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ECCSL SECRETARIAT

Ms. Dhishna Bastiansz

General Manager

Ms. Dilinthri Rajamuni

Finance and Administration Manager

Ms. Andrea Moore

Trade & Partnerships Officer

Mr. William Baxter

Project Lead Inclusive Business Practices/SCOPE Project

The European Chamber of Commerce of Sri Lanka
Empress Suite,
Cinnamon Lakeside Colombo 115,
Sir Chittampalam A Gardiner Mawatha, Colombo 2,
Sri Lanka

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EDITORIAL
HEAD OF SECRETARIAT

I am delighted to warmly welcome you to the 22nd issue of EUROLINK Magazine.

In the past nine months, trade between Sri Lanka and Europe has shown remarkable resilience and potential for growth, especially as the country seeks to recover from its economic challenges. According to the Sri Lanka Export Development Board, exports to the European Union increased by approximately 20% in the first half of 2024, driven largely by the apparel sector, a vital contributor to our foreign exchange earnings. The EU remains one of Sri Lanka's largest trading partners, with the Generalised Scheme of Preferences Plus (GSP+) providing favourable trade terms. Additionally, a recent report from the European Commission highlighted a growing demand for sustainable products, positioning Sri Lankan exporters favourably in the European market, particularly in sectors like organic tea and eco-friendly textiles. As both regions navigate post-pandemic recovery, strategic partnerships and enhanced market access will likely shape future trade dynamics.

The recent appointment of President Anura Kumara Dissanayake and the vision articulated by his party, the National People's Power (NPP), herald a new chapter for trade and commerce between Sri Lanka and Europe. President Dissanayake's administration emphasises sustainable development, equitable economic growth, and transparency, aiming to position Sri Lanka as a key partner in the European market. In his inaugural address, he underscored the importance of enhancing trade relations by fostering an environment conducive to foreign investment and promoting ethical trade practices, particularly in organic agriculture and renewable energy. The NPP's commitment to inclusivity and innovation aligns well with EU values, potentially opening new avenues for Sri Lankan exports. As these policies take shape, a focus on sustainable practices and improved regulatory frameworks is expected to strengthen trade ties, attracting European investments and creating a more robust economic partnership.

The road to recovery is undeniably steep, but it is navigable. With concerted efforts to stabilise our economy, restore political confidence, and leverage the strengths of our private sector, Sri Lanka can emerge stronger. We must seize this moment to build a resilient and dynamic economy, ensuring that the lessons of the past guide us towards a more sustainable and inclusive future. Together, we can turn challenges into opportunities and pave the way for a brighter tomorrow.

In conclusion, I would like to thank our advertisers for their faith in us and for using EUROLINK to promote their services. We look forward to working with you in the years to come.

I want to express my heartfelt thanks to Andrea and Dilinthri from the Secretariat for their dedication to organizing the EUROLINK magazine. I would also like to extend a special thank you to Softwave Design and Printers and BlackArts Creatives for their support throughout this process.

I hope you enjoy the latest issue of EUROLINK and make use of the information provided to do better business.

Sincerely,

Dhishna Bastiansz
General Manager and Head of Secretariat
The European Chamber of Commerce of Sri Lanka

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MESSAGE BY THE PRESIDENT

Dear Esteemed Readers,

As we navigate the evolving landscape of global trade and economic cooperation, it is a privilege to connect with you in this month's edition of our magazine. Our focus remains on strengthening the ties between Sri Lanka and European nations during these challenging times.

In recent years, Sri Lanka has faced significant hurdles, from the impacts of the pandemic to ongoing economic challenges. Yet, our resilience continues to shine through. Despite these adversities, Sri Lanka's exports have shown commendable strength. According to the Central Bank of Sri Lanka, in March, total exports reached USD 1.1 billion, reflecting a 9.8% year-on-year growth. Key sectors such as textiles, petroleum products, and industrial goods have all seen positive momentum. The Central Bank projects that exports will increase by 8.4% to $12.9 billion in 2024, signaling a strong recovery from previous declines.

Agricultural and industrial exports are crucial to our economy. In January 2024, agricultural exports grew by 3.58%, totaling US$225.43 million (Source: Department of Commerce, Sri Lanka), while the industrial sector made a significant leap in March, surging by 9.8% to US$1,139 million (Source: Export Development Board, Sri Lanka). These sectors are poised to play a vital role in bolstering national revenue in the coming year.

The European market presents immense opportunities for Sri Lankan businesses. The EU stands as one of our largest trading partners, and the demand for high-quality products continues to grow. The recently ratified EU-Sri Lanka GSP+ agreement further enhances our access to European markets, creating a more favorable environment for collaboration.

Sri Lanka is rich with potential for partnerships and investment from European entities. Our high-quality garments are highly sought after in European fashion markets, particularly in the apparel and textiles sector. Additionally, our transition to sustainable energy sources can be greatly accelerated through European expertise.

The rebound of the tourism and hospitality industry also opens up exciting prospects for investors. With our strategic location, skilled workforce, and investment-friendly policies, Sri Lanka remains an attractive destination for European investors in infrastructure, agribusiness, and healthcare. The European Chamber of Commerce of Sri Lanka acts as a vital bridge for facilitating dialogue, knowledge exchange, and partnerships, fostering innovation and collaboration. Together, the untapped potential between Sri Lanka and Europe holds the promise of a prosperous and mutually beneficial future.

In conclusion, I extend my heartfelt gratitude to our members and partners for your unwavering support and enthusiasm, and to our sponsors for their invaluable contributions in making EUROLINK one of the most successful European business magazines in Sri Lanka. Your trust in us is greatly appreciated, and we look forward to collaborating in the years ahead.

I would also like to express my sincere appreciation to my dedicated team at the ECCSL for their tireless efforts and support. Thank you all.

I hope you enjoy this latest edition of EUROLINK and find valuable insights to help your business thrive.

Sincerely,

Hatem Rajabdeen
President
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The European Chamber of Commerce of Sri Lanka (ECCSL) was established in 1996 with the primary objective of fostering and enhancing economic and business relations between Sri Lanka and 50 European countries. The chamber's membership comprises a diverse range of commercial interests, reflecting its strong and influential presence in the country.

ECCSL fosters networking and business development opportunities, provides essential services and resources, and advocates for regulatory reforms and market access. Through its activities, ECCSL contributes to the growth of the Sri Lankan economy and encourages responsible business practices.

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To be the leading European business support partner in Sri Lanka and serve as the representative body for European businesses.

OUR VISION

- To be the most valued European Business support partner in Sri Lanka.
- To be the representative body for the European businesses in the country.
- To be the most valued lobbying force in Sri Lanka.
- To be a trusted discussion partner for Sri Lankan Institutions and the Government.

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To encourage, promote and facilitate trade and investment between Europe and Sri Lanka by providing professional business information and support services to European and Sri Lankan businesses.

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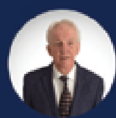
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THE EUROPEAN UNION (EU):

A Prime Market For Sri Lankan Exports

1. What makes the EU, and Germany in particular, a vital market for Sri Lankan exports?

The EU, including Germany, has been a longstanding and reliable partner for Sri Lanka. The EU with Germany as a key member, is vital to Sri Lanka's export sector for several reasons. The EU is Sri Lanka's second-largest export market, with Germany being the fourth most important country for Sri Lankan exports. The EU's Generalized Scheme of Preferences Plus (GSP+) offers Sri Lankan exporters duty-free access to many EU markets, which helps Sri Lankan products to be competitive and to enhance export capacities. Exporting to the EU requires compliance with rigorous quality standards and regulations, which can elevate the global reputation of Sri Lankan products and drive higher quality and innovation. Additionally, exporting to the EU plays a crucial role in Sri Lanka's economy by generating foreign exchange earnings and supporting local industries, leading to job creation and overall economic stability. For many years, the EU has supported Sri Lanka through training and development, capacity building, knowledge transfer, and market access assistance via various projects conducted throughout the island.

Overall, the significance of the EU to Sri Lankan exports stems from its role as a major market, its trade preferences, its influence on the economy, and the growth and sustainable development opportunities it offers.

2. What have been the most significant trends in exports to the EU and Germany, and how can Sri Lanka capitalize on them?

In 2022, 2023, and from January to July 2024, Sri Lanka's total export value to the European Union was USD 3,038.59 million, USD 2,711.93 million, and USD 1,533.72 million, respectively. Germany, Italy, the Netherlands, France, and Belgium were the top EU destinations for these exports. Specifically, exports to Germany amounted to USD 744.57 million in 2022, USD 587.40 million in 2023, and USD 360.29 million from January to July 2024.

The decline in export values from 2022 to 2024 reflects the challenges Sri Lankan exporters have faced due to prevailing economic conditions. Nevertheless, Germany's continued presence as a leading destination underscores its critical role as a major market for Sri Lankan products.

The introduction of the EU's Supply Chain Due Diligence Act provides a new opportunity for Sri Lankan exporters. This regulation requires robust supply chain management, and since many Sri Lankan exporters

already adhere to high standards, they are well-positioned to leverage their quality and compliance. By capitalizing on these strengths, Sri Lankan exporters can enhance their competitiveness and expand their market share in the EU.

3. Which Sri Lankan products and services have achieved notable success in the EU and German markets, and is there potential to introduce new offerings beyond the traditional ones?

For many years, apparel has been Sri Lanka's primary export commodity. The Sri Lankan apparel sector has consistently strengthened, earning recognition from international players as a reliable partner / destination. In addition to apparel, Sri Lanka's traditional exports include agricultural products such as Ceylon tea, rubber and rubber-based products, and coconut and coconut products. While maintaining these traditional exports, Sri Lanka should focus on developing value-added and innovative products. This approach could elevate Sri Lanka's position in the international market and enhance its economy. Beyond traditional exports, sectors such as boat building, IT, gem and jewelry, organic agriculture, and graphite could offer promising opportunities in the future.

4. What key factors should Sri Lankan exporters consider when entering the EU market?

Sri Lankan exporters should focus on several critical areas to succeed in the EU market. They should prioritize obtaining certifications as a valuable investment, ensuring reliability, consistency, and adherence to standards and capacities. Embracing new technologies, digitalization, and sustainability in manufacturing and the supply chain can help meet the high demand in the EU. Additionally, enhancing packaging, printing, presentation, and strategic communication about their products will further boost their market appeal and effectiveness.

5. How can Sri Lankan businesses leverage trade fairs, such as those held in Germany, to expand their presence in the EU?

Trade fairs offer great opportunities for Sri Lankan exporters to connect with potential and existing business partners, boost exports, explore new technologies, understand the competitive landscape, and promote "Made in Sri Lanka" products to the international market. Germany, being a global hub for international trade fairs, hosts five of the top ten global trade fair companies and around two-thirds of the world's leading trade fairs. We at the Delegation of German Industry and Commerce in Sri Lanka (AHK Sri Lanka) provide advocacy and support to Sri Lankan businesses participating in these fairs, including organizing country pavilions and visitor delegations across various industries such as agriculture, medical, logistics, renewable energy, and printing & packaging. Regular and strategic participation in trade fairs is crucial, and both the private and public sectors in Sri Lanka should collaborate to leverage trade fairs effectively as a tool for economic development and achieving broader objectives.

Malintha Gajanayake
Head of Corporate Affairs & Export Promotion Delegation of German Industry and Commerce in Sri Lanka (AHK Sri Lanka)

IMPLICATIONS OF THE EUROPEAN GREEN DEAL FOR SRI LANKAN BUSINESSES:

First Look

The European Green Deal (EGD) is arguably one of the most far-reaching trade and industrial policy seen in modern international trade. Designed to make Europe climate-neutral by 2050, the EGD is a comprehensive package of policy initiatives that have implications for global trade that go far beyond the European Union (EU) itself, impacting countries like Sri Lanka.

Historically, the EU has been one of Sri Lanka's major trading partners. In 2022, the EU accounted for 15.1% of Sri Lanka's overall trade, making it the country's first most important trading partner and the second most important export destination (after the United States of America) . Traditionally, apparel, rubber, and coffee, tea, mate, and spices have been Sri Lanka's top exports to the EU, amounting to US$1.61 billion, US$419.78 million, and US$162.11 million respectively . As such any changes to EU policy that impinge on trade – like this Green Deal – will undoubtedly impact Sri Lanka.

This article examines how Sri Lankan businesses trading with the EU will be impacted by the EGD, offering a glimpse into the future of economic relations between Europe and Sri Lanka.

Snapshot of the EGD

The EGD, proposed in December 2019 by the European Commission and adopted by the European Parliament in January 2020, is the EU's largest and most ambitious integrated program of reform, investment, and research centered around climate change . The overarching goal of the EGD is to make Europe the world's first climate-neutral continent by 2050, achieving net-zero greenhouse gas emissions . Through the EGD, the EU expects to drive new consciousness around climate change and environmental issues across the EU's trade relationships globally.

The EGD encompasses several initiatives, each coming into force at different stages of the timeline. The most notable initiatives include the Carbon Border Adjustment Mechanism, the Critical Raw Materials Act, the Corporate Sustainability Due Diligence Directive, the European Hydrogen Strategy, the European Methane Regulation, the Offshore Renewable Energy Strategy, and the European Union Deforestation Regulation.

This article focuses on two of these key initiatives with significant trade implications for Sri Lanka - the Carbon Border Adjustment Mechanism and the European Union Deforestation Regulation.

Carbon Border Adjustment Mechanism

In October 2023, the EU introduced the Carbon Border Adjustment Mechanism (CBAM) – the world's first carbon border tax, aimed at preventing goods imported from outside the EU from gaining a competitive advantage because their countries of origin do not properly account for carbon costs . According to the European Commission, the CBAM currently applies only to a limited range of goods at high risk of carbon leakage: aluminum, cement, electricity, hydrogen, iron and steel products, and mineral and chemical fertilizers.

Under the CBAM, EU importers are required to report the carbon emissions associated with the production of goods subjected to CBAM to the European Commission. These emissions are then compared against the EU's benchmark levels for the respective goods. If the reported emissions exceed the established benchmarks, the importer must pay a CBAM charge by purchasing CBAM certificates corresponding to the excess emissions. However, if the exporting country imposes its carbon price, and the exporter can provide verifiable proof of payment, this amount may be deducted from the CBAM charge .

