Trade and Transport Facilitation Audit
Sri Lanka Country Report

2017

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This report 'Trade and Transport Facilitation Audit: Sri Lanka Country Report' was prepared by a team of researchers at the Institute of Policy Studies of Sri Lanka (IPS).

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Contents

1. Introduction and Background

Much like other developing regions, South Asia is associated with exorbitant costs of doing business which includes significantly high transaction costs in conducting trade. Termed trade costs, studies evidence that major drivers of such costs are (from WTO 2015; Basnett and Razzaque 2014; Rahman 2015; Hertel and Mirza 2009; Malith and Zylva 2017):

- Poor quality logistics and infrastructure (roads, railway, air transportation and warehousing),
- High transportation costs arising from problematic logistics quality,
- Excessive documentation requirements within as well as beyond borders,
- Onerous procedures that are also ineffectively published and disseminated,
- Alterations in trade procedures not being communicated effectively and swiftly,
- Failing to meet required SPS-TBT standards and non-recognition of test and certifications from other countries,
- High costs incurred in transit due to problematic treatment of goods in transit as well as infrastructure issues behind as well as beyond borders (congested ports, for instance),
- Poor cooperation and coordination among border authorities (mainly customs, standards as well as security),
- Weak harmonization in procedures such as documentation requirements and,
- Non-existent or weak appeal mechanisms for reviewing decisions—such as concerning valuation—of authorities

Furthermore, the region suffers from opaque and discretionary application of not only para-tariffs which are essentially additional duties on imports but also inconsistent, unpredictable and often arbitrary application of customs and border procedures (Rahman 2015). Consequently, trade costs among country pairs in South Asia are, on average, 20 percent greater than the ASEAN region and nearly 3 times higher than in the North American Free Trade Agreement (NAFTA) region (Basnett and Razzaque 2014; Rahman 2015; Hertel and Mirza 2009). Compared to other regions, for instance, South Asian country pairs require among the highest number of documents to trade and the same, be it export or import, takes the longest duration. Unsurprisingly, South Asia remains among the least integrated region as its intraregional trade is about 5 percent of the region's total trade (Basnett and Razzaque 2014; De 2014).

It is important to highlight that trade-related transaction costs related to broadly two kinds of costs – tariff and non-tariff barriers or costs (NTBs; the above are non-tariff obstacles). NTBs are often discretionary intended at curbing trade and take the form of price control policies (administered prices and antidumping measures), finance measures (advance import deposit and cash margin requirements), standards-related requirements, licensing policies (like local content

requirements) and seasonal restrictions.[1] Other NTBs—such as those listed above as drivers of trade costs—often less discretionary, are addressable and frequently emanate from structural reasons (predictably, developing countries would have greater trade costs; Arvis et al 2013; WTO, 2015).

In fact, Kowalski et al (2015) estimates that over 60 percent of trade costs emanate from non-tariff issues such as cumbersome trade procedures, transit access, weak deployment of ICT technologies in administering trade procedures and currency fluctuations. While NTBs remain and await interventions that can lubricate the trade and associated supply chains, tariffs have progressively declined owing to WTO-led multilateral trade negotiations as well as regional trade agreements (RTAs) and preferential trading arrangements (PTAs; Hoekman & Kostecki, 2001). The South Asia region may have high tariff walls for what are rather extensive sensitive lists but the tariffs have nevertheless declined due to measures like SATFA (South Asian Free Trade Area; See Basnett & Razzaque, 2014).

The reforms to reduce trade costs and further lubricate trade have been considered vital for economic progress particularly in developing countries and regions and hence are part of the Trade Facilitation Agreement under the aegis of WTO in 2013 from the otherwise stalled Doha Development Round. The trade and transport facilitation reforms entail simplification and harmonization of customs procedures (valuation, inspection, testing, and documentation among others), enhancing cooperation among border agencies (coordination, information sharing, infrastructure sharing), developing and improving infrastructure (roads, warehouses, testing and certification labs, deployment of ICT and single window solutions), making logistics efficient (such as road, rail, water and air transport), effective review mechanisms to appeal against decisions and a predictable and efficient transit mechanism (WTO 2015). Such reforms are aimed not only at making trading environment more efficient but also towards enhancing predictability and reducing uncertainties.

The need for effective trade and transport facilitation reforms stems in large part due to the rising fragmentation of production activities and with it, the need to participate in Global Value Chains (GVC) for industrialization, export competitiveness and rapid growth and development (Gereffi 2014). Indeed, the decline in tariffs and major improvements in logistics and information communication technologies (ICT), have reduced trade costs and have significantly driven of formation and expansion of the GVCs (Ravenhill 2014). Consequently, and reflective of the growing significance of GVCs is the fact that not only is trade in intermediate goods growing faster than the finished goods but also over half the manufacturing exports (US$ 4.5 trillion or 51 percent of the total) are from the GVCs (Banga 2014). Formation and expansion as well as participation in GVCs, however, hinges significantly seamless flow of goods (including intermediate and finished goods) across geographies at reasonable costs and duration (Serieux 2014).

Existing studies focused on the region provide important insights on trade costs, the overall trading environment and trade and transport facilitation issues. Furthermore, quantitative studies predict major trade gains and enhanced exports competitiveness if effective trade and transportation facilitation interventions are carried out. Sattar (2014), studying India-Bangladesh trade, documents major delays (and hence costs) since goods need to pass several states in India; the delays arising due to inappropriate dissemination of SAFTA concessions to Indian states. While SPS-TBT measures are aimed at securing health, such measures are deployed arbitrarily in the region creating significant unpredictability and uncertainty around application

[1] Understanding Non-tariff Barriers, WTO (https://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm9_e.htm)

of trade procedures. Sri Lanka, for instance, has an import ban on tea on grounds of poor quality (Basnett and Razzaque 2014). On standards-related testing and certifications, Taneja et al (2014) evidences that routinely, testing facilities are located at a significant distance from the respective customs point. Furthermore, the testing laboratories are frequently poorly equipped which instead is one of the explanations as to why there is lack of mutual recognition of certifications. Adhikari and Kharel (2014) observes that transit-related delays emanating from poor port infrastructure makes the trade regime extremely costly for landlocked countries in the region. Relatedly, De (2014) reports that landlocked countries in the region face high trade costs due to poor infrastructure behind the border which results in extremely high transportation costs. This study observes that border procedures and documentation requirements in South Asia remain minimally harmonized and evidences instances where goods are being inspected by different authorities at various points (on both sides of the border including in transit) instead of being inspected at loading and unloading points.

While harmonization is a goal, some differences will nevertheless persist. Sattar (2014), hence, suggests that the information on trade procedures and policies needs to be published regularly and any changes in the rules need to be notified well in advance. Furthermore, such information should be frequently and swiftly exchanged among border officials (WTO 2015). Predictably, South Asian economies maintain better trade linkages with the other regions than their neighbourhood despite opportunities (Armstrong et al 2008; De, 2013). Furthermore, the bottlenecks result in routing of trade to informal channels which undercuts public revenue when and where in fact it is much too needed (Wilson, Mann and Otsuki, 2005). Armstrong, Drysdale and Kalirajan, (2008), for instance, shows that high trade costs and lack of trade facilitation reforms meant that regional trade in South Asia was under 50 percent of the potential (US$ 16.17 billion against the potential of US$ 37.55 billion). De (2009) estimates that a 10 percent rise in transaction costs at the border decreases the country's export by three percent. Some of the bottlenecks in trade have been predictably linked to protectionist tendencies among countries in the region (Hertel and Mirza 2009).

Sri Lanka-focused studies provide important insights into the bottlenecks and inefficiencies that drive trade costs. More crucially but somewhat less surprising is the fact that Board of Investment (BOI) companies located in Free Trade Zones (FTZs) face lower trade costs since Customs Declarations (so called CUSDECS), cargo examination as well as payment of charges and duties can be done inside the FTZs more expeditiously than in the usual points (Mel et al 2011). Weerakoon et al (2005) documents poor quality services to traders, significant red tape and corruption as areas driving up trade costs. Taneja et al (2011) adds that while physical infrastructure in Sri Lanka is generally efficient, the institutional arrangements seem weak as the quality of services provided to the traders is poor. Wijayasiri and Jayaratne (2009), on the other hands, observes that while Sri Lanka upgraded its customs management system to somewhat advanced modules of Automated System for Customs Data (ASYCUDA++) which facilitates electronic lodging of customs declarations, the overall costs of electronic data communication remains rather high. A recent study finds that the most significant obstacles emanate arise from customs and port authorities wherein compliance is usually difficult, cargo handling is poor including the scale of such operations and delays frequently mean damage to cargo (ITC 2011).

Against this backdrop, studies, including the above, suggest that the trade and transport facilitation reforms, be it simplification as well as harmonization of customs and trade procedures (mainly valuation, inspection, testing, and documentation), improving quality of services to traders, greater deployment of ICT in processes or further computerization of customs management, are urgent policy intervention area if Sri Lanka is to enhance export performance and further improve GVC participation possibilities; both linked to rapid economic progress. These reforms have been considered critical if Sri Lanka's trade with the South Asian countries,

which currently remains miniscule, is to expand. Exports to South Asia in the past 5 years have averaged under 8 percent of Sri Lanka's total exports compared to 34 percent to the EU. This country paper attempts to guide the trade facilitation reforms via a comprehensive audit of the status of trade and transport facilitation. Guided by the Trade and Transport Facilitation Toolkit 2010, the study conducts such audit by assessing the key bottlenecks in trade and associated supply chains. To be sure, the Sri Lankan government, which ratified the Trade Facilitation Agreement in May 2016, has made efforts towards further lubricating trade. The Single Window, for instance, was launched in January 2016 and most trade facilitation assessments consider Sri Lanka as the leading country when it comes to improving the trading environment (Malith and Zylva 2017).

