

# Foreword

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## **Doing Business in Sri Lanka. A Construction Perspective.**

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# Contents

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<b>1.0</b>	<b>Basic Country Data</b>	<b>1</b>
<b>2.0</b>	<b>Sri Lanka At A Glance</b>	<b>5</b>
2.1	Geography & Climate	5
2.2	History	5
2.3	Government	5
<b>3.0</b>	<b>Construction Outlook &amp; Opportunities</b>	<b>6</b>
3.1	The Construction Scenario	6
3.2	Project Financing For Infrastructure Projects And Prospects	7
3.2.1	Multilateral Funding Agencies	7
3.2.2	Bilateral Funders	7
3.2.3	List of Projects	8
3.3	Infrastructure Sector Prospects And Strategies	11
3.3.1	Roads, Highways and Expressway	11
3.3.2	Railways	12
3.3.3	Ports	12
3.3.4	Airports	12
3.3.5	Power and Energy Sector	13
3.3.6	Water Supply And Waste Water Treatment	14
3.3.7	Building Construction - Housing and Commercial & Tourism	14
3.4	International Competitive Bidding and Public Private Participation (PPP)	15
3.5	Malaysian Companies Currently Active In Sri Lanka	15
<b>4.0</b>	<b>Structures For Doing Business</b>	<b>16</b>
4.1	Regulatory framework for the enterprise	16
4.1.1	Private Limited Company	16
4.1.2	Public Companies	17
4.1.3	Offshore Companies	17
4.1.4	Subsidiaries	17
4.1.5	Branches	17
4.1.6	Liaison/Representative Offices	17
4.1.7	Joint Venture Company	17
4.2	Forms of Investment Permitted	18
<b>5.0</b>	<b>Structures For Doing Construction Business</b>	<b>19</b>
5.1	Local Construction Industry	19
5.2	Registration of Contractors	19
5.3	Registration of a Construction Company	19
5.4	Procurement Procedures	19
5.4.1	Multilateral Funding Agencies	19
5.4.2	Bilateral Loan Enabled Opportunities	20
5.4.3	National Procurement Agency	20

<b>6.0</b>	<b>Economic Overview</b>	21
6.1	Gross Domestic Product	21
6.2	Investment Climate	22
6.2.1	Challenges and Opportunities	22
6.2.1.1	Market Challenges	22
6.2.1.2	Market Opportunities	23
6.2.1.3	The Strengths	23
6.2.1.4	The Risks	24
6.2.2	The World Bank Report On Ease of Doing Business	24
6.2.2.1	Background	24
6.2.2.2	Doing Business in South Asia	25
6.2.2.3	Doing Business - Global Ranking	25
6.2.3	Open Economy and Freedom	26
6.2.4	Market Entry Strategy	27
<b>7.0</b>	<b>Travelling to Sri Lanka</b>	28
7.1	Visa	28
7.2	Flights and Airports	29
7.3	Ground Transport	29
7.4	Security and Health	30
7.4.1	Security	30
7.4.2	Health	30
7.5	Climate and Business Attire	30
7.5.1	Climate	30
7.5.2	Business Attire	31
7.6	Business Hours and Public Holidays	32
7.7	Tipping	33
7.8	Time Zone	33
7.9	Telecommunication	33
7.10	Currency	33
7.11	Electricity	33
7.12	Hotels	34
7.13	Malaysian High Commission	34
7.14	Board of Investment of Sri Lanka	34
<b>8.0</b>	<b>Finance and Banking</b>	35
<b>9.0</b>	<b>Labor, Legislation, Relation And Supply</b>	36
9.1	Recruitment, Retaining and Retirement	36
9.2	Contract and Employment	36
9.3	Normal Working Days, Night work and Overtime	36
9.4	Leaves	36
9.4.1	Vacation Leave	36
9.4.2	Casual Leave	37
9.4.3	Sick Leave	37
9.4.4	Maternity Leave	37

9.5	Superannuation and Retirement Benefits	37
9.5.1	Employees Provident Fund	37
9.5.2	Employees Trust Fund	37
9.5.3	Gratuity	37
9.6	Health and Safety for Workers	38
9.7	Termination of Employment	38
<b>10.0</b>	<b>Taxation</b>	39
10.1	Overview	39
10.2	Tax Administrative System	39
10.3	Direct Taxation	39
10.3.1	Income Tax	39
10.3.1.1	Income tax of Individual	40
10.3.1.2	Income tax of Company	40
10.3.1.3	Withholding Tax	41
10.3.1.4	Other Taxes on Corporation	42
10.3.1.5	Value Added Tax	42
	<b>Acknowledgement and Sources</b>	43

# SECTION A

## 1.0 BASIC COUNTRY DATA



- Location** : The latitudinal and longitudinal extent of the country is 7° North and 81° East respectively.  
The island of Sri Lanka lies in the Indian Ocean, to the southwest of the Bay of Bengal. Major cities in Sri Lanka are Colombo, Galle, Kandy, Nuwara Eliya and Bentota.
- Area** : 65,610 sq. km
- Land Area** : The land area covered is 64,740 square kilometers. The remaining 870 kilometers is covered by water bodies. 1,340 kilometers make up of the coastline of the country.
- Population** : 21,513,990 ( July 2010 est.)
- Population density** : 308.4 inhabitants per sq km
- Capital** : Colombo
- Administrative Division** : 9 provinces; Central, Eastern, North Central, Northern, North Western, Sabaragamuwa, Southern, Uva, Western and 25 districts.
- Time zone** : GMT + 5.30 hours
- Principal languages** : Sinhala (official and national language) - 74%,  
Tamil (national language) -18%,  
Others - 8%  
English is commonly used in government and is spoken competently by about 10% of the population.
- Principal religions** : Buddhist - 69.1%, Muslim - 7.6%, Hindu - 7.1%, Christian - 6.2% and unspecified -10%
- Education and literacy** : Sri Lanka's literacy rate stands at 90.7%.  
Female : 89.1%  
Male : 92.3%  
(source from [www.cia.gov](http://www.cia.gov))
- Currency** : Sri Lanka Rupee (LKR, symbol Rp)
- Measures** : Metric system
- Business hours** : Sri Lanka works five days a week from Monday to Friday. Business hours are from 0900 to 1700 hours with an hour taken for lunch.
- Credit Cards** : VISA, MasterCard, American Express
- National Airlines** : Sri Lankan Airways  
The flight duration from Kuala Lumpur to Colombo is about 3 hours 10 minutes.

- Other Flight Carriers** : The other direct carriers from Kuala Lumpur to Colombo and return are:  
 Air Asia - daily flights  
 Malaysian Airlines - flies direct to Colombo on Thursdays and via Male on Mondays, Wednesday, Fridays and Saturdays. Return flights from Colombo are on Mondays, Wednesdays, Fridays and Saturdays.  
 Source : [http://www.malaysiaairlines.com/uploads/en/downloads/common/etable\\_may.pdf](http://www.malaysiaairlines.com/uploads/en/downloads/common/etable_may.pdf)  
 (15 April 2010)
- Airports** : Bandaranaike International Airport, Katunayake, Colombo
- Railway network** : The Railway network comprises nine lines radiating from Colombo, which connect most major population and industrial centers.
- Road network** : Sri Lanka has total road network of 97,286 kilometers.
- |                  |                   |
|------------------|-------------------|
| National Roads   | 11,600km (12.5%)  |
| Provincial Roads | 16,523km (17.8%)  |
| Rural Roads      | 64,658km (69.68%) |
- Ports and Harbours** : Sri Lanka has three deep-water ports, at Colombo, Galle, and Trincomalee.
- Exchange rate** : USD1~112.79 LKR  
 RM1~35.0062 LKR  
 (source: from yahoo currency converter on 22.07.2010)

## 1.2 Comparison With Malaysia

ITEM/COUNTRY	SRI LANKA	MALAYSIA
Population	21,513,990 <i>(July 2010 est.)</i>	26,160,256 <i>(July 2010 est.)</i>
Land Size	65,610 sq. km	329,847sq. km
Reserves of Foreign Exchange and Gold	USD5.12 billion <i>(30 November 2009 est.)</i>	USD95.5 billion <i>(31 December 2009 est.)</i>
GDP – Per Capita	USD4,500 <i>(2009 est.)</i>	USD14,800 <i>(2009 est.)</i>
GDP – Real Growth Rate	3.5% <i>(2009 est.)</i>	-0.9% <i>(2009 est.)</i>
Debt - External	USD19.45 billion <i>(31 December 2009 est.)</i>	USD4.157billion <i>(31 December 2009 est.)</i>
Inflation (consumer prices)	3.4% <i>(2009 est.)</i>	-0.7% <i>(2009 est.)</i>
Labour Force	7.572 million <i>(2009 est.)</i>	11.38 million <i>(2009 est.)</i>
Corruption Perception Index Ranking (2009) [ out of 180 countries ]	97	56

Source : [www.cia.gov](http://www.cia.gov) (info correct as at 20th July 2010) & [en.wikipedia.org/wiki/Corruption\\_Perception\\_Index](http://en.wikipedia.org/wiki/Corruption_Perception_Index) (info correct as at 22 July 2010).

## SECTION B

### 2.0 SRI LANKA AT A GLANCE

#### 2.1 Geography & Climate

Sri Lanka, (Democratic Socialist Republic of Sri Lanka) traditionally known as Ceylon, is an island in the Indian Ocean, lying off the southeastern tip of the Indian subcontinent. Colombo, situated on the western coast, is the largest city and the commercial capital of Sri Lanka. The capital city is Sri Jayawardenapura Kotte. Sri Lanka measures 435km north to south and 224km east to west, covering a total area of 65,610sq. km. The island's strategic location in the Indian Ocean on the major air and sea routes between Europe and the Far East, gives it an advantage as a global logistics hub. Sri Lanka has a pleasant tropical climate with two climatic zones - the wet and the dry. Temperatures range from 23-30 degrees Celsius in the lowlands and 10-20 degrees Celsius in the hill country. The average temperature in the country is approximately 27 degrees Celsius.