It is important to note that under CBAM, the responsibility for reporting carbon emissions and settling the CBAM charge lies with the EU importer. However, this obligation is likely to cascade down the supply chain, placing a significant burden on exporters, who will be required to provide the necessary documentation and proof of emissions. Suppose you are a Sri Lankan exporter of CBAM-subject goods, this responsibility will effectively be transferred to you.

Impact of CBAM on Sri Lankan exports

According to early assessments done by the Asian Development Bank (ADB), cement is Sri Lanka's most exposed CBAM product followed by iron and steel . However, given the relatively low export volumes of both products, the overall impact of CBAM on Sri Lanka is expected to be negligible. In 2022, Sri Lanka exported $137,000 worth of cement globally with $14,304 sold to the EU , accounting for 10.44% of the country's total cement exports. Similarly, Sri Lanka exported $81.8 million worth of iron and steel globally , with $2.43 million sold to the EU , accounting for 2.97% of its global iron and steel exports. Apart from the fact that only 2.97% of iron and steel (Sri Lanka's 24th most exported product) is exported to the EU, it is interesting to note that Sri Lanka records a negative CBAM score for iron and steel . This could mean that Sri Lankan-produced iron and steel generate lower carbon emissions than the EU benchmark, potentially making them more attractive to EU importers . Nevertheless, given that these items are such low-priority exports for Sri Lanka and production volumes are low (in global comparison), CBAM in its present form poses little challenge to Sri Lanka's overall exports to the EU.

It is important to note that, at present, the CBAM does not apply to Sri Lanka's top export categories, which include apparel, tea, coffee, spices, and rubber . Consequently, the US$ 2.1 billion in export earnings from the EU in these sectors are not currently at risk. However, by 2030, the scope of CBAM is expected to expand to cover all product groups under the EU Emissions Trading System (ETS). Crucially, this includes rubber – one of Sri Lanka's major exports. When this happens, the impact of CBAM on Sri Lanka could be far greater.

European Union Deforestation Regulation

In June 2023, the EU introduced the European Union Deforestation Regulation (EUDR) to limit the EU's impact on global deforestation, forest degradation, and biodiversity loss. By promoting deforestation-free supply chains, the regulation aims to reduce the EU's contribution to greenhouse gas emissions . Currently, the EUDR is in its transitional phase and is expected to be fully implemented by the end of 2024 . Once in effect, the regulation will require companies trading in seven key commodities – soy, cattle, oil palm, wood, cocoa, coffee, and natural rubber – as well as their derived products to provide proof that their supply chains do not include products originating from recently deforested land or that have contributed to forest degradation.

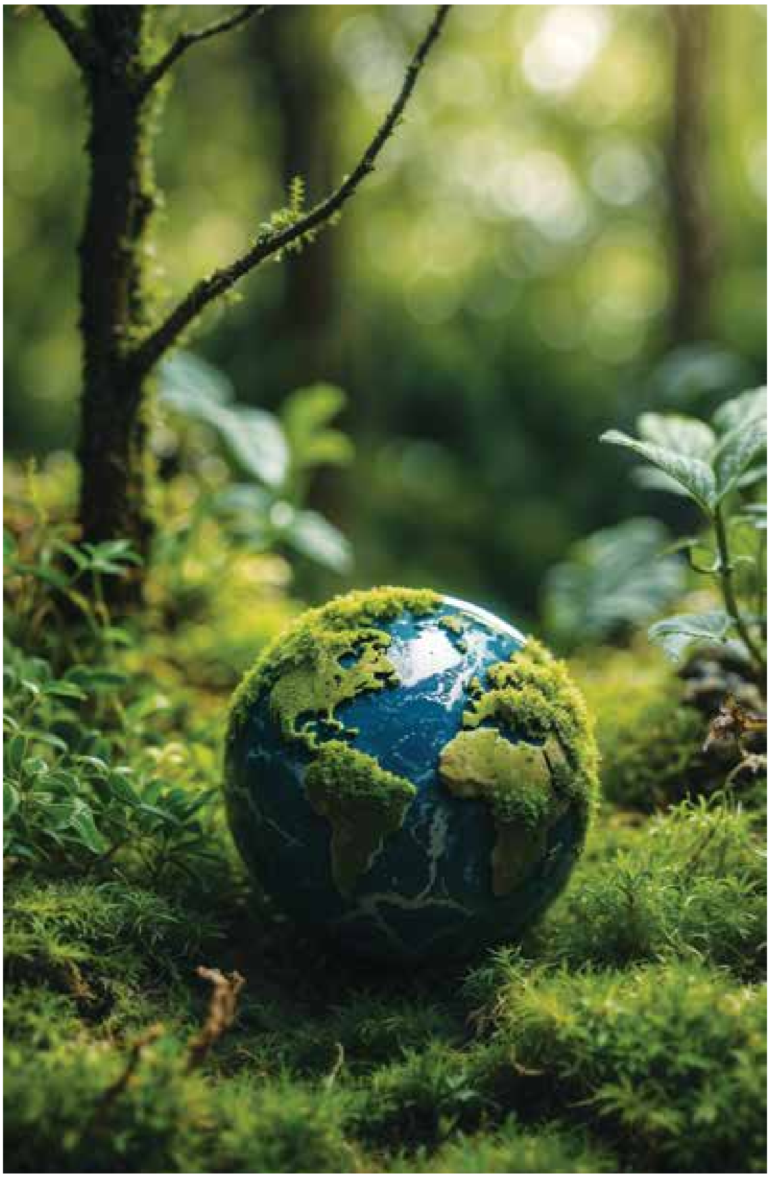
Under the EUDR, companies selling EUDR-subject products will be required to provide detailed information about their production process, including the geographic coordinates of harvest sites, production quantities, and proof of legal harvesting . This data must be compiled into a due diligence statement and submitted to the European Commission's information system for a review and verification process . Once submitted, companies will be notified of the outcome of the process . If a company is unable to comply with due diligence requirements, the company may be subjected to penalties or suspension from the European market . Suppose you are a Sri Lankan rubber products exporter, access to the European market is extremely important to you. In 2022, nearly half of Sri Lanka's US$ 1 billion rubber and rubber products exports were sold to EU buyers.

Sri Lanka's response to the EUDR

Sri Lanka has begun initial discussions about the EUDR and its implementation across the country. In March 2024, the Sri Lankan Foreign Ministry, in collaboration with the EU Ambassador to Sri Lanka, and the Directorate-General for Environment of the European Commission in Brussels, hosted a hybrid information session for exporters . The information session provided industry and government officials with a comprehensive overview of the EUDR and guidance on how Sri Lankan companies and exporters can seek technical assistance from the EU to comply with the new regulations .

However, there have been no updates since that session. As a result, the extent of Sri Lanka's preparedness for full EUDR compliance remains unclear, particularly with the looming implementation deadline at the end of 2024.

Meanwhile, responses from other countries to the EUDR have been largely more proactive. In June 2024, representatives from 17 nations issued an open letter to the European Commission and Parliament, expressing their concerns about the regulation . Brazil, for example, raised objections to the EUDR's country benchmarking system, which categorizes countries as low, standard, or high risk for deforestation . Products from high-risk countries face stricter scrutiny and additional import requirements , while countries classified as low-risk will benefit from simplified due diligence procedures . Although the final list of classified countries has yet to



be published , Brazil has argued that the system creates unequal conditions for access to the European market . Paraguay, one of the largest global exporters of corn and soybeans, has labeled the EUDR a 'protectionist measure disguised as environmental policy,' arguing that it will significantly increase production costs, elevate food prices, and distort global trade .

Calls for a delay in the regulation's implementation have also been voiced by cocoa farmers, particularly from Africa. In July 2024, the Cocoa Farmers Association of Nigeria (CFAN) sent an open letter to the European Commission, requesting an extension of the EUDR deadline to the end of 2025 . The association stressed that smallholder cocoa farmers, many of whom lack sufficient information at the grassroots level, require additional time to adequately prepare for compliance .

However, the EU Commission has confirmed its commitment to the implementation timeline, which is set for the end of 2024 .

Conclusion

In conclusion, while the immediate impact of the CBAM on Sri Lanka may be limited due to its current focus on sectors such as cement, iron, and steel – which constitute a small fraction of the country's exports – the future expansion of CBAM to include products like rubber could have a more significant effect on the economy. The impending full implementation of the EUDR could present challenges for key commodity-related export sectors like rubber. However, the apparent lack of concerted efforts at a country-level response to face EUDR is concerning.

Overall, Sri Lanka needs to adjust to this new paradigm of heightened environmental due diligence and compliance requirements in the EU, which are arguably far more consequential in the medium- to long-term than preferential tariff access enjoyed through schemes like GSP Plus at present. Sri Lankan exporter groups must engage with their counterpart trade associations in the EU, as well as with EU authorities, to share compliance knowledge, seek technical assistance, and proactively address these regulatory demands to safeguard - and indeed grow their competitiveness in the EU market.

Sri Lanka must also recognize that the EGD also offers considerable opportunities for businesses. The increased environmental and climate-consciousness of European consumers is expected to drive demand for nature-based and climate-friendly products. Already platforms like Good Life X have shown how SMEs with regenerative and inclusive business models can thrive in the EU market. Support for obtaining formal certifications and standards will be key to boosting these firms' market access. As more Sri Lankan businesses align their practices with these emerging expectations and demonstrate a commitment to sustainability, they can become preferred suppliers to EU buyers. In doing so, they can turn the EGD – once seen as a potential challenge – into a strategic opportunity.

Anushka Wijesinha is an economist, and co-founder of the Centre for a Smart Future, an interdisciplinary public policy think tank. He is also a trade strategy consultant with the International Trade Centre, Geneva. He was formerly advisor to the Ministry of Development Strategies and International Trade of Sri Lanka. He holds an MA in Economics from the University of Leeds and is an alumnus of Harvard Kennedy School's 'Leading Economic Growth' program.

Shaheen Abdul Gani is a project intern at the Centre for a Smart Future. She is currently pursuing a BA (Hons) in International Relations at the University of Nottingham, Malaysia.

UNDERSTANDING ECONOMIC RECESSION IN SRI LANKA:

Preparing Your Business for Uncertainty

OG Dayaratna-Banda (PhD) - Senior Professor in Economics, University of Peradeniya and the Editor-in-Chief, Sri Lanka Economic Association

A macro environment refers to the conditions in the economy as a whole. In general, the macro environment includes trends in the gross domestic product (GDP), inflation, employment, spending, and monetary and fiscal policy. Macroeconomic stability, however, is a fundamental necessity for businesses to thrive. However, arising from the prolonged twin deficit problem and an attempt to challenge the impossible trinity through fiscal and monetary actions resulted in serious macroeconomic instability in recent times in Sri Lanka despite the vibrant and steady growth episode in India. Sri Lanka has been experiencing a severe economic recession since 2022. The economic crisis in Sri Lanka has been primarily attributed to a combination of factors including rising inflation, a significant external debt burden, a decline in foreign exchange reserves, limited export growth, political instability, and the impacts of the COVID-19 pandemic.

The economy has contracted significantly since 2022, resulting in increased poverty, hyperinflation, severe depreciation of domestic currency, balance of payments, and government budget deficits. The economic recession is understood to be man-made as decades of unwise fiscal and monetary policies that raised budget deficits and excessive money printing. Many businesses were severely affected and the micro, small and medium enterprises received the brunt of the impact. An examination of the macroeconomic conditions in Sri Lanka during the preceding years of economic recession and the recession points to a large number of contributory factors to the economic recession. These factors have contributed to a challenging economic environment in Sri Lanka. The economic crisis in Sri Lanka is mainly characterised by a combination of high levels of debt, a decline in foreign exchange reserves, and a depreciating currency. The country has been facing challenges such as rising inflation, reduced exports, and a heavy reliance on imports. This has led to difficulties in meeting debt obligations and maintaining macroeconomic stability.

The government has been implementing various measures to address these issues, including seeking assistance from international organizations and implementing austerity measures. The situation is complex and requires careful management to stabilize the economy and promote sustainable growth. To overcome the economic recession, Sri Lanka entered into a four-year Extended Fund Facility agreement in March 2023 with the International Monetary Fund. This is the seventeenth time that Sri Lanka has obtained IMF's financial assistance for external sector stabilization, the first of which was in the early 1960s. Given the complex and fragile political-economy context in Sri Lanka, it will be a daunting task to successfully implement the policy package agreed upon by the government with the IMF. Against the backdrop of policy reversals, stop-and-go policy reforms, and a patchwork approach to macroeconomic policymaking in Sri Lanka, it is extremely doubtful whether Sri Lanka will be successful in implementing the expected policy reforms to achieve the goals of the reform package.

The current macroeconomic environment in Sri Lanka is highly challenging. The country is experiencing high levels of public debt, low foreign reserves, and a significant depreciation of the currency. Inflation is also a concern, as prices of goods and services have been rising. The government is working to address these issues through various measures, such as seeking financial assistance from international organizations and implementing structural reforms to boost economic growth. Despite these challenges, Sri Lanka remains a dynamic and resilient economy with the potential for growth in the future.

The current business environment in Sri Lanka is experiencing challenges due to economic downturns caused by the global pandemic. However, the country's strategic location and rapidly growing industries, such as tourism, IT, and manufacturing, offer opportunities for business expansion and investment. The government has also been implementing various reforms to improve the ease of doing business and attract foreign investment. Overall, Sri Lanka offers a mix of challenges and opportunities for businesses looking to operate in the country.

One would also wonder if the outcome of the Presidential Election in Sri Lanka would create significant uncertainties for businesses in the coming years. The leading candidates of the election by far are Anura Kumara Dissanayake, Ranil Wickremasinghe, and Sajith Premadasa who appear to follow different policy paradigms. To understand possible uncertainties that might be created by the outcome of the Presidential Election, it would be advisable to analyse the economic visions outlined in the presidential manifestos of the three leading candidates including Sajith Premadasa, Ranil Wickremasinghe, and Anura Kumara Dissanayake. Sajith Premadasa's manifesto includes promises to promote entrepreneurship and support small and medium-sized enterprises (SMEs) in Sri Lanka. He aims to create a conducive environment for private businesses to thrive by simplifying regulations, reducing red tape, and providing financial support and incentives to encourage investment. Ranil Wickremesinghe's manifesto focuses on economic reforms and attracting foreign investment to stimulate growth in the private sector. He plans to implement policies that will create more opportunities for private businesses, improve infrastructure, and enhance the business climate in Sri Lanka. However, Anura Kumara Dissanayake's manifesto emphasizes empowering local businesses and industries to drive economic growth. He proposes measures to protect domestic enterprises from unfair competition, promote innovation, and encourage sustainable development practices within the private sector.

