



SRI LANKA  
INVESTMENT CLIMATE STATEMENT  
2015

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## Executive Summary

Sri Lanka is located off the southern coast of India in South Asia. In January 2015, President Maithripala Sirisena was elected to a six-year term, replacing Mahinda Rajapaksa who had governed the country since 2005. President Sirisena campaigned on a platform of good governance and anti-corruption, as well as ethnic reconciliation. Parliamentary elections are expected in summer-2015. If Sirisena's coalition forms the next Cabinet, the new government will likely announce a new investment and economic strategy after the elections.

Overall, Sri Lanka has sound economic prospects. Despite a civil war that lasted from 1983-2009, GDP growth averaged around 5 percent from 2000-2008. Economic activity expanded further at the end of the war resulting in an average growth of about 7.5 percent over the last five years. Growth stemmed largely from a peace dividend and a government infrastructure development program. GDP reached USD 74 billion in 2014, and the per capita GDP was USD 3,625. Growth is expected to decline to approximately 6.9 percent in 2015 and 6.5 percent in 2016 due to slowing construction activity. The Central Bank intends to maintain lower interest rates and lower inflation to spur growth in the near term.

Shortly after taking office, President Sirisena's administration presented an interim budget in order to fulfill election promises. The budget included various populist measures, including a generous wage increase to approximately 1.3 million government employees, an increase in pensions, reduction in the price of essential goods, as well as higher savings interest rates for elderly citizens. The government forecasts a budget deficit of 4.5 percent of GDP in 2015, contingent on the sustainability of new revenue measures. This is a reduction from 2009's deficit of 9.9 percent of GDP.

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

Sri Lanka also suffers from a large foreign debt burden and a persistent current account deficit. Foreign debt is comprised of concessional debt and commercial debt, including debt owed to China for recent infrastructure investment. Sri Lanka's annual exports are approximately USD 11 billion, mostly garments and tea. Imports are approximately USD 19.5 billion, leaving a trade deficit of nearly USD 10 billion each year. The United States is the largest single market for Sri Lankan exports, capturing nearly USD 2 billion of the total. Remittances from migrant workers, around USD 7 billion per year, are Sri Lanka's largest source of foreign exchange and help to offset the external deficits.

## **1. Openness To, and Restrictions Upon, Foreign Investment**

### **Attitude toward Foreign Direct Investment**

Sri Lanka is a constitutional, multiparty republic. In 1978, it shifted away from a socialist orientation and opened up to foreign investment, although changes in government have often been accompanied by reversals in economic policy.

Former President Rajapaksa followed a statist economic policy advocating government control of strategic enterprises and expanding the role of the state. The Rajapaksa administration also followed a substantial government infrastructure development program, largely financed with Chinese loans. Most of these projects bypassed the government tender process, and Sri Lanka's corporate sector or non-Chinese foreign investors played little to no role in the projects. The projects, valued at approximately USD 3-6 billion, range from construction of major ports, international airports, and power stations, to expressways, reclaimed land, highways, railways, and telecommunication towers. President Sirisena's administration has suspended work on many of these projects pending review, and some contracts are being renegotiated.

In order for Sri Lanka to achieve its desired growth, it will require high levels of foreign direct investment (FDI). Most of the current economic potential is concentrated in the tourism sector, with 1.5 million tourists per year and growing, and several major international chains opening hotels over the next few years. Investors are capitalizing on Sri Lanka's environment, culture, religious history, and wildlife to attract high-end tourists, as well as the growing markets of India and China. Ports are another important driver of growth, with the Colombo Port being one of the most active in the region, and the country situated on a major global shipping lane.

Ample scope exists for an expansion in the information technology/business processing operations (IT/BPO) sector. With a growing middle class, investors see opportunities in franchising, retail, and services, as well as light manufacturing. The new government is also keen to improve education and skills development. Sri Lanka's free trade agreements (FTAs) with India and Pakistan offer preferential access to those markets, and Sri Lanka is currently negotiating an FTA with China and a Comprehensive Economic Partnership Agreement (CEPA) with India. The capital city of Colombo offers expatriate managers a good quality of life relative to the region.

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

Foreigners are prohibited from the purchase of lands, and lease transfers to foreigners are taxed. Diplomatic missions, condominiums over the fourth floor, and foreign majority-owned companies in business for ten consecutive years are exempt from these restrictions. The Cabinet can also approve a land purchase for an investment in the national interest, provided there is a substantial foreign remittance for the purchase of the land. A land transfer tax of 100 percent

may still apply. Other recent policies of concern include the November 2011 Underutilized Assets Act, which resulted in the seizure of 37 companies and assets. More recently, in January 2015, the new government imposed a one-time 25 percent tax on companies making profits over LKR 2 billion (USD 15 million) in the 2013/14 financial year. Foreign investors enjoying tax holidays are exempted from the tax.

Local investors cite the risks of contract repudiation, cronyism, damage to reputation, and de facto or de jure expropriation as concerns, although the new government has started to address these issues. From an investor viewpoint, the power and petroleum sectors are particularly challenging, as decision-making authority is highly fragmented, and the capital investments required are substantial. Trade union opposition at both the Ceylon Petroleum Corporation and the Ceylon Electricity Board (CEB) make reform of these loss-generating SOEs very difficult.

Sri Lankan financial institutions (FI) may have trouble complying with the U.S. Foreign Accounts Tax Compliance Act (FATCA). The government has directed banks to directly register with the Internal Revenue Service (IRS).