1.1 Organization of the paper and key insights

Section 1 contextualizes the paper and introduces the concept of trade costs and its key drivers including in the region. The section introduces the trade and transport facilitation agenda, its rationale as documented in studies and the measures the reforms encapsulate. Select studies, mainly ones specific to the South Asia region as well as Pakistan are drawn from in this section to understand the major drivers of trade costs—both tariff and non-tariff costs—in the region. Key sources of exorbitant trade costs in the region, which instead mean reduced competitiveness and minimal intraregional trade, are poor infrastructure, weak information flows on procedures and regulation and unpredictable inconsistent application of customs and border procedures.

Subsection 1.2 outlines Sri Lanka's trade performance with South Asia compared to other regions. Sri Lanka's major exports and imports markets are US and EU and China and India respectively. Between 7 to 10 percent of Sri Lanka's exports are headed for South Asia compared to a combined over 50 percent to US and EU. Furthermore, Sri Lanka's trade with South Asia is dominated by India which is the destination for 60 percent of Sri Lanka's South Asia exports. Nearly 90 percent of the imports from South Asia come from India. (subsection 1.2). Major exports to the region are spices, nuts, animal feed products, fabrics and insulated cables while petroleum oils along with cement and medicaments are the top imports (Table 1 and 2). Sri Lanka's trade with the region remains well below potential—this despite bilateral and regional initiatives like ISFTA, PSFTA and SAFTA—and in this, high trade costs have been considered a key factor. Subsection 1.3 presents a brief discussion on why the study is timely and the study's major objectives which are assessing the status of trade and transport facilitation and based on it, suggesting the priority reforms. This is followed by a detailed outline of the methodology which is guided by the Trade and Transport Facilitation Toolkit of the World Bank (World Bank 2010). The study significantly relies upon an extensive survey of 121 participants in trade and uses such data to examine the major bottlenecks as well as the interventions required to lubricate trade in the region (See Section 1.4 and subsection 1.4.1).

Section 2 focuses on Sri Lanka's major trade routes and this discussion is followed by an assessment of Sri Lanka's trade logistics. Port of Colombo remains Sri Lanka major ports handling nearly 90 percent of the cargo and vessels (Subsection 2.1.1). Other modes of transportation, such as railways, handle minimal proportion of goods (under 5 percent; Subsection 2.1.3). To assess Sri Lanka's quality of trade logistics in relation to the rest of the region, cross-country analyses like World Bank's Logistics Performance Index (LPI) and UNCTAD's Liner Shipping Connectivity Index are drawn from. While the former examines components like customs efficiency and quality and quality of infrastructure, the latter looks at how well countries are connected to global

shipping lanes. Sri Lanka is among the better performers in the region with only India and infrequently Pakistan scoring better than it.

Section 3 assess trade procedures and documentation requirements in general as well as in trade with other South Asian countries. Customs Ordinance of Sri Lanka sets out such rules and requirements which varies according to products and destinations (such as the need for a catch certificate when it comes to fish; Subsection 3.1). Trade facilitation gains have been made in the recent years as number of documents required and days taken to prepare them, both have gone down. Furthermore, traders receive updates when the customs declaration, for instance, gets completed. Briefly discussed also are the documentation requirements under bilateral arrangements like India - Sri Lanka Free Trade Area (ISFTA). The section also sheds light on the institutions that oversee the trade procedures as well the trade and transport facilitation reforms. Rules and documentation procedures vary depending on whether companies are BOI and non-BOI. A case study on Sri Lanka's newly introduced export cargo clearance briefly outlines reforms like being able to submit electronic customs declarations (Subsection 3.1). Subsection 3.2 lists the bilateral and regional trade agreements and conventions that Sri Lanka is a part of.

In the literature review section (4), some of the recent Sri Lanka's focused research and policy documents on its trade and transport facilitation are discussed. Studies have evidenced that services rendered to traders are not only of poor quality and mired in red tape but are also characterized by corruption. However, BOI companies located in free trade zones, compared to non-BOI ones, have their trade processed relatively more efficiently and at lower costs (De Mel et al 2011; Section 5). While some automation has been made in implementing trade procedures—for instance, adoption of advanced ASYCUDA modules—the electronic processes have remained costly particularly for small firms (Wijayasiri and Jayaratne 2009). Weerakoon et al. (2005) finds that export and import procedures in the country are laborious and that the documentation requirements disproportionately hurt small-scale industries. The study concludes that administrative procedures, laws, formalities and the regulations are still complex, and often even irrational, despite efforts towards trade facilitation. ITC (2011) finds that most procedural obstacles relate to customs and port authorities. Some of the cost raising issues identified by the study were long delays in manual compliance of procedures, frequent cargo damage due to lengthy assessments, poor quality and scale of the cargo handling capacity, unending paperwork, insufficient opening hours and high incidence of bribery and corruption. The ITC study observes that Sri Lanka has major weaknesses when it comes to testing and certification capabilities.

Section 5 presents that trade and transport facilitation survey and its findings. The primary survey, guided by the Trade and Transport Facilitation Toolkit of the World Bank, assesses the major obstacles and bottlenecks that drive up trade costs and in turn helps identifying the key trade facilitation reform areas. The survey attempts to assess the quality of services provided and collects data on components broadly the publication of rules, quality of infrastructure, treatment of goods in transit and efficiency of processing of trade by customs and border authorities. A total of 121 respondents including mainly private (traders, freight forwarders, transporters) but also public participants (public officials overseeing trade at major customs points and trade routes) were surveyed. Some of the findings from the survey are as follows:

1. On the publication of trade-related regulations component, while 92 percent respondents show familiarity with the national customs website, 72 percent actually use it (Subsection 5.1). However, responses are not encouraging when it comes to information on average clearance or release time (61 percent say that the customs website does not provide information on the same). Furthermore, only about 46 percent respondents suggest that the website provide information on fees and charges. Relatedly, several freight forwarders observed that some of the information on the website is not accurate while the information is often not updated. When it comes to effectiveness of the website,

majority consider it average wherein information posted is often not comprehensive and hence less useful. Inquiry points serve as an important point to publish and disseminate information but 40 percent respondents were unaware of existence of inquiry points.

2. On procedures for export and import, their efficiency and implementation, over 40 percent respondents suggest that coordination among border agencies such as Revenue and Customs, Health Authority, Quarantine Inspection Services, Food Standards Agency and Security Agencies is average. While the submission of customs declarations has been mostly made online, improvements are required when it comes to online processing (Figure 34 and 35). Furthermore, supporting documents neither can be submitted and processed online (Subsection 5.2.2).

3. Only 44 percent of the respondents were aware that advance ruling facility was available. A miniscule proportion of this suggested using it (Subsection 5.2.3). Despite a host of trade and transport facilitation reforms, 70 percent respondents say that pre-arrival processing of consignments was not available (Subsection 5.2.4). Furthermore, a high proportion, about 50 percent of their consignments, are still subjected to physical inspection and hence the risk assessment techniques continue to be poor. On trade procedures and its implementation, a particularly problematic aspect is a mostly dysfunctional review and appeal mechanism in case traders are not satisfied with customs decisions such as valuation. 79 percent of the respondents suggest non-awareness of review and appeal mechanism.

4. Irregular payments and bribes are a major area of reform as 60 per cent of 121 respondents said that they need to pay bribes or irregular payments in the processing of trade be it document processing or cargo clearance. 25 per cent of the respondents stated that the percentage of the cases that they have to make such payments is above 50 per cent.

5. Only 53 percent rate customs' operational efficiency as good which obviously suggests that there is significant scope for improving services provided by customs (Subsection 5.2.14; Figure 47).

6. When it comes to trade-related infrastructure, port infrastructure is considered average by 43 percent respondents who also report poor quality of warehouses, cargo handling equipment and congestion at the ports. While 57 percent respondents think that the airports have good infrastructure, roads are considered by only 41 percent respondents (Subsection 5.3).

7. 60 percent respondents rate the efficiency of road transport providers as average while 76 percent consider the quality of rail services to be of low or very low quality. Trade-related services are an area requiring major improvement. For instance, 47 percent consider the efficiency of customs agents and standards inspection agencies as average. In terms of costs incurred in logistic services such as port charges and airport charges, most respondents state that these costs are neither low nor high (Subsection 5.3.3; Figure 50).

8. 73 percent respondents suggest that they have incurred losses via damage to cargo. Such losses stand at under 5 percent and are mainly caused by mishandling of cargo at ports and warehouses (Subsection 5.3.4; Figure 51).

9. Respondents were asked to suggest the top trade and transport facilitation reforms. The need to reduce irregular payment and bribes, setting up a Single Window and electronic submission of customs document have been identified as the top three interventions followed by improvement in efficiency of railways, coordination among border agencies and reducing the losses via damage to cargo (Subsection 5.4; Figure 52). Other high priority reforms suggested are improving infrastructure of warehouses, roads and ports.

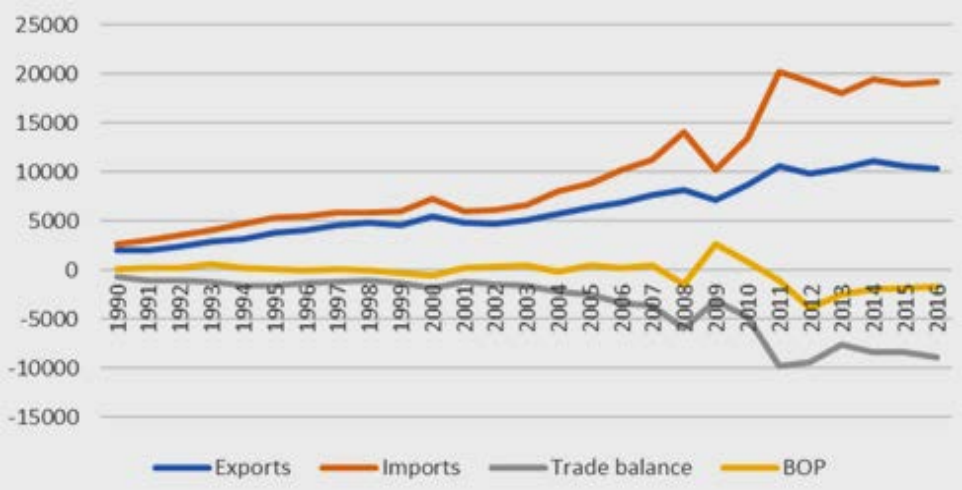
In the concluding section, the study suggests action points coming out of Sri Lanka's trade and transport facilitation audit such as the need to reduce instances of irregular payments and improve infrastructure. The next subsections discuss Sri Lanka's trade situation with the world as well as South Asia followed by a brief discussion of the rationale and objectives of the study.