The population of Sri Lanka is about 21.5 million (2010 estimates). Sri Lanka is a multi-ethnic, multi religious country with a diverse and rich culture. The Sinhalese, the majority community, comprise 74% of the country's estimated 21.5 million population. The other ethnic groups that are part of Sri Lanka's social fabric are the Sri Lankan Tamils, Indian Tamils, Moors & other minorities including Malays and Burghers. Each of these groups has its own identity, customs and traditions. The two official languages are Sinhala and Tamil. Sinhala is the language of the majority of the population. Tamil is widely used in the northern and eastern parts of the country. English is widely spoken and understood in the urban centres. It is the language of business and commerce.

#### 2.2 History

The actual origins of the Sinhalese are shrouded in myth. Most believe they came to Sri Lanka from northern India during the 6th century BC. Buddhism arrived from the subcontinent 300 years later and spread rapidly. Buddhism and a sophisticated system of irrigation became the pillars of classical Sinhalese civilization (200 BC-1200 AD) that flourished in the north-central part of the island. Invasions from southern India, combined with internecine strife, pushed Sinhalese kingdoms southward.

The island's contact with the outside world began early. Roman sailors called the island Taprobane. Arab traders knew it as "Serendip," the root of the word "serendipity." Beginning in 1505, Portuguese traders, in search of cinnamon and other spices, seized the island's coastal areas and spread Catholicism. The Dutch supplanted the Portuguese in 1658. Although the British ejected the Dutch in 1796, Dutch law remains an important part of Sri Lankan jurisprudence. In 1815, the British defeated the king of Kandy, last of the native rulers, and created the Crown Colony of Ceylon. They established a plantation economy based on tea, rubber, and coconuts. In 1931, the British granted Ceylon limited self-rule and a universal franchise. Ceylon became independent on February 4, 1948.

#### 2.3 Government

The Constitution of Sri Lanka establishes a democratic, socialist republic in Sri Lanka, which is also a unitary state. The government is a mixture of the presidential system and the parliamentary system. The President of Sri Lanka is the head of state, the commander in chief of the armed forces, as well as head of government, and is popularly elected for a six-year term.

## SECTION C

### 3.0 CONSTRUCTION OUTLOOK & OPPORTUNITIES

#### 3.1 The Construction Scenario

##### a. The Past

Sri Lanka is categorized as a lower middle income developing nation with a Gross Domestic Product (GDP) of USD41 billion with a per capita income of USD2000. In 1978, Sri Lanka shifted away from a socialist orientation and opened its economy to foreign investment. The Sri Lankan economy had been quite resilient in that, despite a brutal civil war that began in 1983, the economic growth averaged around 4.5% although there was a contraction of a negative 1.4% growth in 2001.

The economic situation faltered in 2009 due to the global credit crisis. The economy in the recent past had been hampered by the civil conflict, high government expenditure, and high inflation and interest rates. Sri Lankan exchange reserves suffered a major blow with the unsuccessful effort by the government to defend the Sri Lankan rupee and coupled with large deficit in current accounts due to high commodity and oil prices in 2008, the Sri Lankan governance was forced to seek the support of the International Monetary Fund of USD2.5 billion in 2009.

##### b. The Post-War Prospects

With the conflict in the north and east finally over, Sri Lanka has now focused on nation building with investments being channeled for priority development, in particular, infrastructure development and the post-conflict reconstruction. This priority of the nation is expected to trigger a construction boom. The construction sector growth is expected to surpass the forecasted growth in GDP of 7 to 8 percent the next five years. The Ministry of Finance and Planning has planned over USD18 billion worth of construction related projects during the period of 2010 till 2012.

The government has launched the Presidents broad economy strategy through the "Mahinda Chintana" (Mahinda's Thoughts) to guide the economic policy and raise the level to a middle income economy. The government has developed a 10-year development framework to boost growth through a combination of large infrastructure projects and productivity in the manufacturing, agriculture and services industries.

Sri Lanka is currently experiencing a substantial level of Foreign Development Investment (FDI) and International Donor support for its extensive and wide ranging reconstruction programs in the North and East of the country. The option of Public Private Participation (PPP) venture, between the Sri Lankan Government and foreign companies is strongly encouraged. Totally-owned foreign investment proposals are also equally welcome.

The opportunities have been identified in the following areas:

1. Roads and bridges
2. Railway rehabilitation
3. Water and wastewater treatment
4. Urban drainage and river protection
5. Port development and expansion
6. Airport expansion
7. Residential and commercial buildings.

The Sri Lanka government has relied very heavily on donor assistance for the rehabilitation, reconstruction and development of its infrastructures. It has been a recipient of support from multilateral agencies (viz. The World Bank and The Asian Development Bank). Major Bilateral Funders are China, Japan, Sweden, Germany, India, Korea, The United States of America and Canada.

### **3.2 Project Financing For Infrastructure Projects and Prospects**

The core of the government's 10-year development plan (Mahinda Chintana) is to achieve high growth through investment in large-scale infrastructures, rural development, knowledge economy and post-war infrastructure development. The support of financing from International funding agencies will focus on the three years Country Operations Business Plan (COBP) 2010-2012. The COBP focuses on infrastructure, including roads and highways, water-supply, railroads, housing and power with much of it in the conflict- affected area.

#### **3.2.1 Multi Lateral Funding Agencies**

Sri Lanka has been a recipient of donor support from the World Bank through the International Development Association (IDA) credit and additional funding required for major infrastructure development from the International Bank for Reconstruction and Development (IBRD). The International Development Association (IDA) is a credit window that a country looks at when it is poor and is often interest free but undergoes vigorous assessment. The Sri Lankan government is now shifting its policy and is soliciting for more IBRD credit for long term funding at competitive rates for additional major projects.

Similarly the Asian Development Bank has been seen as another large donor supporter for infrastructure development in Sri Lanka for the last four decades.

#### **3.2.2 Bilateral Funders**

The major bilateral fund supporters for infrastructure development are Japan, China and India. These countries provide funds on soft terms tied to provide a distinct advantage to service providers from their respective countries.

##### **a. Japan**

Japan has been able to secure opportunities in the development of some packages in the Southern Expressway and the Development of the Upper Kottlemale Hydropower project.

## b. China

The China's Export Import Bank has become a financier of infrastructure development in Sri Lanka. The EXIM Bank of China provides loans at near commercial terms of 6% a year or higher with added fees. The Bank has an advantage over the other international capital markets in that Sri Lanka, considered as The EXIM Bank's "preferential credit buyers" has long repayment terms of up to 20 years. With this strategy China has been able to secure projects in construction of a seaport, an airport, a coal power complex, roads and railways in Sri Lanka. In 2009, China committed USD1.2billion out of Sri Lanka's USD2.2billion foreign aid. China is now involved in the following projects:-

No	Name of Project	Cost (USD million)
a.	The Hambantota Port Phase 1	360
b.	The Colombo - Katunayake Expressway	248
c.	The Norochcholia Coal Power Plant	855
d.	Improvement to Railways	100
e.	Flood Protection System - Colombo	59
f.	The Construction of Mattala Airport	190
g.	New Container Terminal - Colombo Port	Under negotiation

## c. India

India has now emerged as a large donor to Sri Lanka and has supported with a USD1billion credit. India is providing a soft loan of USD800 million for railway projects and USD200 million for a power project including a jetty in return for the construction contracts awarded to Indian firms. Other projects designated under the terms are the rehabilitation of Pallali Airport and Kankasanthurai Harbour in Northern Jaffna.

### 3.2.3 LIST OF PROJECTS

A full list of projects funded by donors financing such as Asian Development Bank (ADB), World Bank, Japan International Cooperation Agency (JICA) and Japan Bank For International Cooperation (JBIC) are as per the table following:-

Development Partner	Project	Cost	Project Status
Asian Development Bank (ADB)	Loan: Secondary Towns and Rural Community-Based Water Supply and Sanitation Project (Supplementary Loan II) - Fund Source from ADB & Ordinary Capital Resources	USD14.6 million	Proposed
	Loan: North East Coastal Community Development Project (Supplementary) - Fund source from ADB	USD20 million	Proposed
	Loan: Multimodal Transport - Fund source from Ordinary Capital Resources	USD80 million	Proposed
	Loan: Sustainable Power Sector Support II (Power Sector Generation) - Fund source from ADB & Ordinary Capital Resources	USD120 million	Proposed
	Loan: Jaffna Water Supply and Sanitation Project - Fund source from ADB & Ordinary Capital Resources	USD90 million	Proposed
	Loan: Jaffna Water Supply and Sanitation Project - Fund source from ADB & Ordinary Capital Resources	USD90 million	Proposed
	Loan-2557/2558: Greater Colombo Wastewater Management Project - Fund Source from ADB	USD20 million	Proposed
	TA-4531: Greater Colombo Wastewater Management Project - Fund Source from Japan Special Fund	USD850,000	Proposed
	Supporting Capacity Development for Wastewater Management Services in Colombo- Fund Source from Technical Assistance Special Fund and Water Financing Facility	USD650,000	Proposed
	TA-4736: Capacity Building of the Environmental and Social Division of the Road Development Authority - Fund source from Technical Assistance Special Fund	USD400,000	Proposed
	Loan-1993: Secondary Towns and Rural Community-Based Water Supply and Sanitation - Fund Source from ADB	USD 60.3 million	Proposed
	Loan-2275/2276: Secondary Towns and Rural Community-Based Water Supply and Sanitation Project (Supplementary Loans) - Fund Source from ADB & Ordinary Capital Resources	USD60 million	Proposed
	TA-7140: Assessing Colombo Municipality Wastewater Systems - Fund Source from Technical Assistance Special Fund	USD150,000	Proposed
	Loan-2518/2519: Clean Energy and Access Improvement Project - Fund source from ADB & Ordinary Capital Resources	USD160million	Proposed