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

### **Other Investment Policy Reviews**

Sri Lanka has been a member of the World Trade Organization (WTO) since 1995. The most recent WTO Trade Policy review for Sri Lanka was conducted in 2010. This is Sri Lanka's third Trade policy Review. Additional information including both the full report and a summary may be found at: [https://www.wto.org/english/tratop\\_e/tpr\\_e/tp337\\_e.htm](https://www.wto.org/english/tratop_e/tpr_e/tp337_e.htm)

The government of Sri Lanka has not conducted any other investment policy reviews through the Organization for Economic Cooperation and Development (OECD) or the U.N Conference on Trade and Development (UNCTAD).

### **Laws/Regulations of Foreign Direct Investment**

The Board of Investment (BOI, [www.investsrilanka.com](http://www.investsrilanka.com)), an autonomous statutory agency, is the primary government authority responsible for investment, with a focus on foreign investment. BOI promotes the following sectors as priority sectors for FDI: tourism and leisure; infrastructure; knowledge services; utilities; apparel; export manufacturing; export services;

agriculture; and education. Specialized divisions representing these sectors are tasked with providing services to foreign investors through the entire investment process.

The BOI manages a number of export processing zones that feature business-friendly regulations and improved infrastructure for foreign investors. The BOI is intended to provide "one-stop" service for foreign investors, with duties including approving projects, granting incentives, and arranging utility services. It also assists in obtaining resident visas for expatriate personnel, and facilitates import and export clearances. BOI incentives are attractive, but the BOI is not yet a one-stop shop. Although the BOI is relatively effective in assisting investors who want to establish operations within its export processing zones, it is less effective in facilitating and servicing large investments outside these zones. Sri Lanka's bureaucracy often works at cross-purposes with BOI authorities. For example, registration of foreign company branch offices in Sri Lanka can be expensive.

The principal law governing foreign investment is Law No. 4, created in 1978 (known as the BOI Act), as amended in 1980, 1983, and 1992, along with implementing regulations established under the Act. The BOI Act provides for two types of investment approvals. Under Section 17 of the Act, the BOI is empowered to recommend concessions to companies satisfying certain eligibility criteria on minimum investment. Such companies are eligible for generous investment concessions. Investment approval under Section 16 of the BOI Act permits companies to operate under the "normal" laws of the country and applies to investments that do not satisfy eligibility criteria for BOI incentives. The Strategic Development Project Act of 2008 (SDPA) provides generous tax incentives for large projects that the Cabinet identifies as Strategic Development Projects. Other laws affecting foreign investment are the Securities and Exchange Commission Act of 1987 as amended in 1991 and 2003, the Takeovers and Mergers Code of 1995 (revised in 2003), and the Companies Act of 2007. Various labor laws and regulations also affect investors.

Foreign investments, particularly if not keyed toward export, are often more successful when guided by a local partner who can navigate the cultural and political landscape. Some sectors, however, such as IT/BPO, report relatively little need to rely on local agents or the government to start operations. Most investors agree that any export-based investment faces fewer problems, especially if the company is registered with the BOI. The greatest challenges lie in infrastructure contracts or competing for any government tender offer, where foreign investors find it difficult to navigate the opaque procurement process.

### **Industrial Promotion**

The Government of Sri Lanka aspires to develop economic hubs in ports, aviation, commerce, knowledge, and energy. Travel and tourism also have great potential. The former government invited companies to set up manufacturing plants, warehouses, and service companies near a newly built port and airport in the former President's hometown of Hambantota, but that development's future is unclear in light of the change of government. The government hopes a proposed FTA with China and a CEPA with India, and the current Indo-Lanka FTA, will help Sri Lanka to become a gateway to those significant markets.

## **Limits on Foreign Control**

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

Foreign investments in the areas listed below are restricted to 40 percent ownership. Foreign ownership in excess of 40 percent must be preapproved on a case-by-case basis by the BOI: the production for export of goods subject to international quotas; growing and primary processing of tea, rubber, coconut; timber-based industries using local timber; deep-sea fishing; mass communications; education; freight forwarding; travel agency; and shipping agency business. The government is considering opening higher education to foreign investment. Foreign investment is not permitted in the following businesses: non-bank money lending; pawn-brokering; retail trade with a capital investment of less than USD 1 million; and coastal fishing.

In areas where foreign investment is permitted, foreign investors receive national treatment and may benefit from the wide range of incentives provided by the Board of Investment of Sri Lanka (BOI) or from the Treasury.

## **Privatization Program**

The government has halted privatizations, preferring to maintain state-owned enterprises (SOEs), and has even reversed several privatizations it had granted in the past. Labor unions in state-owned enterprises often oppose privatization and seem particularly averse to foreign ownership. In the past, this made the privatization of government entities problematic for new foreign owners.

## **Screening of FDI**

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

## **Competition Law**

Sri Lanka does not have a specific competition law. Instead, BOI or the respective regulator authority may review transactions for competition-related concerns.

## **Investment Trends**

Sri Lanka has not been able to attract substantial FDI. FDI has increased since the end of the war but remains relatively low. The current government has recognized the importance of FDI in the

country's development, and pledged to establish a level playing field and improve transparency in a bid to attract more investment.

*Table 1*

Measure	Year	Index or Rank	Website Address
<b>TI Corruption Perceptions index</b>	2014	85 of 175	<a href="http://transparency.org/cpi2014/results">transparency.org/cpi2014/results</a>
<b>World Bank's Doing Business Report "Ease of Doing Business"</b>	2015	99 of 189	<a href="http://doingbusiness.org/rankings">doingbusiness.org/rankings</a>
<b>Global Innovation Index</b>	2014	105 of 143	<a href="http://globalinnovationindex.org/content.aspx?page=data-analysis">globalinnovationindex.org/content.aspx?page=data-analysis</a>
<b>World Bank GNI per capita</b>	2013	USD 3,170	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

*Millennium Challenge Corporation Country Scorecard*

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced scorecards for countries with a per capita gross national income (GNI) of USD 4,125 or less. The most recent scorecard for Sri Lanka was 2015:  
<https://assets.mcc.gov/scorecards/score-fy15-english-srilanka.pdf>

## 2. Conversion and Transfer Policies

### Foreign Exchange

Sri Lanka generally has investor-friendly conversion and transfer policies. Companies note they can repatriate funds relatively easily. In accordance with its Article VIII obligations as a member of the IMF (<http://www.imf.org/external/pubs/ft/aa/aa08.htm>), Sri Lanka liberalized exchange controls on current account transactions in 1994, and in 2010-2012, the government relaxed exchange controls on several categories of capital account transactions. When the government experiences balance of payments difficulties, the government tends to impose controls on foreign exchange transactions but has showed restraint in recent years.