1.2 Sri Lanka's trade performance with South Asia

Sri Lanka's exports to the SAARC region in 2016 was roughly 10 percent of its global exports, while it imported around a fifth of its total import requirements from SAARC (Figure 3 and 4). On the other hand, about 27 and 25 percent of Sri Lanka's exports in 2016 went to the US and EU (markets mainly UK, Germany, Italy and Belgium respectively). Further, Sri Lanka's trade with SAARC is dominated by its trade with India – a feature that mirrors most SAARC countries. Roughly 60 percent of Sri Lanka's SAARC exports in 2016 go to India (Figure 5) while around 90 percent of the SAARC imports are from India (Figure 7). Several factors can be attributed to the low intra-regional trade among South Asian countries including the lack of trade complementarities, superior manufacturing capabilities, trade policies and a multitude of trade-related transaction costs owing to mostly addressable barriers (Basnett and Razzaque 2014).

In the last two decades, Sri Lanka's international trade has grown from US$ 12711 million in 2000 to 29493 million in 2016 (Figure 1). Sri Lanka's imports in 2016 stands at US$ 19183 million compared to US$ 6281 million in 2000 while exports grew from US$ 5430 million to 10310 million in the same period (Figure 1).

Figure 1: Sri Lanka's trade performance (1990-2016, in US$ million)

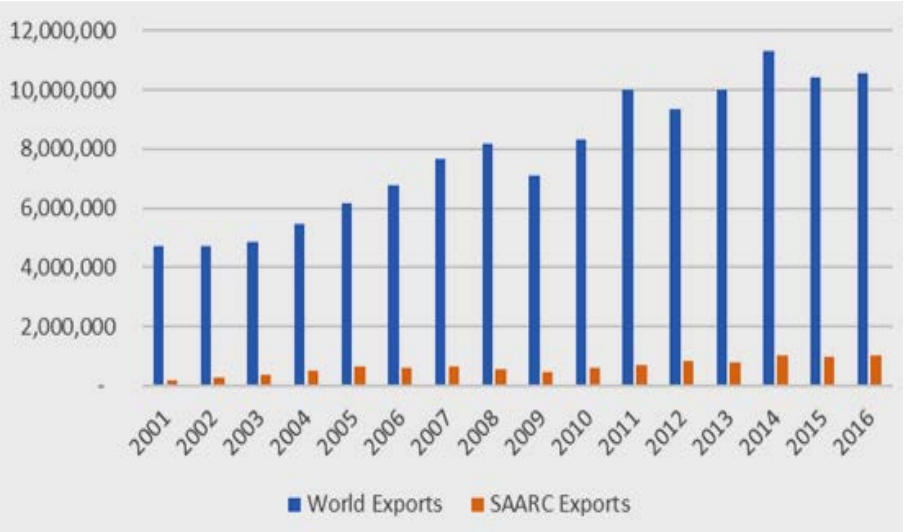


Source: Based on Central Bank of Sri Lanka Data

Sri Lanka's trade with South Asia remains minimal notwithstanding the fact that it is part of two bilateral free trade agreements as well as a regional trade agreement.[2] As shown in Figure 3, Sri Lanka's exports to South Asia have been stagnant for the past decade. However, Sri Lanka's imports from SAARC countries have picked up from 2002 onwards, mainly owing to ILFTA (India – Sri Lanka Free Trade Agreement) that gave a boost to trade between India and Sri Lanka (Figure 3). India has been, by far, the most significant trading partner for Sri Lanka. In the recent years, about 90 percent of Sri Lanka's imports from SAARC are from India (Figure 6 and 7).

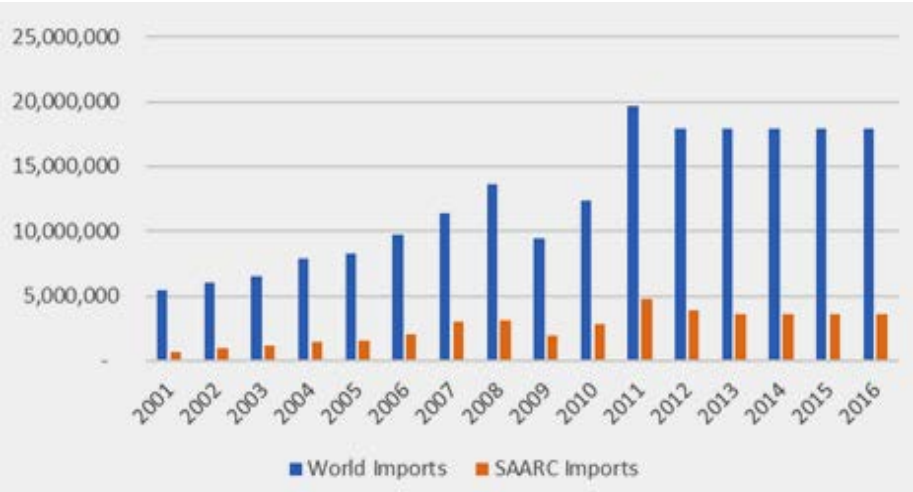
[2] Indo-Sri Lanka Free Trade Agreement (ILFTA) and Pakistan - Sri Lanka Free Trade Agreement (PSFTA) and South Asia Free Trade Area (SAFTA).

Figure 2: Sri Lanka's exports to SAARC and rest of the world (2001-2016, in US$ '000)



Source: Trademap Data

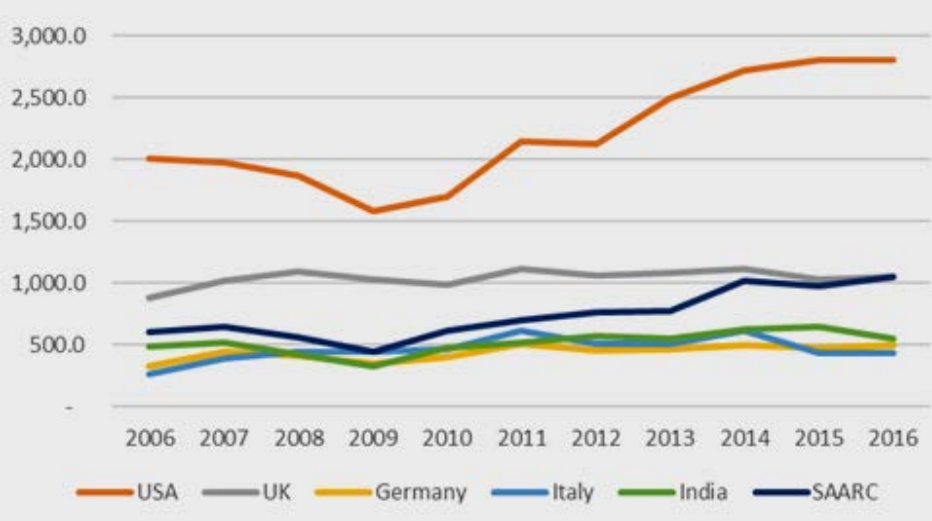
Figure 3: Sri Lanka's imports from SAARC and the rest of the world (2001-2016, US$ '000)



Source: Trademap Data

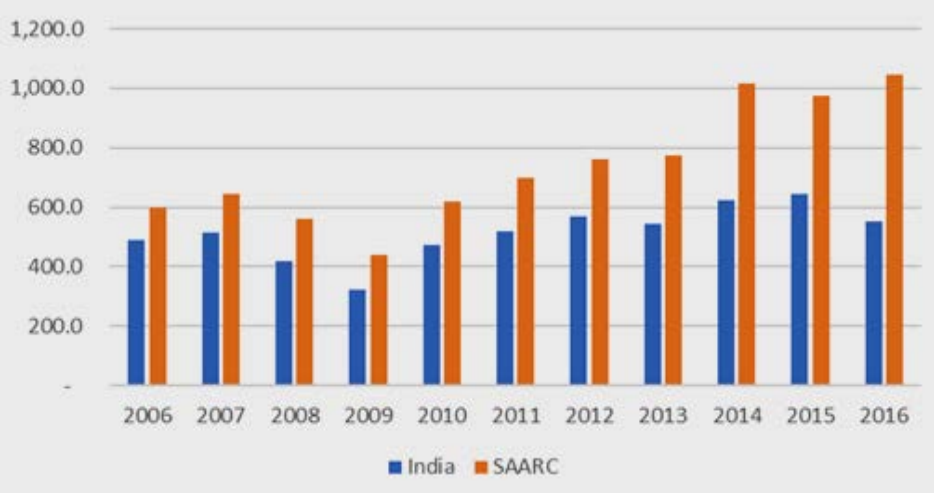
While EU (mainly countries like UK, Germany and Italy) and USA are major export destinations, India is the most significant export market for Sri Lanka within SAARC (Figures 4 & 5). Although USA and EU accounts for over 50 percent of Sri Lankan exports, owing to ILFTA market penetration in India has also gained momentum since 2010. Nevertheless, trade with the rest of SAARC members has not been significant despite the implementation of SAFTA in 2004 (Figure 5).