While Ranil is advocating a variant of the free market economic system, Sajith appears to depend on a social market economic system that is highly tilting towards the centre-right. Anura has proposed a more pragmatic approach which can be understood to be a center-left economic system in which the role of free markets and government have been emphasized. A deeper and careful analysis of the three manifestos uncovers the fact that none of the policy programmes will be detrimental to private businesses as they envision efficient and competitive markets and a vibrant private sector. The policy frameworks presented by the three leading candidates indicate that significant policy uncertainties and infeasibilities will not be created by the outcome of the Presidential Election.

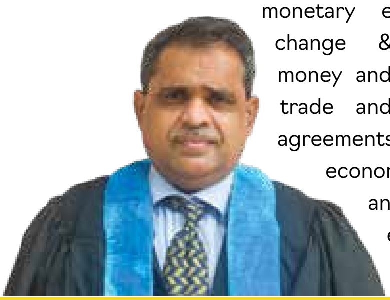
Given the fact that corruption in government has been a major cause of economic recession and macroeconomic mismanagement, it is also imperative to look at the position of each of these manifestos on reducing or eliminating corruption in government. While all three manifestos present a coherent framework for addressing the issue of corruption in government, Anura Kumara Dissanayake appears to stand out as a leading figure of the anti-corruption campaign in Sri Lanka so that he will be able to put in place a team of people in government as members of parliament and ministers to fight corruption.

The outcome of the Presidential Election will also have some impact on the IMF-linked stabilization efforts currently implemented by Sri Lanka. While a win for Ranil will result in a continuation of the implementation of the current IMF agreement and policy package, and external debt restructuring efforts. The reforms will be targeted at further liberalization of all sectors towards a free market system. The possible uncertainties of this outcome will be highly market-driven and external to the country. Sajith has also indicated continuing the IMF-linked agreement and external debt restructuring without any major changes so that the implementation of the policy package proposed by Saith will not generate a different uncertainty environment. Anura has also pledged to continue with the IMF-linked stabilization efforts but with renegotiations for the change of the agreed-upon policy package.

This policy package does not indicate that it will deviate from the need for fiscal consolidation, yet its efforts will be targeted at both the revenue and expenditure sides of the government. It can be concluded that the external debt restructuring and IMF-led stabilization efforts will continue irrespective of the outcome of the Presidential Election. Overall, each candidate's manifesto offers unique strategies to support private businesses in Sri Lanka, ranging from regulatory reforms and financial incentives to infrastructure improvements and support for local industries.

Though the current and future macroeconomic environment in Sri Lanka is expected to generate fewer policy-induced uncertainties, businesses are still coping with the negative impacts of the economic recession. As businesses in Sri Lanka are facing various challenges due to the current macroeconomic policy uncertainties, they will be inclined to adopt innovative practices. Businesses will be compelled to adapt to uncertainties by focusing on improving operational efficiency, diversifying their revenue streams, and implementing cost-saving measures. Digitalization will be a prime option to deal with the negative consequences of the possible uncertainties. Moreover, businesses will also be compelled to explore new market opportunities both domestically and internationally to mitigate the impact of the uncertainties. Businesses need to stay informed about the economic landscape, seek professional advice, and remain agile to navigate through these challenging times. However, given the fact that the governments will maintain predictable inflation rates and exchange rates during the coming years and there will be few policy-induced uncertainties, there will be a conducive business environment in the coming years providing businesses a good breathing ground for them to thrive. It can be concluded, that irrespective of the outcome of the Presidential Election, Sri Lanka's business environment will continue to become vibrant and competitive, and businesses will be able to operate in a predictable macroeconomic policy environment.

OG Dayaratna-Banda is a Senior Professor in Economics in the University of Peradeniya, Sri Lanka. He has earned a Bachelor of Arts degree in economics (first class in monetary economics), a Master of Philosophy in Economics from the University of Peradeniya, Sri Lanka, and a Doctor of Philosophy in Economics from the National University of Singapore. He has been a Visiting Research Professor at the University of Waterloo & the International Governance Innovation in Canada from 2006 to 2007, and a Visiting Senior Fellow at Transylvania University in Romania in 2018. He was the Dean of the Faculty of Arts at the University of Peradeniya from 2015 to 2021. He was also the Head of the Department of Economics and Statistics and the Chairman of the Higher Degrees Unit and played a vital role in establishing the Postgraduate Institute of Humanities and Social Sciences. He was also a former Dean of the Faculty of Management at the Uva Wellassa University in Sri Lanka. OG Dayaratna Banda is currently a Senior Professor in Economics in the Department of Economics and Statistics of the University of Peradeniya. OG Dayaratna-Banda has published widely in international journals and has contributed to various policy research working papers, which have been published on prestigious platforms such as the National Bureau of Economic Research Working Papers of the USA and the Center for International Governance Innovation Working Papers in Canada. His main research areas include macroeconomics, monetary economics, technology change & economic growth, money and banking, international trade and finance, free trade agreements, banking and finance, economic development, and institutional economics.



Did You Know?

1. What is the European Union's (EU) main trade policy framework?

The EU's trade policy is based on a common external tariff and a unified trade policy towards non-EU countries. The EU negotiates trade agreements on behalf of all its member states, ensuring they benefit from trade as a bloc

2. How significant is the EU in global trade?

The EU is one of the largest trading blocs globally, accounting for around 15% of the world's total trade in goods. It is also the largest exporter of services.

3. What are the EU's major trade partners in the 21st century?

The EU's top trading partners include the United States, China, Switzerland, and the United Kingdom, following Brexit.

4. What is the impact of Brexit on EU-UK trade relations?

Brexit has led to the establishment of the Trade and Cooperation Agreement (TCA), which governs EU-UK trade post-Brexit. It introduces customs checks and regulatory barriers, altering the previously seamless trade relations.

5. How does the EU approach sustainability in trade agreements?

The EU increasingly incorporates sustainability provisions, including labor standards and environmental commitments, into its trade agreements. Recent deals include chapters dedicated to sustainable development.

NATIONAL SINGLE WINDOW:

A Game-Changer for Sri Lanka's Trading Community

1. **The National Single Window (NSW) transforms trade by allowing all documents to be submitted only once on a digital platform, slashing redundancy and boosting efficiency.**
2. **For Sri Lanka, the NSW means lower trade costs, faster processing, better government revenue collection, and stronger alignment to global standards, unlocking new growth opportunities.**
3. **Success stories from Singapore, South Korea, Pakistan and our competitor countries show that NSW or similar systems cut costs, speed up trade, and drive economic gains.**
4. **Despite its WTO Trade Facilitation Agreement (TFA) commitments, Sri Lanka is lagging behind in implementing trade facilitation measures including NSW, due to political and funding challenges.**
5. **Fast-tracking the NSW is vital to modernizing Sri Lanka's trade, meeting WTO obligations, and becoming a true competitor in the region and global marketplace.**

What is the National Single Window (NSW)?

The National Single Window (NSW) is an integrated digital platform designed to streamline international trade by allowing parties involved in trade and transport to submit standardized information and documents through a single entry point. This concept, supported by international organizations such as the World Trade Organization (WTO) and the World Customs Organization (WCO), aims to simplify and harmonize the flow of information between traders and government authorities.

An NSW acts as a centralized system that connects various government agencies responsible for regulating trade activities, such as customs, quarantine, port authorities, and other inspection bodies. By doing so, it eliminates the need for businesses to submit the same information multiple times to different entities, thereby reducing redundancy and enhancing efficiency.

Essentially, an NSW provides a streamlined, paperless, and automated environment where all trade-related procedures, Licenses, Permits, customs declarations and all related documents are directed through a unified platform. This digital transformation is crucial in today's global economy, where trade competitiveness depends on the ability to move goods timely, efficiently, cost-effectively and securely across borders.

How the NSW Can Benefit a Developing Country Like Sri Lanka?

Implementing an NSW offers numerous benefits across economic, regulatory, technological, and policy landscapes. Here's an in-depth look at how an NSW can enhance a country's overall trade environment:

Economic Benefits

The NSW significantly enhance trade efficiency and competitiveness, and reduces the time and cost of moving goods across borders by automating and integrating trade procedures. According to a World Bank study, countries implementing an NSW can achieve a 30-40% reduction in the time required for import/export processes. By speeding up clearance times and reducing transaction costs, businesses can become more competitive in global markets, attract foreign direct investment (FDI), and boost overall economic growth

By digitalizing processes and reducing paperwork, businesses experience a reduction in operational costs, saving money on administrative and logistics expenses. With a single point of data submission, there is less need for manual intervention, further minimizing costs associated with errors, corrections, and delays.

The NSW contributes to better revenue collection for government. By providing real-time data analytics and visibility into trade activities, it helps customs authorities detect under-declarations and misclassifications more effectively. This leads to improved tax and duty collection, reducing revenue leakage caused by corruption or misreporting.

The COVID-19 pandemic and other global disruptions have highlighted the critical need for resilient and adaptable trade systems. An NSW provides a robust framework for managing unexpected trade disruptions, ensuring that trade processes remain smooth, even under challenging circumstances.

Regulatory and Policy Benefits

The NSW enhances transparency and compliance by providing a clear and auditable trail of all trade transactions. This discourages fraudulent practices, reduces the scope for corruption, and ensures compliance with international standards and regulations. For policymakers, the NSW serves as a valuable tool for monitoring and controlling trade activities, ensuring that goods entering or leaving the country meet all regulatory requirements.

The platform fosters collaboration and information-sharing among various government departments, which accelerates decision-making processes. By breaking down silos and encouraging inter-agency communication, the NSW reduces bureaucratic delays, allowing for quicker response times and smoother trade flows.

Implementing an NSW aligns a country with global best practices and international agreements, such as the WTO's Trade Facilitation Agreement (TFA). This alignment can help improve a country's ranking in global competitiveness indices, such as the World Bank's B-Ready Index, the Logistics Performance Index, and the Corruption Perception Index, making it a more attractive destination for international trade and investment.

Benefits to the Private Sector

For businesses, the NSW offers simplified compliance and reduced risk by providing a single interface to meet all regulatory requirements. This reduces the complexity and uncertainty associated with dealing with multiple government agencies, thereby lowering the risk of non-compliance, penalties, and delays. Faster Clearance and Reduced Delays: The automation and integration capabilities of the NSW significantly reduce the time required for customs clearance, inspections, and approvals. This not only speeds up the movement of goods but also improves inventory management and reduces costs associated with warehousing and demurrage and finally predictability in businesses

By making trade more efficient and predictable, the NSW helps businesses become more competitive globally. It opens up new market opportunities, particularly for small and medium-sized enterprises (SMEs), by lowering barriers to entry and facilitating easier access to international supply chains.

Technological Advancements

The NSW serves as a catalyst for broader digital transformation within the public sector. It encourages the adoption of new technologies, such as, artificial intelligence (AI), and data analytics, which can further streamline trade processes, enhance data security, and provide predictive insights for better decision-making.

By centralizing data submission and collection, the NSW creates a valuable repository of trade-related information. Governments can leverage this data for advanced analytics, enabling them to identify trends, forecast demand, and make informed policy decisions.

The NSW allows governments to implement robust cybersecurity frameworks to protect sensitive trade data. With increased reliance on digital platforms, ensuring data security and integrity is paramount, and the NSW provides the necessary infrastructure to safeguard against cyber threats.

Success Stories from around the World

As of July 2021, there were 81 countries at various stages of implementing NSWs, according to the ADB.

Singapore was a pioneer in implementing the NSW with its TradeNet system, which reduced trade processing time from four days to 10 minutes, leading to significant cost savings and strengthening its status as a global trade hub.

South Korea's Single Window System integrates 90 different systems from 43 government agencies, enabling a 60% reduction in trade transaction costs and a 40% increase in processing speed.

The European Union (EU) Single Window Initiative enhances information flow between businesses and customs authorities, ensuring compliance with both EU and national regulations while simplifying trade processes across member states.

Thailand successfully reduced export transaction times from 24 days in 2006 to just 14 days by 2009—a 42% reduction—through its NSW, demonstrating its effectiveness in reducing administrative burdens and accelerating cross-border trade.

In Hong Kong, the NSW has generated substantial economic benefits, resulting in estimated annual savings of HK$1.3 billion. The centralized digital platform has minimized paperwork, reduced errors, and expedited transactions, enhancing transparency and communication between traders and government agencies.

Within three years, Pakistan's Single Window (PSW) has streamlined 65% of regulated trade, reduced LPCO

(License, Permit, Certificate and other documents) filing times by one-third, and halved goods declaration times. Online payments jumped from 41% to 91%, cutting costs by 18.75%. Thus, PSW demonstrates significant progress in enhancing trade efficiency and reducing costs swiftly.

These success stories illustrate the transformative potential of NSW systems in reducing costs, improving trade facilitation, and enhancing efficiency, providing valuable lessons for other countries, including Sri Lanka, to adopt similar strategies.

Sri Lanka's Journey towards an NSW and Where Are We Now?

Sri Lanka began its NSW journey in 1993, along with the negotiations of the WTO TFA, which spanned 20 years. The agreement was finally reached at the Ninth Ministerial Conference in Bali, Indonesia, where the NSW was under Article 10.4. Sri Lanka submitted its instrument of ratification to the WTO on 31 May 2016, becoming the 81st member to ratify the agreement. The TFA officially entered into force on 22 February 2017, after being ratified by two-thirds of WTO member countries, making its implementation a commitment for each member nation. The World Bank began developing the blueprint for the National Single Window (NSW) in December 2017 and completed it by July 2018. Around the same time, in July 2018, the Trade Information Portal (TIP) was launched with support from the World Bank and Australian Aid. This portal was considered the key to the establishment of the NSW.

During this process, they studied the 'as-is' situation, the Internet-based research of key Government Agencies (GA) websites, consulted GAs and industry to discuss and understand current practices and used research from the TIP project.