Development Partner	Project	Cost	Project Status
Asian Development Bank (ADB)	Loan-2168: North East Community Restoration and Development Project II - Fund source from ADB	USD26 million	Proposed
	Grant-0007: North East Community Restoration and Development Project II Fund source from Swedish T.A. Grant and ABD	USD19.9 million	Proposed
	Loan-2618: North East Community Restoration and Development Project II - Supplementary - Fund source from ADB	USD12.77 million	Proposed
	Grant-0193: North East Community Restoration and Development Program II - Fund source from Australian Grant	USD7.8 million	Proposed
	Loan-2319: Colombo Port Expansion Project (formerly Colombo Port South Harbor Development) - Fund source from Ordinary Capital Resources	USD300 million	Proposed
	Loan-2080: TA Loan for Road Project Preparatory Facility - Fund source from ADB	USD15 million	Proposed
	TA-4296: Basic Social Infrastructure Development- Fund source from Japan Special Fund	USD500,000	Proposed
	Loan-2201: Local Government Infrastructure Improvement Project - Fund source from ADB	USD50 million	Proposed
	Loan-2027: North East Province Coastal Community Development - Fund source from ADB	USD20 million	Proposed
	Loan-1711: Southern Transport Development - Fund source from ADB	USD90 million	Proposed
	Loan-2413: Southern Transport Development Project (Supplementary Financing) - Fund source from Ordinary Capital Resources	USD90 million	Proposed
	TA-7065: Land Use Planning of the Southern Highway Corridor (piggybacked)- Fund source from Technical Assistance Special Fund	USD300,000	Proposed
	Loan-2518/2519: Clean Energy and Access Improvement Project - Fund source from Japan Special Fund	USD1 million	Proposed
	TA-7363: Sustainable Power Sector Support II Project Fund source from Japan Special Fund	USD800,000	Proposed
	Loan-1649: Roads Network Improvement - Fund source from ADB	USD80 million	Proposed
	Loan-2197: Technical Education Development - Fund source from ADB	USD20 million	Proposed
Loan-1986: Road Sector Development Project - Fund source from ADB	USD56.6 million	Proposed	

Development Partner	Project	Cost	Project Status
World Bank	SL - Road Sector Assistance Project	USD144.12 million	Active
	Dam Safety and Water Resources Planning (DSWRPP)	USD69.33 million	Active
	Sri Lanka: North East Housing Reconstruction Program	USD100 million	Active
	Sri Lanka: Road Sector Assistance Project	USD98.1 million	Active
	Renewable Energy for Rural Economic Development	USD125.7 million	Active
	Sri Lanka Education Sector Development Project	USD60 million	Active
	Sri Lanka: Puttalam Housing Project	USD34.2 million	Active
JICA	Pro-Poor Rural Development Project	4,048 million yen	Approved
	Water Sector Development Project	13,231million yen	Approved
	Greater Colombo Urban Transport Development Project	21,917 million yen	Approved
JBIC/ADB	Southern Highway Project Sri Lanka, Sri Lanka from Colombo to Matara	USD741.1 million	Active

Source : <http://pid.adb.org/pid/LoanView.htm?projNo=31501&seqNo=03&typeCd=3>  
<http://www.worldbank.lk/external/default/main>  
[www.jica.go.jp](http://www.jica.go.jp)

### 3.3 Infrastructure Sector Prospect And Strategies

#### 3.3.1 Roads, Highways and Expressway

In Sri Lanka the road infrastructure is managed through the Road Development Authority (RDA) under the Ministry of Highways. The RDA is responsible for the maintenance and development of the National Highway Network which involves the planning, design and construction of new highways, bridges and expressways. Full details and information on bids are published at its website <http://www.rda.gov.lk>.

The proposal expressways for implementation by the Road Development Authority are:-

1. Anuradhapura - Jaffna
2. The Katunayake - Anuradhapura Highway
3. The Colombo - Outer Circular Highway
4. The Southern Expressway Phase 4 (Phase 1-3 has been implemented with funding from ADB and Japan)
5. Extension of Southern Expressway (Matara - Hambantota)
6. The Colombo - Kandy Highways

Other major committed road projects to be launched for construction are:

- i. Anuradhapura - Jaffna
- ii. Upgrading of Karunegala - Trincomalee Highway
- iii. Upgrading of Monaragala - Badulla - Batticalva Highway
- iv. Rehabilitation of Ratnapura - Balangoda - Bandarawale Highway
- v. Mega Neguma road development
- vi. Rehabilitation of Balangoda - Bandarawela Road
- vii. Small and medium Roads
- viii. Maga Neguma Rural Road Development
- ix. Rehabilitation of Ratnapura-Balangoda Road
- x. Construction of Colombo - Kandy Expressway
- xiii. Rehabilitation

### 3.3.2 Railways

The railways are managed by Sri Lanka Railways, an agency under the Ministry of Transport.

The projects planned to be implemented are as follows:-

- a. Rehabilitation of Permanent way with rails and sleepers.
- b. Rehabilitation of Rail Tracks from Valachchene to Batticola
- c. The construction of the railways from Matara to Kataragama Phase I (up to Walasgala)
- d. Other extension plans include the Kurunegala - Dambulla line and Ratnapura - Embilipitiya line.

### 3.3.3 Ports

The port management authority is the Sri Lanka Port Authority under the Ministry of Ports and Aviation. Further information is available at the website <http://www.slpa.lk>.

The development of the Hambantota Port has been assigned to the China Harbour Engineering Corporation (CHEC) whilst negotiations is ongoing with India for the development of Kankasanthurai port. The Colombo Port, New North Pier Development is being enhanced through ADB assistance whilst the Container Terminal development is being implemented through a loan support from EXIM Bank of China. Other port projects in the pipeline are the Galle Regional Port development that is funded through a Japanese Yen credit of USD125 million. The South Harbour development is currently being planned for implementation. Other port facilities being planned are:-

1. Oluvil in the Eastern Region.
2. Rehabilitation of Port of Kankasanthurai and Point Pedro

### 3.3.4 Airports

The Sri Lanka Civil Aviation Authority ([www.caa.lk](http://www.caa.lk)) is the agency responsible for development and operations of the airports in Sri Lanka.

Sri Lanka has implemented the Bandaranayake International Airport Project Phase 1 and the second phase of the airport is expected to be launched when the capacity is reached in 2010.

The scope of works under phase 2 are:-

- a. Construction of new apron and new taxiways
- b. Construction of elevated roadway and roads
- c. Construction of a passenger terminal building of floor area of approximately 104,000 square metres
- d. Construction of public utilities
- e. Renovation works to existing passenger terminal building.

The development of Mattala International Airport in the South is now under construction. The Palali International Airport in the North is now being planned for redevelopment.

The Ministry of Ports and Aviation is the ministry responsible in overseeing the policy and operations and management by the Civil Aviation authority over the 14 airfields.

### 3.3.5 Power and Energy Sector

The Sri Lanka Electricity Board, a state enterprise is responsible for the generation, transmission and operations of electric power in Sri Lanka. Energy supply in Sri Lanka is mainly based on three primary resources:

- (i) wind turbine                      (ii) thermal                      (iii) hydropower

Sri Lanka's total power generation capacity in 2008 was approximately 2,500MW (hydropower around 1,300MW, thermal 1200MW and others at 3MW). The domestic and industrial sector demand is expected to grow with the end of the civil war. The Sri Lanka Electricity Board projects a growth of 7 to 8 percent in the next decade.

The private power producers Independent Power Producers (IPP) generated nearly 33% of the energy requirement of the country in 2006. The Sri Lanka's cost of producing power and energy is reputed to be amongst the highest in the region mainly due to inefficiency and high dependency on oil. The increase expected to be derived from hydropower in the near future will only be marginal. The Sri Lankan government has launched the Upper Kottmale Hydropower station which is expected to generate 150MW. Thus the government has as a medium term solution launched the construction of the Kerawalapitiya Power Plant, a 300MW liquid natural gas-fired plant funded and built with Japanese funding.

The government has also awarded the development of Puttalam Coal Power Project at Norochcholai to China National Machinery & Equipment Import & Export Corporation (CMEC) through a loan provided by EXIM Bank of China. Likewise the Sri Lankan government has assigned the implementation of Trincomalee 500MW Coal fired plant to a joint venture between a Government of India fully owned company and the Sri Lanka Electricity Board.

The Sri Lankan authorities are also focusing on sustainable energy development and priorities are accorded for:-

- a. Small hydropower development
- b. Wind power development
- c. Dendro Power (Biomass: sustainably grown fuel wood)

The Electricity Board has appraised positively proposals from the private sector to develop wind power in particular due to higher wind potential throughout the year. The prospects in transmission remain high as the development of new power plants will be in tandem with current plans to upgrade the transmission line network in order to improve the efficiency as well as to increase the current penetration of 85% to 100%.

The Asian Development Bank has approved loans under the Power Sector Development Project on a case by case basis and a list of this projects are available at its website. Further information can be obtained at the following sites - Sri Lanka Electricity Board [www.ceb.lk](http://www.ceb.lk) and Asian Development Bank [www.adb.org/srilanka/projects.asp](http://www.adb.org/srilanka/projects.asp).

### 3.3.6 Water Supply and Waste Water Treatments

The current water network in Sri Lanka has a direct coverage of about 30% of the population with a further 30% covered by community facilities. Plans have been drawn up to enhance this capacity and current projects include the development of integrated water and disposal facilities in Colombo, Negombo, Galle and Kandy including the Puttalam Development Project. Loans from ADB and JICA have been secured for these projects.

The Greater Colombo Sewage Rehabilitation, Flood Control and Environmental Improvement Projects are currently being implemented in stages with funds from ADB. Other projects are the improvement of the Mattara Water Supply and the Colombo Non-Revenue Water (NRW) reduction schemes.