Figure 4: Sri Lanka's exports to its major markets (2006 – 2016, US$ million)



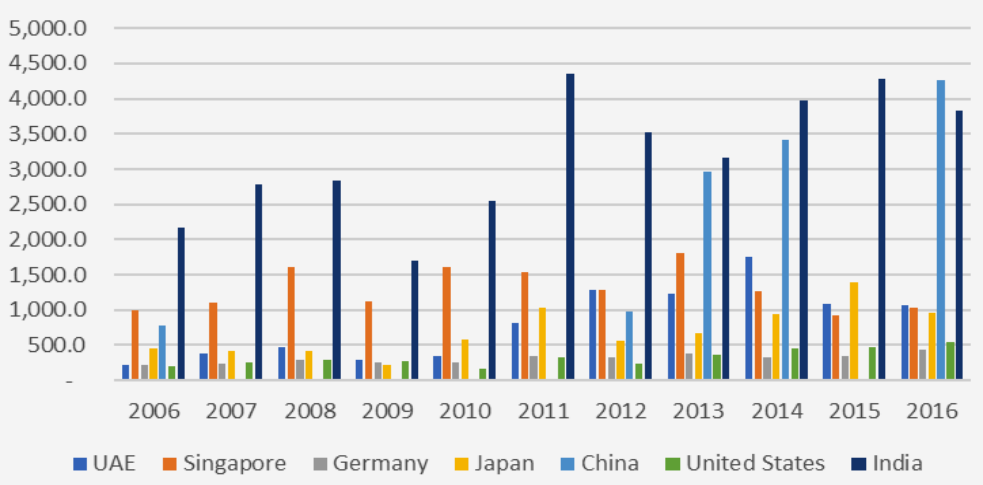
Source: Based on Central Bank Annual Reports and Trademap

Figure 5: Sri Lanka's exports to SAARC and India (2006-2016; US$ million)



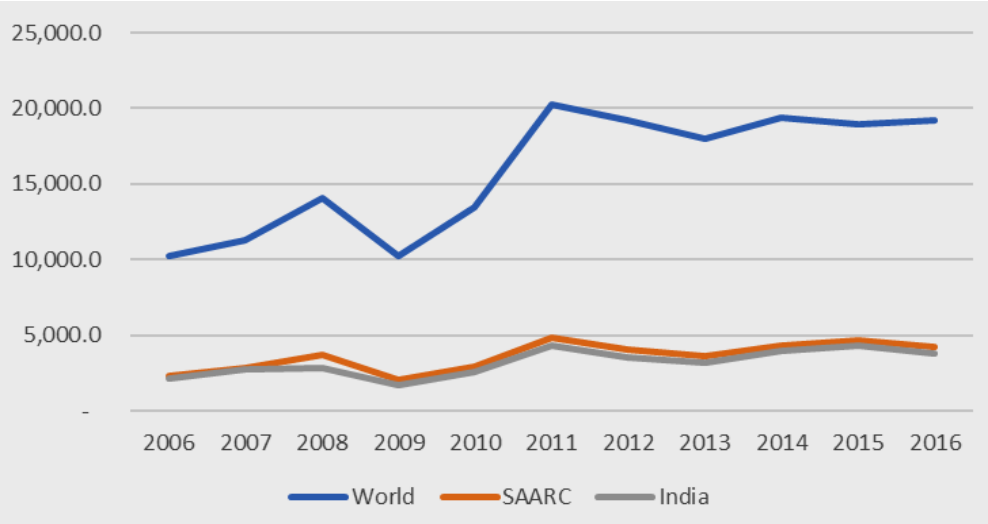
Source: Based on Central Bank Annual Report and Trademap

Figure 6: Sri Lanka's imports from its major import markets (2006-2016, US$ million)



Source: Central Bank Annual Report, Trademap and IMF Direction of Trade Statistics

Figure 7: Sri Lanka's imports from SAARC, India and the rest of the world (2006-2016, US$ million)



Source: Central Bank Annual Report, Trademap and IMF Direction of Trade Statistics.

Table 1 lists Sri Lanka's top exports to the SAARC region. The table lists data for 3 years wherein the outlier has been excluded. Outlier here is a commodity which has not been exported in the preceding two periods i.e., 2014 and 2015. The export basket comprises textile and clothing, petroleum-based products, tea, rubber, coconut and fisheries products. While tea exports account for around a sixth of its total exports, ready-made garments and textiles have the largest export share of roughly 40 percent (Table 1). Spices are Sri Lanka's major agricultural exports to South Asia. Insulated wire/cables and natural rubber products are its leading industrial exports (Table 1). Over half the spices and more than two-thirds of the natural rubber products to South Asia end up in Pakistan. This is mainly due to provisions of PSFTA. While over two-thirds of its

insulated cables are exported to India, more than three-quarters of the woven cotton fabrics are exported to Bangladesh.

Table 1: Sri Lanka's top exports to SAARC (in US$ in '000)

HS Code	Description	2014	2015	2016
0904	Pepper, pepper and capsicum	52,577	93,609	48,389
0802	Other nuts, fresh or dried, whether or not shelled	64,406	69,927	33,934
2309	Preparations of a kind used in animal feed	41,769	52,994	42,920
6006	Fabrics knitted or crocheted	34,675	40,845	45,051
2710	Petroleum oils and oils obtained from bit. minerals	72,916	20,186	24,926
8901	Cruise ship, cargo ship, barges	29,521	53,765	25,266
4707	Waste and scrap of paper or paperboard	32,720	31,536	31,534
8544	Insulated wire/cable	33,264	28,060	28,500
5209	Woven cotton fabrics, 85 percent or more cotton, weight over 200 g/m2	27,111	25,575	22,699

Source: Trademap data

When it comes to major imports from the SAARC region, Petroleum oil is Sri Lanka's largest import and accounts for around a sixth of its total imports from SAARC (see Table 2). Cane and beet sugar, wheat grain, chilies and potatoes are the main agricultural imports from the region. Cane and beet sugar imports are entirely sourced from India and imports of potatoes and wheat grain from Pakistan. Pakistan accounts for roughly two-thirds and over half of the total potato and wheat grain imports, respectively, from South Asia.

Table 2: Sri Lanka's Top 10 SAARC Imports (in US$ '000)

HS Code	Description	2014	2015	2016
2710	Petroleum oils, not crude	661,668	570,193	381,910
2523	Cements, portland, aluminous, slag, super sulfate & similar hydraulic	349,980	359,117	413,491
3004	Medicament mixtures (not 3002, 3005, 3006), put in dosage	182,615	231,634	248,967
8711	Motorcycles, side-cars	202,904	234,145	214,845
8703	Cars (including Station Wagon)	139,026	359,840	131,286
8704	Trucks, motor vehicles for the transport of goods	93,107	155,318	154,465
1006	Rice	260,061	127,408	12,311
5209	Woven fabrics of cotton, containing >= 85 percent cotton by weight and weighing > 200 g/m^2	122,784	111,828	151,174
6006	Fabrics, knitted or crocheted, of a width of > 30 cm (excluding warp knit fabrics)	92,686	80,429	101,237
1701	Cane or beet sugar and chemically pure sucrose, in solid form	83,051	103,040	78,753

Source: Based on Trademap data

1.3 Rationale for the study and its major objectives

Enhancing possibilities to participate and upgrade in GVCs, improving foreign trade performance and facilitating the inflow of foreign direct investment (FDI) are critical to Sri Lanka's growth and development story. However, Sri Lanka's export performance especially since 2000 has been far from satisfactory (Kelegama 2014). Consider this: while export volumes of peers like Vietnam and Bangladesh were either similar to or below Sri Lanka's for much of the 1990s, currently the exports from the two countries are roughly 12 and 2 times, respectively, that of Sri Lanka's (Kelegama 2014). On the regional front, studies show that while there is potential for growth and diversification of Sri Lankan exports to the rest of South Asia, the same remains underutilized and minimally exploited (DOC 2014). This is despite bilateral and regional initiatives like SAFTA. Estimates, for instance, suggest that the utilization rate under the ISFTA in 2013 was 65 percent (DOC 2014). The rate for SAFTA is even lower, according to the same study. The poor overall trade and export performance is significantly connected to exorbitant trade costs suggesting the need for lubricating the trade-related supply chains and cutting frictions (Kelegama 2014).

High trade costs are also a potential dampener when it comes to attracting FDI. The net inflow of FDI remains stagnant, averaging between 1 to 1.5 percent of GDP despite a liberal investment environment and a generous incentive framework (Weerakoon 2014). More crucially, export-oriented FDI has actually seen a decline in the recent years (Kelegama, 2014). Trade and transport facilitation reforms boost FDI inflows as has been documented in the case of Bangladesh (Rahman 2015).

While existing Sri Lanka-focused studies have investigated topics linking trade costs, its drivers and consequences and what benefits do credible trade and transportation facilitation reforms bring about, these survey an extremely small number of stakeholders (typically under 30; Mel et al 2011; Taneja et al 2011). Furthermore, to highlight the issues like onerous trade procedures that result in delays, minimal information was provided upon the actual procedures and documentation requirements. Essentially, the existing studies has drawn upon the available information in a limited way. Relatedly, issues in transportation and the ways in which these can be reformed has been paid minimal if any attention to. A key implication of these limitations is that the existing studies are of potentially limited relevance when it comes to policy. Thus, this comprehensive analysis entailing survey of 121 stakeholders—mainly private participants in trade but also public ones—and an extensive assessment of the existing information, is potentially timely and of significant policy relevance.