Sri Lanka follows a flexible exchange rate regime, with the Central Bank intervening to smoothen volatility. Foreign exchange reserves have declined in recent months and the Central Bank has stepped up intervention. The IMF has urged Sri Lanka to limit intervention.

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

### *Remittance Policies*

No barriers exist, legal or otherwise, to the expeditious remittance of corporate profits and dividends for foreign enterprises doing business in Sri Lanka. The average delay period for remitting investment returns, interest, and principal on private foreign debt, lease payments, royalties, and management fees through normal legal channels is one to four weeks. All stock market investments can be remitted without prior approval of the Central Bank through a special bank account. Investment returns can be remitted in any convertible currency at the legal market rate. Policies are becoming more restrictive for real estate investment, however; no gains can leave the country, and investors can only take out what they brought in. Gains from real estate cannot be transferred unless the investment is in a BOI-approved project. Exporters must repatriate export proceeds within 120 days to settle export credit facilities. Other export proceeds can be retained abroad in a local bank's correspondent bank. An informal money transfer/exchange system known as *hawala* ("transfer") is active, although with higher rates. *Hawala* is a method of transferring money without any actual movement. Transactions between *hawala* brokers are done without promissory notes because the system is based on trust.

In June 2013, the Financial Action Task Force (FATF) removed Sri Lanka from the list of countries that are subject to FATF's monitoring process. A Financial Intelligence Unit (FIU) was created in 2006 and operates under the Central Bank.

### **3. Expropriation and Compensation**

Since economic liberalization policies began in 1978, the government has not expropriated a foreign investment. The last expropriation dispute was resolved in 1998. However, in 2011, the previous government approved the Revival of Underperforming Enterprises and Underutilized Assets Act, allowing for the expropriation of assets belonging to 37 companies the government considered as underperforming. These companies had leased land from the government, but the government claimed the companies were not meeting the conditions of the agreement. Although many of the companies were defunct, several others were viable businesses. The Central Bank stated that the Act was to be considered a one-off measure, but the government subsequently announced similar plans in 2012 and then again in 2013 to retake 10,000 hectares of tea plantation land which had been leased to private entities under the same guise. The law increases investor uncertainty regarding property rights in Sri Lanka and is often cited as having a chilling effect on foreign direct investment.

Apart from the Underutilized Assets Act, the land acquisition law empowers the government to take over private land for public purposes. Compensation is paid per government valuation, which some local investors consider relatively fair. There are cases, however, of the military taking over businesses in the North and East on claims they are on government land, with little or no compensation. Many land records were lost or destroyed during the war, which complicates land tenure issues and delays resolution. Under the previous regime, there were reports of government taking over private lands throughout the country purportedly for public purposes. The new government has pledged to refrain from takeover of private assets.

In January 2015, the new government presented an interim budget. The budget included a one off 25 percent tax titled super gain tax on companies or individuals who reported more than LKR 2 billion (USD 15 million) in profits before income tax in the tax year ending March 2014. Foreign investors enjoying tax holidays will be exempted.

#### **4. Dispute Settlement**

##### **Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts**

Sri Lanka's legal system reflects diverse cultural influences. Criminal law is fundamentally British. Basic civil law is Roman-Dutch. Laws pertaining to marriage, divorce, and inheritance are ethnic. Sri Lankan commercial law is almost entirely statutory. The law reflects colonial British law, but amendments have largely kept pace with subsequent legal changes in the United Kingdom. Several important legislative enactments regulate commercial matters: the Board of Investment Law; the Intellectual Property Act; the Companies Act; the Securities and Exchange Commission Act; the Banking Act; the Industrial Promotion Act; and the Consumer Affairs Authority Act.

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

All commercial matters, including Intellectual Property claims, exceeding the value of LKR 3 million (approximately USD 23,000) fall within the jurisdiction of the Commercial High Court of Colombo. A number of tribunals also exercise judicial functions, such as the Labor Tribunals that hear cases brought by workers against their employers. Litigation can be slow and unproductive. Monetary judgments are usually made in local currency, but procedures exist for enforcing foreign judgments. Overall, Sri Lanka's record in handling investment disputes is problematic. Disputes have become politicized, and the stability of contracts in general could be improved.

##### **Bankruptcy**

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

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

company, if it cannot meet a creditor's demands for payment of a sum of money in excess of LKR 50,000 (USD 380.00). Lenders are also empowered to foreclose on loan collateral without court intervention. However, loans below LKR 5 million (USD 38,000) are exempt, and lenders cannot foreclose on collateral provided by guarantors to a loan. Financial institutions also face other legal challenges as defaulters obtain restraining orders on frivolous grounds due to technical defects in the recovery laws.

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

### **Investment Disputes**

Sri Lanka's courts have a mixed record with regard to upholding the sanctity of contracts. The courts are not practical for resolving disputes or obtaining remediation, because their procedures allow one party to prolong cases indefinitely. Aggrieved investors (especially those dealing with the government on projects) have frequently pursued out-of-court settlements in hopes of speedier resolution. In late 2008, the Supreme Court, in an interim order, halted payments to five international and local banks involved in oil hedge contracts with the government. One of the involved banks was American. The banks filed for international arbitration.