Further informations are available from the agency responsible, the National Water Supply & Drainage Board at its website: [www.waterboard.lk](http://www.waterboard.lk).

### 3.3.7 Building Construction - Housing and Commercial & Tourism

1. The end of the civil conflict and the global financial crisis, and the government's massive investment in infrastructure has naturally brought in a rise in the growth in demand for mass housing, residential, commercial, and tourism facilities. The post-tsunami rehabilitation and reconstruction of the war ravaged northern and eastern regions have equally contributed to the demand.

The Asian Development Bank has provided loans for housing in the tsunami affected regions and now for the reconstruction in the war ravaged regions. The Chinese government through the EXIM Bank of China has enabled Chinese participation in mass housing. Similar provisions such as the Puttalam Housing Project have also evolved through the International Development Association. The housing program here is managed through the Ministry of Resettlement.

2. Urban Development has become an attractive proposition in Colombo, Kandy, Galle and Jaffna for property development such as urban townships, shopping and commercial complexes, and social facilities like hospitals.
3. There is also now a strong desire to further develop the tourism potential in Sri Lanka. The targeted increase in the room capacity is from the current 14,000 to 50,000 by the year 2016. The objective is to develop high end tourism focusing on the country's natural assets including beaches, wildlife, and heritage. Currently high priority is allocated for the development of resorts in Kuchchaveli, Passikudah and Kalpitiya on the east coast and there is land availability for hotel development in beach front locations. There are also other equally attractive locations in areas across Sri Lanka.
4. The city of Hambantota has bid to host the Commonwealth Games in 2018 and it is also currently being developed as a sports hub in the region. There will be plenty of business opportunities for construction firms in the event the city is successful in the bidding process.

The Ministry of Construction and Engineering Services publishes informations on projects and bids at its website: [www.constructionmin.gov.lk](http://www.constructionmin.gov.lk).

### 3.4 International Competitive Bidding and Public Private Participation

1. As narrated earlier, a large number of the infrastructure projects are funded by loans from multilateral and bilateral funding agencies including Asian Development Bank, The World Bank and Japan Bank for International Cooperation (JBIC). These agencies are currently assessing project viability in the transport (road and rail), water & waste management and power (including power generation and upgrading of transmission) sectors. These large projects offer opportunities through International Competitive Bidding.
2. The Government of Sri Lanka is very keen to accelerate the development of infrastructures and is thus keen to attract more international companies into the market. The government provides firm contract guarantees if the companies are able to organize funding packages upfront to deliver the work. Thus countries like China, India, Korea and Japan have facilitated companies that have the capacity and capabilities to fully exploit the opportunities offered.
3. The Public Private Partnership (PPP) policy is relatively a new approach to developing projects in Sri Lanka. The government is now facilitating this development strategy through the Board of Investments and the procedures have developed to launch the development of infrastructure projects. Some information is available at the Board of Investment website: [www.boi.gov.lk](http://www.boi.gov.lk).

### 3.5 Malaysian Companies Currently Active in Sri Lanka

Construction Company	Bank
1. MTD Construction HeiTech Padu Bhd	1. Public Bank Berhad
2. Dialog Telekom Plc	
3. HCM Engineering Sdn Bhd	
4. Jetson	
5. Salcon Berhad	
6. Sunway Holdings	

## SECTION D

### 4.0 STRUCTURES FOR DOING BUSINESS

#### 4.1 Regulatory Framework for the Incorporation of an Enterprise in Sri Lanka

The Companies Act (No. 7 of 2007) contains the rules, procedures, accounting and reporting requirements for companies incorporated or registered in Sri Lanka. The registration of companies, filing of accounts and annual returns are done with the Registrar of Companies.

Foreign investors and other commercial entities may establish their business presence in Sri Lanka in any of the following forms through the Registrar of Companies. The details for registration can be obtained from the Registrar of Companies and it is also possible to register online through the website [www.drc.gov.lk/App/ComReg.nsf?Open](http://www.drc.gov.lk/App/ComReg.nsf?Open)

In Sri Lanka the most suitable form of entity for foreign investors and commercial entities are Private and Public Limited Liability Companies in view of the following reasons:-

- i. Liability of each shareholder is limited to the amount he has undertaken to subscribe for his shares or by way of guarantee
- ii. Limited liability in the event of insolvency.

The Sri Lankan government permits up to 100% foreign participation in many sectors of the economy particularly banking, finance, insurance, stock-brokering, construction of residential buildings and roads, water supply, mass transportation, telecommunication, information technology, and energy production. The government also permits the establishment of liaison offices or local branches of foreign companies.

As per The Companies Act (No. 7 of 2007) the following types of commercial entities are allowed:

- a. Private Limited Companies
- b. Public Limited Liability Companies
- c. Offshore Companies
- d. Subsidiaries
- e. Branches
- f. Liaison/Representative Offices
- g. Joint Venture Companies

##### 4.1.1 Private Limited Companies

A private company must consist of at least two and not more than fifty members. It must have at least one director. A private company cannot invite public subscription for its shares.

#### 4.1.2 Public Companies

At least seven members are required to form a public company (there is no upper limit). It must have at least two directors. Public companies may invite public subscriptions for their shares or debentures and other securities, and can also be listed on the stock exchange. They cannot commence business without a business commencement certificate.

#### 4.1.3 Offshore Companies

Any company incorporated in Sri Lanka or outside Sri Lanka may apply to the Registrar to be registered as an Offshore Company. The Registrar may have regard to national interest or in the interest of the national economy issue a certificate of Registration after the required fee is paid and a certificate is produced from a bank that a sum of USD100,000 has been deposited to meet its expenses in Sri Lanka.

An Offshore Company cannot carry out business in Sri Lanka. Such Company will be exempt from complying with any other provisions of the Companies Act and are not subject to Exchange Control regulations.

#### 4.1.4 Subsidiaries

To establish a business in Sri Lanka foreign companies can incorporate as a local subsidiary company. Following incorporation, a subsidiary in Sri Lanka must comply with all statutory requirements imposed on domestic companies.

#### 4.1.5 Branches

A company incorporated outside Sri Lanka may establish a place of business in Sri Lanka by registering a branch office with the Registrar of Companies. Applications for registration must be made within one month of establishing a place of business in Sri Lanka. Generally, approval from the relevant line ministry would be required before the registration can be completed. The liability of a branch extends to its foreign assets.

#### 4.1.6 Liaison/Representative Offices

A company incorporated outside Sri Lanka may maintain its presence in Sri Lanka through a representative office, and is of similar status to that of a branch office. It is however, prohibited from engaging in any trading or investment activity or accruing any turnover in Sri Lanka. No tax incident arises since it is not permitted to trade. Therefore, the question of permanent establishment is not relevant.

#### 4.1.7 Joint Venture Company

A joint venture can be with other Sri Lankan companies or foreign entities. A joint venture business may be incorporated or carried on as an unincorporated business similar to that of a partnership. Joint ventures have become popular in recent years; particularly in export oriented projects.

## 4.2 Forms of Investment Permitted

The Board of Investment (BOI) ([www.boi.lk](http://www.boi.lk)), an autonomous statutory agency, is the primary government authority responsible for investment, with a focus on foreign investment. The BOI acts as a facilitator for investment and is intended to provide "one-stop" service for foreign investors with duties including approving projects, granting incentives and arranging the supporting utility services.

The government allows 100% foreign investment in the construction and operation of infrastructures such as residential buildings, roads, water supply, mass transportation, energy production and distribution and professional services. These services are however regulated and subject to approval by various government agencies. Investment in other sectors is restricted and subject to screening and approval on a case-by-case basis when foreign equity exceeds 49%.

The current government has halted most privatization. Government treatment of foreign investors in past privatization has been largely non-discriminatory. The labour unions in state-owned enterprises are often opposed to privatization and restructuring and are particularly against foreign ownership.

Foreign investors cannot invest in business as sole proprietorship, enter into partnerships or joint ventures (other than on foreign funded projects for Government Agencies) etc. where the formalities of commencing a business are less but not recommended since the liability for debts are unlimited.

# SECTION E

## 5.0 STRUCTURES FOR DOING A CONSTRUCTION BUSINESS

### 5.1 Local Construction Industry

The government of Sri Lanka has established The Institute for Construction Training and Development (ICTAD) to develop and promote the domestic construction industry, contractors, professionals and the workforce. Thus ICTAD is established as a key stakeholder of the Sri Lanka construction industry. It is an agency of the Ministry of Construction, Engineering Services, Housing and Common Amenities. Amongst its functions are:

- a) registration of Contractors
- b) provide advisory services on construction related matters to government and other key stakeholders
- c) construction equipment operator training
- d) skills and supervisor training
- e) leasing of construction machineries and plants
- f) provide recognition of outstanding contributors to the industry
- g) act as an information hub for the industry
- h) development of standards, specifications, guidelines and regulations

The stakeholders in the construction industry have established the Chambers of Construction Industry Sri Lanka, which comprises of the National Construction Contractors Association of Sri Lanka and other related professional institutions and real estate developers.

### 5.2 Registration of Contractors

ICTAD registration is mandatory for obtaining government contracts. The contractor's registration scheme is determined by technical and financial capabilities of the contractors. The grades of contractors are from C1 to C11, C1 being the highest grade and C11 being the equivalent to Class "F" contractors in Malaysia.

### 5.3 Registration of a Construction Company

There is no restriction in foreign ownership of a company in Sri Lanka and can operate under 100% ownership. It is recommended that foreigners form a private limited company for this purpose and register with ICTAD to obtain their contractor's license. Joint venture companies with a local company owning 51% equity and above will enjoy the benefits in procurement considerations as a local company.

