period to which it relates and does not include undistributed dividends of previous years or transfers from company's reserves or on account of sale of any of the company's fixed assets
- A certificate from the secretary or accountant of the company or any other officer of the company authorized to sign documents on behalf of the company, that the beneficiary of the remittance is, according to the information available to the company, a resident outside Sri Lanka
- A schedule certified by the secretary or accountant of the company or any other officer of the company authorized to sign documents on behalf of the company, setting out the name of the beneficiaries and the net amounts due to them
- Documentary evidence of payments of tax (if any) on the dividends

In the case of remittance of proceeds on sales, liquidation, capital redemption or share buyback

- A bank statement certified by the bank, containing particulars of the credit balance in the IIA of the account holder
- Contract notes in proof of the sale or redemption proceeds and number of shares redeemed
- Income tax clearance certificate to cover the amount remitted

Overseas Companies

If the company is an overseas company registered under the Companies Act, it may remit out of Sri Lanka, profit, royalty, franchise or other similar payments or surplus funds, after deducting the relevant taxes through the IIA on production of the following documents.

In the case of remittance of profits:

- A certified copy of the audited balance sheet and profit and loss account for the relevant year, prepared as per the Sri Lanka Accounting Standard
- A confirmation by the company's auditors in Sri Lanka that the profit has been earned by carrying on the permitted activities

In the case of remitting royalty, franchise or other similar payments:

- A certified copy of the agreement and commercial invoice
- A certificate from the company's auditors in Sri Lanka certifying the manner of arriving at the remittable amount

In the case of remitting surplus funds, before a termination of the registration:

- A certificate from the company's auditors in Sri Lanka certifying the manner of arriving at the remittable surplus
- A confirmation by the company's auditors in Sri Lanka that sufficient funds have been set aside by the company, in order to meet all income tax and other statutory obligations

In the case of remitting surplus funds at the time of termination of the registration:

- A certified copy of the final audited financial statements
- A tax clearance certificate issued by the Department of Inland Revenue confirming the settlement of all income and other applicable taxes
- A certificate from the company's auditors in Sri Lanka certifying the manner of arriving at the remittable surplus
- A certificate from the company's auditors in Sri Lanka confirming that there are no statutory liabilities outstanding in respect of the activities undertaken and that all known liabilities have been settled

Double Tax Treaties

Sri Lanka currently has an existing double tax avoidance treaty with the Netherlands. The Convention between the Kingdom of the Netherlands and the Democratic Socialist Republic of Sri Lanka is for the dual purpose of the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital. Article 2 of the convention provides the taxes covered.

- The convention shall apply to taxes on income and on capital imposed on behalf of either Sri Lanka or the Netherlands, irrespective of the manner in which they are levied (This includes: taxes on gains from the alienation of movable or immovable property, taxes on the total amount of wages or salaries paid by enterprises, taxes of capital appreciation)
- The existing taxes to which the convention shall apply are:
 - In the Netherlands:
 - Income tax
 - Wage tax
 - Company tax
 - Dividend tax
 - Capital tax
 - In Sri Lanka:
 - Income tax (including the income tax levied on enterprises licensed by the Greater Colombo Economic Commission)
 - Wealth tax
- The Convention shall also apply to any identical or substantially similar taxes which are imposed after the date of the signature of the convention
- Refer the link below for more information on the Convention between the Kingdom of the Netherlands and the Democratic Socialist Republic of Sri Lanka:

<https://www.expatax.nl/Documents/tax-treaty-sri-lanka-netherlands.pdf>

- A full list of double tax avoidance treaties can be found on the following page:
<http://www.ird.gov.lk/en/publications/sitepages/International%20Relations.aspx?menuid=1401>

Useful Contacts

Board of Investments,
Level 26, West Tower,
World Trade Center,
Colombo 01,
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Tel: +94 112432227

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Web: <http://www.investsrilanka.com/>

Department of Inland Revenue

Sir Chittampalam A Gardiner Mawatha
Colombo 02

Sri Lanka

Tel: +94 11215135

Web:

<http://www.ird.gov.lk/SitePages/Default.aspx>



Other Laws and Procedures

Travelers to Sri Lanka are required to obtain a visa to enter the country. The Sri Lankan visa will facilitate the legal entry of non Sri Lankans into the country and regulate the period of their stay and the conditions governing that stay.