Some U.S. companies have experienced problems with payment of valid contracts, implementation of agreements with the government, and failure to secure contracts, despite demonstrated superior performance, high value, and competitive bids. In practice, it may be advisable to seek to include provisions for international arbitration.

A U.S. power company producing electricity in Colombo has experienced several difficulties since 2010, including late payments and failure to provide required letters-of-credit by the state-owned power purchaser, and a retroactive law that requires partial government ownership. The USG has raised the issue in bilateral meetings, but the issue has not been resolved.

The current government has halted several major infrastructure projects negotiated between the Rajapaksa administration and China, most notably the USD 1.4 billion Colombo Port City project. Citing irregularities and amidst allegations of corruption, the government has yet to decide whether the large-scale land reclamation project will be allowed to continue.

### **International Arbitration**

Most investors tend to prefer arbitration over litigation, in part due to court delays. Arbitral awards made abroad are now enforceable in Sri Lanka. Similarly, awards made in Sri Lanka are enforceable abroad.

An independent center the Institute for the Development of Commercial Law and Practice (ICLP) ([www.iclp-arbitrationcentre.com](http://www.iclp-arbitrationcentre.com)) was established in Colombo for the expeditious, economical, and private settlement of commercial disputes.

#### *ICSID Convention and New York Convention*

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

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

#### **Duration of Dispute Resolution**

It takes between two to three years to resolve a commercial dispute valued at less than LKR 5 million (USD 38,000) in a District Court. Commercial disputes over LKR 5 million come under the jurisdiction of the Commercial High Court and take a year or two for a final judgment. These timeframes exclude any time taken to resolve subsequent appeals filed in higher courts.

District courts have a backlog of cases, driving the majority of delays. The time between court hearings is therefore long, resulting in a delay in concluding cases. The Commercial High Court consists of three court houses and judges are specialized in hearing commercial disputes. The delays in the high court are generally related to the inability to take up the hearing as planned due to the long list of cases fixed for a particular date or other urgent matters taking precedence. There are also delays due to request for postponement of trial dates by legal counsel as a delay tactic.

Enforcement of a court decision in the event the losing party does not comply will be by way of an execution of the writ with the assistance of the court.

### **5. Performance Requirements and Investment Incentives**

#### **WTO/TRIMS**

To qualify for investment incentives, the Board of Investment specifies certain minimum investment amounts for both local and foreign investors. A member of the World Trade Organization (WTO), Sri Lanka complies with the WTO Trade Related Investment Measures obligations.

Foreign investors who remit at least USD 250,000 can qualify for a one-year resident visa, which can be renewed. Employment of foreign personnel is permitted when there is a demonstrated shortage of qualified local labor. Technical and managerial personnel are in short supply, and this shortage is likely to continue in the near future. Foreign employees in the commercial sector do not experience significant problems in obtaining work or residence permits. Sri Lanka offers dual citizenship status to Sri Lankans who have obtained foreign citizenship in seven particular countries. Tourist and business visas are granted for one month, with possible extensions. Prior

to 2015, due to the previous government's restrictions and concerns, the international donor community experienced delays and difficulty in obtaining business visas for their implementing partners, as well as restrictions on foreign nationals traveling to the north of the country. The new administration has eased these policies.

### **Investment Incentives**

Sri Lanka offers various investment incentives. The BOI provides the following incentive regime:

- **Small-Scale Enterprises:** A four to five-year tax holiday for small-scale enterprises in agriculture, animal husbandry, fisheries, and creative work, including art work and information technology. A minimum investment of LKR 25 million (USD 190,000) is required.
- **Medium-Scale Enterprises:** A four to six-year tax holiday for medium-scale enterprises in manufacturing, agriculture, agro processing, animal husbandry, fisheries, fish processing, IT/BPO, health care, education, beauty care, cold rooms/storages, tourism, sports and fitness centers and creative work. A minimum investment of LKR 25 million to LKR 200 million (USD 190,000 to 1.5 million) is required.
- **Large-Scale Enterprises:** A six to 12-year tax holiday for large-scale enterprises in agriculture, dairy or forestry; manufacturing or processing of non-traditional goods for export; services provided to a person or partnership outside Sri Lanka; tourism; infrastructure projects, renewable energy, industrial estates, knowledge cities, urban housing, town centers, waste management systems, water services, hospitals, health care services; maintenance of maritime vessels/ aircrafts; sporting services; software development; light or heavy engineering industry; education services. A minimum investment between LKR 300 million to over LKR 2.5 billion (USD 2.3 million to over USD 19.2 million) is required.
- **Import Replacement Industries:** A five-year tax holiday followed by a concessionary tax rate of 12 percent for strategic import replacement industries (i.e., cement, steel, pharmaceuticals, fabric, and milk powder). Minimum investment levels apply.
- For strategic development projects, the Strategic Development Project Act of 2008 provides tax incentives for large projects that the Cabinet identifies as Strategic Development Projects (SDP). SDPs are defined as investments that are in the national interest, likely to bring economic and social benefits to the country and change the landscape of the country through the provision of goods and services, substantial inflow of foreign currency, generation of employment and income, and transfer of technology. Information regarding projects selected as SDPs is published in the official gazette and needs to be approved by the Cabinet and Parliament. Projects are exempted from taxes for up to 25 years. The exempted taxes include corporate income tax, Value Added Tax, Economic Service Charge, Debit Tax, Customs Import and Export taxes, Port and Airport Tax, and the Nation Building Tax. The SDP Act is under review.

For further information on investment incentives and other investment-related issues, potential investors should contact the Board of Investment directly ([www.investsrilanka.com](http://www.investsrilanka.com) or [info@boi.lk](mailto:info@boi.lk).)