They then explored the future aspirations to understand the desired 'to be' situation. During this process, they consulted members of the National Trade Facilitation Committee (NTFC) and key stakeholders from both the public and private sectors. Seven workshops and internal NSW team discussions were conducted. In conclusion, all 12 technical reports, collectively known as the NSW Blueprint, which detailed the design and operation of the NSW, were handed over to the Government of Sri Lanka (GOSL) by the World Bank in August 2018. Unfortunately, later the documents were untraceable, prompting the World Bank to re-submit the Blueprint in July 2019, marking 26 years since the journey began.

Titles of the 12 Technical Reports are as follows;

1. Legal and regulatory framework
2. Governance and operational model
3. Service Specifications for NSW Operator
4. Revenue model and fee structure
5. Functional and technical and architecture
6. Functional and technical specification
7. Service level agreements
8. Business process reengineering
9. Data harmonization
10. Change management, Communication and Capacity Building strategy and plan
11. Risk management strategy and model
12. Implementation plan

Change in the political regime in Sri Lanka in November 2019 disrupted the progress of the NSW implementation. This was further delayed by the outbreak of COVID-19 in January 2020. By July 2021, 28 years after the initial efforts, the GOSL appointed the High-Level Steering Committee (HLSC). In March 2022, Sri Lanka established the NSW Project Implementation Committee (PIC) and the Project Implementation Unit (PIU).

The momentum of the NSW project faced further setbacks with the "Aragalaya" protests in March 2022. Despite cabinet approval in June 2022 to launch the multi-phased NSW with funding from the WB, progress remained slow due to a lack of political will and funding. Political instability persisted, with the resignation of the President at that time and the appointment of a new President in July 2022. In June 2023, after 30 years of efforts, the GOSL allocated Rs. 200 million as an initial cost to establish the PIU.

With technical support from the USAID, the Department of Trade and Investment Policy (DTIP) under the Ministry of Finance is currently working on establishing the PIU by recruiting the necessary staff. The PIU is expected to become operational in September 2024, marking 31 years from its inception.

Why Sri Lanka Should Accelerate NSW Implementation?

Sri Lanka's trade environment is currently hampered by outdated trade facilitation infrastructure that cannot support modern day global trade. These antiquated systems create slow, resource-intensive, and timeconsuming processes, significantly undermining the country's competitiveness in the international market. To overcome these challenges, there is an urgent need to modernize Sri Lanka's trade infrastructure through a proper implementation of an NSW system.

The inefficiencies of Sri Lanka's existing trade processes have become more pronounced as global trade and competition continues to expand. The current manual paper-based systems lack integration among various government agencies, leading to redundancy, delays, and higher compliance costs. Traders often must submit the same information multiple times to different regulatory bodies, resulting in a cumbersome and inefficient environment that stifles speed and effectiveness. This not only places a heavy burden on businesses but also weakens Sri Lanka's attractiveness as a global trade partner.

Accelerating NSW implementation will modernize the country's trade infrastructure and send a strong signal to the international community that Sri Lanka is serious about enhancing its trade facilitation environment. The quicker the country embraces this digital transformation; the sooner it can mitigate the risks of being left behind in the rapidly evolving global trade landscape

Overcoming Bottlenecks to Achieve an Export-Led Economy

While both the government and the private sector frequently emphasize the importance of export diversification, export promotion, and building an export-led economy, a significant internal bottleneck remains: the absence of an NSW to streamline and expedite import and export procedures, particularly focusing merchandise exports.

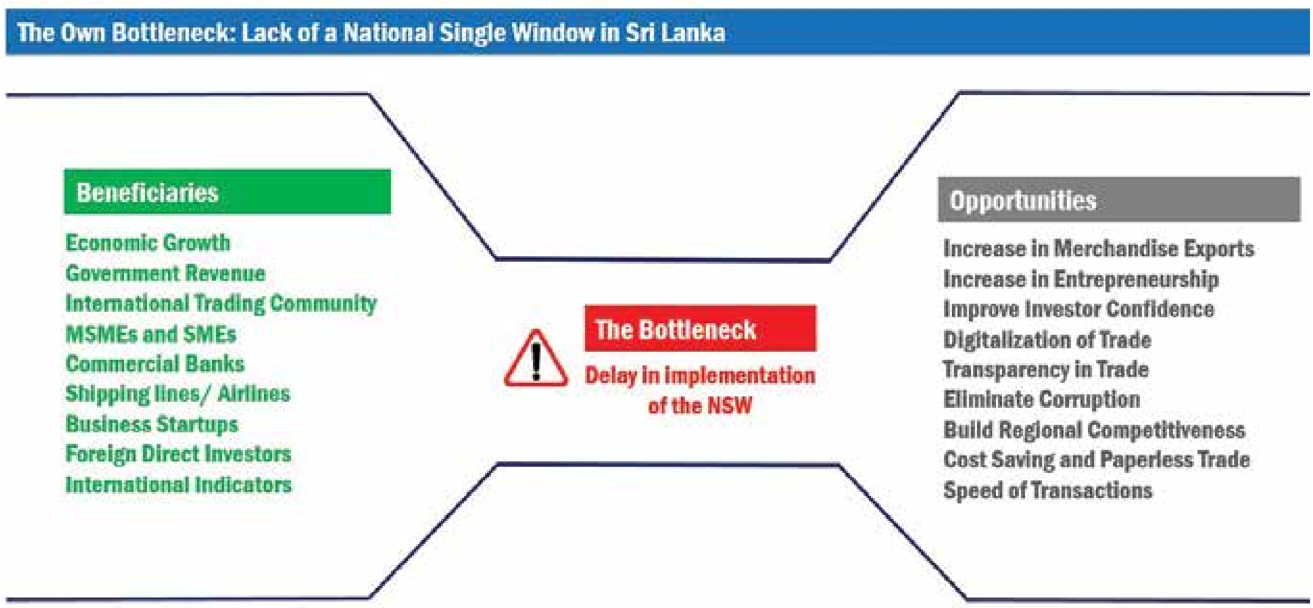
The discourse around export-led growth has gained considerable momentum in recent years, with policymakers and industry leaders advocating for strategies such as expanding into new markets, increasing the value-added component of exports, export diversification, and signing new free trade agreements to create greater market access. However, these efforts can only achieve their intended impact if the country's trade infrastructure is efficient and conducive to the needs of the trading community

Implementing an NSW is essential to overcoming these internal barriers and unlocking Sri Lanka's import export potential.

Already Recognized as a National Policy Priority

The implementation of the NSW has long been recognized as a critical national policy priority for Sri Lanka. For decades, its importance has been discussed at various levels of government and the private sector, yet progress has remained slow. In the 2024 presidential election manifestos, most candidates highlighted the NSW as a key policy focus, reflecting a broad consensus on its significance for the nation's economic future.

The National Budget speech for 2024 further underscored the urgency of accelerating the NSW's implementation, emphasizing its vital role in modernizing Sri Lanka's trade infrastructure. Additionally, the Ceylon Chamber of Commerce's recently published policy document, "Vision 2030," which was presented to political parties, identified the implementation of the NSW as a pivotal policy intervention for the incoming president and the government.



Given this strong alignment across political and economic stakeholders, there is no doubt that accelerating the NSW's implementation is a top national priority. It represents a clear and unified call for action to elevate Sri Lanka's trade competitiveness and economic growth.

Conclusion

In an increasingly competitive global trade environment, the NSW is not just a tool for modernizing trade processes; it is a strategic imperative for countries like Sri Lanka. By simplifying procedures, enhancing transparency, reducing costs, and improving efficiency, an NSW offers transformative benefits to both the public and private sectors. As global trade dynamics evolve, the timely implementation of an NSW can position Sri Lanka as a more attractive and competitive trade partner, unlocking new opportunities for economic growth, export diversification, and sustainable development. The success stories from other nations provide compelling evidence of the NSW's potential, and Sri Lanka must now seize this lagging behind opportunity to accelerate its own implementation. With strong policy backing and a clear national mandate, the time is ripe for Sri Lanka to embrace the digital future of trade facilitation and take a decisive step toward improving its competitiveness and securing a stronger position in the global marketplace.

Dinesh De Silva is a Senior International Trade Facilitation Expert Specialized in Logistics, Shipping, Supply Chain Management and International Trade Consultancy.

Saumya Amrasiriwardane is an Economist (Macroeconomic Policy) at the Economic Intelligence Unit of The Ceylon Chamber of Commerce, Holds a BSc in Business Administration (Business Economics, Special) from University of Sri Jayewardenepura and Masters in Financial Economics from University of Colombo.
Research Interests: Macroeconomic Policy, Trade Facilitation, SMEs, Women Empowerment and Labour

Did You Know?

1. What is the role of the European Trade Policy in promoting human rights?

EU trade agreements often include human rights clauses, linking trade benefits to the promotion of democratic values and human rights. These clauses allow for the suspension of trade preferences in case of severe violations.

2. What are the effects of digital trade on European trade policies?

Digital trade has led the EU to emphasize data protection and cybersecurity in its trade policies. The EU's General Data Protection Regulation (GDPR) also impacts international trade, especially with regard to data flows.

3. What is the role of the World Trade Organization (WTO) in European trade?

The EU is a strong supporter of the WTO and actively participates in shaping multilateral trade rules. However, the EU also seeks bilateral and regional agreements when WTO negotiations face deadlock.

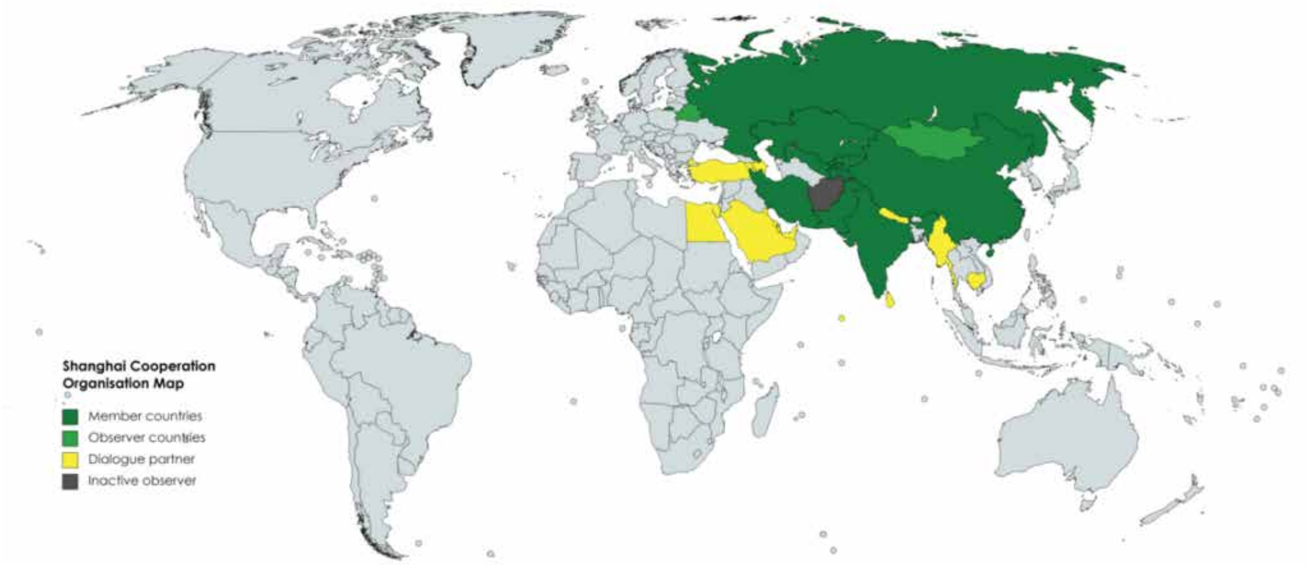
4. Which European countries are the largest trading partners of Sri Lanka?

The United Kingdom, Germany, Italy, and the Netherlands are among Sri Lanka's largest European trading partners. The UK is a key market for garments and tea, while Germany imports rubber products and machinery.

5. How does the EU manage trade disputes?

The EU relies on the WTO's dispute settlement mechanism to resolve trade disputes. However, it has also established bilateral mechanisms with key partners like the US to address trade conflicts.

EUROPE FACING COMPETITION FOR SRI LANKA'S ATTENTION



Changes in regional geopolitics in addition to the somewhat precarious position Sri Lanka's economic base has found itself in, are altering the stance of the county towards both Europe and the concept of Eurasia.

With a near 450 year history of European colonialism – Portugal, the Netherlands and Britain – all possessing major naval and military might in their day, Sri Lanka has long been seen as traditionally possessing if not completely, then at least in part "European values" – albeit dynamics that have no occasion proven elusive to accurately define. What is oft stated however is that these are related to democracy, human rights, and the international rule of law.

Times however are changing. Questions are now being asked as to what these definitions actually mean. An international rule of law does not truly exist, except perhaps for agreements made by the United Nations. Yet not all countries have signed up to important UN initiatives, including subjects such as defining international waters, extradition of war criminals, environmental standards and human rights. Trade disputes are supposed to be settled by the World Trade Organisation. Yet its authority has been superseded by unilateral sanctions.

When countries such as the United States, which portrays itself as a "champion of democracy", is also prepared to go against the wishes of the global majority, it creates complexities and confusions in the eyes of smaller nations. It appears that the collective West, including Europe and other countries, can bend the rule of law to their advantage, whereas countries such as Sri Lanka cannot. Rather than "democracy", it appears that "might equals right" is perhaps the more salient perspective. Such re-definitions are now actively taking place, and especially among countries of the 'Global South.'

Democracy is also bandied about as a badge of honour, akin to human rights. "One Man, One Vote" as the sage, late singer-poet Johnny Clegg once sang. Yet this too has become tainted. The US President can only be elected with the support of big business, which carries significant vested interests that are not on the electoral ballot or manifesto. Some, such as the oil and gas industries, are adding too, not alleviating global warming, which countries such as Sri Lanka will be significantly affected by. Well-loved coastal areas will in time disappear. Southeast Asian migration will become problematic. Is democracy really working as it should to stave off these problems?

It is questions like these that are starting to have a profound impact upon Sri Lanka's relationship with Europe. The European External Action Service (EEAS), responsible for the EU's foreign affairs, has announced it needs to make drastic operational cuts after politicians in Brussels massively overspent their budget. Where was the thought given to countries such as Sri Lanka? Some will see EU offices close. Others will see assistance and aid projects halted.