The study attempts to assess the status of trade and transport facilitation in Sri Lanka in relation to its trade with the SAARC countries. The analysis documents the bottlenecks in supply chains emanating from mainly onerous trade procedures, their poor dissemination and problematic infrastructure. The study aims to identify the critical reform areas in trade and transportation facilitation. This analysis mainly aims for the following:

1. Assess Sri Lanka's current status of trade and transport facilitation in relation to trade with the region,

2. Analytical frame being the Trade and Transport Facilitation Toolkit of the World, the study aims to understand the trade and transport bottlenecks in trading with the region,

3. Documenting major trade and facilitation reforms as well as the key institutions involved in such processes,

4. In order to understand the problems with trade procedures, the analysis of relevant policies and an updated documentation of existing trade procedures and documentation requirements,

5. Assessing the quality of trade logistics as well as trade-related services delivered to relevant stakeholders—the latter via a comprehensive survey—in relation to peers in the region and elsewhere,

6. Based on the above, understanding the priority interventions in trade and transport facilitation

7. Advocacy at the regional and national level for buy-in of the policy recommendations

1.4 Methodology

For the assessment, the paper relies heavily upon an extensive survey of 121 concerned stakeholders in the international trade process. This informs upon mainly the bottlenecks that render supply chains inefficient and the priority interventions required to address such obstacles. The published material—journal articles, reports, policy documents as well as official statistics (from the Central Bank of Sri Lanka, Export Development Board and Sri Lanka Customs among others)—has been extensively drawn upon to understand, for instance, recent trade facilitation reforms, relevant stakeholders and their mandate as well as critical bottlenecks in conducting trade. Furthermore, cross-country comparisons concerning quality of trade logistics and the trade documentation requirements mainly the *Logistics Performance Index* (LPI) and the *Doing Business* Indicators (both from the World Bank) are referred to. LPI compares trade logistics' quality among countries via components like customs procedures and timeliness of shipments. To do this, it surveys logistics professionals. The Doing Business project of the World Bank examines and compares the overall business environment of countries and in this, it also analyses the trading environment by looking at components like documents required in trade and the time incurred to prepare such documentation.

Guided by the Trade and Transport Facilitation Toolkit of the World Bank (World Bank 2010), the primary survey was designed by South Asia Watch on Trade, Economics and Environment (SAWTEE) in consultation with researchers involved in the country studies. survey captures responses from a sample representing a broad array of relevant stakeholders including exporters, importers, carrying & forwarding agents, multimodal transport operators, port authority, customs and chamber of commerce. The questionnaire was initially piloted by respective research teams in each of the 8 SAARC countries and subsequent revisions were made for enhanced usefulness. In Sri Lanka, the questionnaire was piloted among two exporters, two importers, two freight forwarders and a shipping line. The questionnaire drew information on five following areas:

(i) Publication of trade related rules and regulations;

(ii) Rules and procedures for export and import;

(iii) Trade-related infrastructure and services;

(iv) Treatment of goods in transit and;

(v) Priority areas of trade facilitation.

The study focused on the importing/exporting experiences of traders at (1) Colombo Port and (2) Bandaranaike International Airport, which are the country's main seaport and airport respectively. Over 90 percent of trade in Sri Lanka takes place through Colombo Port and around 75 percent of the air cargo through Bandaranaike Airport. No other airport handles international cargo and while some other seaports do handle cargo, the figures are miniscule.

Respondents were chosen based on the products they dealt with and in this, products from both agriculture and manufacturing were selected (see Table 3). The product selection was instead based on (i) the volume of trade—both exports and imports—between Sri Lanka and other South Asian countries; and (ii) the availability of at least 20 firms that export/import the relevant product to/from South Asia. However, additional exporters and importers were drawn owing to challenges such as low response rates, reluctance to complete the questionnaire and the inability to substitute identified firms with other firms trading the same product. For the 'Import, Non-Agriculture' category, in addition to importers of Cement (HS 2523), 10 companies importing products under HS 25 were selected. Likewise, for 'Export, Non-Agriculture' category- HS 8544, companies were drawn from the relevant HS chapter. The lists of companies that trade in these products with South Asia were obtained from the Export Development Board (EDB) and Sri Lanka Customs.

Table 3: Selected Products for the Study

	Export	**Import**
Agriculture	Pepper, pepper and capsicum (HS code: 0904)	Cane or beet sugar and chemically pure sucrose, in solid form (HS code: 1701)
Non-Agriculture	Insulated wire/cable (HS code: 8544)	Cements, portland, aluminous, slag, super sulfate & similar hydraulic (HS code: 2523)

A total of 289 companies and individuals were contacted to achieve a target of close to 150 interviews. Of this, 121 companies and individuals responded. The breakdown of the respondents is given in Table 4. Except for 12 respondents, who completed the questionnaire via email or over the phone, all other interviews were carried out face-to-face. The interviewed companies were a mix of small, medium and large companies. Given that there is no definition for the classification of businesses at the national level, the study used the number of employees as the criterion to categorize them, following the National Enterprise Development definition. According to the definition, a business with five to 19 employees is categorized as small, 20-50 as medium-scale and with over 50 employees' firms are classified as large. Of the businesses interviewed, 29 are small (24 percent of the total respondents); 39 medium (32 percent of total) and 50 are large companies (41 percent).

Further to the above firm interviews, six Key Informant Interviews (KIIs) were carried out to get information on recent trade facilitation initiatives and stakeholder perspectives on the trade facilitation issue, among other things (see Table 5).

Table 4: Breakdown of the Respondents

Category	Border Point		Total
	Colombo Port	Bandaranaike International Airport	
Freight Forwarder/CHA	28	19	47
Exporters	22	5	27
Importers	30	2	32
Shipping Lines	7	0	7
Road Carriers	2	0	2
Airline Operators	0	3	3
Board of Investment	1	0	1
Sri Lanka Freight Forwarder's Association	1	0	1
Ceylon Shipper Council	1	0	1
Total	**92**	**29**	**121**

Table 5: Key Informant Interviews

Institutions	
Ceylon Chamber of Commerce	Sri Lanka Standards Institution
National Chamber of Commerce	Sri Lanka Ports Authority
Export Facilitation Center	Department of Commerce

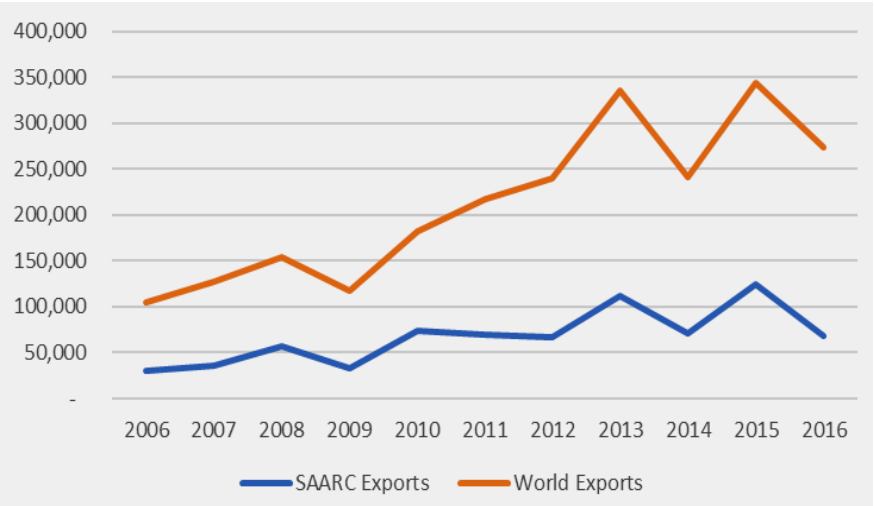
After the questionnaires were reviewed for quality and completeness, data entry was carried out using statistical package SPSS. It was done in conformance to the code book, prepared at the questionnaire preparation stage for the regional studies. Given the nature of the information collected, predominantly the quantitative approach was employed to analyze the data, i.e. descriptive statistics, ranking.

1.4.1 Products selected in designing the survey

Spices

Spices are among Sri Lanka's major agriculture exports to South Asia. In Sri Lanka's overall spices exports of over US$ 270 million in 2016, South Asia accounts for over a quarter (over USD 68 million; Figure 8). They consist of a range of spices mainly cinnamon (HS 0906), pepper (HS 0904), cloves (HS 0907) and Nutmeg (HS 0908). Over 90 percent of these are exported to the main end users and the rest to fragrance and pharmaceutical industries (EDB, 2014).

Figure 8: Sri Lanka's spice exports (2006-2016, US$ '000)

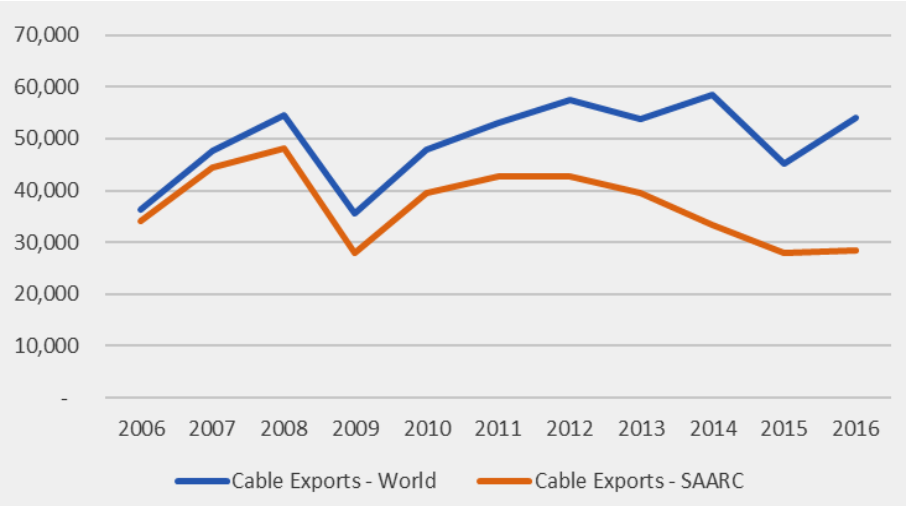


Source: Trademap

Insulated Wire and Cables

Insulated wire and cables are among Sri Lanka's top export items to South Asia. In fact, in 2016, SAARC accounted for over 52 percent of Sri Lanka's overall wire and cable (HS 8544) exports. As shown in figure 10, exports of insulated wire and cables, to both the World and to SAARC, have expanded significantly between 2009 and 2013. This appears to be due to the tariff concessions offered to companies that are registered under the Board of Investment (BOI) of Sri Lanka. The tariff concessions include tariff-free export facility for insulated wire and cable and tariff-free importation of material for the manufacturing of cables. However, the volume of overall exports, between 2013 and 2016, remained stagnant, while to SAARC, exports of HS 8544 fell.