### 5.4 Procurement Procedures

#### 5.4.1 Multilateral Funding Agencies

Construction opportunities for foreign contractors largely arise from the large number of projects funded by international funding agencies namely the International Bank for Reconstruction and Development (IBRD), the Asian Development Bank (ADB), the Japanese Bank for International Cooperation (JBIC) and Japan International Cooperation Agency (JICA).

Multilateral funding agencies have issued their guidelines for procurement. The ADB stipulates that all works above USD7.5 million and goods above USD0.5 million shall be through International Competitive Bidding (ICB) and all works and goods beneath the stated amount shall be through National Competitive Bidding (NCB).

The works and goods bids are evaluated through post qualifications both for ICB and NCB but under certain circumstances, prequalification is explicitly provided for in the loan agreement. All bidding for International and National Competitive Bidding shall not be restricted to pre-registered firms under the national registration system of the Institute for Construction Training and Development (ICTAD), and if it is required prior to award of contract, the bidders shall be allowed reasonable time to complete the ICTAD registration process and shall not be denied in any way due to reasons for capability and resources related to successfully perform the contract.

The multilateral funding agencies' guidelines stipulate that no preference of any kind shall be given to domestic bidders or for domestically manufactured goods.

#### **5.4.2 Bilateral Loan Enabled Opportunities**

The Sri Lankan Cabinet has approved a number of large projects under the Design and Build concept to several countries on the basis of credit support to fund the project by the country concerned. In this respect India has provided credit facilities to Sri Lanka to develop and rehabilitate the railways by Indian concerns and likewise several highway projects including the Hambantota port development has been assigned to Chinese contractors with loan support from the EXIM Bank of China.

#### **5.4.3 National Procurement Agency**

The Sri Lankan government, with support from the United Nations Procurement Capacity Development Centre, has established the National Procurement Agency (NPA) and published guidelines and manuals. Further information on NPA is available at the NPA website [www.npa.gov.lk](http://www.npa.gov.lk). However in recent times the political will and goal to maintain the objectives of establishing NPA has waned.

Amongst the guidelines issued by the NPA in its manual, that, in the case of goods or works contracts, when procurement is carried out using Government of Sri Lanka funds, and wherein foreign bidders are allowed to participate, then domestic preference shall be invoked if the bid price of the domestic bidder is within an established margin (currently 7.5%) of the foreign bidder.

## SECTION F

### 6.0 ECONOMY OVERVIEW

#### 6.1 Gross Domestic Product (GDP)

The Sri Lankan government, since 1977, has adopted a more open market and export oriented policies including encouragement of foreign investment. The civil war that began in 1983 affected very much the country's economy although Sri Lanka recorded an average GDP growth of nearly 4.5 percent in the last 10 years. Sri Lanka's most dynamic sectors are food processing, textiles & apparel, and food & beverages. Remittances from Sri Lankans abroad account for USD2.5 billion a year.

However, chronic large budget deficits and reliance on short-term external borrowings in recent years and the 2008-2009 global financial crisis and recession exposed Sri Lanka's economic vulnerabilities. Severe losses of foreign exchange reserves and a domestic downturn early in 2009 threatened an economic crisis and a recovery program was launched with financing supported by the International Monetary Fund.

The end of the 30 year internal conflict in May, coinciding with global economic improvement, marked a major turning point, reflecting in an immediate restoration of investor confidence and sparking an economic rebound. The Sri Lankan Stock Market gained nearly 100% in 2009 and was one of the best performers in the world. Overall, the economic outlook is positive, despite large budget deficits weighed down by reconstruction costs due to the long period of internal conflict.

The economy of Sri Lanka grew by 3.5% in 2009. Inflation had peaked at 28.2% in June 2009 driven by high fuel and food costs, but declines in these costs saw inflation at about 1% by mid 2009, resulting in an overate inflation rate of 3.4% in 2009. The trend in growth momentum is expected to be sustained in the coming years with reforms towards greater investor confidence being brought in place. Sri Lanka's economy is projected to grow by 6% in 2010 and 7% in 2011 assuming tax reforms and fiscal consolidation will achieve fiscal deficit targets, sustaining investor confidence.

It could be inferred that the economic performance will still depend on global economic conditions, demand for Sri Lankan goods and services, the ability to attract foreign finances, and the course of the conflict. The government headed by President Mahinda Rajapaksa is a coalition of political parties with varied interests. Its 104 ministers and deputies oversee overlapping and often inefficient bureaucracies. The economy will perform with greater vigour if the political will to initiate positive reforms for a greater investor climate coupled with a bureaucracy that supports the changes sustains.

## 6.2 Investment Climate

### 6.2.1 Challenges and Opportunities

#### 6.2.1.1 Market Challenges

- a. The uncertainty following the protracted ethnic conflict has stifled very much the progress towards changes in the investment climate and business.
- b. The Sri Lankan bureaucracy is perceived as overstuffed and inefficient. The unaccountable ministerial leadership has been responsible for poor tender procedures, corruption, slow decision making and government failure to honour commitments. Efforts to improve the procurement procedures through the established national procurement agency met with resistance and the effort has not achieved the desired goal.
- c. There is an increasing bias in favour of local investors.
- d. Profitable sectors are taxed heavily and are thus a major disadvantage to companies not entitled to special incentives.
- e. New and increased taxes have elevated very steeply the effective import duty structure, negatively reflecting Sri Lanka's previous liberalisation of trade and investment. Temporary foreign exchange contracts have been introduced on certain imports.
- f. The quality of the road infrastructure is still well below par and inadequate to support growth. Power supply, in the areas beyond the capital city is unreliable and forces manufacturers and service providers to install on-site generators.
- g. Qualified professionals are in short supply as the education system does not focus in producing English speaking engineers, technicians and scientists. There has been substantial migration due to the protracted civil conflict.
- h. The labour laws are quite rigid with exceptionally high severance pay regulations. The trade unions are seldom supportive to management's strive for productivity improvement measures.

### 6.2.1.2 Market Opportunities

- a. The private sector has taken over the role as the prime mover of the economy growth with the focus on the services sectors in particular telecommunications, transport, international trade, banking and industrial exports of apparels, ceramics, gems and tea. Sri Lanka's strategic location on container route has not been exploited to its full potential. Sri Lanka offers incentives to investors.
- b. Sri Lanka's focus to end the civil conflict has resulted in neglect on its infrastructure development. Thus now Sri Lanka offers great potential in infrastructure development in respect of roads, power, rails, water, ports and airports.
- c. The end of the conflict now has brought in the agenda of reconstruction of the infrastructure and housing facilities in the war ravaged regions. The potentials for investors in this region in respect of the services and industrial sector promises great construction opportunities to support the need for infrastructure, housing and commercial facilities.

### 6.2.1.3 The Strengths

- a. Sri Lanka can still be cited for a high performing economy with the GDP averaging 5% over the past five years.
- b. With its centralized location, Sri Lanka has been considered as a logistical hub for the South Asian's region.
- c. The World Bank in its report on "Doing Business 2010-Sri Lanka" rates Sri Lanka the highest ranking in South Asia for "ease of doing business".
- d. The India-Sri Lanka and Pakistan-Sri Lanka Free Trade Agreements have established Sri Lanka as a gateway country to vast Indian and Pakistan markets.
- e. Sri Lanka offers a highly educated and skilled workforce.
- f. English seems to be the preferred language for commercial and business communication.
- g. Sri Lanka is a member of the British Commonwealth and the commercial law is based on British Law.

#### 6.2.1.4 The Risks

- a. The current government, headed by President Mahinda Rajapaksa is a coalition of political parties with varied interests. This does not allow decisive policy making towards positive reforms including monetary policies for investor friendly market.
- b. There are plenty of reforms that need to be made on both the macro and microeconomic levels in particular reducing the corporate tax and the bureaucracy for starting a business before foreign direct investment would gather steam. Sri Lanka has vowed to bring down its budget deficit to 6% in 2010 under targets specified in USD2.6billion International Monetary Fund (IMF) loan.
- c. Despite pledges to revoke most of Sri Lanka's strict currency control to spur private-sector credit growth, the Central Bank has indicated that it may instead tighten loosened monetary policies to keep the rising inflation in check.
- d. The international community in particular the western countries are pressing for some kind of accountability for thousands of civilian deaths at the end of the war. The reluctance of the Sri Lankan government has cost its enhanced European Union trade preferences known as Generalised System of Preference for its goods, valued at USD100million.
- e. Lack of transparency and fairness in tax administration processes, bureaucracy and corruption are all features of the Sri Lankan business environment. Although awareness of the negative effects on the economy of these practices is growing, ex-gratia payments still feature significantly in many large project agreements.

Transparency International releases an annual report on "Corruption Perceptions Index" which measures the perceived level of public-sector corruption in 180 countries around the world. Sri Lanka was ranked 97th in 2009 report. (Malaysia was ranked 56)

#### 6.2.2 The World Bank Report on Ease of Doing Business

##### 6.2.2.1 Background

The World Bank Report on "Ease of Doing Business 2010" presents quantities, indicators on business regulations and the protection of property rights that can be compared across 183 economics. The report covers the period June 2008 through May 2009.

A set of regulations affecting 10 stages of a business's life are measured, namely:-

1. Starting a business
2. Dealing with construction permits
3. Employing workers
4. Registering property
5. Getting credit
6. Protecting investors
7. Paying taxes
8. Trading across borders
9. Enforcing contracts, and
10. Closing a business

The indicators refer to a specific type of business, generally a local limited liability company operating in the largest business city.