The EU's problems have however been well considered in Colombo. In July this year, Sri Lanka made a formal application to join the Shanghai Cooperation Organisation (SCO). This is a major, Eurasian trade, security and infrastructure development organisation that currently includes China, Russia, Belarus, Iran, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan, India and Pakistan as full members. The group also has two other categories: "Observers" which include Afghanistan, and Mongolia, and "Dialogue Partners" which includes Azerbaijan, Armenia, Bahrain, Cambodia, Egypt, Kuwait, Maldives, Myanmar, Nepal, Qatar, Saudi Arabia, Türkiye and the UAE.

The SCO full members represent 40% of the world's population, with them contributing about US$23 trillion (30%) of global GDP. Additional expansion will increase this further.

The belief in Colombo now is that membership of a body such as the SCO is more regionally appropriate, and ascendant, than its ties with Europe. Both the EU, and other close partners such as the United Kingdom, need to be well aware that ties with Sri Lanka, if they are to be retained, require rather more than increasingly abstract and even bland pronouncements concerning democracy and human rights – without tying those to practical issues such as poverty alleviation, debt restructuring assistance, and global warming and providing the financial capital to deal with these. Sri Lanka has choices to make. Will the EU up its game to compete?

Chris Devonshire-Ellis is the Chairman of Dezan Shira & Associates, an Asian-focused foreign investment firm with over 30 year›s experience and 40 offices throughout China, India and ASEAN. He has lived in Sri Lanka since 2010. See: www.dezshira.com

Did You Know?

1. What is the significance of the EU-China Comprehensive Agreement on Investment (CAI)?

The CAI aims to provide EU businesses with greater access to the Chinese market and improve the regulatory environment for European investors in China. It is part of the EU's broader strategy to engage China on trade issues.

2. How does the EU promote free trade agreements (FTAs)?

The EU is a key proponent of FTAs and has signed agreements with over 70 countries, including Japan, Canada, and South Korea, to promote trade liberalization.

3. How has European trade policy shifted with the rise of protectionism globally?

The EU has maintained its commitment to open trade but has also implemented defensive trade instruments such as tariffs and anti-dumping measures to protect its industries from unfair trade practices.

4. What is the European Green Deal's impact on trade?

The European Green Deal emphasizes carbon border adjustments, aiming to prevent carbon leakage by imposing taxes on imports from countries with weaker environmental standards, affecting trade flows.

Wine Evening 2024

The European Chamber of Commerce of Sri Lanka, in collaboration with the Sri Lanka-France Business Council and the Embassy of France for Sri Lanka and the Maldives, proudly hosted a glamorous evening of French culture and camaraderie on September 3rd at the Grand Ballroom of the Galle Face Hotel in Colombo.

This exclusive networking event welcomed distinguished dignitaries and business stakeholders from Sri Lanka and Europe. We extend our sincere appreciation to our event sponsors, Teejay Lanka and Noyon Lanka, as well as our gift sponsors for the evening: Maya Cheese, Park Street Gourmet, Visa World, and Bullion Exchange, for making this event a success. The evening featured an exquisite fashion show by ModArt International, and the band for the evening was the entertaining Terry and the Big Spenders.


Wine Evening
2024


MODART INTERNATIONAL
MODART INTERNATIONAL


Wine Evening
2024


CE TO ENTER THE RAFFLE

MUTUAL EVALUATION OF SRI LANKA 2025:

Its National Significance

1. Introduction

Money Laundering (ML) and Terrorist Financing (TF) pose significant challenges to the world's financial systems, as well as to national security and economic stability. ML and TF affect countries around the world by weakening their economies and societies. While some countries are at higher risk due to weak governance and corruption, no country is entirely free from the risks associated with ML and TF. Given the increasing prevalence of financial crimes worldwide, fighting against ML and TF has become a global priority. It requires cooperation among governments and law enforcement agencies, financial institutions, designated non-finance businesses and professions, and international organisations to protect the financial system and combat the risks of these crimes.

The Financial Action Task Force (FATF), the global policy setter in Anti-Money Laundering and Countering the Financing of Terrorism (AML/ CFT), plays a vital role in combatting ML and TF by establishing global standards and promoting collaboration among nations.

As a proactive step, FATF and FATF-Style Regional Bodies (FSRBs) conduct Mutual Evaluations (MEs) to assess countries' technical compliance with the FATF standards and their effective implementation of AML/ CFT measures. This evaluation process has significant national importance for member countries as it identifies weaknesses in national systems and identifies areas for improvement within their AML/CFT frameworks. At the same time, it promotes a level playing field among countries and encourages them to implement AML/CFT measures on a consistent basis, globally.

Sri Lanka will face its third ME in 2025. Given the country's past experience of two MEs which resulted in it being included in the FATF "Grey List" and subsequent economic and financial repercussions, the upcoming ME will be a significant event in the country's economic and financial progression.

2. Mutual Evaluation Process

The ME process involves an in-depth analysis of a country's AML/CFT system undertaken as a peer review. MEs are conducted over a period of 14 – 18 months and consist of two main components: technical compliance assessment and effectiveness assessment.

- Technical compliance: Implementation of the specific requirements of FATF Recommendations, including the framework of laws and enforceable means; and the existence, powers and procedures of competent authorities.
- Effectiveness assessment: Effectiveness is the extent to which financial systems and economies mitigate the risks and threats of money laundering, and financing of terrorism and proliferation. This could be in relation to the intended result of a given (a) policy, law, or enforceable means; (b) programme of law enforcement, supervision, or intelligence activity; or (c) implementation of a specific set of measures.

The stages in the ME process throughout which the technical compliance and the effectiveness are assessed, are outlined below.

i. Assessing technical compliance (4 months): The country provides information about its laws and regulations.

ii. Scoping: In preparation for the effectiveness assessment and the on-site visit, assessors undertake a preliminary scoping exercise to determine the areas of focus of the on-site visit.

iii. On-site visit (2 weeks): The assessors travel to the country for the on-site visit.

iv. Report drafting: Immediately following the on-site visit, the assessors finalise the mutual evaluation report with the findings of the effectiveness and technical compliance assessment.

v. Plenary discussion (15 months after technical compliance assessment): The assessors present the draft report to the FATF Plenary at one of the three meetings it holds every year.

vi. Final quality review (2 months after approval): Following Plenary approval, the report is reviewed for technical quality and consistency before it is published on the website.

vii. Follow-up: After adoption, the countries are required to address the shortcomings identified in the report which are followed-up annually until the next ME.

3. National Significance of Mutual Evaluations

The ME process requires countries to implement the AML/CFT framework efficiently and effectively ensuring a safe and robust financial system. Accordingly, achieving a favourable outcome in the ME process ensures a secure financial system by protecting the country's position in the global financial system and thereby accelerating economic growth.

The following are some of the factors which show the national significance of MEs:

i. Preserving Financial Stability: Effective AML/CFT measures play a vital role in preserving the integrity and stability of the financial system. By adhering to FATF recommendations, countries mitigate the risk of being a high-risk jurisdiction, which could adversely affect their access to international banking services and capital markets.

ii. Enhancing National Security: A robust AML/CFT regime is essential for national security, preventing the use of illicit funds for financing terrorism and other criminal activities. By undergoing MEs and rectifying identified weaknesses, countries strengthen their capacity to disrupt illicit financial flows, thereby safeguarding national security interests.

iii. Compliance with International Standards: Participation in MEs is vital for countries to showcase their commitment to adhering to international AML/CFT standards. Maintaining these standards enhances a country's reputation in the global financial community while promoting trust among international partners and investors.

iv. Facilitating International Cooperation: Successful MEs promote greater international cooperation and information sharing among countries in combating financial crime. Enhanced compliance with the FATF standards improves a country's standing within the global financial system, facilitating efficient collaboration with other jurisdictions in investigations and enforcement actions. This collaboration strengthens the collective efforts to combat ML and TF on a global scale, leading to more effective outcomes in preventing and deterring financial crimes.

v. dentification of Weaknesses: MEs enable countries to identify weaknesses and gaps in their AML/CFT frameworks. Countries are informed of vulnerabilities such as legislative gaps or deficiencies in enforcement which is crucial for preventing exploitation by criminals and enhancing the effectiveness of AML/CFT measures.

4. Sri Lanka's Past Experience of Facing Mutual Evaluations

Sri Lanka has undergone two MEs by the Asia/ Pacific Group on Money Laundering (APG), the regional FSRB for the Indo-Pacific. The two MEs were in 2006 and 2014/15. Both these evaluations resulted in Sri Lanka being listed by the FATF as a "jurisdiction with strategic deficiencies" in its AML/CFT framework, commonly referred to as "Grey Listing". The grey-listing resulted in adverse economic and financial consequences on both occasions.

Subsequent to Sri Lanka's "Grey Listing" by the FATF after 2015, the European Commission also listed Sri Lanka as a high risk third country with AML/CFT strategic deficiencies in February 2018, which affected Sri Lanka's correspondent banking relationships.

As Sri Lanka took steps to significantly improve its AML/CFT system subsequent to 2015, Sri Lanka was delisted by the FATF and the European Commission in October 2019 and May 2020, respectively.

5. Sri Lanka's Preparedness for the Upcoming Mutual Evaluation

Given the adverse impacts of past evaluations, the upcoming ME will require Sri Lanka to further strengthen the country's AML/CFT regime. This requires collective action from stakeholders including the government and law enforcement agencies, financial institutions, designated nonfinance businesses and professions, coordinated by the Financial Intelligence Unit of Sri Lanka (FIU-SL).

In this context, the country's preparedness is vital to showcase its dedication to combating financial crimes. This evaluation provides a thorough assessment of Sri Lanka's AML/CFT frameworks, highlighting strengths, weaknesses, and areas for future improvement. Accordingly, several key initiatives have been taken by the FIU-SL, in preparation for the ME.

i. Establishing an AML/CFT Task Force: A task force for AML/CFT was appointed by the Cabinet of Ministers, comprising five members under the chairmanship of a retired Supreme Court Justice, to oversee the progress of implementation of the stakeholder-wise action plans to address the identified gaps and coordination among relevant stakeholders.

ii. Collaboration with the National Coordinating Committee: The AML/CFT National Coordinating Committee (NCC) is the advisory body that maintains national level coordination among stakeholders in implementing AML/CFT measures in Sri Lanka. With the leadership of the NCC and AML/CFT task force, all work relating to the upcoming ME is being coordinated.

iii. Conducting National Risk Assessment (NRA) in 2021/22: In line with the FATF recommendations, the FIU coordinated the completion of the second NRA in 2021/22 to identify, assess and understand the ML/TF risks faced by the country. Accordingly, the country's overall ML/TF risk was assessed as "medium" which is a combination of medium level of threat and medium level of vulnerability.

iv. Development of AML/CFT National Policy 2023 – 2028: Based on the findings of the NRA, the National AML/CFT Policy for 2023 – 2028 was prepared, which was approved by the Cabinet of Ministers, to address the gaps identified to effectively combat ML and TF in the country.

v. Developing stakeholder-wise action plans: With the purpose of preparing the key stakeholders for the next ME, the stakeholderwise action plans for relevant 24 stakeholder institutions were approved by the Cabinet of Ministers to improve the effectiveness and technical compliance level of AML/CFT framework of the country. The action plans were distributed among stakeholders with regular updates being provided by them to the NCC and to the AML/CFT task force.

vi. Carrying out legislative amendments: In order to further strengthen the legal framework on AML/CFT and to ensure adherence to the international standards, the FIU is in the process of amending key legislations which includes the Financial Transactions Reporting Act, No. 06 of 2006; the Prevention of Money Laundering Act, No. 05 of 2006; the Convention on the Suppression of Terrorist Financing Act, No. 25 of 2005. The FIU is also assisting in making the amendments to the Companies Act, No. 07 of 2007. These amendments are expected to be completed by the third quarter of 2024.

6. Conclusion

FATF MEs are events of national significance for member countries, as they play a vital role in assessing compliance with international AML/ CFT standards, identifying weaknesses in national frameworks, enhancing national security, facilitating international cooperation, and preserving financial stability. By actively participating in the ME process, countries can strengthen the measures against financial crime and contribute to a safer and more secure global financial environment. Accordingly, collective efforts of all key stakeholders will ensure that Sri Lanka's AML/CFT framework is implemented efficiently and effectively, enabling the country to achieve a better compliance level at the upcoming ME while strengthening its position within the global financial community.

(Reference: Sri Lanka, C. B. (2022). Annual Economic Review 2023 (2023rd ed., pp. 93-95). Central Bank of Sri Lanka - THIS REPORT IS PUBLISHED IN FULFILMENT OF THE STATUTORY REQUIREMENT STIPULATED UNDER SECTION 80 (3) OF THE CENTRAL BANK OF SRI LANKA ACT, NO. 16 OF 2023. https://www.cbsl.gov.lk/en/publications/economic-and-financial-reports/annual-economic-review/annual-economic-review-2023)

Did You Know?

1. What is the EU's role in regulating e-commerce trade?

The EU seeks to establish global standards for e-commerce, focusing on issues like digital taxes, intellectual property rights, and consumer protection in digital transactions.

2. What are the key components of the EU's trade relations with Africa?

The EU-Africa trade relations are based on the Economic Partnership Agreements (EPAs) which aim to foster trade and development, eliminate tariffs, and promote investment in African economies.

3. What role does the European Investment Bank (EIB) play in supporting EU trade?

The EIB finances trade-related infrastructure projects within the EU and in partner countries, supporting transport, energy, and digital infrastructure critical for trade

SRI LANKA APPAREL

A Portrait

For an island that is no more than 65,000 km2. Sri Lanka's diverse geography and natural beauty can be neatly divided into distinct climatic and topological zones. These contribute to the country's rich variety of water bodies with the Mahaweli River being the most renowned of Sri Lanka's rivers. The eponymous Mahaweli Development Program, implemented since the 1960s has played a crucial role in transforming the agricultural landscape of Sri Lanka and contributing not only towards its agricultural self-sufficiency and energy security but has also been key for its drive towards industrialisation.

Amidst this drive to industrialise, there is little doubt that Sri Lanka's crowning industrial jewel has been the success experienced by the apparel and textiles sectors. Sri Lanka is world-renowned for its apparel and textiles industry, which as the single largest industrial exporter, amounted to 52.6% of all exports in 2023 and more importantly provided for nearly 350,000—beyond low-skill—direct employment opportunities, especially for women in hard-to-reach areas of the island.