Figure 9: Sri Lanka's cable exports globally and in the SAARC Region (2006 – 2016, US$ '000)



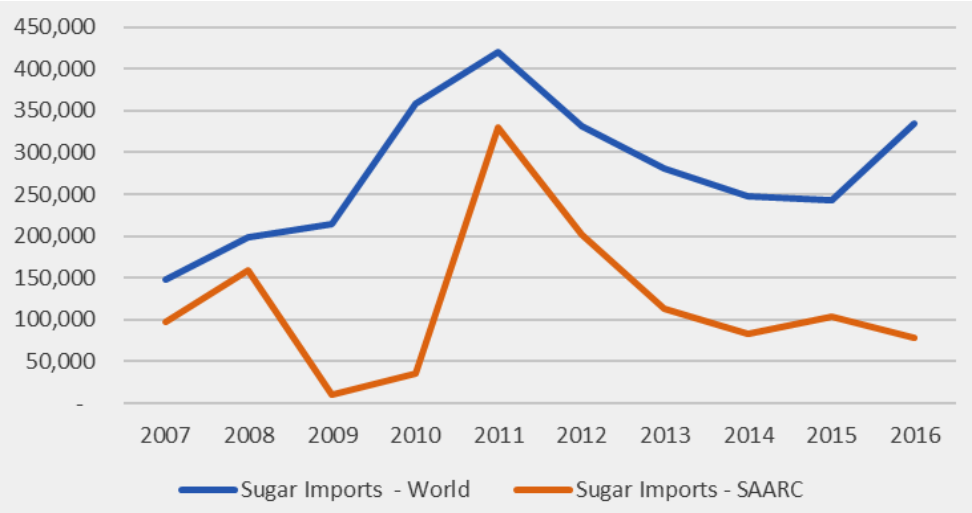
Source: Trademap

In early the 2000s, Sri Lanka's main SAARC destinations for insulated wire and cables were India, Maldives and Bangladesh. These destinations had almost an equal share of exports in the total insulated wire and cables exports to SAARC (Figure 9). However, from 2003 onwards, India has been Sri Lanka's largest market. Since the implementation of ILFAT in 2002, the tariff concessions offered by Sri Lanka for imports of raw material for the product, together with the relaxation of import duties by India for insulated wire and cable imports from Sri Lanka, were the main reasons for the boost in exports to India. In 2016, India's share in Sri Lanka's SAARC exports of insulated wire and cables was over 70 percentage.

Cane and Beet Sugar

A major agricultural commodity that Sri Lanka imports from the SAARC region is cane and beet sugar (See Figure 10). It currently imports over 80 percent of the domestic sugar requirement. In 2016, the country imported about 24 percent of its total cane and beet sugar requirement from the SAARC region (Figure 10). Domestic policy efforts to revive the sugar industry and the drop in global prices may explain the rather significant variations in Sri Lanka's sugar imports. The post-2011 period shows a marked decline in Sri Lanka's overall imports. Based on the survey, the country is committed to meet 50 percent of its sugar needs through domestic production.

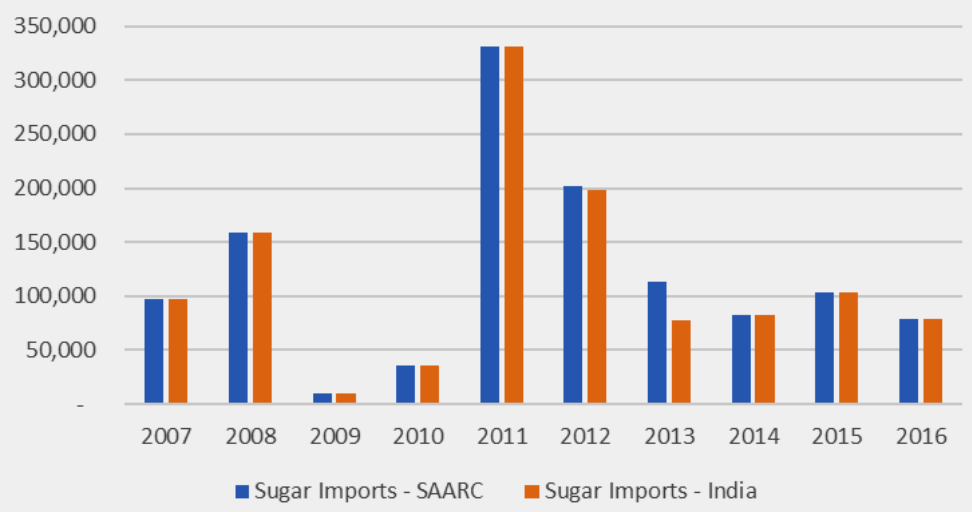
Figure 10: Sri Lanka's sugar imports from the World and SAARC (2007 – 2016, US$ '000)



Source: Trademap

Almost all of Sri Lanka's SAARC imports of sugar is from India (Figure 11).

Figure 11: Direction of SAARC sugar and cane imports (2007-2016, US$ '000)

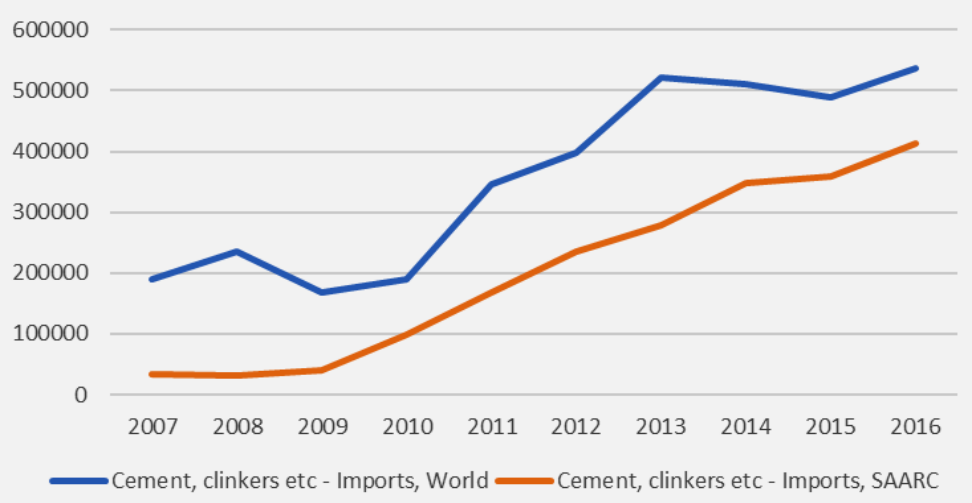


Source: Trademap

Portland Cement

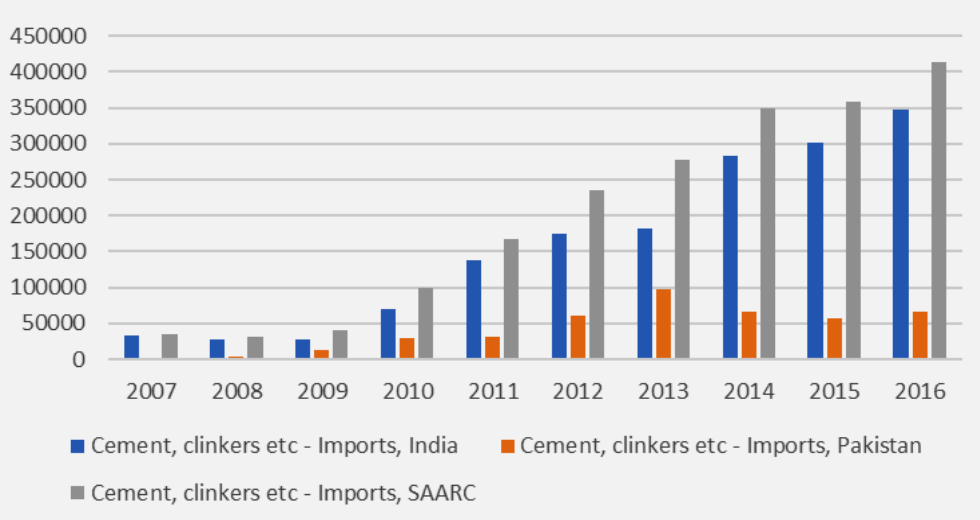
Portland cement is Sri Lanka's second largest non-agricultural import from the South Asian region, next to petroleum. In 2013, cement import share from SAARC countries doubled to eight percent from four percent in 2001.

Figure 12: Sri Lanka's portland cement imports from the World and SAARC (2007 – 2016, US$ '000)



Source: Trademap

Figure 13: Direction of portland cement imports from South Asia (2007-2016, US$ '000)



Source: Trademap

2. Main Trade Routes and Trade Logistics Performance of Sri Lanka

2.1 Main Trade Routes

Being an island nation, Sri Lanka's main international trade is conducted via sea and to some extent via air. More than 90 percent of Sri Lanka's trade flows are sea-borne meaning that over 90 percent of the freight is handled by the ports.[3] Air freight accounts for less than 5 percent of the total cargo. Colombo Port, which is in the country's capital, and Bandaranaike International Airport, also close to the capital, are the country's major international trade gateways. The section below delves briefly into the country's main trade routes in the country.

2.1.1 Ports: Colombo Port

The performance of the port sector and associated services shows a marked improvement in recent years. Much of this can be attributed to a major infrastructure drive that has focused on strengthening the country's position as a regional shipping hub (See Table 6 for growth in cargo handled). The recent robust performance in the port services has been possible partly due to increased commercial operations at the port of Colombo at its two terminals – Colombo International Container Terminal and South Asia Gateway Terminal.[4] On the other hand, ports owned by Sri Lanka Ports Authority has registered negative growth.[5] The port of Colombo has remained the principal seaport over the years. It accounts for nearly 90 percent of the vessel's arrival and the total cargo handling in the country (see Figure 14). Based on the volume handled, World Shipping Council ranks Colombo Port among the top 30 ports (behind ports like Ho Chi Minh) in the recent years.[6]

[3] Freight in Metric Ton (MT). The figure has been calculated via data from Central Bank Annual Report (2014) & Central Aviation Authority of Sri Lanka (2017).

