

Country brief on trade facilitation – Sri Lanka

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Trade Facilitation and the SME Sector in Sri Lanka

The importance of international trade as a catalyst for economic growth and national development is now well recognized. However, in recent years it has become increasingly clear that many developing and least developed countries face significant constraints, including inefficient and outdated border clearance systems and procedures as well as supply side constraints and restricted market access, which prevent them from participating effectively in the international trading system. Trade facilitation has therefore become an important development issue.

Sri Lanka has recognized the need to introduce measure to facilitate trade and it has accepted some of the broad trade facilitation principles. Major reforms of Sri Lankan customs towards trade facilitation include Sri Lanka Automated Cargo Clearance Systems (SLACCS), Implementation of the WTO/GATT Valuation Agreement and Simplification and Harmonization of Customs Procedures.

Major Trade Facilitation Initiatives of the Government of Sri Lanka:

Sri Lanka has one of the most liberal trade regimes in South Asia. Import tariff is Sri Lanka's main trade policy instrument. With the introduction of trade liberalization the country moved from a system that had many tariff lines to a simple structure with few tariff bands. Although the government attempted to introduce a two band tariff system at one point, it has deviated from this policy recently and the tariff structure is now subject to an increasing number of changes.

The Sri Lankan government has taken steps to appoint a working group to improve existing import and export procedures with the involvement of both the public and the private sector. Standardized customs declarations for imports and exports were introduced along with the implementation of the customs computerization project in January 1994. New standard formats for valuation declaration form (introduced in January 2003) enabled simplified procedure in valuation with the implementation of the Customs Valuation Agreement.

Since 1994 lodging entries with customs and assessing them are done by using ASYCUDA. The customs started using ASYCUDA ++ from 1998. Accounting and data collection have become fully computerized with this process.

The Sri Lankan customs believes that the process of automation will further reduce the processing time substantially, eventually reaching the minimum possible level. Sri Lanka has committed to introduce international standards on documentation.

Once the EDI project is fully implemented, clearance of goods at Sri Lanka ports could become much faster and with minimum documentation requirements. Both importers and shipping agents could submit their customs declarations electronically through the EDI switch to the customs ASYCUDA system. The electronic custom documents will therefore be assessed by customs using an intelligent based risk management system.

Sri Lanka has attempted to simplify the existing customs procedures and formalities with a view to enhancing the efficiency of the customs. The major elements of this customs modernization programme include (i) introduction of an automated cargo clearance system (ii) new import clearance procedure under EDI environment and (iii) simplification and harmonization of custom procedures.

Sri Lanka is a contracting party to the International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention) since March 1985. Having realized the importance of acceding to the RKC, Sri Lanka signed the Convention in June 1999 subject to ratification. The Sri Lankan customs or the Central Bank of Sri Lanka publishes regulatory and administrative changes related to international trade. Information is made available on printed and electronic media. Publication of regulatory changes in printed media through government gazettes is a statutory requirement for regulatory changes to become effective.

Advance rulings on classification can be obtained from the Sri Lankan customs submitting relevant particulars including samples where needed. These advance rulings are valid for a period of six months and the period is extendable on request. A standard format is used for this purpose.

Sri Lankan customs maintains a website giving information on tariff changes, license requirements and any other significant changes to the customs ordinance and regulations. The customs is in the process of expanding and improving this on the basis of the guidelines prepared by the WCO on this subject. The Central Bank of Sri Lanka publishes these changes in its annual report.

A permanent Tariff Advisory Council was set up in 2002 to examine and correct anomalies and distortions in the tariff structure and to address representations made by importers and industrialists. With respect to e commerce and EDI Sri Lanka has been able to evolve an effective consultative mechanism involving both the government and the private sector. The National EDI/EC Committee comprises representatives from CINTEC, the Sri Lankan Export Development Board (EDB), the Sri Lanka Ports Authority Sri Lanka Customs, Sri Lanka Telecom, Sri Lanka Airlines, Sri Lanka Freight Forwarders Association, the Ceylon Association of Ships Agents, the Sri Lanka Standard Institution (SLSI), the legal profession and the banking sector.

SME Sector in Sri Lanka :

A major problem in the SME sector is the shortage of capital due to number of reasons such as lack of access to bank facilities, lack of knowledge of bank procedures, long delays and inability to provide guarantees. Although there are some loan schemes available, the high rate of interest makes the venture unattractive. According to the recent study made on the SME sector in Sri Lanka, over 85% of them have identified procurement of capital as the area in which they needed most support to succeed in business.

The sector has a weak institutional base due to lack of management skills. Management skills are the critical success factors in all of businesses thus small business has no exception. Small business does not mean that they are scaled down version of big business. It has to deal with all most all the functions that large businesses have to deal. So, lack of managerial skills of owner/manager may hamper the progress of the business.

The use of obsolete or inappropriate technology results in low productivity, low quality of products and a high rate of rejection of products resulting in higher costs to the producer and a reduction in market competitiveness. Again this is also due to the weak financial base and lack of managerial skills. The weak financial position may hampers the upgrading of technology expansion of production capacity production efficiency and does not allow the firm to go for new and sophisticated technology and spending on training and development of its work force to increase the productivity. In some cases, although funds are available the management does not utilize them in areas such as training and development as the management do not understand the positive impact of training on business success.

The lack of SME policies and institutional support to protect and encourage SMEs are also hampers the progress of this sector. Specially, small businesses are vulnerable to the changes in the environment. Due to the inherent nature of smallness it will not be able to compete with big businesses. For example with the introduction of open economic policies in 1977 a large number

of handloom textile enterprises had to be abandoned by owners. So the lack of clear policies incentives and institutional support will reduce the survival rate and progress of ventures in this sector.

Therefore the contribution of SMEs to the national economy in Sri Lanka is still low when compared with the other developed and developing countries in the region.

Conclusion

The SME sector in Sri Lanka plays a vital role as in other developing nations. The Sri Lanka government has an intention to expand the SME sector capacity further because it has been identified as an one way to assure the flow of benefits from the international trade to the grass root level. Improving the efficiency of trading facilitation is a one of the key step taken to develop SME sector in Sri Lanka. The efficiency increasing of customs documentation procedure is an important activity in this step.

But only this activity will not enough for the expansion of SME sector in Sri Lanka and for the field of Trade Finance Facilitation must be an active factor in SME sector development. High bank interest rate compare to other countries in the region and collectoral securities to obtain capital for technology development of SME, are another trade finance barriers to expansion of SME sector in Sri Lanka.

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