#### 6.2.2.2 Doing Business in South Asia (World Bank Report )

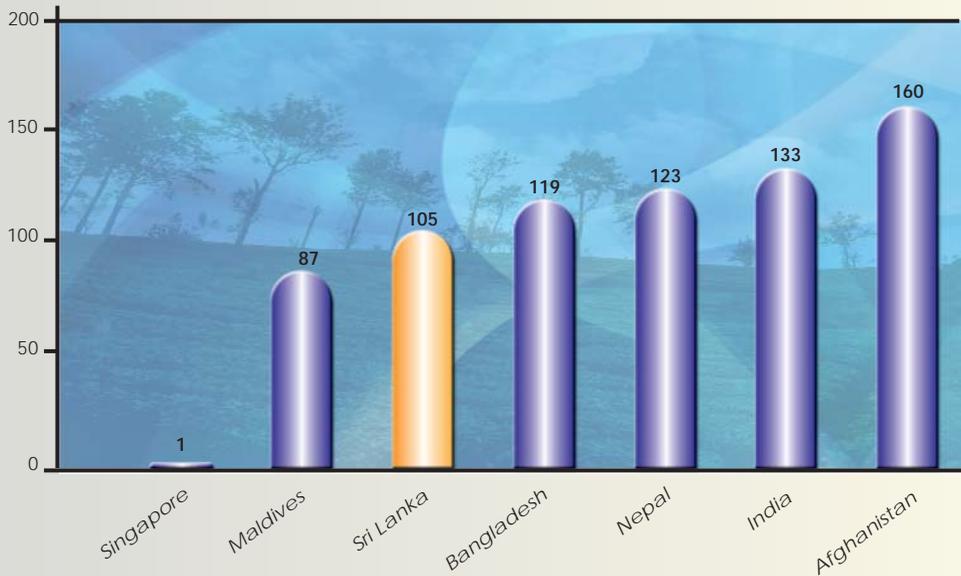
The following graphs represent the ranking of Sri Lanka globally and in the various indicators.

Rank	Doing Business 2010
Ease of Doing Business	105
Starting a Business	41
Dealing with Construction Permis	168
Employing Workers	96
Registering Property	148
Getting Credit	71
Protecting Investors	73
Paying Taxes	166
Trading Across Borders	65
Enforcing Contract	137
Closing Business	45

#### 6.2.2.3 Doing Business - Global Ranking

The following graph is a summary of the indicators for South Asia. The graph allows a comparison of the economics in the South Asian region not only with one another but also with the "good practice" economy of Singapore whilst Malaysia is ranked 23rd in the "Ease of Doing Business 2010" report.

## Ease of Doing Business - Global Rank



### 6.2.3 Open Economy and Freedom

Economic freedom is defined as the fundamental right of every human to control his or her own labour and property. In an economically free society, individuals are free to work, produce, consume and invest in any way they please, with that freedom both protected by the state and unconstrained by the state.

The Heritage Foundation, based in Washington tracks and measures ten components of economic freedom, assigning a grade in each using a scale from 0 to 100, where 100 represents the maximum freedom.

The 10 components of economic freedom are:-

- i. Business Freedom
- ii. Trade Freedom
- iii. Fiscal Freedom
- iv. Government Spending
- v. Monetary Freedom
- vi. Investment Freedom
- vii. Financial Freedom
- viii. Property Rights
- ix. Freedom from Corruption
- x. Labour Freedom

Based on the report, Sri Lanka's economy is the 120th freest out of 179 countries in 2010. Sri Lanka is ranked 23rd out of 41 countries in the Asia-Pacific region, and its overall score is lower than the world average. Malaysia is ranked 59th out of the 179 countries and the 9th in the Asia-Pacific region.

The Foundation reports that reforms have been undertaken to enhance the efficiency of Sri Lanka's economy, but progress has been mixed. Sri Lanka scores relatively well in business freedom, government spending and labour freedom. Business formation is relatively easy and streamlined. Government expenditures are still moderate, although political stability has driven up military expenditures and prevented the implementation of fiscal governance reforms. Sri Lanka scores moderately in trade and fiscal freedom. The average tariff rate is not extremely high, but non-tariff barriers and corruption add to the costs of trade.

The government generally welcomes foreign capital, but formal restrictions and the security situation discourage investment bureaucratic inefficiency and corruption affect many aspects of the economy. Court enforcement of property rights remains vulnerable to political interference.

#### 6.2.4 Market Entry Strategy

- a. Business investors should beforehand undertake as much market research and planning as possible. It would be helpful to consider Sri Lanka as a long term market as more than one visit is necessary for familiarization, establishing appropriate local contacts and gain market credibility.
- b. For services to the government other than procurements through international funding agencies, it is preferable to operate and provide services as a locally established firm or as a joint venture company.
- c. Skilled labor is widely available at competitive cost with comparatively high rates of literacy. The main method of recruitment is through advertising in newspapers. However, it is advisable to use a specialist recruitment company to make a short list of the applications as it can be expected to be plentiful.
- d. For firms investing locally, the Board of Investment (BOI), [www.investsrilanka.com](http://www.investsrilanka.com) or [www.boi.lk](http://www.boi.lk) offers investment incentives and other services.

## SECTION G

### 7.0 TRAVELLING TO SRI LANKA

#### 7.1 Visa

Malaysian Nationals visiting Sri Lanka as tourists are permitted to enter Sri Lanka without prior visa and will be given 30 day visas on arrival.

Malaysian national visiting Sri Lanka on business purposes have to obtain visas prior to visit Sri Lanka.

Application for such visas has to be submitted to the Sri Lanka High Commission together with the following documents/relevant visas.

- i. Duly completed visa application (download from [www.slhc.com.my](http://www.slhc.com.my)).
- ii. Passport of the applicant (validity at least 3 months).
- iii. Two passport size colour photographs recently taken.
- iv. Letter from the local employer/agency giving details and purpose of visit with the specific dates of travel.
- v. Invitation/correspondence from relevant organization in Sri Lanka.
- vi. Visa fee for Malaysian Nationals - RM 15/-

#### **Sri Lanka High Commission in Malaysia**

##### **CONTACT DETAILS**

Sri Lanka High Commission  
12 Jalan Keranji Dua,  
Off Jalan Kedondong, Ampang Hilir,  
55000 Kuala Lumpur  
Telephone: +603 42568987/+603 42571394  
Fax: +60342532497  
Email: [slhicom@streamyx.com](mailto:slhicom@streamyx.com)

## 7.2 Flights and Airports

The major international airport in Sri Lanka is Bandaranaike International Airport which is located in Katunayake, 35 km north of Colombo. It is the hub of SriLankan Airlines, the national carrier of Sri Lanka, and Mihin Lanka, the budget airline of Sri Lanka.

There are many regular flights between Kuala Lumpur and Sri Lanka and the major airlines are Malaysian Airlines, Air Asia and SriLankan Airlines.

## 7.3 Ground Transport

Taxis have yellow tops and red and white plates. In Colombo, taxis are metered but it is advisable to agree a rate before setting off. Drivers expect a 10% tip.

There is a taxi booth in the arrivals hall after exiting customs. A list of recent prices (June 2010) is posted for both Air Conditioned (AC) and non-AC taxis. Once away from the airport, taxis run on meters. Similar prices should be expected for the return trip.

Prices are as follows and payment is direct to the driver:

Place (from Katunayake)	Non AC (LKR)	AC (LKR)	Time Taken
Colombo	1490	1650	45 minutes
Negombo Town	812	-	20-25 minutes
Negombo Beach	862	-	25-30 minutes
Beruela & Bentota	4235	4656	2 hours
Kandy or Galle	4500	4500	2 hours 30 minutes

## 7.4 Security and Health

### 7.4.1 Security

Travelers are advised to exercise a high degree of caution in Sri Lanka because of the existence of high risk of politically motivated violence. They should pay close attention to their personal security and monitor the media and other local information sources for information about possible new safety or security risks.

Incidents of violent crime occur in Sri Lanka, including sexual assault and robbery. Policing in remote areas is often hampered by a lack of resources and poor infrastructure.

Petty crime such as pick-pocketing and bag snatching occurs, particularly on public transport.

There have been incidents of kidnapping for ransom in Sri Lanka, including in Colombo. Travelers should also exercise vigilance when traveling to isolated areas especially after dark.

### 7.4.2 Health

There is no legal requirement to have vaccinations before arriving in Sri Lanka. However it is advised that visitors ensure that they take precautions, depending on the season and region visited against the Diphtheria, Hepatitis A, Malaria, Rabies, Tetanus, Typhoid and Yellow Fever.

Vaccinations against Japanese B encephalitis, tuberculosis and hepatitis B are sometimes recommended.

All water should be regarded as being potentially contaminated. Water used for drinking, brushing teeth or making ice should have first been boiled or otherwise sterilised. Bottled water and a variety of mineral waters are available at most hotels. Unpasteurised milk should be boiled. Powdered or tinned milk is available and is advised. Pasteurised and sterilised milk is available in some hotels and shops. Avoid dairy products made with unboiled milk. Only eat well-cooked meat and fish. Vegetables should be cooked and fruit peeled.

## 7.5 Climate and Business Attire

### 7.5.1 Climate

Sri Lanka has a typical tropical climate, which is somewhat modified by the seasonal wind reversal of the Asiatic monsoon. The monsoon season is December to March in the northeast and May to October in the southwest. Flooding and landslides may occur. Most of the country has an abundant or moderate rainfall that is well distributed throughout the year. The southwestern coast and mountain slopes are the wettest regions and here rainfall is greatest during the periods April to June and October to November.

## 7.5.2 Business Attire

It is best for men and women to wear conservative clothing in a business setting in Sri Lanka. Men should wear dark-colored business suits. They should also wear dress shoes that are easy to take off, in case shoes need to be removed before entering a certain room so as to adhere to Buddhist or Muslim customs.

Women can wear skirt business suits, but sleeveless blouses or extremely form-fitting attire is considered inappropriate. A woman should not show too much of her legs in public. Business casual attire, such as slacks, khaki pants and polo shirts, are not to be worn at an initial business meeting, but may be appropriate for subsequent meetings.

It is proper etiquette for professionals to shake hands with each other in Sri Lanka. Older professional men will usually give a firm handshake. However, the younger generation of businessmen and women are likely to shake hands lightly. Women will shake hands with each other when meeting, but a man should always wait for a woman to extend her hand in greeting. It is also appropriate Sri Lankan etiquette to shake hands when leaving a business meeting.