### *Research and Development*

Government funding of research is limited, and currently restricted to state research institutions and universities. Private sector companies engaged in R&D may qualify for fiscal incentives.

### **Performance Requirements**

There are no performance requirements. In most cases, firms enjoying preferential incentives in the manufacturing sector must export 80 percent of production, while those in the service sector must earn at least 70 percent of their income in foreign exchange. Foreign investors are generally not expected to reduce their equity over time, nor are they expected to transfer technology within a specified period of time, except for build-own-transfer or other such projects in which the terms are specified within pertinent contracts.

### **Data Storage**

Sri Lanka has no specific requirements for foreign IT providers to turn over source code or provide access to surveillance. There is no comprehensive legislative protection of electronic data, however, and there is no ban on the sale of electronic data for marketing purposes.

## **6. Right to Private Ownership and Establishment**

Private entities are free to establish, acquire and dispose of interests in business enterprises. Private enterprises enjoy benefits similar to those granted to public enterprises, and there are no known limitations to access to markets, credit, or licenses. Foreign ownership is allowed in most sectors, although the new land ownership law prohibits foreigners from owning land, with some exceptions. Most investors say acquiring land is often the biggest challenge for any new business in Sri Lanka. Private land ownership is limited to fifty acres per person. The government owns approximately 80 percent of the land in Sri Lanka, including the land housing most tea, rubber, and coconut plantations, leased to the private sector on 50-year terms. Although state land for industrial use is usually allotted on a 50-year lease, the government may approve 99-year leases on a case-by-case basis, depending on the nature of the project. Many land title records were lost during the war, and significant disputes remain over property ownership in the North and East. The new government has started a program to handover property to people in the North and East.

## **7. Protection of Property Rights**

### **Real Property**

Secured interests in property in Sri Lanka are generally recognized and enforced, but many investors claim protection can be flimsy. A fairly reliable registration system exists for recording private property including land, buildings, and mortgages, although problems exist due

to fraud and forged documents. In the World Bank's Doing Business Index 2015, Sri Lanka ranked 131 out of 189 countries in the ease of "registering a property" index involving 9 procedures and 51 days.

### **Intellectual Property Rights**

IPR enforcement has improved in Sri Lanka, although counterfeit goods continue to be widely available, making it difficult for the legitimate industries to protect their markets. Local agents of well-known U.S. and other international companies representing recording, software, movie, clothing, and consumer product industries continue to complain that lack of IPR protection damages their businesses. Sri Lanka has a comprehensive IPR law and several offenders have been charged or convicted. Overall, progress on IPR protection is improving in the country. For instance, the government's Information Technology (IT) policy requires government agencies to use licensed or open source software. Software companies have also reported an improvement in the IPR regimes of large companies.

Sri Lanka is a party to major intellectual property agreements. Sri Lanka adopted an intellectual property law in 2003 that was intended to meet both U.S.-Sri Lanka bilateral IPR agreement and TRIPS obligations to a great extent. The law governs copyrights and related rights, industrial designs, patents, trademarks and service marks, trade names, layout designs of integrated circuits, geographical indications, unfair competition, databases, computer programs, and undisclosed information. All trademarks, designs, industrial designs, and patents must be registered with the Director General of Intellectual Property.

Infringement of intellectual property rights is a punishable offense under the IP law with criminal and civil penalties. Recourse available to owners includes injunctive relief, seizure and destruction of infringing goods and plates or implements used for the making of infringing copies, and prohibition of imports and exports. Penalties for the first offense include a prison sentence of six months or a fine of up to LKR 500,000 (USD 3,790), but smaller penalties are the norm. Aggrieved parties can seek redress for any IPR violations through the courts, though this can be a frustrating and time-consuming process.

The government has established a special antipiracy and counterfeit unit in the Criminal Investigation Division (CID) of the police to specifically address IPR concerns. There is also an IPR unit in the Social Protection Unit of Sri Lankan Customs, and a trademark database to advance IPR protection.

The U.S. Embassy, the United States Patent and Trademarks Office (USPTO), and the American Chamber of Commerce of Sri Lanka are working to pursue more aggressive enforcement and enhance public awareness.

#### *Resources for Rights Holders*

Contact at U.S. Embassy Colombo:  
Peter Zirnite, Economic Officer  
94-11-2498500  
Email: [commercialcolombo@state.gov](mailto:commercialcolombo@state.gov)

Local lawyers list: <http://srilanka.usembassy.gov/service/legal-resources-in-sri-lanka.html>

Country/Economy Resources:

American Chamber of Commerce in Sri Lanka: [www.amcham.lk](http://www.amcham.lk)

National Intellectual Property Office of Sri Lanka: [www.nipo.gov.lk](http://www.nipo.gov.lk)

## **8. Transparency of the Regulatory System**

The Board of Investment strives to inform potential investors about laws and regulations affecting operations in Sri Lanka, and the new government has committed to reforming organization to improve services. However, existing laws remain hard to find, and proposed laws and regulations, while generally made available for public comment, are occasionally published without public discussion. Foreign and domestic investors complain the regulatory system is unpredictable due to outdated regulations, rigid administrative procedures, and excessive leeway for bureaucratic discretion. Effective enforcement mechanisms are sometimes lacking, and investors cite coordination problems between the BOI and relevant line agencies. Lethargy and indifference on the part of mid- and lower-level public servants compound transparency problems. Lack of sufficient technical capacity within the government to review financial proposals for private infrastructure projects also creates problems during tendering. Under the former government, the Sri Lankan Cabinet had to approve strategic projects by private investors to receive incentives. It is unclear what the new government's approval process will be.