There are several visas that foreign entities should be aware of:

Visit Visa

Visit Visas are granted by the GoSL and allow for the admission of a foreign national into the country. The general conditions of a Visit Visa are as follows:

- Engaging in any form of employment (paid or unpaid) or in any trade or business other than that specified in the visa during the period of your stay in Sri Lanka is prohibited
- Utilization of visa must be before the date of expiry noted on the visa

There are two types of Visit Visas:

Tourist Visit Visa

A Tourist Visa is issued to tourists who want to enter Sri Lanka for leisure activities such as sightseeing, excursions, relaxation, visit relatives or yoga training for a short period of time.

Business Purpose Visa

A Business Purpose Visa is issued to foreign nationals who visit Sri Lanka for business. This visa may be issued for single or double journeys. They are issued for the following reasons:

- Participation in business meetings, negotiations
- Conferences, workshops and seminars
- Short term training programs

Business Visas are available under short term (<3 months) and long term (>3 months)

Note that all Visit Visas must be processed using the Electronic Travel Authorization (ETA) Portal available at: <http://www.eta.gov.lk>

Residence Visa

A Residence Visa is a permit allowing a foreign national to reside in Sri Lanka for a fixed or indefinite length of time. Two categories that come under this visa type are the employment category and the investor category.

Eligibility

1. Employment Category

- Employed by banks or private companies, including their dependents
- Employed by non-governmental organizations
- Involvement in institutions, organizations or projects under diplomatic missions in Sri Lanka

2. Investor Category

- Foreign nationals that desire to invest monetary capital in Sri Lanka
- Foreign nationals who engage in business activities in Sri Lanka

Requirements for Visa Application

- Completed relevant visa application form, including the signature
- Valid Passport with at least one unused visa page
- A letter from the company or organization in the Netherlands recommending the issuance of one year multiple entry business visa and giving details of the status of the applicant, nature of business, duration of stay, availability of funds and details of the party in Sri Lanka with whom the business is to be conducted
- A letter from the company/organization in Sri Lanka recommending the issuance of one year multiple entry business visa
- Two recent passport size photographs
- Copy of air ticket or cruise-ship reservation
- Copy of travel plan in Sri Lanka. If hotel reservations are not made, the names and addresses of planned visits/overnights
- Payment of visa fee. This will vary depending on the type of visa

Procedure

Visas can be obtained by the following methods:

- In Person: It is possible to obtain ETA from the Sri Lanka Overseas Missions. Visa application must be submitted at least two weeks prior to travel. Cash payments are preferred over money transfers from banks
- Online ETA System

Restrictions

Sri Lanka Immigration and Emigration may not grant or issue a visa, unless the following conditions are upheld:

- Sri Lanka Immigration & Emigration must declare suitability to enter Sri Lanka
- Sri Lanka Immigration & Emigration approves the purpose for entry into the country
- Passport validity period must be for a minimum period of six months from the date of arrival in Sri Lanka
- Sri Lanka Immigration & Emigration must be satisfied that adequate funds for maintenance whilst in Sri Lanka and for the payment of return passage to the country of passport issue are available
- Travelers must be in possession of a written assurance (ticket) to return to the country of domicile or a visa to the next country of destination, if they are a visit visa holder

Sri Lanka's intellectual property laws are detailed in part II of the Intellectual Property Act, No. 36 of 2003 which replaced the Code of Intellectual Property Act, No. 52 of 1979. All applications regarding intellectual property must be made through the National Intellectual Property Office of Sri Lanka (NIPO). Broadly, the act provides entities operating in Sri Lanka and economic and moral rights to the following bodies of work:

- Literary and artistic works such as novels, poems and plays, films, musical works, computer programs, databases, drawings, paintings, photographs and sculptures and architectural designs
- Performances of performing artists, sound recordings and broadcast
- Inventions
- Industrial designs
- Trademarks, service marks, commercial names and designations
- All other rights resulting from intellectual activity in the industrial, scientific, literary and artistic fields such as lay-out designs of integrated circuits, new varieties of plants (breeder's rights), geographical indications and undisclosed information including trade secrets

Sri Lanka is also a member of the Paris Convention for the protection of industrial property granting intellectual property holders certain rights in other member states.

Trademark

Trademarks may be granted to words, symbols, or combinations that act as distinguishing factors for goods and services for enterprises.

Unregistered trademarks may be used and protected under unfair competition law or common law. However, it is recommended that entities register their trademarks as it allows owners to more easily enforce their rights.