A businessperson should include his title on his business cards. In Sri Lanka, the cards are handed out right after the handshake and initial greeting. Business cards should be presented with both hands, and it is a nice gesture for international colleagues to have one side of the card translated into Sinhala or Tamil, which are the two major languages in Sri Lanka. When receiving a business card, treating the card with respect is essential. It is not appropriate to place the card in a pocket, or to write on the card after receiving it.

International professionals should make time in the beginning of the meeting for small talk, especially at initial meetings, as this is the ideal time to begin building a business relationship. The meeting is often conducted by mid-level professionals, so that the information discussed in the meeting can be taken to the company's senior executives. It is common for the meeting to be interrupted several times so that other business can be discussed--this is not considered rude in Sri Lanka. It will usually take a while to reach final negotiation decisions. Terms will not be settled right away unless the decision maker is present at the meeting.

It is not required to give gifts to Sri Lankan professionals at an initial meeting. However, it is essential that gift recipients always reciprocate the gesture by presenting a gift to the giver. It is not appropriate to give flowers to Sri Lankan professionals, as flowers are only used for mourning in the country. Muslim professionals should not receive alcohol or pork products, and Hindu colleagues should not be given gifts made of leather. Gifts should be given and received with both hands and Sri Lankan professionals do not open gifts upon receipt.

## 7.6 Business Hours and Public Holidays

Business hours in Sri Lanka, normally are 9.00 am to 5.00 pm Monday to Friday. Shops and factories are open on Saturdays until 1.00 pm. Retail trade generally starts by 9.00 am.

Sri Lanka has branches of many leading international banks such as HSBC, Standard Chartered and CitiBank. There are also several local banks owned by the Government or privately which provide a variety of services such as options for deposits, current and savings accounts, ATM services, Credit Cards services and money transfer services. There is also a branch of Western Union (for money transfers) in Colombo.

The annual public holidays observed (for year 2010) are:

DATE	PUBLIC HOLIDAY
1 Jan	Duruthu Full Moon Poya Day
1 Jan	Tamil Thai Pongal Day
1 Jan	New Year's Day
1 Feb	Navam Full Moon Poya Day
4 Feb	National Day
26 Feb	Milad un-Nabi (Birth of the Prophet)
1 Mar	Medin Full Moon Poya Day
1 Apr	Bak Full Moon Poya Day
1 Apr	Sinhala and Tamil New Year
2 Apr	Good Friday
28 Apr	Vesak (Buddha Day)
1 May	May Day
1 Jun	Poson Full Moon Poya Day
1 Jul	Esala Full Moon Poya Day
1 Aug	Nikini Full Moon Poya Day
1 Sep	Binara Full Moon Poya Day
11 Sep	Eid al-Fitr (End of Ramadan)
1 Oct	Vap Full Moon Poya Day
1 Nov	Il Full Moon Poya Day
5 Nov	Deepavali
17 Nov	Eid al-Adha (Hadji Festival Day)
1 Dec	Duruthu Full Poya Day
1 Dec	Unduvap Full Moon Poya Day
25 Dec	Christmas Day

## 7.7 Tipping

A 10% service charge is added to most restaurant and hotel bills. Tipping is a customary way to show appreciation for almost all services and small amounts are sufficient, otherwise 10% of the amount due is standard. There is no need to tip taxi drivers, but some drivers do expect it.

## 7.8 Time Zone

Sri Lanka is **2.30 hours** behind Malaysian Standard time.

## 7.9 Telecommunication

The country code for Sri Lanka is 94

For calls from Sri Lanka to Malaysia dial 00 + 60 + area code+ telephone number.

For calls from Malaysia to Sri Lanka dial 00 + 94 + area code+ telephone number.

Mobitel is Sri Lanka's National Mobile services provider.

## 7.10 Currency

The basic monetary unit in Sri Lanka is the Sri Lanka Rupee (LKR: symbol Rp) with notes in denominations of Rp2,000, 1,000, 500, 200, 100, 50, 20 and 10. Coins are in denominations of Rp10, 5, 2 and 1, and 50, 25, 10, 5, 2 and 1 cents.

The import and export of local currency is limited to Rp5000. The import of notes from India and Pakistan is not allowed. Otherwise, the import of foreign currency is not restricted but all amounts over USD5,000 are subject to declaration. Export of foreign currency is limited to the amount declared on import.

## 7.11 Electricity

Sri Lanka's power supply is 230 volts, 50Hz. The round three - pin plugs are the most common. E.g.:



## 7.12 Hotels

The Taj Samudera is one of the best 5 star business hotels in Colombo which is 36 km away from the Bandaranaike International Airport.

Other 5-Star Hotels in the City are Casa Colombo Hotel, Hilton Colombo Hotel, Hilton Residence Hotel Colombo, Galadari Hotel Colombo, Ceylon Continental Hotel Colombo and the Galla Face Hotel Colombo.

The closest hotel to the terminals is the 4 star Airport Garden Hotel and Ramada Hotel Colombo. Next closest is the 2 star Orient Pearl Hotel and Goodwood Hotel.

The rates for the hotels range from USD100.00 to USD250.00.

## 7.13 Malaysian High Commission

### CONTACT DETAILS

Malaysian High Commission

No. 33, Bagatalle Road Colombo 3

Democratic Socialist Republic of Sri Lanka

Telephone: (+94 11) 755 7711, (+94 11) 755 7712, (+94 11) 755 7713

Fax: (+94 11) 755 7714

Email: [mwcolombo@dialogsl.net](mailto:mwcolombo@dialogsl.net), [malhoc@dialogsl.net](mailto:malhoc@dialogsl.net), [malcon@dialogsl.net](mailto:malcon@dialogsl.net)

## 7.14 Board of Investment of Sri Lanka

### CONTACT DETAILS

Board of Investment of Sri Lanka

Level 26, West Tower,

World Trade Center Colombo, 01, Sri Lanka

Tel: (+94 11) 2427060, 2434403-5

Fax No: (+94 11) 2422407

Email: [infobo@boi.lk](mailto:infobo@boi.lk)

## SECTION H

### 8.0 FINANCE AND BANKING

The Central Bank of Sri Lanka, established in 1950 is the apex institution in the financial sector. The Central Bank is responsible for regulating the financial system of the country. The Central Bank, by several key legislations, is empowered to achieve its primary objectives of economic and price stability and financial system stability. The establishment and operations of all categories of financial institution are under its supervisory and regulatory purview. The Central Bank is also the monetary authority of the country, the sole bank of issue, the financial adviser to the government and administers monetary policy.

Banking in Sri Lanka is of high international standard and more than 15 foreign banks have branches in Sri Lanka. There are over 10 local banks including two large state banks, with several active merchant and investment banks and two development finance institution. There are 16 banks providing full pledged internet banking facilities with many banks utilizing developments in the information and communication technologies to offer innovative service delivery mechanism.

#### Exchange Control, Conversion, Remittances and Transfer Policies

The Central Bank of Sri Lanka, being the monetary authority ensures financial stability by the prudent use of monetary policy instruments and manages the automated cheque clearing system for the commercial banking system. It also determines and publishes the daily buying and selling rates for the U.S Dollar against Sri Lanka's Rupee.

Under the Exchange Control Act, the Central Bank functions as the agent of the government through the "Controller of Exchange".

As a member of the International Monetary Fund, Sri Lanka has liberalized exchange controls on current account transactions. In times of balance of payment difficulties, the government tends to impose controls on foreign exchange transaction.

There are no barriers, legal or otherwise, to the expeditious remitting of corporate profits and dividends for foreign enterprises doing business in Sri Lanka. Remittance of business fees (management fees, royalties and licensing fees) is also freely permitted for companies with majority foreign investment approved under section 17 of the Board of Investment (BOI) Act. Other companies would require Central Bank approval. The same applies for repatriation of funds for debt service and capital gains of companies.

## SECTION I

### 9.0 LABOUR, LEGISLATION, RELATION AND SUPPLY

#### 9.1 Recruitment, Retaining and Retirement

Skilled labour with comparatively high rates of literacy is widely available at competitive costs, but some highly technical staff may be difficult to fill with local labour. The main method of recruitment is through advertising in newspaper and it is advisable to use a specialist recruitment company to provide a shortlist as there can be plenty of applications. The local staff appreciates training and up-skilling opportunities and this is usually a component of the job package or job description. The minimum age of recruitment is 18 years and the normal age of retirement is 55 years. Extension beyond 55 years can be granted at the discretion of the management.

#### 9.2 Contract and Employment

There should be no discrimination between male and female workers in terms of remunerations and facilities. A written contract of employment embodying terms and conditions of service including the designation or category of the employee, normal hours of works, rate of pay, period of training if any, probationary period, leave holidays and superannuation contribution, has to be issued to every employee including trainees, and due acknowledgement obtained by the employer.

The labour law also stipulates that any certificate in the custody of the management should be returned to the employee within 30 days if the person resigns or the employment is terminated.

#### 9.3 Normal Working Days, Night work and Overtime

The normal office hours are flexible but an employee is obliged to work for 45 hours a week with Sunday's being the day off. Factory workers are obliged to work for 45.5 hours per week.

There are no restrictions on employment of male workers on night shifts but employment of female workers is subjected to certain conditions.

Any work performed in excess of the 9 hours per day (inclusive of 1 hour interval) and 6½ hours on Saturdays (inclusive of 1 hour interval) shall be paid overtime at the rate of 1½ times the normal hourly rate of wages. Employees working on Sundays and Poya (Full Moon) days are entitled to be paid 1½ times the daily wage rate whilst employees instructed to work on Sundays beyond the normal working days should be remunerated at double the daily wage.

#### 9.4 Leaves

##### 9.4.1 Vacation Leave

An employee is entitled to a 14 day vacation leave with pay from the second year of employment if the person has been continuously in employment during the year.