[4] Based on figures from the Central Bank of Sri Lanka Annual Report 2017 (https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2017/en/7_Chapter_03.pdf)

[5] Chapter 3, Annual Report 2017 Central Bank of Sri Lanka. See https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2017/en/7_Chapter_03.pdf

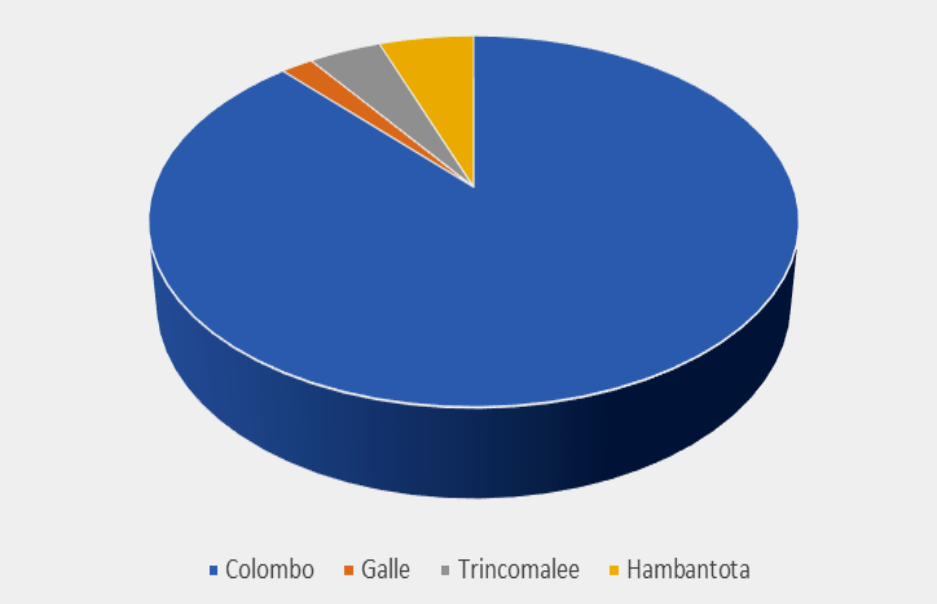
[6] World Shipping Council

Table 6: Performance of the port sector in Sri Lanka (2010 to 2016)

Item	2010	2013	2016
Total Container Traffic (TEU '000)	4,137	4,306	5,735
Transshipment Container (TEUs '000)	3,205	3,274	4,435
Total Cargo Handled (MT' 000)	61,240	66,243	86,519
Vessels Arrived (Number)	4,067	3,976	4,998

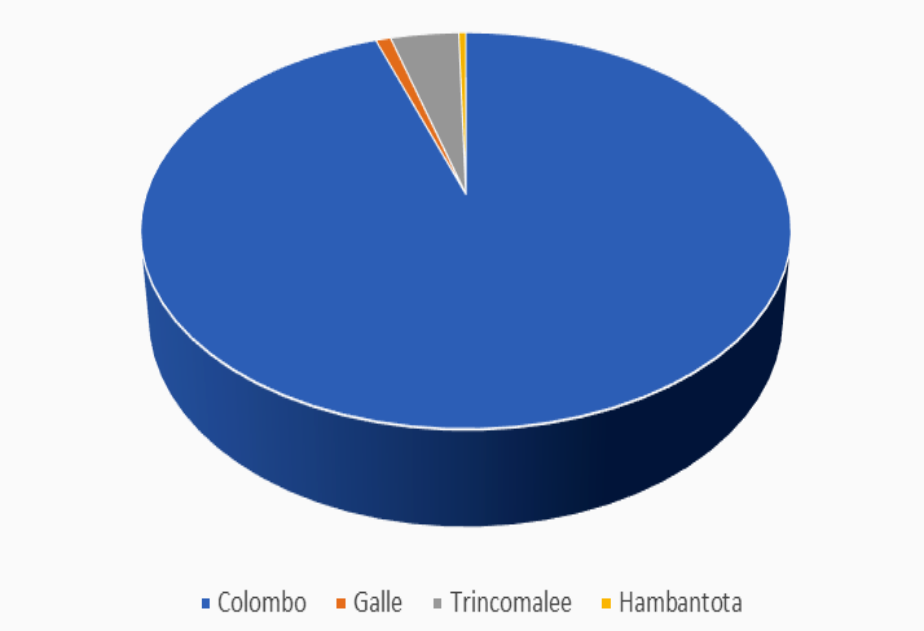
Source: Central Bank of Sri Lanka, Annual Report, various years.

Figure 14: Percentage of vessels handled by major Sri Lankan Ports 2016



Source: Central Bank of Sri Lanka, Annual Report 2017

Figure 15: Percentage of cargo handle 2016



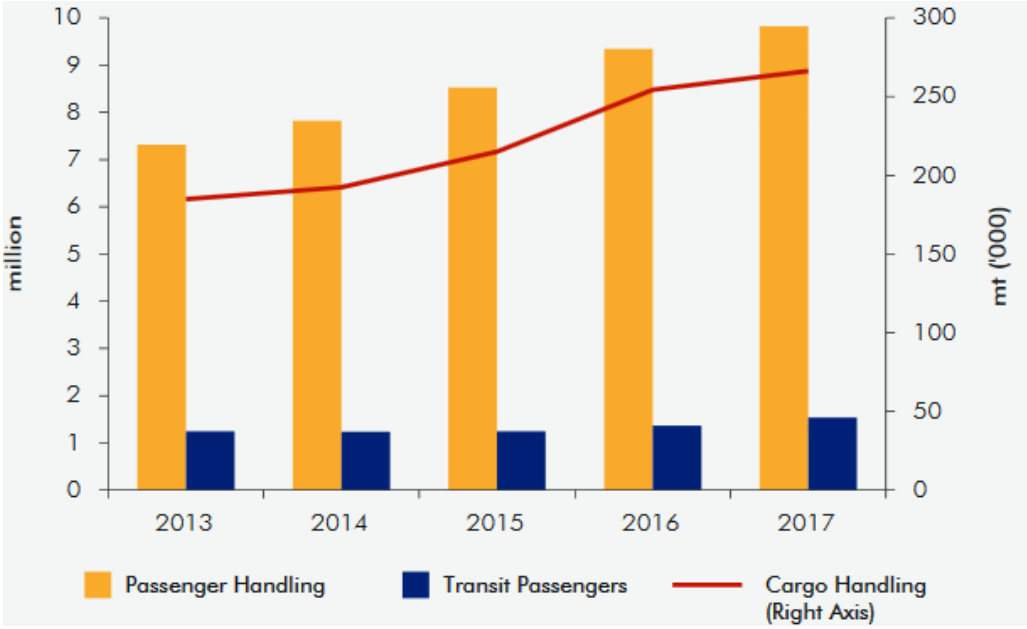
Source: Central Bank of Sri Lanka, Annual Report, 2017

While there have been efforts to increase traffic at other ports such as Hambantota, results have been rather modest. Media reports suggest that the Hambantota port, built with Chinese finance and nearly seven years old, has become a white-elephant of sorts given the low traffic and hence low return on somewhat high-priced debt (Moramudali 2017).

2.1.2 Aviation: Bandaranaike International Airport (BIA)

The use of air freight in trade is relatively low in Sri Lanka but nevertheless rising. Air cargo volume (in MTs) or total cargo handling has increased by over 30 percent between 2013 and 2017 (See Figure 16). In 2017, roughly 270,000 MT of cargo were transported via air of which over 265,000 MT was moved through the BIA alone.[7] In terms of passenger movement via air, BIA passenger movement increased by roughly five percent from 2016's 9.3 million level.

Figure 16: Air Cargo and Air Passenger Movement via BIA, 2013-2017



Source: Ministry of Civil Aviation Corporate Plan 2012/13 – 2016/17

[7] Chapter 7 of the Annual Report 2017, Central Bank of Sri Lanka, https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/publications/annual_report/2017/en/7_Chapter_03.pdf

2.1.3 Rail Transportation in Sri Lanka

The utilization of rail transportation for goods is minimal in Sri Lanka. Hence, the potential to enhance its services both in passenger and goods transportation is high. Sri Lanka Railway's (SLR) share in goods transportation is less than five percent; its share in passenger transportation is also low at six percent. In terms of freight Ton km (in millions), there has been a decline from the 2010 level (See Table 7). However, the passenger km (millions) has increased by around 70 percent from the 2010 level (Table 7).

Table 7: Performance of Sri Lanka Railways

Component	**2010**	**2013**	**2016**
Operated km ('000)	9,790	10,940	11,921
Passenger km (million)	4,353	6,257	7412
Freight Ton km (million)	163	128	140

Source: Central Bank of Sri Lanka Annual Report 2017

2.2 Trade logistics performance of Sri Lanka

Components within trade logistics such as efficiency of customs, quality and competence of logistics (such as quality and efficiency of carriers) as well as that of infrastructure significantly shape the level of trade costs and hence competitiveness. In the 2016 leg, Sri Lanka was not part of the LPI assessment, but the 2014 assessment provides insight into where it stands in relation to peers in South Asia. In the overall LPI ranking, Sri Lanka is below India and Pakistan but ahead of other countries. Its performance in customs administration mirrors the overall rank but in terms of logistics quality, for instance, Sri Lanka ranks after India in the region.