In order to register a trademark, a completed M1 form must be submitted to the NIPO including associated processing fees. The mark will then be reviewed by the NIPO, following which the trademark will be published in a Gazette for 3 months, to allow for public opposition of the publication. If opposed the NIPO will conduct an inquiry that will include collaboration with the applying entity and the opposing party. Should the trademark be rejected, it is possible to challenge the decision in Court.

Trademarks are valid for a period 10 years and are renewable for a further 10 years post expiration of the initial period.

Registered designs are only protected in Sri Lanka, but as per the Paris Convention for protection of Industrial Property, the trademark holder may claim priority in other member countries within 6 months from the date of the Sri Lankan application.

Patents

Patent protection may be granted to exclude others from manufacturing, using, or selling inventions without the authorization of the patent holder, thereby creating an incentive to innovate. Inventions may be patentable if the invention is:

- New (not known in the body of existing knowledge)
- Industrially applicable (functional and operative)
- Involves an inventive step (the development or improvement is not obvious to a person of average skill in the particular field)

A patent may also be granted if it is an improvement on an existing valid patent and if the applicant is able to successfully negotiate terms with the first patents holder.

In order to apply for a patent, the following must be submitted to the NIPO office:

- Completed P1 form including a processing fee
- Documentation detailing the invention, including its claims
- Search report prepared by the international searching authority or a request to the IP office to forward the invention to a local examiner for search and report

If granted, patents are valid for 20 years from date of application, but must be renewed annually to prevent expiration starting from the end of the second year of granting. The patent will only be granted for Sri Lanka, however, the patent may be applied for in other countries under the Paris Convention. Holders may also claim priority under the Paris Convention for the protection of Industrial Property.

For more detailed information regarding patents visit:

http://www.nipo.gov.lk/web/index.php?option=com_content&view=article&id=14&Itemid=145&lang=en

Industrial Designs

Ornamental or aesthetic aspects of a design that do not serve a financial purpose may also be protected under Sri Lankan Law. An industrial design may be protected if it is new and if it does not consist of a scandalous design or a design contrary to morality, public order or public interest. A design classed as new is if it has not been made available to the public anywhere in the world before the date of application for registration.

In order to file for protection, a D1 form including associated fees must be submitted to the NIPO. If granted, the registered owner will have exclusive rights to use of the design.

Registered designs are only protected in Sri Lanka, but as per the Paris Convention for protection of Industrial Property, the design holder may claim priority in other member countries within 6 months from the date of the Sri Lankan application.

For more detailed information regarding patents visit:

http://www.nipo.gov.lk/web/index.php?option=com_content&view=article&id=16&Itemid=147&lang=en

Copyright

Any original intellectual creations in the literary, artistic and scientific domains may apply for copyright. As with other countries that follow the Berne Convention, copyright is granted automatically without a need to apply for it. Copyright for literary works are valid for the lifetime of the author and a further 70 years from their death; or if it is a work of applied art or sound, they are valid for 25 or 50 years respectively from the date of making the work.

Useful Contacts

National Intellectual Property Office

400, AC6,
Colombo

Tel: +94 112689368

Email: nipos@sltnet.lk

Web: <http://www.nipo.gov.lk/>

Should a party need to enforce a contract, the law of the country will be applied. General law of contract follows Roman Dutch Law, except in commercial matters. Commercial Law of Sri Lanka follows English Law or statutes based on the English Law.

Enforcing of contracts can be through a court of first-instance or if the contract specifically provides for arbitration, the dispute could be resolved through arbitration. The procedure for enforcement of commercial contracts can differ and depends on the manner in which the contract has been breached.

Disputes relating to the interpretation of the provisions of an agreement or to the rights of parties under the agreement shall be referred for settlement by one or more arbitrators in terms of the Arbitration Act No. 11 of 1995. The venue of the said arbitration proceedings shall be in Colombo.

The Arbitration Act No. 11 of 1995 of Sri Lanka provides that by agreement "any dispute" can be determined by arbitration "unless the matter in respect of which the arbitration agreement is entered into, is contrary to public policy or is not capable of determination by arbitration" (section 4).

Any award made by the said arbitrator/s shall be binding on the parties to the agreement and it may be enforced by either of the parties to the Agreement in terms of the Arbitration Act No. 11 of 1995 and subject to the provisions relating to the enforcement of such awards in the said Act.

Furthermore, any violations/misrepresentations/or any matter arising out of the Companies Act can be referred to the Commercial High Court in Colombo.

