

## *Invest in Sri Lanka*

### 1. **Business climate**

Sri Lanka offers the most friendly business climate & is ranked as the most liberalized economy in South Asia.

### 2. **Direct Investment**

Sri Lanka was the first in the South Asian region to promote foreign investment. Foreign investment is an important element in Sri Lanka's economic growth and is therefore actively encouraged.

Approval is required from the Board of Investment (BOI) prior to the establishment of a foreign business venture in Sri Lanka. The BOI is an autonomous agency and is the primary government body responsible for foreign investment. The BOI grants concessions to companies satisfying certain eligibility criteria. Investors are provided with preferential tax rates, constitutional guarantees on investment agreements, exemptions from exchange control and 100% repatriation of profits & capital.

The Sri Lankan government permits up to 100% foreign participation in many sectors of the economy, and the BOI provides automatic approval for such investments. Investment in certain restricted sectors is subject to screening and approval is given on a case-by-case basis if the foreign investment exceeds 40%. Attractive tax incentives are available for Investors, depending on the Industry & capital investment in Sri Lanka, such as Tax Holidays & Tax concessionary rates, duty exemptions.

Further, there is no capital gain Tax in Sri Lanka at present.

The BOI is the only organization a foreign investor should contact & its services include providing advice & assistance at every stage of the Investment process.

### ***The services provided are:***

- Information & guidance for project application procedure, coordinating approvals from other Agencies.
- Evaluating applications, granting approvals, with concessions where applicable.
- Providing assistance during start-up, site selection, advising on factory buildings /technical matters, arrange support services e.g. Water, power, waste treatment & telecommunication etc.,
- Making recommendation to Immigration Authorities for issuing Resident Visas.
- Facilitating Import/Export clearance
- Advising on Environmental norms/approvals
- Assistance in good Industrial relations & formation of Employees' councils.

### 3. Portfolio Investment

In the recent past investing in Capital & Share Market in Sri Lanka has shown a rapid growth. The Securities and Exchange Commission (SEC) regulates the securities market in Sri Lanka & grants License to Stock Exchanges, Stockbrokers & dealers etc,. Foreign investors can freely purchase up to 100 percent of equity in Sri Lankan companies in permitted sectors. In order to facilitate portfolio investments, country funds and regional funds are also allowed to invest in Sri Lanka's stock market; after prior approval. These funds make transactions through Share Investment External Rupee Accounts maintained in commercial banks. (SIERA)

The Colombo Stock Exchange (CSE), while small by big emerging market standards, is one of the most efficient in the region. A fully computerized clearing and settlement system was introduced through the establishment of a Central Depository System (CDS) in 1991. In 1997, the CSE commissioned a state of the art computer based automated order matching system. The CDS was linked real time with the Automated trading system. These developments placed the CSE alongside the most technologically advanced exchanges in the world. In 1998 CSE became the first South Asian member of the world federation of Stock Exchanges. The CDS also gained the membership in the Asia-Pacific Central Securities Group (ACG) in the same year.

The CSE officially launched its Debt trading System (DEX) in March 2004. DEX enables the trading of corporate debt instruments and the beneficial interest of Govt. bonds and treasury bills through the exchange. DEX has advanced features such as scripless trading real-time exposure management, multiple settlement cycles and compatibility with web based technologies. Fifteen local and foreign joint venture brokers currently operate at the CSE.

### 4. Real Estate Investment

Foreign Investments in real estate in Sri Lanka, including interest in properties, do not require any approvals. However, a 100% Transfer Tax on the value of the property is payable, except in purchase of condominium properties above 3rd floor, acquisition of land for development for more than 100 residential units, for Hospitals, infrastructure and non citizens maintaining over US\$ 150,000 in Foreign Currency Government securities Accounts.

In the like manner, in the case of a Company, if more than 25% of the issued Share Capital is held by non-citizens company is liable to pay this 100% transfer tax.

## Board of Investment (BOI)

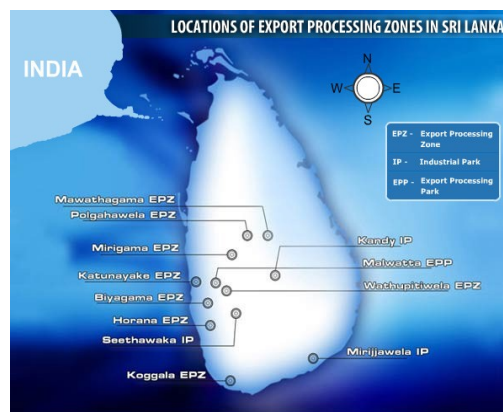
The BOI is structured to function as a central facilitation point for investors. It operates as an utmost statutory body. The Board of Directors drawn from the Private and Public sector and its several departments are geared to facilitating the investment process.

Investment climate monitoring is also being improved to ensure the nation's competency profile. Sri Lanka's advantages as a destination for investment will be highlighted and many of the questions risen by investors from overseas on how to set up businesses in Sri Lanka, will be addressed

The BOI companies today employ over 400,000 workers, They account for nearly 70% of Sri Lankan exports and 80% of the country's industrial exports. The BOI is therefore a significant agent of change and its quarter century existence has radically transformed Sri Lanka both economically and socially, placing the country in a position where it can compete in an increasingly globalized world.