## 9.4.2 Casual Leave

The employee is also entitled to 7 days casual leave with leave from the second year.

## 9.4.3 Sick Leave

Sick leave is granted at the discretion of the employer and is usually granted by some enterprises up to a maximum of 21 days. The sick leave must be supported by a medical certificate.

## 9.4.4 Maternity Leave

A female employee is entitled to 12 weeks (84 days) paid maternity leave for her first two deliveries. In case she has two or more children or in the event of a miscarriage the entitlement is 6 weeks.

## 9.5 Superannuation and Retirement Benefits

### 9.5.1 Employees Provident Fund

The Employee Provident Fund contribution is a mandatory obligation of the employer. An amount equivalent to 20% of the employee's total earnings has to be remitted to the Fund before the last working day of the succeeding month in respect of all employees. The employee's contribution to the Fund is 8% whilst the contribution from the employer shall be not less than 12% of the gross earnings. The Fund is managed by the Central Bank of Sri Lanka.

### 9.5.2 Employees Trust Fund

Under the Employees Trust Fund Act, every employer has to 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. The Fund is managed by the Commissioner of Labour and employees are eligible to withdraw their balances with their interests upon termination of employment.

### 9.5.3 Gratuity

An employee who has completed 5 years of service shall be paid a gratuity upon cessation of the employment irrespective of whether he has retired, resigned or his services have been terminated by the employer. The 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. The gratuity must be paid within 30 days of cessation of employment. This ruling applies to all enterprises which employ fifteen or more workers.

## 9.6 Health and Safety for Workers

The law stipulates that satisfactory standards must be maintained at all work places with respect to ventilation, lighting, welfare amenities, and health and safety.

## 9.7 Termination of Employment

Termination of employment is widely regarded as a problem by employers (foreign or Sri Lankan). The labour laws were largely written during Sri Lanka's socialist years, and favour the employee. Dismissed for poor performance is hard to achieve, in practice. Dismissed for consistent absenteeism, or for gross misconduct such as theft, is possible but can involve a lengthy process through the labor courts. In either case it may be expedient for the company to negotiate a financial deal with the employee and pay them to leave. The World Bank Report on Doing Business 2010 reports that it is expensive and difficult to fire a worker in Sri Lanka where it costs 178 weeks of wages.

The country has more than 48 labour laws, many of which date to 1970's, a period in which Sri Lanka had a closed and static economy.

Sri Lanka has a complex system of laws to protect employee's interests. This system encompasses labor and employment laws that govern the individual employment contract. Employers are forced to circumvent the difficulties through outsourcing and short term employment contracts. Thus 62% of jobs in Sri Lanka remain in the informal sector.

The Department of Labour and Vocational Training is responsible for the administration and enforcement of all labour laws. The Labour Department has a process involving labour tribunals for settling industrial disputes with labourers or unions, and arbitration is required when attempts to reconcile industrial disputes fail. The Labour Commissioner is normally involved in management-union mediations and in difficult circumstances the Labour Minister or the President intervenes.

Employees in Export Processing Zones are represented by non-union worker councils. Every enterprise is expected to establish an Employee's Council with the concurrence of the Industrial Relations Department of the Board of Investors. All disputes that cannot be resolved through the council are brought to the attention of the Board of Investors.

# SECTION J

## 10.0 TAXATION

### 10.1 Overview

The extent of tax liability to Sri Lankans and non citizens on profits and income depends on the residence status of the individual, company and entities in Sri Lanka. Residents are taxed on worldwide income while non-residents are taxed on Sri Lankan source income only.

A company is resident in Sri Lanka if its principle office is in Sri Lanka or if it is managed and controlled there. "Residence" in the case of an individual is determined on the basis of the physical presence in the country during the year of assessment.

The maximum income tax rate in Sri Lanka is 35 per centum, Expatriate employees enjoy a concessionary rate of 15 per centum during their deemed non-residency period. To avoid double taxation, Sri Lanka has entered into a Treaty with Malaysia. The treaty generally follows the United Nations model.

### 10.2 Tax Administrative System

The Department of Inland Revenue is within the purview of the Ministry of Finance which advises the government on the tax policy formulations. The Department of Inland Revenue is responsible for the efficient administration of the following:

1. Direct Taxation which comprises of:
  - a. Income Tax
  - b. Surcharge on Income Tax (or Surtax)
2. Other Forms of Taxation, which comprises of:
  - a. Goods or Service Tax or Value Added Tax (VAT)
  - b. Turnover Tax
  - c. Stamp Duty
  - d. Tax on remittance of profits

Apart from the Central Government, Provincial Councils are also authorized to collect Turnover Tax under the constitution. Sri Lanka has eight provinces and each province has its own provincial council.

### 10.3 Direct Taxation

#### 10.3.1 Income tax

The existing income tax in Sri Lanka is based on the Inland Revenue Act No. 38 of 2000. In 2009, a Presidential Commission has been appointed to review the current taxation system.

Income Tax is charged under the following categories

- a. Individual
- b. Company
- c. Body of Persons

The tax liability on a Resident Person is based on the profits and income wherever arising (i.e. his worldwide income), whilst the liability on a Non-Resident Person is based on all profits and income derived in Sri Lanka from:

- i. Services rendered
- ii. Property
- iii. Business transacted whether directly or through an agent
- iv. Interest on loans payable and
- v. Certain royalties

The year of assessment is a period of twelve months from 1st of April of a year to the 31st of March of the immediately succeeding year.

#### 10.3.1.1 Income tax of Individual

The threshold for tax free income for resident and non-resident individuals derived solely from services rendered in Sri Lanka is LKR144,000 per annum. The tax rates applied for individual income beyond the threshold is on a progressive scale through a 4-band rate system ranging from 10% to 35%.

In case of a "partnership", partner's income is liable under the individual category in general circumstances. Income of spouses is taxed separately. The table below indicates the tax for individuals other than expatriate.

Taxable Amount	Tax Rate
On the first LKR100,000.00	10%
On the next LKR100,000.00	15%
On the next LKR100,000.00	25%
On the balance	35%

#### 10.3.1.2 Income tax of Company

The company income tax is made up of a tax on corporate income, dividends and remittance of profits. They are also liable to pay a Value Added Tax on goods and services. The government has also imposed a tax of 0.1% on debits to any current or savings account maintained at any bank in Sri Lanka. Debits made to any accounts of government and international organisation are excluded. Accounts maintained at Foreign Currency Banking Units, and a resident and non-resident foreign currency accounts are exempted from the tax. The Board of Investors has separate incentives scheme such as tax and exchange control exemptions for approved foreign investors.

#### **a. Rate of Taxation**

The income tax rate of companies with taxable income less than LKR 5million is 15%. Venture capital companies are taxed at 20%. Quoted companies listed less than 5 years are taxed at 33.33% whilst companies listed more than 5 years are taxed at 35%.

The Inland Revenue Act allows for certain expense and certain investments to be deducted for the assessable income arising from a trade, business, profession or vocation. In general deduction of all expenses relating to income which is being taxed is allowed with the exception of a few such as, a general provision and domestic expenses. Provisions for specific identifiable bad debts are allowed as a deduction. Losses incurred in the operation of a trade or business may be carried forward indefinitely but only up to 35% of statutory income. The carry back of losses is not allowed.

#### **b. Capital Gain Tax**

There is no capital gain tax in Sri Lanka.

#### **c. Surtax**

A Social Responsibility Levy is imposed on companies at 1.5% of the income tax liability

### **10.3.1.3 Withholding Tax**

#### **a. Taxation of Dividends**

A company is required to deduct and pay to the Inland Revenue a withholding tax of 10% of the gross dividend declared if the dividend is paid out of taxable income. Dividends paid by a resident company (to resident or non-resident company) are not included in the assessable income of the recipient if tax has been withheld from the payment by the payer or the dividends are paid out of dividend income received by the payer.

#### **b. Interest**

Interest paid to a non-resident is subject to a 15% withholding tax unless the rate is reduced under an applicable tax treaty. Interest paid to residents by banking and financial institutions is subject to a 10% withholding tax.

#### **c. Royalties**

Royalties paid to a non-resident are subject to a 15% withholding tax unless the rate is reduced under an applicable tax treaty.

#### **d. Branch Remittance Tax**

In addition to paying the standard corporate income tax, branches are subjected to a 10% tax on remittances to a foreign head office.

#### 10.3.1.4 Other Taxes on Corporation

**a. Payroll Tax**

The employer is required to deduct Pay As You Earn (PAYE) tax on behalf of the employees.

**b. Stamp Duty**

Stamp duty is levied on the transfer of immovable property and on certain documents, with the rates set by the provincial governments. The issuance or transfer of company shares also is liable to stamp duty.

**c. Transfer Tax**

A non-citizen who acquires immovable property in Sri Lanka must pay additional stamp duty of 100% of the value of the property. If the property is a condominium, transfer tax is applicable up to the third floor, and units on the fourth floor and above are not liable to transfer tax.

**d. Economic Service Charge**

An Economic Service Charge (ESC) is imposed on any person carrying on a trade, business, profession or vocation. The ESC rate is 0.25% to 1% on total turnover or receipts if in excess of LKR 7.5 million or USD 75,000 per quarter. This may be set off against the income tax payable by that person and carried forward for 4 years, but no refund is available.

#### 10.3.1.5 Value Added Tax

Value Added Tax (VAT) is levied on the supply of goods and services, as well as the import of goods. Retail and wholesale business that supply goods are subject to a turnover tax of 1% payable to Provincial Councils.

The standard rate for VAT is 12% with a reduced rate of 5% applying to essential items. Certain supplies are zero rated or exempt. The rate on luxury goods is 20%. Any person who supplies goods or services for value at LKR 650,000 or more per quarter or LKR 2,500,000 per annum is liable to VAT and must register with the Inland Revenue Department.

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