Although many foreign investors, including U.S. firms, have had positive experiences in Sri Lanka, some encountered significant problems with the former government's practices and regulations. Under the previous regime, some claimed that the level of corruption made it difficult to compete against bidders not subject to the U.S. Foreign Corrupt Practices Act. While the new government has started to implement its platform of good governance and transparency, the administration has not yet eliminated all opportunities for corruption in the bidding process. Some multinational firms also continue to experience delays in trying to reach agreement on investment projects, largely due to the new government's desire to review all existing projects.

## **9. Efficient Capital Markets and Portfolio Investment**

The Securities and Exchange Commission (SEC) covers the Colombo Stock Exchange, unit trusts, stock brokers, listed public companies, margin traders, underwriters, investment managers, credit rating agencies, and securities depositories. Portfolio investment is encouraged. Foreign investors can purchase up to 100 percent of equity in Sri Lankan companies in numerous permitted sectors. In order to facilitate portfolio investments, country funds and regional funds may obtain SEC approval to invest in Sri Lanka's stock market. These funds make transactions through share investment external rupee accounts maintained in commercial banks.

The new government has vowed to improve stock market regulation, and has appointed a new SEC management. In addition, a parliamentary select committee has been appointed to probe into malpractices in the Colombo Stock Exchange. Previous attempts to investigate insider trading and fraud at the CSE during 2011-2012, had to be abandoned as the SEC came under

pressure from powerful market players. Four senior SEC officials resigned over regulatory issues during this period, citing pressures from high net-worth local investors.

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

The state consumes over 50 percent of the country's domestic financial resources and has a virtual monopoly on the management and use of long-term savings in the country. This inhibits the free flow of financial resources to product and factor markets. In the past, high budget deficits have caused interest rates to rise and resulted in higher inflation. Both interest rates and inflation have declined in 2015. The Central Bank expects market interest rates to decline further in line with recent reductions in policy interest rates.

Retained profits finance a significant portion of private investment in Sri Lanka. Short-term borrowings finance about 20 percent of investment. Commercial banks are the principal source of bank finance. Bank loans are the most widely used credit instrument for the private sector. Large companies raise funds through corporate debentures as well. Credit ratings are now mandatory for all deposit-taking institutions and for all varieties of debt instruments. Local companies are allowed to borrow from foreign sources. Foreign direct investment finances about 6 percent of overall investment. Foreign investors are allowed to access credit on the local market and are free to raise foreign currency loans.

### **Money and Banking System, Hostile Takeovers**

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

The Central Bank is responsible for supervision of all banking institutions and has driven improvements in banking regulations, provisioning, and public disclosure of banking sector performance. Credit ratings are mandatory for all banks operating in Sri Lanka. The Central Bank has accepted the Basel II standardized approach framework, and has introduced accounting standards corresponding to International Financial Reporting Standards for banks.

Total assets of commercial banks stood at LKR 5,884 billion (USD 45 billion) as of December 31, 2014. The two fully state-owned commercial banks – Bank of Ceylon and People's Bank – are still important players, accounting for about 40 percent of all banking assets. The two state banks have a large portfolio of non-performing loans. Both these banks have significant exposure to the state and state-owned companies, which are treated as performing loans. However, as these banks are implicitly guaranteed by the state, their problems have not harmed the credibility of the rest of the banking system.

Private commercial banks and foreign banks operating in Sri Lanka generally follow more prudent credit policies and, as a group, are in better financial shape. Foreign banks tend to make provisions in line with international best practices, as most foreign bank branches are subject to supervision in their own country in addition to that of the Sri Lankan Central Bank. Partly due to a fall in gold prices and default of loans given on gold pawning, non-performing loans of the banking sector increased in recent years.

Capital adequacy ratio (CAR) for the banking industry declined in 2014 but remained above the regulatory minimums of 5 percent and 10 percent set by the Central Bank of Sri Lanka for core CAR and total capital, respectively. The capital quality of Sri Lankan banks is generally high, consisting mostly of core capital. However, Sri Lankan bank CARs are overstated due to the absence of a capital charge on certain asset exposures including gold-backed loans and foreign currency-denominated exposures. Residual provisioning risks, credit concentrations and a volatile operating environment remain as significant challenges for Sri Lankan banks over the medium term. These risks are reflected in ratings of the major Sri Lankan banks which are mostly in the single 'B' range.

## **10. Competition from State-Owned Enterprises**

State Owned Enterprises (SOEs) are active in transport (bus and railways, ports and airport management, airline operations); utilities such as electricity; petroleum imports and refining, and water supply; retail; banking; telecommunications; TV and radio broadcasting; newspaper publishing; and insurance. Since the end of the war, Sri Lankan armed forces have begun operating air services, tourist resorts, and farms for civilian purposes, crowding out some private investment.

### **OECD Guidelines on Corporate Governance of SOEs**

Sri Lanka has not taken a position on the OECD guidelines on corporate governance of SOEs. Directors of SOEs are appointed by the Cabinet or a line ministry. The government allocates board seats to both senior government officials and politically-affiliated individuals. There is concern the public banks are required to take on increasing debt from inefficient SOEs, forcing them to carry a greater share of non-performing loans. In addition, there are several important large private banks in which multiple government entities own interest, so on aggregate these companies are majority government owned. By virtue of the shareholding, the government exerts control over the appointment of boards of directors and management of these banks. SOEs structure of governance is questionable. SOE senior managers usually report to politically affiliated boards of directors. SOEs are often charged with working to political agendas.

The new government has vowed to improve SOE governance and management.

### **Sovereign Wealth Funds**

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

sector workers managed by the Central Bank, for unwise stock market investments and to help governing party supporters. Contacts argue the fund must be segregated from politics and professionalized. The new government has vowed to improve the management of the pension funds. SOEs and government-managed pension funds must meet Sri Lanka accounting standards.