Significantly, when you sign an agreement with the BOI, the provisions embodies in the agreement remains valued for the life of the enterprise. Successive Governments cannot change these provisions, ensuring a degree of stability that few other countries can offer or match

Sri Lanka's free trade zones have been the linchpin of economic development and inflow of foreign direct investment into Sri Lanka. The country's free trade zones are seen as benchmarks of successful implementation of zone development strategies



## Setting up

Sri Lanka is positioned as the Gateway to Asia, with its open economy, superior logistics for serving as a regional trade hub, a resilient work force and ground breaking market access with the Indo-Lanka Free Trade Agreement (FTA) to the world's largest market.

The BOI's Promotion Department is the first stop for a foreign investor. Here investors can obtain information on the investment opportunities in Sri Lanka and the incentive packages on offer. Assistance can also be obtained in completing application forms and referring investors to the relevant department within the organization.

Completed forms must be submitted to the Appraisal Department. A fee of US\$ 150, or the Rupee equivalent, is charged to process the applications. Once the completed form reaches the Appraisal Department, a case officer is assigned to assist and guide the investor throughout the approval process

**Charges**

Section 17 Projects	Section 16 Projects
Investment less than US\$ 25M - US\$ 150	US\$ 175
Investment US\$ 25M & above - 0.01% of the proposed Investment	

**Note:** Please note that a slab system is in effect for the registration fee based on the issued shared capital. Only the minimum and maximum fee are indicated here

**Types of Business Organizations****General**

Sri Lankans may establish their businesses in Sri Lanka through any of the following forms:

Foreign Investors may establish their business presence in Sri Lanka through any of the following forms:

**Companies**

Law says if any business entity, organisation or any association is registered under the companies act no 7 of 2007, such entity, organisation or association is treated as a company.

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.

Under the new companies act a company could be incorporated as a Limited company, Unlimited Company or as a Company Limited by Guarantee.

In Sri Lanka most common forms of Companies are, Private & Public Limited Liability Companies, and are the most suitable for Foreign Investors in Sri Lanka due to the following

- i. Liability of each Shareholder is limited to the amount he has undertaken to pay for his shares or by way of guarantee.
- ii. Limited Liability in the event of Insolvency.

**PRIVATE COMPANY**

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

**PUBLIC COMPANY**

At least one member is 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.

**OFF SHORE COMPANY**

A company registered within or outside Sri Lanka may register itself in Sri Lanka as an offshore company to carry on any business outside the shores of Sri Lanka. If a company registered outside Sri Lanka registers itself as an offshore company, it is deemed to have been incorporated in Sri Lanka. An offshore company cannot conduct any business in Sri Lanka

**OVERSEAS COMPANY**

A company or body corporate incorporated outside Sri Lanka and doing its business in Sri Lanka

**Sole Proprietorship, Partnerships and others**

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

**Finance & Banking**

The Central Bank of Sri Lanka was established in 1950 under the Monetary Law Act No 58 of 1949 and is the apex institution in the financial sector. Since inception, the Central Bank has been responsible for regulating the financial system of the country. Several key legislative enactments provide powers to the Central Bank to carry out its functions to achieve its primary objectives of economic and price stability and financial system stability. Under these powers, the Central Bank issues directions for the establishment and operations of all categories of financial institutions under its supervisory and regulatory purview. In addition, the Central Bank has been empowered to carry out certain agency functions under other legislative enactments.

The financial system of the country is regulated by several legislative enactments. The key Acts relevant to the regulatory role of the Central Bank are the Monetary Law Act, the Local Treasury Bills Ordinance, Registered Stocks and Securities Ordinance, Exchange Control Act, Banking Act, Finance Companies Act, Finance Leasing Act, Payment and Settlement Systems Act and Financial Transactions Reporting Act.

The Central Bank of Sri Lanka, is the monetary authority of the country, the sole bank of issue, also acts as a 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 here. Significantly, some of these branches have been established for more than 100 years. Sri Lanka also has over ten local banks including two large state banks. Two development finance institutions and several merchant and investment banks are also active.

There were 16 banks providing fully fledged Internet banking facilities with many banks utilizing the developments in information and communication technologies to offer innovative service delivery mechanisms such as postal network and mobile phones to deliver financial and payment related services were witnessed during the year.

**Exchange Control**

The Central Bank of Sri Lanka (CBSL) is the monetary authority of the country. It 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 the daily buying and selling rates for the US Dollar against the country's Rupee and the rates are published daily. The exchange rates of other major international currencies are fixed by supply and demand within the commercial banking system.

Under The Exchange Control Act, the Central Bank functions as the agent of the Government through the Controller of Exchange. Currently the Controller regulates transactions in foreign currencies of a Capital nature only. i.e. Sale or purchase of a Capital Asset. Current or non-capital transactions are liberalized.