Exclusive reliance on formal systems of contract enforcement (i.e. litigation through the judiciary system) may not be suitable in all instances of disputes.

The common procedures and requirements for registering a vehicle in Sri Lanka are presented below.

General Requirements

All required application forms are issued free of charge and can be obtained at the Head Office or District Secretariats. The following documents should be submitted, in order to obtain a registration for your vehicle.

- MTA – 2 Application Form
- Two 2.0 x 2.5 inch photographs of the owner of the vehicle (The local council representative- “Grama Niladhari” of the relevant area or the vehicle importer should certify on the reverse side of the photograph)
- A photocopy of the national identity card, driving license or the valid passport of the owner of the vehicle
- Originals of receipts for customs duty payments (Assessment notice)
- Motor vehicle examiner’s report for motor vehicles
- 2 postcard size colour photographs depicting the front and the body of the relevant vehicle. (Chassis Number should be mentioned and the applicant should sign them)

For more information on specific requirements pertaining to reconditioned vehicles, imported vehicles, vehicles registered under a business and several others please visit:

http://www.motortraffic.gov.lk/web/index.php?option=com_content&view=article&id=88%3Adummy-page&Itemid=118&lang=en

Note only right hand drive vehicles may be registered.

Procedure to Register a New Vehicle

1. Obtain the application form MTA-2 from either:
 1. Main office at Colombo (priority service)
 2. Relevant District office (normal service)
2. Submit the filled form to the main office at Colombo or relevant district office. The form must be directed to the Commissioner of the Registering Division
3. Pay the registration fee to the bank and obtain the voucher
4. Submit the voucher obtained from the bank to the counter of the main office at Colombo or the relevant District office
5. The Department issues the approval for the insurance policy and road tax
6. Obtain the relevant insurance policy and the road tax from the insurance company
7. Submit the insurance policy and the road tax to either the main office at Colombo or any relevant District office
8. Department issues the Vehicle Identification Card and number plate, after checking for completion of application

Vehicle Registration Charges

The required vehicle registration charge can vary. More information on this can be found at:

http://www.motortraffic.gov.lk/web/index.php?option=com_content&view=article&id=91%3Achargers-of-registration&Itemid=121&lang=en

It includes luxury tax fees, registrations fees, number plate fees, inspection fees, postal fees, transfer fees, fees for delays and penalty fees. The fees have also been categorized by vehicle type.

Conversion of a Foreign License

If the applicant has an international driving license, they may submit the following to the Automobile Association of Ceylon:

- International Driving Permit
- The passport with the National Identity Card Number on it, in the event of a Sri Lankan or a holder of dual citizenship
- The foreign driving license which is valid for the conversion date. Provisional driving licenses or learner permits are not accepted
- If the Driving license and the passport are not in English, the English translations of those two documents
- A valid visa

There is also a USD 25 processing fee.

If the applicant does not have an International Driving License, they may convert their foreign license by submitting the following documents to the department of Motor Traffic:

- The foreign driving license which is valid for the conversion date. Provisional driving licenses or learner permits are not accepted
- If the Driving license and the passport are not in English, the English translations of those two documents
- Medical fitness certificate obtained from the National Transport Medical Institute, within a period of six months
- The letter of acknowledgment from the Ministry of Foreign Affairs, in the event of a person in the foreign Diplomatic service
- The passport with the National Identity Card Number on it, in the event of a Sri Lankan or a holder of dual citizenship
- A valid visa

The applicant will also be required to pay a processing fee of LKR 1000 per month for the period that the license will be valid for.

Useful Contacts

Department of Motor Traffic

No. 341, Alvitigala Mawatha,
Colombo 05
Narahenpita
Sri Lanka

Tel: +94 112694331

Email : info@motortraffic.gov.lk

Web: <http://www.motortraffic.gov.lk/>

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Articles of Association – A document that contains the purpose of the company as well as the duties and responsibilities of its members defined and recorded clearly

Automated Systems for Customs Data (ASYCUDA) – It is a computerized customs management system which covers most foreign trade procedures. The system handles manifests and customs declarations, accounting procedures, transit and suspense procedures

Board of Investments (BOI) – A government agency responsible for managing a government's assets, attempting to attract investment to the country or region and/or regulating investments

Current account deficit – When the value of the goods and services a country imports exceeds the value of the goods and services it exports

Customs Duty – A tariff or tax imposed on goods when transported across international borders

Custom House Agent – A licensed agent for transaction of any business relating to the entry or departure of conveyances or the import or export of goods at a customs station