Sri Lanka Apparel

The manufacturing of apparel for exports commenced with the liberalization of the economy. The apparel sector in particular saw rapid growth from local industrialists, many of whom are still leading the modernization and digitisation drive. In fact, Sri Lanka's largest apparel export companies are still local, family-owned businesses with roots going back well before the liberalisation of the industry. This is a point of pride for Sri Lanka apparel, for unlike peers in East Asia, whose doyens of industry are not headquartered in the manufacturing locations. Sri Lanka has been fortunate to have its leading lights of industrialisation continue to be headquartered from home. Thus, deeply embedding the business into the fabric of the nation.

While the liberalisation of the economy can be traced back to 1977, it was only in the late 1980s and early 1990s, that the 200 Garment Factory Programme (GFP) of then-President Ranasinghe Premadasa created a business environment where industry could grow exponentially. This was done through the conversion of the then Greater Colombo Economic Commission (GCEC) into the Board of Investment of Sri Lanka (BOI) in 1992. Tasked with aggressively growing exports, the 200 GFP programme also marked the change from locating factories in industrial zones, to taking work to rural areas. This had 2 massive benefits, firstly local economies grew as previously remote locations became a hive of activity, and industries were able to employ from the pool of local talent thereby becoming an integral part of the rural economies.

The Growth Spurt

Sri Lanka's growth of apparel exports was greatly supported by the Multi Fibre Agreement (MFA) whereby Sri Lanka had relatively large quotas for apparel into the USA. With the end of the MFA in 2005, many had predicted that the industry would come to a natural end,

INDUSTRY SNAPSHOT

- Accounting for 5.8% of Sri Lanka's GDP in 2023
- The value of ready-made garment exports in 2023 was US$ 4.5bn
- The value of textile direct exports in 2023 was US$ 338mn
- Apparel accounts for 41% of overall exports in 2023
- As the single largest industrial exporter, it amounted to 52.6% of all industrial exports in 2023
- Providing direct employment for 350,000 people from across the island
- 227 entities within the JAAF umbrella that serve the apparel supply chain based out of Sri Lanka

akin to the fate of the industry in the Maldives. However, hardened under the yoke of international free market competition and aided by the continued trust of key brands like Nike and PVH and faithful intermediaries such as Sri Lanka Ranjana Mr. Martin Trust. Sri Lanka Apparel proved resilient and due to the success of an industry-wide strategy, led by the Joint Apparel Association Forum (JAAF), the industry continued to thrive and grow. Key components of the strategy to keep ahead of the curb included ensuring worker welfare, investing in vertical integration, specialization in key product categories such as lingerie, swimwear and activewear, and the creation of an in-country value proposition to include value-added services such as product design and development, warehousing and 3PL logistics support and more, ensuring that the industry continued to grow and support the economy with a country first attitude.

Sri Lanka's apparel industry is a significant contributor to the country's economy and is known for its exemplary working conditions, its foray into sustainable manufacturing practices and the circular economy well before it was fashionable to do so. Today the industry is made up of both local and foreign investors. The importance of the apparel industry goes beyond simply the creation of job opportunities to being one of the first industrial sectors to enable value addition to Sri Lanka's outbound trade and is recognized for the quality of its apparel and textile products. The Sri Lankan apparel industry manufactures a wide range of products, including clothing for men, women, and children, as well as lingerie, sportswear, and workwear. The industry caters to both high-end fashion brands and mass-market retailers. Apparel is exported to markets worldwide, including the United States, the UK and the European Union, among other regions.

The industry is characterized by vertical integration, with many companies involved in various stages of the production process, from fabric manufacturing to apparel and trims production. The industry has seen continuous investments in technology and machinery to improve production efficiency and product quality. This has contributed to the sector's growth and competitiveness. Thus, enabling many of the established manufacturers to explore production opportunities overseas, venturing globally and succeeded in gaining commendation for their ability to cater to both high-street and main-street brands alike enabling talent from the industry to ply their talent both locally and on the world stage.

Then as well as now, Sri Lanka places a strong emphasis on compliance with labour and environmental standards in the apparel industry. Factories especially with an export clientele have a long history of adhering to international labour and safety standards, making Sri Lankan apparel attractive to brands seeking ethical and sustainable sourcing. Sri Lankan manufacturers were ahead of the curve and have tailor-made solutions for our buyers and brands at the cutting edge of environment, social, and governance (ESG), and helped nurture sustainability considerations from cradle to today's focus on circularity and emissions reductions. Sri Lanka's reputation among international brands is second to none and the country is well established for its craftmanship and as a safe pair of hands for the manufacture of apparel.

COVID-19 and Sri Lanka Apparel

The Sri Lankan apparel industry played a significant role during the COVID-19 pandemic in the country's economy. Like many industries worldwide, the Sri Lankan apparel sector faced substantial challenges during the pandemic. First lockdowns disrupted raw material supply chains based in East Asia and when these locations seemed to recover a recessionary wave across Western Markets led to a significant decline in main-street consumer demand significantly impacting production. While the focus has been to move production towards higher value-added apparel categories, main-street brands continue to be major contributors to Sri Lanka's export revenue. Given these disruptions, apparel remained a critical source of foreign exchange earnings leading to the government identifying the industry as one of strategic importance at the height of the economic crisis.

SUSTAINABILITY CREDENTIALS A SNAPSHOT

- -Over 70 MW of installed Rooftop Solar Power Capacity
- -144 Global Organic Textile Standard (GOTS) Certified Facilities
- -27 Factories or 2.3 million sq. feet of LEED Certified Factories
- -112 Factories, 55 Platinum 57 Gold or 32% of all factories are WRAP certified
- -In 2021 (90%) and 2022 (92%) awarded the highest HIGG FEM (Facility Environmental Module) certification for a textile plant
- -In 2008 secured the world's first LEED Platinum certification
- -In 2017 World's first passive house factory building.
- -In 2020 Jan for the 2019/2018 duration certified as the World's first group of apparel factories to have all its facilities certified as net zero certified.

When the industry faced social challenges in the aftermaths of the various waves of pandemic lockdowns and economic tumult, compounded by cancelled or delayed orders from global retailers. Sri Lanka Apparel chose to once again, as in the generation prior, adapt to the changing market dynamics, diversify its product range, explore e-commerce and digital sales channels, and most critically doubled down on our people through the introduction of tripartite agreement on wages, a first for Sri Lanka and recognised globally as an exemplar for tripartism. During the pandemic, some apparel manufacturers shifted their production to personal protective equipment (PPE) such as face masks, gowns, and overalls to meet the increased demand for these products. This adaptation helped maintain some level of production and revenue when workers and citizens alike needed it most. While working with unprecedented limitations both physical and budgetary, the industry implemented stringent health and safety measures in factories to protect the workforce from the full force of the pandemic, which was crucial for not only maintaining production but not lose sight of the foremost consideration, safeguarding our people's health.

As a result of these efforts, Sri Lanka apparel was in a prime position to make full use of the "revenge-buying" phenomena which characterised Western markets with the COVID-19 restrictions being gradually eased during the early part of 2022.

The future is bright

Bringing together the best minds in the apparel industry, the JAAF, as the apex industry body is of the point of view that we cannot win tomorrow in the same manner yesterday was won. With that spirit in mind, JAAF has been leading the argument as to why Sri Lanka should not only be the foremost sustainable sourcing destination, but also that which can provide the greatest degree of traceability in its production supply chain. Due to its concentrated nature and geographical proximity, significant efforts are being undertaken across the industry to ensure Sri Lanka Apparel remains compliant and ready to serve brands across the world as a wave of due diligence and transparency regulatory efforts sequentially comes into force in the lead-up to 2030. At the JAAF, we are confident that Sri Lanka Apparel will once again prove an exception and lead the path and prospects of the nation as Sri Lanka enters the second quarter of the 21st century.

Kavinda Ratnapala, is an Analyst at the Joint Apparel Association Forum - the apex industry body for Sri Lanka Apparel, with responsibilities across the touchpoints in matters of industry-level concerns in the apparel sector. He is a cross-sector professional with interest in policy design and enactment across Sustainability, Environment and Governance consideration and has worked in Sri Lanka and Australia. Kavinda holds an MSc in Environment and Sustainability from Monash University and a BSc in International Relations from the University of London.

GETTING THE STATE OUT OF BUSINESS

The Compelling Case for Privatisation of State-Owned Businesses

This is an extract from this year's edition of Advocata's flagship report on State Owned Enterprises.

Sri Lanka's state-owned enterprises (SOEs) are a major hindrance to the country's economic prosperity. The state's footprints extend across all major industries - telecommunications, banking, ports, petroleum, and power generation. With over 400 SOEs spread across 33 sectors and employing roughly 250,000 workers, they form an inefficient, bloated bureaucracy. The IMF's Governance Diagnostic Assessment flags SOEs as being high-risk for corruption, plagued by weak management, shoddy oversight, rigged procurement processes, political interference, and a lack of transparency.

Despite clear evidence of the problems, progress on SOE reform has been glacial. Privatisation as an official policy was abandoned in 2005 but attempts to fix SOEs through corporatisation and parliamentary oversight have failed and the problems have worsened.

Privatisation emerges as one of the options that must be pursued on the path to rescue Sri Lanka from its economic troubles. Privatisation can reduce fiscal pressures, inject efficiency into ill-managed enterprises, attract vital investments, and crucially, sever the corrupt ties between politicians and SOEs. Privatisation achieves the triple objectives of unlocking efficiency, boosting investment and curbing corruption.

SOE Reforms in Sri Lanka: At present

Currently, the main government body overseeing SOE reforms in Sri Lanka is the State Owned Enterprise Restructuring Unit (SOERU), which was established in December 2022 by the cabinet to undertake the work required to reform several SOEs. As part of its efforts to restructure SOEs, the SOERU has drafted a SOE policy that has been approved by the Cabinet. An SOE bill has been submitted to the parliament for approval. The SOE policy has two main goals; to prioritise improving public well-being and to foster a competitive market environment.

One of the main proposals in the SOE bill is the establishment of a Holding Company for SOEs that are to remain in state control. All SOEs that remain in state control will become subsidiaries of the holding company, of which the sole ownership will be vested with the Ministry of Finance (Treasury). SOEs will no longer come under the purview of separate line ministries nor follow a dual-ownership structure. The establishment of a holding company for PCBs helps minimise political interference and the abuse of PCB resources for political ends. The holding company will set performance targets, monitor efficiency, and crucially, implement time-bound exit strategies. This ensures that state involvement in commercial sectors is temporary, a bridge to a fully competitive market.

Why Privatisation?

Privatisation is often a highly contested topic in Sri Lanka, with a wide variety of opinions on whether or not SOEs should be privatised, how they should be privatised etc. The arguments often link back to ideological preferences. There are those who believe in state-led industrialisation and economic growth, where the state ought to lead from the commanding heights of the economy, and then there are those who believe that the state ought to act as regulator and facilitator and leave commercial enterprises to be run by the private sector.

Regardless of ideological stances, the reality of SOEs remains that they often tend to operate with low levels of efficiency and often cost more money than they make. This is especially true of State-Owned Businesses or Public Commercial Businesses (PCBs) which are SOEs that operate with a clear commercial and business objective. Privatisation, albeit not the only solution, is oftentimes the best solution for PCBs which are chronically loss making, debt ridden and inefficient.

Privatisation can help the Sri Lankan state avoid future losses that will arise should the state continue to own several of the large and ill-performing SOEs like SriLankan Airlines. As the Sri Lankan government is critically in need of new sources of revenues, the sales proceeds of privatisation will be an added bonus. The economy is also in need of mobilising critical investments into high-growth industries, which the Sri Lankan state is ill-equipped to undertake. Privatisation allows the establishment of a more level playing field by dismantling the levers of state capture that have guided economic policymaking thus far, therefore, privatisation is a critical tool for SOE reform in Sri Lanka.

SOE underperformance is caused by an unholy mix of conflicting objectives, soft budget constraints, price controls and subsidies and corruption. When ownership changes hands from state to private hands, many of these concerns are addressed, improving the performance of the enterprise.

1. Under private ownership, there are no conflicting objectives. While government, cabinet and PCB managers' self-interests may not align with the interests of the general public, the self-interests of managers in private companies are often in alignment with the interests of owners. There is no political interference, so managers and employees are recruited and remunerated based on merits and suitability. Decisions are made considering the profitability of the business. As a result, there is little to no conflict of interests in the objectives of the managers and the owners. Private ownership irons out the agency costs incurred in state ownership of enterprises.

2. Unlike SOEs, private companies are subject to natural, market determined constraints on their budgets. They cannot spend beyond how much they earn and how much they can borrow. Unlike an SOE, which receives access to treasury guaranteed debt, allowing them to borrow continuously from banks and financial institutions, private businesses are subject to the discipline of commercial financial markets. They must service debts on time and show a good track record of repayments and revenues to be able to continue to access more lending.

3. While the private sector is not without corruption, the costs of corruption are borne by the owners, employees and managers directly, so it is in their best interest to make sure that action against corruption is swift and strict. Unlike SOEs, which can continue to operate despite making frequent and continuous losses, a private business cannot - if it fails to improve its efficiency and profitability it will simply go out of business.

4. Private enterprises perform better than their public counterparts. Empirical evidence supports the fact that private enterprises often outperform public counterparts, and we also observe this in the case of many enterprises in a variety of sectors in Sri Lanka.

Concerns about Privatisation and how they are addressed

Privatisation raises several concerns, including fears of 'selling the family silver'—the transfer of national assets to private owners—alongside anxieties about job losses, asset stripping, and the equitable distribution of privatisation benefits. The term 'selling the family silver' captures worries about the lack of transparency in the privatisation process and the potential for national security risks, such as foreign entities gaining control over key assets. While concerns about corruption and insider privatisation are addressed by regulatory frameworks like SOERU, which ensures state control in security-sensitive cases, the transparency of the process remains crucial to public trust.

Job loss fears are prevalent, with the notion that private owners will cut jobs to boost profitability. However, evidence on this is mixed; while some high-profile privatisations have led to job cuts, others, such as Sri Lanka Telecom, have seen job retention and wage increases. Effective privatisation should involve restructuring and retraining to mitigate job losses and boost economic productivity. Similarly, asset stripping—a risk where private owners dismantle and sell off assets for quick gains—can be mitigated through stringent oversight and transparency. The potential inequitable distribution of benefits, especially in sectors prone to natural monopolies, highlights the need for robust competition policies to ensure fair outcomes.