## **11. Corporate Social Responsibility**

Leading companies in Sri Lanka are actively promoting CSR, and some small and medium enterprises have also started to promote CSR. The Ceylon Chamber of Commerce, the largest business chamber in Sri Lanka, promotes CSR among its membership. In addition, a professional accounting body has a program to promote sustainability reporting. Internationally, some of Sri Lanka's leading companies have joined the UN Global Compact initiative. The apparel industry, Sri Lanka's largest export industry, has a specially designated CSR program for the industry under the title "Garments without Guilt" ([www.garmentswithoutguilt.com](http://www.garmentswithoutguilt.com)). The ethical sourcing and sustainable development practices under the program aim to empower women and their communities. In addition, the program endeavors to promote sustainable eco-friendly manufacturing practices.

### **OECD Guidelines for Multinational Enterprises**

The majority of private sector CSR programs in Sri Lanka are professional and competent, but the government does not regulate the programs and has not launched an initiative to ensure adherence to the OECD Guidelines for Multinational Enterprises.

## **12. Political Violence**

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

### **Business-related Violence**

Business-related violence increased in 2013-2014. In August 2013, a large rubber glove manufacturing factory was forced to move to a new location due to protests. Residents near the factory protested, alleging it to have polluted water in the area. An army crackdown on protesters resulted in three deaths. In March 2014, residents near another rubber factory protested against water pollution. In mid-2013, a leading international food company temporarily suspended operations in Sri Lanka, citing precautionary measures to ensure the safety of its employees after it faced product bans, court cases, and angry demonstrators over the sale of contaminated milk powder. In 2013, a group of local politicians were charged with killing a Sri Lankan tea estate manager.

In May 2011, workers at the Katunayake Export Processing Zone (EPZ), the country's largest EPZ, held a large protest demanding the withdrawal of a proposed new pension plan covering all private sector employees. The protest led to a violent clash between the workers and the police. The clashes resulted in the death of one EPZ worker, injuries to a number of protestors and police officers, and damage to several factories. The government closed the EPZ for two days as a precautionary measure. Following the clash, the government withdrew the pension bill.

### 13. Corruption

While the country has generally adequate laws and regulations to combat corruption, enforcement is considered weak and inconsistent. U.S. firms identify corruption as a constraint on foreign investment, but, by and large, it is not a major threat to operating in Sri Lanka – at least once a contract has been won. The business community claims that corruption has the greatest effect on investors in large projects and on those pursuing government procurement contracts. Some claim that the level of corruption makes it difficult to compete with bidders not subject to the U.S. Foreign Corrupt Practices Act. Projects geared toward exports face fewer problems. Local investors say internal controls do exist, although they are weak. The new government created new departments and agencies to investigate corruption allegations, mostly from the previous regime, and granted new resources existing anticorruption departments. It also appointed the head of Transparency International as a senior advisor on anticorruption matters. The government is also attempting to introduce a Right to Information Act to increase transparency but has been unsuccessful so far.

**Bribery Commission:** The Commission to Investigate Allegations of Bribery or Corruption (Bribery Commission) is the main body responsible for investigating allegations brought to its attention and instituting proceedings against responsible individuals in the appropriate court. The law states that a public official's offer or acceptance of a bribe constitutes a criminal offense and carries a maximum sentence of seven years imprisonment and a fine at the discretion of the courts. A bribe by a local company to a foreign official is not covered by the Bribery Act.

In response to allegations of corruption during the previous Rajapaksa administration, the government has appointed a multitude of agencies and commissions to probe allegations. Some of the newly created agencies are:

Anti-Corruption Secretariat under the Prime Minister's Office

A Presidential Commission of Inquiry to probe allegations of corruption and abuse of power

Police Financial Crimes Investigation Division (FCID)

State Asset Recovery Task Force (START)

National Executive Council's Subcommittee on Corruption

#### *UN Anticorruption Convention, OECD Convention on Combatting Bribery*

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

*Resources to Report Corruption*

Contact at Government Agency responsible for combating corruption:

Dilrukshi Wickremasinghe, Director General

Commission to Investigate Allegations of Bribery or Corruption

No 36, Malalasekara Mawatha, Colombo 7

Phone: 94-11- 2595039

Email: [dgbribery@gmail.com](mailto:dgbribery@gmail.com)

Contact at watchdog organization:

Chairman

Transparency International, Sri Lanka

183/5 High Level Road, Colombo 6

Phone: 94-11- 4369783

Email: [tisl@tisrilanka.org](mailto:tisl@tisrilanka.org)

**14. Bilateral Investment Agreements**

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

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

**Bilateral Taxation Treaties**

Sri Lanka signed a bilateral taxation treaty with the United States in 1985, which was amended in 2002. Information about the treaty can be found at:

<http://www.irs.gov/Businesses/International-Businesses/Sri-Lanka---Tax-Treaty-Documents>

**15. OPIC and Other Investment Insurance Programs**

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

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

## 16. Labor

Sri Lanka's labor market is small, with a limited pool of skilled workers. Engineering, accounting, legal, and architectural professions follow high standards, although local design talent is still underdeveloped. Labor is available at relatively low cost, though it is priced higher than in other South Asian countries. Many of Sri Lanka's top graduates seek employment outside the country. For those who remain, Sri Lanka's labor laws afford many employee protections. Many investors consider this legal framework somewhat rigid, however, making it difficult for companies to reduce their workforce even when market conditions warrant doing so. The cost of dismissing an employee in Sri Lanka is though calculated as a percentage of wages, an average of 54 salary weeks, one of the highest in the world. Sri Lanka's labor force is literate (particularly in local languages) and trainable, although weak in certain technical skills and the English language. The average worker has eight years of schooling, and two-thirds of the labor force is male. Retention is fairly good in the IT/BPO sector, but the garment industry reports up to a 40 percent staff turnover rate. Lack of labor mobility in the North and East is also a problem, with workers reluctant to leave their families and villages for employment elsewhere.