An export oriented enterprise, which has entered into an Agreement with the Board of Investment of Sri Lanka (BOI) under section 17 of the BOI Law and granted exemptions from exchange control regulations may:

- Open and operate a foreign currency account with any foreign currency Banking Unit (FCBU) of a commercial bank.
- Borrow offshore.
- Open and operate a Sri Lankan currency account with any commercial bank.

### Colombo Stock Exchange

Colombo Stock Exchange(CSE) was established in 1985. The capital markets regulator of the country, the Securities and Exchange Commission, formally recognized the role of the CSE and issued a license in 1987. The subsequent establishment of a Central Depository System and the implementation of an Automated Trading System has resulted in the CSE being recognized as one of the most developed and technologically advanced exchanges in the region. The CSE has 237 listed companies and a market capitalization of LKR 869 billion as at March'07.

## Accounting & Auditing Requirements

### Accounting Profession

The Institute of Chartered Accountants of Sri Lanka (ICASL) was established under the Institute of Chartered Accountants Act.No.23 of 1959 by the Parliament. Council of the Institute is responsible for the management of its affairs, for the issue of Sri Lanka Accounting and Auditing Standards, and for the registration and control of the maintenance of the professional standards and discipline by the persons practicing or acting as accountants in Sri Lanka

### Legislative and institutional framework

New Companies Act No 7 of 2007 has a mandatory requirement to all the Companies to have their Financial Statements audited by a member of Institute of Chartered Accountants of Sri Lanka or Registered Auditors.

**Figure 1:** depicts the legislative and institutional framework that governs Sri Lankan accounting and auditing arrangements.

### Key Governing Laws

- Companies Act No. 7 of 2007
- Public Finance Act No. 38 of 1971
- Finance Company Act No. 78 of 1988

- Sri Lanka Accounting & Auditing Standard Act no.15 of 1995
- Securities Council Act No. 36 of 1987
- Banking Act No. 30 of 1995

### Institutions and Primary Functions

#### Securities and Exchange Commission (SEC)

- Administers the Securities Act
- Oversees the Stock Exchange

#### Registrar of Companies (ROC)

- Administers the Companies Act

#### Sri Lanka Accounting & Auditing Standards Monitoring Board (SLAASMB)

Monitoring the application of Accounting & Auditing Standards

#### Central Bank of Sri Lanka

- Administers the Banking Act
- Approves Bank Auditors
- Approves the Accounting & Auditing Standards for Bank
- Determines disclosure requirements for financial institutions

#### Institute of Chartered Accountants of Sri Lanka (ICASL)

- Approves the Accounting & Auditing Standards
- Supports the activities of the ASC & AuSC

#### Accounting Standard Committee (ASC)

- Developing Accounting standards

#### Auditing Standard Committee (AuSC)

- Developing Auditing standards

### Employment Law

Sri Lanka has a complex system of laws to protect employees' interests. This system encompasses labour and employment laws that govern the individual employment contract. The Department of Labour of the Ministry of Labour and Vocational Training is responsible for the administration and enforcement of all labour laws.

Employees in Export Processing Zones are represented by non-union worker councils. Employees are given a written contract of employment outlining the terms and conditions of service.

<b>Minimum Wage</b>	: There is no national minimum wage, but there are minimum wages set in individual sectors and industries.
<b>Workweek</b>	: 45.5 hours per week in a factory and 45 hours in a shop or office
<b>Overtime</b>	: One and one-half times the hourly rate, not to exceed 12 hours of overtime per week
<b>Minimum age</b>	: 16 in factories, 18 in offices
<b>Probationary period</b>	: Not mandated; covered in the employment contract, generally three months.
<b>Mandatory vacation</b>	: For office employees: seven days of casual leave and 14 days of annual vacation.
<b>Retirement Benefits</b>	: Employees who have completed five years' service are paid a gratuity when leaving a company computed as one-half a month's salary for every year of completed service

### **Contributory Funds for Employees**

Every employer is required to contribute to the following Funds

- **Employees Provident Fund**

Employees Provident Fund was established in terms of Act No 15 of 1958 with the objective of providing superannuation benefits to employees of the private sector, government authorities and corporations. It is a mandatory contributory retirement benefit scheme. Contributions are due from employer at the minimum rate of 12% and the employee has to contribute at 8% minimum on the gross earnings. The fund is managed by the Central Bank of Sri Lanka and it represents the main largest fund in terms of the Government asset portfolio. Employees are guaranteed their lump sum balance at the retirement age with interest lying into their credit.

- **Employees Trust Fund**

Under the Employees Trust Fund Act, every employer has to contribute at the rate of 3% each employee's monthly earnings, to the Fund managed by the Commissioner of Labour. Employees are eligible to withdraw their balances at the termination of employment with their interest in the accounts.

### **Hours of Business**

- Offices: 08:30/09:00–16:30/17:00 Monday to Friday; 08:30/09:00–13:00 Saturday
- Government offices: 08:15–16:15 Monday to Friday
- Banks: 09:00–15:00 Monday to Friday
- Shops: 10:00–18.00 or later Monday to Saturday