The SOERU framework effectively tackles concerns surrounding privatisation through several strategic measures. It sets clear criteria for retaining state control over essential goods and services, ensuring state intervention only when market failures occur. This approach helps prevent unnecessary state ownership and reduces fiscal burdens. Transparency is a core principle, with the SOERU process requiring public bidding announcements and detailed disclosures to prevent insider privatisation and asset stripping. Legislative support from the forthcoming State-Owned Enterprise Bill further solidifies SOERU's mandate, ensuring legal backing for its restructuring efforts and fostering an environment of accountability.

SOERU also redefines SOEs as Public Commercial Businesses (PCBs), emphasising their role in the competitive market while distinguishing essential services from commercial ventures. This redefinition aligns SOEs with broader economic goals and optimises resource allocation. Governance improvements are bolstered by adherence to CSE and SEC regulations, enhancing transparency, accountability, and investor confidence. The introduction of a holding company model for oversight ensures cohesive management of subsidiary SOEs. While these reforms represent significant progress, their success hinges on robust enforcement and continuous monitoring to mitigate political influence and uphold transparency and accountability in Sri Lanka's privatisation efforts.

Conclusion

Ultimately, the privatisation of Sri Lanka's PCBs is not just an economic necessity but a political imperative. It is a crucial step towards dismantling the entrenched system of political patronage that has long undermined the country's democracy - enriching few at the expense of many. Transparent and competitive privatisation of PCBs will reduce the opportunities available for corruption, thus forcing politicians to focus on policies and performance rather than patronage. This approach—coupled with robust regulatory reforms and an empowered judiciary—will pave the way for a more efficient market and a healthier, more accountable economy. The time for piecemeal changes is over; bold and decisive action is required to secure a prosperous future for Sri Lanka.

Rehana Thowfeek is an economist with over a decade of experience in economic research in Sri Lanka. She is the Co-Founder and Director of Civic Education at Arutha, a newly formed economic policy think tank in Colombo. She consults regularly with Advocata Institute on various research projects and streams. She holds a Masters degree in Economics from the University of Warwick and a Bachelor's degree in Mathematics and Economics from the University of London. She blogs frequently on economic affairs in Sri Lanka and was a corresponding writer to Al Jazeera during the aftermath of Sri Lanka's economic crisis.

Ruwanka De Silva is a Research Analyst at the Advocata Institute and currently manages Advocata's flagship research on State Owned Enterprises. She holds a Bachelor's in Economics and Management from the University of London. At Advocata, she was also heavily involved in a project on womens' economic empowerment. Her interest areas also include sustainability, and green economics.

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VISIT OUR WEBSITE

FUTURE FIBRES
Carrer dels Fusters,
1746290, Alcàsser,
Valencia, Spain
t: +34 961 452 135
www.futurefibres.com

MANUFACTURING
Lot 51, BEPZ, Phase 1,
Walgama, Malwana
GQ 11670, Sri Lanka
t: +94 117 655 900
www.futurefibres.com

DRIVING MSME PERFORMANCE AND GROWTH TOWARDS ECONOMIC RECOVERY IN SRI LANKA, PIVOTAL ROLE OF THE NATIONAL CHAMBER OF COMMERCE OF SRI LANKA

The National Chamber of Commerce of Sri Lanka

The National Chamber of Commerce of Sri Lanka (NCCSL) founded in 1948, has been greatly delivering abundant services to the nationwide local business community. Since gaining independence in 1948, NCCSL stands as a steadfast connect in the business landscape, fostering growth and partnering with enterprises on their journey. The National Chamber's role is pivotal, offering a diverse range of services designed to support businesses in every aspect.

Having served with exemplary services to the nation for over 75 years, in the recent past NCCSL has moved into upgrading the services to be aligned with the needs of present business environment. As a result, have recognized the potential of digitization and technology to increase operational efficiency, resulting in technology-based upgrades of the internal systems. Moreover, moving with the leveraged the benefits of social media, which was pivotal for improving the NCCSL brand presence and creating awareness about the services among the business community and general public.

Sri Lanka suffered from a multiple crisis situation during year 2020- 2022 due to the outbreak of Covid-19 pandemic and the economic crisis adversely impacted the MSME segment in their business operations. Nevertheless, since early 2023 NCCSL have re-directed the focus towards normalizing activities and events while navigating the effects of the pandemic and the economic crisis. This dedication to service, characterized by integrity, innovation, collaboration, and excellence, guides the National Chamber in all its endeavors.

Sustainability and governance

As a non- profit entity, the National Chamber adopted the five pillars (5Ps) of Sustainable Development, which encapsulates the 2030 agenda for sustainable development goals. Focus is distributed amongst people, prosperity, planet, partnership and peace to making measurable contributions to the economy, society and environment. The pillars align with the Chamber's agenda and activities and provide a framework with which to measure extensive contributions to sustainable development. This has enhanced the level of governance and accountability across the National Chamber and amongst internal stakeholders. The focus in adopting the 5P framework has been on enhancing approaches in line with these five aspects, making positive changes to the operations.

The council of the National Chamber of Commerce of Sri Lanka strengthened with 23 standing committees representing the diverse sectors and the present Executive council members ; Mr. Deepal Nelson, President, Mr. Anura Warnakulasooriya, Senior Deputy President, Mr. Kavinda Rajapaksa, Deputy President,Mr. Chamika Godamanna, Hon. Treasurer and Dr. Lakmal Fernando, Hon. Secretary.

65th Annual General Meeting of NCCSL, 6th February 2024, Kingsbury, Colombo.

As per the statistical sources of the Central Bank of Sri Lanka, depict a positive relationship between the existence of MSMEs and the overall economic growth of a country. Successful MSMEs usually evolve into large organizations, and such organizations contribute to economic growth immensely. MSMEs make an important contribution to the economy as a breeding ground for large firms, an employment provider, and a facilitator of innovation, thereby leading to inclusive and balanced growth. Highlighting the potential of small businesses to transform into any scale, and ultimately drive respective national and regional economic stability. On the other hand a healthy MSME sector can contribute to improving entrepreneurship skills among the general population of a country, in turn augmenting human capital, which is a prerequisite for sustainable growth.

Networking opportunities

NCCSL enthusiastically maintains close relationship with all local and foreign trade related institutions including Governmental organizations, Ministries, Diplomatic Missions and various non- governmental agencies to facilitate capacity building of the Micro, small and medium enterprises (MSMEs). As such the National Chamber is equipped to support its 760+ growing corporate members and 1500 MSMEs connected through the regional chambers spread across the country. Furthermore, there is constant engagement with the business and industry related networking activities and intervene to resolve trade related issues faced by member organizations.

Amid economic challenges and continued reforms towards economic stability, the National Chamber has continued to provide strategic support to promote local businesses and develop SMEs. NCCSL facilitates numerous B2B programs and bilateral sessions with business delegations to foster dynamic partnerships. These programs are designed to help enhance relationship with foreign chambers and visiting delegations and to help discover better market opportunities for the Sri Lankan business community.

'Meet the Ambassador' programs are organized to facilitate high-level diplomatic interactions to foster international relations and open avenues for global opportunities. During the year 2023/2024 hosted diplomatic leaders that represented Vietnam, Maldives, Bangladesh, Pakistan, South Africa, North Africa, India, Russia, Italy, Indonesia and Romania.

B2B sessions organized by NCCSL

The common objective of hosting such leaders and their officials is to explore bilateral trade and investment opportunities, with the participation of local and foreign business community representatives - mediated by the National Chamber. These have been exemplary platforms which opened up dialogue on easing challenges to bilateral trade and sharing insights and information on business sectors with greater potential for success.

Voice and impact

One of the pivotal roles of NCCSL is that to stand as the voice of the business community to the government and policy makers while representing the members at relevant forums to resolve their business-related issues and lobbying for policy making and contribute to the community to make a difference in the industries.

For instance, rapid increase in cost of production due to cost of material, labour, transportation, energy tariffs and operating tariffs have burdened many MSMEs, with some opting for closures. Macroeconomic reforms have elicited some adverse effects on household income and the distribution of income and wealth, which has affected employment and the existence of MSMEs. To achieve this effect and deliver on NCCSL's mission, planned numerous programs while working closely with government ministries and institutions to garner support.

Commitment to enhance knowledge and skills of MSMEs

The National Chamber of Commerce provides training and skills development, hosts knowledge-sharing forums, and engages in bilateral and diplomatic initiatives, capacity-building programs to seminars and workshops, the National Chamber is committed to enhancing the skills and knowledge of its members, ensuring their success in the dynamic business landscape. NCCSL's tailored programs stand out for enhancing knowledge and organizational capabilities, facilitating trade certifications, and fostering professional development. In view of uplifting the capacities and potential of MSME entrepreneurs, have conducted a series of workshops and seminars for Micro, Small and Medium enterprises (MSMEs), providing valuable insights and knowledge. Some of the prominent programs for MSMEs are capacity-building training programs on digitization and market promotion, Export and import documentation requirements, Awareness programs on Best Management practices, Corporate Etiquette, Intellectual property for business competitiveness, Entrepreneurial skills, etc. These programs are attended by many participants from the member organizations as well as potential young entrepreneurs. The National Chamber has also hosted numerous knowledge sharing sessions with experts from industries creating a platform for meaningful discussions.

Capacity building sessions organized by NCCSL.

From SriLanka virtual platform

Businesses can leverage the benefits of the "From Sri Lanka" online business platform dedicated to support and create opportunities to local products to reach the global market. FromSriLanka.com is poised to be the one-stop destination to source all Sri Lankan made products and services. The platform includes thousands of products and services from hundreds of suppliers across the country for over major categories, from Tea, Rubber, Coconut, Spices and Ayurvedic items to Apparel, Gemstones, and furniture or Services such as Software Development to BPO solutions.

Lauding business excellence

The National Chamber also excels in hosting flagship events recognizing outstanding business achievements through prestigious awards. This commitment is further demonstrated through National Business Excellence Awards, one of the island's most prestigious platforms for recognizing individuals and businesses that significantly contribute to the Sri Lankan economy. These awards celebrate pivotal milestones on the Flagship events to success, honoring remarkable business accomplishments. Benchmarking business excellence, rewarding and honoring those with exceptional entrepreneurial skills has been another focal point of the mission at NCCSL. In 2024, proudly hosted the 19th consecutive National Business Excellence Awards (NBEA), which benchmarks Sri Lankan businesses by recognizing and rewarding 132 outstanding achievers across 26 sectors. Overall winners of the 2024 NBEA were Haycarb PLC with the gold award, followed by Hayleys Fabric PLC and Samson Rubber Industries (Pvt) Ltd with the joint silver award and LAUGFS Corporation (Rubber) Ltd with the Bronze award. Launched in 2004, NBEA is a pioneering business benchmarking event in Sri Lanka, maintained with high standards and a stringent application process.

Overall Winners - National Business Excellence Awards 2024,Gold Winner- Haycarb PLC, Joint Silver winners- Hayleys Fabric PLC, and Samson Rubber Industries (Pvt) Ltd, Bronze winner LAUGFS Corporation (Rubber) Ltd .

Glamorous event of the National Business Excellence Awards 2024, held on 20th June 2024, Shangrila Hotel, Colombo

NCCSL continued to honour business excellence through the Western Province - Entrepreneur Awards which is also an annual event, continuing the tradition of honoring inspirational entrepreneurs in the province; organized in collaboration with the National Enterprise Development Authority (NEDA) to showcase entrepreneurial achievements and recognise their contributions to the country's economic development. The 2023 award program recognised 47 winners, including merit and plaque winners.

Strategies for the year ahead

NCCSL focused on several strategies to further enhance services towards supporting the capacity building of MSME sector having optimized key activity levels and enhance efficiency/overall performance of the business community. This approach will focus on increasing the services to the member organizations and regional wise presence while maintaining the quality of services. Another aspect of ensuring effectiveness is to leverage technology to expand the export market opportunities. Identifying new opportunities and potential business expansion in consultation and research will open up new service streams.

Furthermore, membership drive to attract new members and enhanced member services to deliver better value. Expect this to significantly enhance member engagement and satisfaction while driving the activity calendar. In achieving this goal, strive to create more networking opportunities and provide more benefits to new and also existing members.

Moreover, the Chamber, with the support of key economic stakeholders, can prepare MSMEs to respond to the current economic crisis and future shocks if structural reforms that support MSMEs are bolstered further. Linking institutional and policy support to provide economic opportunities, such as skills development, digitalization, and access to finance, which can assist the MSMEs revive businesses. MSME business competitiveness can be enhanced through capacity building and exploring untapped market opportunities locally and globally. Using exports as a driver of GDP growth, motivate and uplift MSMEs to upgrade the quality of production and volumes to focus on exporting their goods and developing the sector to enter the export market. MSMEs could join the global value chain-based exporting process either directly or by subcontracting through large-scale exporters.

As the economy begins to recover, more economic and employment opportunities will be created for women, especially the younger generations. This will require skilled, educated and motivated workers whose adaptability and productivity should be enhanced through structural reforms and the provision of adequate resources towards skill development. The labour market should have opportunities to acquire the skills needed and to secure employment opportunities that could be generated if the macroeconomic conditions improve. In this regard, the National Chamber will take necessary actions to support the State in skill development through capacity development programs in the future. Skills development is crucial to increase productivity and arrest the erosion of human capital. In this regard, reforming the general education and vocational skills development systems can largely improve competencies and develop skills that increase employability. Moreover, boosting women's participation in the workforce can drive a more inclusive economy and foster innovation and growth. Increasing Exp

Concluding remarks:

NCCSL endeavors to explore more opportunities for the MSMEs to grow their enterprises and support the economic growth, "…We are committed to provide our members with endless opportunities for growth and networking in the competitive markets, which is on par with our mission to provide trade promotion services and assistance required by businesses to function competitively in domestic and overseas markets…," expressed by Mrs. Nilupul Chandrasena, Secretary General/CEO of The National Chamber of Commerce of Sri Lanka.

Nilupul Chandrasena - Secretary General/CEO - The National Chamber of Commerce of Sri Lanka

CLICK TO GIVE:
The Future of Digital Fundraising in Sri Lanka

- *Digital fundraising is gaining momentum in Sri Lanka.*
- *The Doing Good Index 2024 reveals the level of digital technology adoption in Sri Lanka and 17 other Asian economies, among other indicators of philanthropic activities.*
- *Enhancing cybersecurity awareness, digital capacity development, and improving existing digital infrastructure are key to promoting digital fundraising in the country.*

The Suwaseriya Foundation, which hosts the 1990 free emergency ambulance service, recently raised LKR 1.2 million in donations through Karuna.lk, Sri Lanka's first online fundraising platform. This milestone reflects the growing trend of online fundraising and digital rallying for social welfare delivery in Sri Lanka.