Domestic value addition – The difference between gross output at basic prices and intermediate consumption at purchasers' prices

Fiscal consolidation – It is a policy aimed at reducing government deficits and debt accumulation

Floating exchange rate – The currency price is set by the foreign exchange market, based on supply and demand compared with other currencies

Free Trade Agreements (FTA) – An agreement that elicits cooperation between at least two countries to reduce trade barriers and to increase trade of goods and services with each other

Gini Index – A statistical measure intended to represent the income or wealth distribution of a nation's residents

GSP+ – The Generalized System of Preferences (GSP) promotes economic growth in the developing world by providing preferential duty-free entry for up to 4,800 products from designated beneficiary countries and territories

Human development index – Is a composite statistic of life expectancy, education, and per capita income indicators

Initial Public Offering (IPO) – The first time that the stock of a private company is offered to the public

International Monetary Fund (IMF) – An international organization that promotes currency stabilization and maintains a monetary pool from which nations can draw to correct balance of payments deficits

Registrar of Companies – A government office that keeps detailed records of all limited companies

Rules of origin – The criteria needed to determine the national source of a product

Tax payer identification number (TIN) – TIN is an eleven digit number that is required for all VAT related transactions. It is used to identify dealers who are registered under VAT as well as for interstate sales done between two or more states

Year over Year (YoY) – A method of evaluating two or more measured events to compare the results at given time period with those of a comparable time period on an annualized basis

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For the purposes of this handbook, a compilation of the important acts mentioned throughout the guide is provided below. A description of each act along with key information (that may or may not be included in the handbook) is also provided.

Foreign Exchange Act. 12 of 2017 discusses:

- Matters such as classes of capital transactions, opening and maintenance of accounts, permitted investments and granting of loans and advances
- Provisions about capital transactions undertaken in Sri Lanka by persons resident outside Sri Lanka
- Constraints on foreign owned businesses that operate in Sri Lanka
- Information on Inward Investment Accounts
- Replaced the Exchange Control Act No. 24 of 1953

Inland Revenue Act No. 24 of 2017 discusses:

- Activities qualifying for concession under export category
- Details on Investment incentives and other incentives
- Types of income, its liability to tax, and tax rates
- Determination of Residency
- Industry-specific Provisions

Companies Act, No. 7 of 2007 discusses:

- Rules and procedures for companies incorporated or registered in Sri Lanka
- Accounting and reporting requirements for companies incorporated or registered in Sri Lanka
- Types of companies and the introduction of a concept of 'single individual' shareholder company
- Regulations on major transactions
- Pre-incorporation contracts
- Dividends
- Procedures to be followed in the event of serious loss of capital
- Duties of a Director

Banking Act, No. 30 of 1988 discusses:

- Regulates the banking activity of Sri Lanka, which includes commercial and specialized banks
- Capital requirements, reserve funds and maintenance of liquid assets
- Control over licensed commercial banks
- Liquidation of licensed commercial banks incorporated within Sri Lanka and closure of branches of licensed commercial banks incorporated outside Sri Lanka

Land (Restrictions on Alienation) Act No. 38 of 2014 discusses:

- Restrictions on the Alienation of Land in Sri Lanka to foreign companies, foreigners and certain institutions with foreign shareholding
- Restrictions on the transfer of land
- Restrictions on the leasing of land to foreigners
- Tax on land leased out to foreigners
- Exemption from the Land Lease Tax
- Concessions for Development Projects

Shop and Office Employees (Regulation of Employment and Remuneration) Act No. 19 of 1954 discusses:

- Regulation of employment of persons in shops and offices
- Hours of work and remuneration of persons in shops and offices
- Regulation of health and comfort of employees
- Annual holiday and leave entitlements
- Provisions related to employment of women and individuals under the age of eighteen
- Provision of lighting and ventilation
- Maternity benefits

National Minimum Wage of Workers Act No.3 of 2016 discusses:

- The national minimum monthly wage
- Matters pertaining to continuation of employment
- Actions against default of payment of the National Minimum Wage
- Duties of the employer to maintain and produce a register

The Convention between the Kingdom of the Netherlands and the Democratic Socialist Republic of Sri Lanka, 17 November 1982 discusses:

- Double tax avoidance
- Income for immovable property
- Business Profits
- Article on shipping and air transport
- Associated enterprises
- Dividends
- Interest
- Royalties
- Capital gains
- Independent personal services
- Dependent personal services



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