In 2013, 8.4 million Sri Lankans were employed, with 44 percent in services, 26 percent in industry, and 30 percent in agriculture. Overall, 41 percent of the workforce is in the private sector and 15 percent in the government. Self-employed workers constitute 32 percent of all employed, while another 9 percent were unpaid family workers. About 61 percent of the employed are in the informal sector.

The unemployment rate has declined in recent years to around 4 percent, although low unemployment rates are due in part to a large outflow of Sri Lankan migrant labor. Unemployment among women and high school/college graduates has been proportionally higher than the rate for less-educated workers. Youth and entry-level unemployment and underemployment remain a problem. A significant proportion of unemployed people seek "white collar" employment, often preferring low-paying but stable government jobs. However, most sectors seeking employees offer manual or semi-skilled jobs or require technical or professional skills such as management, marketing, information technology, accountancy and finance, and English language proficiency. The construction, plantation, and apparel industries also report a shortage of workers. Some investors have faced problems in finding sufficient employees with the requisite skills, a situation the tourism industry is likely to face as more hotels open in the near future.

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

### Migrant Workers Abroad

There are an estimated 1.8 million Sri Lankan workers abroad. Remittances from migrant workers, at over USD 7 billion per year, make up Sri Lanka's largest source of foreign exchange. The majority of this labor force is unskilled (housemaids and factory laborers) and located

primarily in the Middle East. Sri Lanka is also losing many of its skilled workers to more lucrative jobs abroad.

### Trade Unions

Approximately 20 percent of the workforce is unionized, but union membership is declining. There are more than 1,900 registered trade unions (many of which have 50 or fewer members), and 19 federations. About 15 percent of labor in the industry and service sector is unionized. Most of the major trade unions are affiliated with political parties, creating a highly politicized labor environment. In many cases, several unions, affiliated with different political parties, work together at state-owned enterprises. This is not the case for private companies, which only have one union or perhaps a workers' council to represent the employees. Some employers have alleged that the JVP, a Marxist political party opposed to private enterprise, can provoke strikes under the pretense of trade union activity. Due to the JVP's violent past, employers are generally not in favor of it or its trade union arm, the Inter-Company Trade Union. There are also some independent unions.

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

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

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

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

have signed Memorandums of Understanding with trade unions. However, there were only a few collective bargaining agreements signed in companies located in EPZs.

The law prohibits all forms of forced and compulsory labor. While there was no national minimum wage, 44 wage boards established by the Ministry of Labor set minimum wages and working conditions by sector and industry in consultation with unions and employers. Minimum wage laws did not cover workers in sectors not covered by wage boards, including informal sector workers. The law does not require equal pay for equal work. The law prohibits most full-time workers from regularly working more than 45 hours per week. In addition, the law stipulates a rest period of one hour per day. Regulations limit the maximum overtime hours to 15 per week. The law provides for paid annual holidays, sick leave and maternity leave. Occupational health and safety regulations did not fully meet international standards.

Child labor is prohibited and virtually nonexistent in the organized sector, although child labor occurs in informal sectors. The minimum legal age for employment is set at 14. The minimum age for employment in hazardous work is 18 years. The Hazardous Occupations Regulation contains a list of 51 occupations considered to be hazardous forms of child labor in Sri Lanka.

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

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

## **17. Foreign Trade Zones/Free Ports/Trade Facilitation**

Sri Lanka has 12 free trade zones, also called export processing zones, administered by the BOI. In addition, a large private apparel company runs a fabric park. The company invites local and foreign companies to set up fabric and apparel factories in this eco-friendly park.

In the past, firms preferred to locate their factories near Colombo harbor or airport to reduce transport time and cost. However, excessive concentration of industries around Colombo has caused heavy traffic, higher real estate prices, environmental pollution, and scarcity of labor. The BOI and the government now encourage export-oriented factories to set up in industrial zones farther from Colombo, although Sri Lanka's poor roads make these outlying zones more challenging.

## 18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

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

Economic Data	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
	Year	Amount	Year	Amount	
<b>Host Country Gross Domestic Product (GDP) (\$M USD)</b>	2014	75	2013	67	<a href="http://www.worldbank.org/en/country">www.worldbank.org/en/country</a>
<b>Foreign Direct Investment</b>	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
<b>U.S. FDI in partner country (\$M USD, stock positions)</b>	N/A		2013	102	
<b>Host country's FDI in the United States (\$M USD, stock positions)</b>	N/A		2013	44	<a href="http://bea.gov/international/factsheet/factsheet.cfm?Area=608">http://bea.gov/international/factsheet/factsheet.cfm?Area=608</a>
<b>Total inbound stock of FDI as% host GDP</b>	2013	1%	2013	N/A	

Source: Department of Census and Statistics, Sri Lanka; Central Bank of Sri Lanka

*Table 3: Sources and Destination of FDI***Direct Investment from/in Counterpart Economy Data****From Top Five Sources/To Top Five Destinations (US Dollars, Millions)**

<b>Inward Direct Investment</b>			<b>Outward Direct Investment</b>		
Total Inward	Amount	100%	Total Outward	Amount	100%
Netherlands	1,851	21%	Singapore	294	54%
U.K.	1,131	13%	Malaysia	108	20%
Malaysia	841	9%	Mauritius	15	3%
Switzerland	829	9%	Jordan	13	2%
Mauritius	783	9%	Japan	12	2%

"0" reflects amounts rounded to +/- USD 500,000.

Source: IMF Coordinated Direct Investment Survey

*Table 4: Sources of Portfolio Investment*

Portfolio investment data are unavailable for Sri Lanka.

**19. Contact for More Information**

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 Email: commercialcolombo@state.gov