Much of these fundraising efforts occur through social media rather than standardised fundraising platforms. But with increased exposure to digital space comes increased risks to cyber security. In addition, social delivery organisations (SDOs) increasingly rely on digital tools to efficiently deliver vital social needs, manage their activities productively and increase organizational transparency. This article explores the potential, current status, and challenges faced by SDOs in using digital technology, drawing evidence from the Doing Good Index (DGI) Survey 2024 by the Institute of Policy Studies of Sri Lanka (IPS) and the Centre for Asian Philanthropy and Society (CAPS). The DGI examines the regulatory and societal environment in which private capital is directed towards doing good in Asia.

Leveraging Social Media for Social Welfare

SDOs are organisations that use private capital to provide goods and services addressing societal needs. They can be either non-profit or for-profit. In Sri Lanka, many SDOs are classified as non-governmental organisations (NGOs), though some, like the Suwaseriya Foundation, are affiliated with the government. Sri Lankan SDOs operate primarily in areas such as community development, education, child and youth welfare, and health.

Many of Sri Lanka's social welfare delivery efforts occur through social media. The DGI 2024 survey found that 83 out of the 90 SDOs in Sri Lanka use Facebook for fundraising.

The user demographics of social media platforms vary. The average Facebook users are between 20-35 years old, with the average age for Asian Facebook users being 26 years old. This younger generation is more inclined to donate to causes that receive social recognition from their peers and organisations they trust and have a positive attitude towards. The survey indicates that 48% of the SDOs are confident that the public trusts their organisations and 58% of SDOs say that young people are more likely to engage in charitable activities than older generations.

Potential for Digital Advancement in SDOs of Sri Lanka

There is a lot of potential for using digital technology for activities by SDOs. Other than the use of social media for fundraising, SDOs can leverage information and communication (ICT) tools to maintain records, facilitate donations, reach new donors, and access information and opportunities online. The survey shows that around 99% of the SDOs use basic operational software such as Microsoft Office packages, surpassing the Asian average of 97%. However, only 40% of the interviewed SDOs use advanced tools like project management and accounting software compared to the Asian average of 50%.

In contrast, 47% of the SDOs use advanced software for tasks like photo and video editing and statistical analysis, higher than the Asian average of 35%.

Despite this, only 58% of local SDOs have operational websites, much lower than the regional average of 78%. Digital newsletters are maintained by 55% of the local SDOs, aligning with the Asian average

While social media presence can amplify messages about welfare efforts to a broader audience, higher technological adoption can enhance the reach and efficiency of these organisations. However, increased ICT use also brings a heightened risk of cyber-attacks.

Cyber Security Concerns and Digital Usage

Sri Lanka Computer Emergency Readiness Team (CERT), under the National Centre for Cyber Security reported 64 active cyber security threats from 1 January 2024 to 30 June 2024. Among them, 34 were classified as high-risk alerts, implying the need for advanced cyber security measures in SDOs' digital systems.

An important aspect of online fundraising is cyber security. Among the surveyed local SDOs, only 67% reported having cyber security plans in place. While only 12% reported experiencing cyber-attacks within the last two years, the threat remains significant. Scammers may not directly target the SDOs but could use their names to deceive donors. The most common tactics used by scammers are phishing (pretending to be a trusted contact, such as a bank, a well-known donor, another recognised charity organisation), pretexting (pretending to be an employee who is requesting authorization for a task), and reverse social engineering (pretending to be a person seeking support from the charity).

Maintaining a secure website and online helplines can mitigate such risks by providing donors with reliable information and support. For example, having a dedicated team to manage online interactions and monitor for potential security breaches can safeguard both the organisation and its donors. Implementing robust security measures, such as encrypted transactions and secure data storage, is crucial for building and maintaining donor trust.

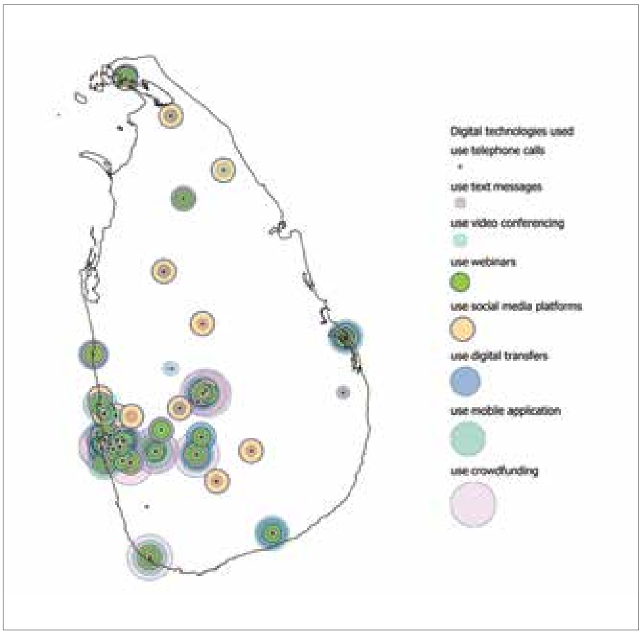
The Digital Divide

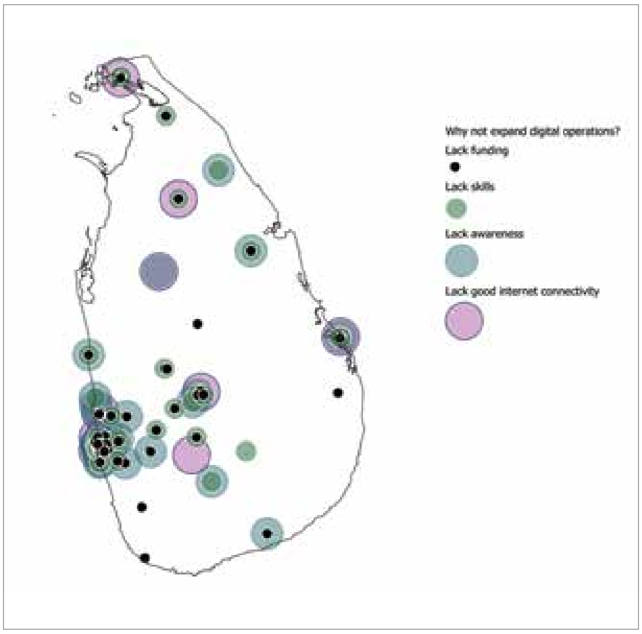
Table 1: Main challenges faced by SDOs in adopting digital technologies

Challenges	Asian Average (%)	Sri Lanka (%)
Lack of funding	71	71
Staff lack adequate skills	59	53
Reluctance among staff to adopt digital technology	12	8
Reluctance of senior leadership to support the use of digital technology	6	2
Lack of support from funders and/or board to invest in digital technology	27	31
Lack of awareness of available digital technology and tools	46	36
Government restrictions that make it difficult to adopt digital technologies	7	13
Other	5	7

Source: Doing Good Index Survey 2024 data

The level of technology adoption varies among local SDOs. While some organisations are ahead in digital tool





usage, others struggle due to factors like lack of technical expertise to fully leverage digital tools for fundraising and operations. Many organisations lack funding and investments to increase the level of technology usage. The funding issues are more prominent in Sri Lanka in comparison to the rest of Asia, than the issues such as reluctance of staff or awareness of available tools (See Table 1). Additionally, the country's digital infrastructure is not sufficiently developed to provide uniform coverage across the island. This divide has made it difficult for SDOs to expand their digital fundraising efforts.

Figure 1: The local digital fundraising environment (Authors' illustration based on DGI 2024 survey)
Left: more sophisticated digital technologies are concentrated around the urban centers of Colombo and Kandy. Right: Lack of awareness and skills are overlapping issues for many organisations.

Future Directions

As digitalisation increases, SDOs can reach a wider audience interested in charities. However, many organisations are yet to address cybersecurity concerns. Local charities need training in cybersecurity and digital skills. Collaborations with tech companies and universities can aid growth in this area. Both government and private sector efforts are needed to improve digital infrastructure and provide affordable internet access. Ensuring donor trust and transparency is also crucial. Regular project updates, transparent accounting, and clear communication can enhance donor confidence. SDOs must address concerns proactively to demonstrate their commitment to ethical operations.

Chaya Dissanayake is a Research Assistant at the Institute of Policy Studies of Sri Lanka (IPS). She holds a B.Sc. (Hons) in Agriculture specialised in Agricultural Economics from the University of Jaffna and is currently reading for an MSc in Integrated Water Resource Management at the Postgraduate Institute of Agriculture, Peradeniya. Her research interests include agricultural policies and institutions; disaster risk management; poverty and inequality; SMEs; women and the workforce.

REGIONALISM TO THE RESCUE!

The secret behind Europe's relative peace

In 2024, we are on the eve of the 80th anniversary of the ending of the Second World War. On 8th May 1945 the war ended in Europe, and on 2nd September 1945 it ended completely, when Japan signed surrender documents on board the USS Missouri. The war that started in 1939, came just two decades after The Great War, which was subsequently identified as the First World War. The tragic toll from both these wars, which claimed the lives of millions, and scarred the lives of millions more, led to the clear understanding of the need to avoid war. Thereafter every effort was made to ensure that another war of such magnitude did not break out.

The first half of the twentieth century saw two World Wars within a short period of time. How then have we been able to avoid a recurrence over the last eight decades? This is where restraint, resolve and respect played a critical role collectively, but most importantly it was regionalism, in all its forms and manifestations. Regionalism brought countries together, to multiple tables, which are the regional bodies that we see around the world, and led to multilateralism getting entrenched into world affairs. Leaders had to exercise restraint on numerous occasions, they had to be resolute in their determination to avoid dragging their countries into war, and they had to understand the need to respect territories, boundaries, and people. It is the fourth aspect, regionalism, that remains the foundation upon which peace has taken root.

While it may be argued that complete peace is not found in the world today, there is relative peace in many parts, with fighting also continuing. Diplomacy remains crucial in finding ways to resolve that which is unfolding but there are occasions on which such efforts also fail and conflicts flare up. However, of all regions one of the most significant is Europe. Having been at the heart of the two World Wars, and numerous other conflicts stretching back into the centuries before, the ability to overcome massive differences, and work towards stability and a secure environment remains one of Europe's most notable achievements.

From the initial steps taken in the wake of the Second World War and through the ensuing decades, European countries realised that coming together as neighbours, initially for trade and thereafter politically, would be the secret to their success.

The Marshall Plan, which was initiated by George Marshal, the US Secretary of State, aided European economic reconstruction, and ensured a significant transfer of funds to Europe. The US gave European countries US$13 billion from 1948 to 1952. The belief was that only a massive monetary infusion would allow Europe to recuperate from the ravages of war, and the Marshal Plan laid the financial foundation for the avoidance of conflict. For the United States, Marshal's visit to Europe, provided evidence of the crises and economic problems that were looming, and the imminent threat of the rise of communism. He was able to convince the US government of the need to support the endeavours underway in Europe. It was also identified that functioning European markets could partially accommodate US over production post-war.

This financial infusion was followed by two important treaties that ensured the region came together gradually. The signing of the Treaty of Paris on 18 April 1951 by Belgium, France, Italy, Netherlands, Luxembourg and West Germany saw the creation of the European Coal and Steel Community (ECSC). With the pooling of their most important resources - coal and steel - these countries were committing to trading collectively and thus being in a position of advantage in the market, and also having to work together irrespective of the differences of the past. The ECSC saw coal and steel production under a common authority within the framework of an organisation that was opened for other European countries to join. Thus, the common market opened for coal, iron ore and scrap on 10 February 1953, and for steel on 1 May 1953. It was chiefly designed to reconstruct the economies of the European continent, prevent war and ensure a lasting peace, all of which was achieved in the ensuing decades.

The second agreement that enhanced regionalism in Europe was the Treaty of Rome, which was signed on 25 March 1957 by Belgium, France, Italy, Netherlands, Luxembourg and West Germany. Through this treaty, member states pledged to bring about a progressive reduction of customs duties, with the intention of creating a customs union; to create a common market for goods, services, workers and capital; ensure common transport and agricultural policies; create a European social fund; and establish the European Commission. Regarded as far-sighted, these visionary treaties would take the region along a path of peace as they had much at stake owing to their collaborative action, and hence the inability to go to war with each other.

Regionalism was therefore the bedrock upon which peace prevailed. In 2012, when the Nobel Peace Prize was awarded to the European Union, the citation read 'for over six decades contributed to the advancement of peace and reconciliation, democracy and human rights in Europe.' This need to co-exist remained critical to their survival and to the avoidance of further conflict. Countries were able to put the past behind them, and look to the future, in which they would prosper together, and that is exactly what they did in the decades that followed.

Challenges have arisen at varied times, and were experienced mainly during the Cold War, however the last decade and a half has ensured heightened challenges. Issues stemming from migration, the rise of the far right, Brexit, economic crises, the COVID-19 pandemic and a range of other concerns have been daunting for the leadership of European countries individually, and even more for those at the helm of the European Union. Questions have been raised over the need for the Union, its relevance, and its future, but despite the negativity and issues it continuously confronts, the progress achieved, the prosperity it has brought and the relative peace that has prevailed over the last eight decades are factors that warrant its continuity, and sustain it at present.

In 2025, many programmes and policies will be unveiled to commemorate the landmark anniversary and look to the decades ahead. Summits will be held, leaders will make statements praising the Union, and people will experience a renewal of regionalism, however the fundamental factor that needs to be at core is the understanding of how the region came together, so that generations to come will exert every effort to preserve that which has been built up. Through the establishment and deepening of sound trade relations political engagement was strengthened, and thereby peace prevailed to a large extent. Coexistence at the regional level was the result of such entrenched interactions and remains the secret behind Europe's relative peace. Regionalism came to the rescue eighty years ago, and will likely be the saving grace for the future.

Dr George I. H. Cooke is a diplomatic historian, who teaches and researches International Relations.
A former diplomat, he has served at the Ministry of Foreign Affairs in Sri Lanka, the Embassy in France and at the Permanent Delegation to UNESCO.

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