Table 8: Logistic Performance Index (2014 and 2016)

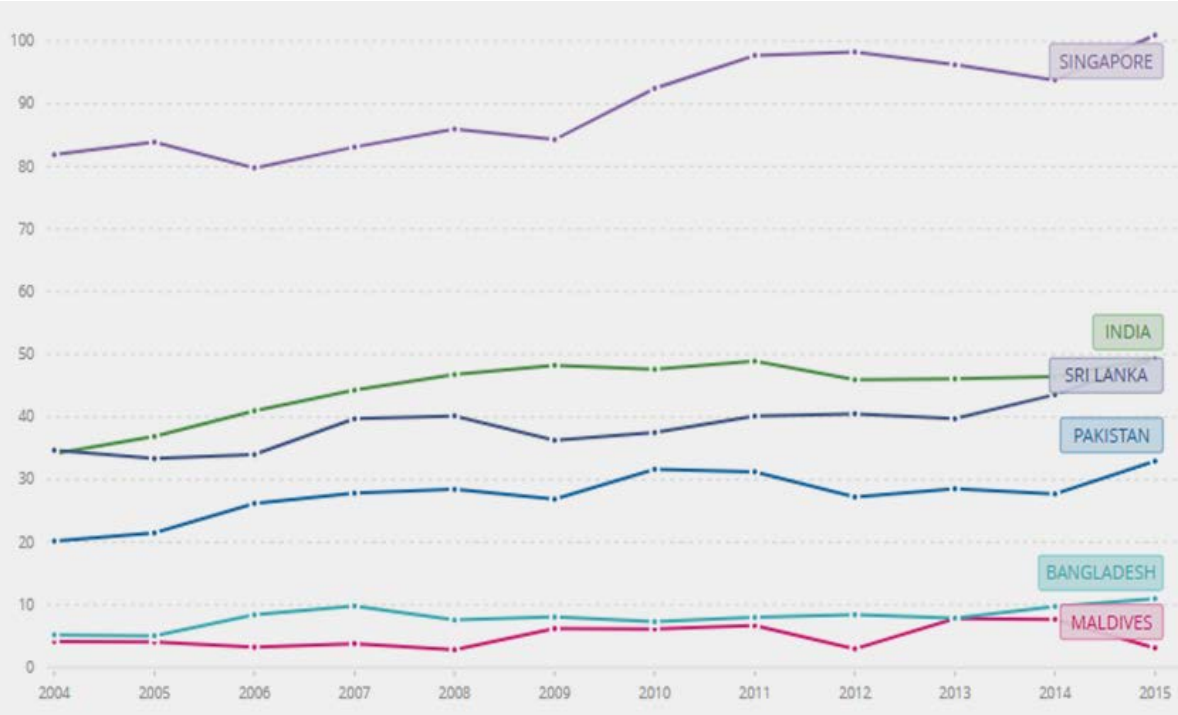
Source: World Bank (NA=Not Applicable)

	Overall LPI rank		Customs rank		Infrastructure rank		International shipments rank		Logistics quality and competence rank		Tracking and racing rank		Timeliness rank	
Country	2014	2016	2014	2016	2014	2016	2014	2016	2014	2016	2014	2016	2014	2016
India	54	35	65	38	58	36	44	39	52	32	57	33	51	42
Pakistan	72	68	58	71	69	69	56	66	75	68	86	67	123	58
Sri Lanka	89	NA	84	NA	126	NA	115	NA	66	NA	85	NA	85	NA
Bangladesh	108	87	138	82	138	87	80	84	93	80	122	92	75	109
Bhutan	143	135	140	128	132	151	131	108	111	131	140	131	158	129
Afghanistan	158	150	137	138	158	154	156	125	152	139	159	155	149	137

Sri Lanka relies significantly on its ports and shipping in its international trade. The Liner Shipping Connectivity Index by UNCTAD sheds light on a country's quality of shipping. The

comparative assessment analyses how well the countries are linked to global shipping lanes and networks.

Figure 17: Liner shipping Connectivity Index (score in the y-axis)



Source: UNCTAD Liner Shipping Connectivity Index

Shipping Sri Lanka is well ahead of peers like Pakistan and Bangladesh but behind India in the region (Figure 17).

2.2.1 Trade logistics and trading environment

Sri Lanka's trade logistics performance is relatively better compared with other South Asian peers. It outperforms them in several logistics performance indicators. According to World Bank's *Trading Across Borders (TAB)*, which captures the time and cost associated with exporting and importing a standardized cargo of goods by sea transport, Sri Lanka's rank has improved from 85th in 2014 to 69th in 2015 out of 189 economies. It is the best performing country in the region (Table 10). The country has been able to bring down the time associated with exporting and importing substantially over the last few years (see Figure 18). According to TAB figures, it takes 16 days to export from Sri Lanka, compared to over 17 and 28 days in India and Bangladesh,

respectively. In terms of overall business environment, Sri Lanka ranks at the top in the region, according to the Doing Business rankings.

Table 9: Doing Business Rankings 2014 and 2015

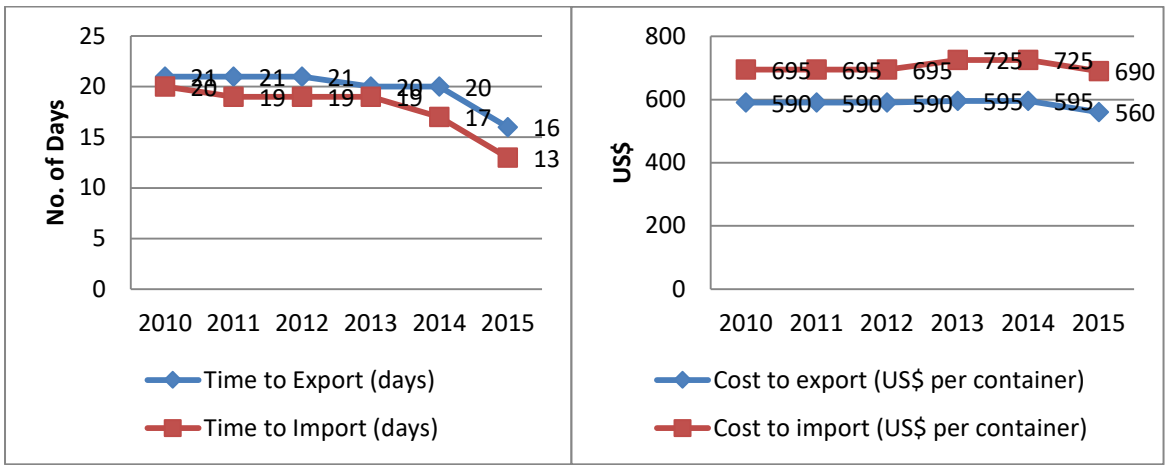
Country	Ranking (2015)	Ranking (2014)
India	142	132
Bangladesh	173	130
Nepal	108	105
Sri Lanka	99	85
Malaysia	18	6
Thailand	26	18
Vietnam	78	99
Indonesia	114	120
Singapore	1	1

Table 10: Sri Lanka compared with peers in Trading Across Borders (2015)

	Sri Lanka	Bangladesh	India	South Asia	World
Doing Business Rank	85	173	142	-	-
Trading Across Borders (Rank)	169	140	126	-	-
Documents to export (number)	7	6	7	8.1	6.2
Time to export (days)	16	28.3	17.1	33.4	21.1
Cost to export (US$ per container)	560	1,281.0	1,332	1,922.9	1,537.4
Documents to import (number)	7	9	10	9.4	7.3
Time to import (days)	13	33.6	21.1	34.4	24
Cost to import (US$ per container)	690	1,515.0	1,462	2,117.8	1,840.7

Source: Doing Business Report 2015 (World Bank)

Figure 18: Trading across borders performance of Sri Lanka, 2010-2015



Source: Doing Business Reports, various (World Bank).

Enabling trade index of the World Economic Forum assesses components like quality and efficiency of customs services as well as quality of transport and infrastructure. Compared to India, Sri Lanka fares poorly when it comes to efficiency of customs services but takes relatively less time towards border compliance (Table 11). In terms of costs, however, Sri Lanka has higher costs of documentary compliance. While Sri Lanka scores lower than India in quality of transport infrastructure and services, its score in deployment of ICT is higher (Table 11).

Table 11: Enabling Trade Index 2016

Metrics	**Singapore**	**Sri Lanka**	**India**
1. **Efficiency & Transparency of Border Administration (1-7 where 7 is best)**	6.4	4.0	4.4
Customs services index (0-1)	0.98	0.23	0.48
Efficiency of Clearance Process (1-5)	4.2	2.6	3.2
Time to import: Documentary compliance (Hours)	3	58	61.3
Time to import: Border compliance (Hours)	35.4	72	283.3
Cost to import Documentary Compliance (US$)	40	282.8	134.8
Cost to import: Border Compliance (US$)	220	299.7	574.0
Time to export Documentary Compliance (Hours)	2	76.0	38.4
Time to export Border Compliance (Hours)	12	43.0	106.1
Cost to export	37	57.6	91.9

(Documentary Compliance US$)			
Cost to export (Border Compliance US$)	335	366.1	413.1
Irregular payments in exports & imports (1-7)	6.6	2.9	4.3
Time predictability of import procedures (1-7)	6.1	4.0	4.4
Customs transparency index (0-1)	1.0	0.70	0.80
2. Availability and Quality of Transport Infrastructure (1-7 where 7 is best) [Composite score based on scores in following sub-metrics – availability and quality of: Air transport infrastructure, Railroad infrastructure, Port infrastructure, Road infrastructure]	6.3	3.9	4.5
3. Availability and Quality of Transport services (1-7 where 7 is best) [(Composite score based on scores in following sub-metrics – Ease and availability of shipment, Logistics competence, Tracking and tracing ability, Timeliness of shipment to destination, Postal service efficiency, Efficiency of transport mode change]	5.9	4.0	4.6
4. Availability and Use of ICTs (1-7 where 7 is best) [(Composite score based on scores in following sub-metrics - Mobile subscriptions and Internet users, ICT in business among others	6.3	4.0	3.4
Enabling Trade Index 2014 Rank	**1/136**	**103/136**	**102/136**

Source: The Global Enabling Trade Report 2016, World Economic Forum

Table 12 looks at comparative evolution of Sri Lanka's performance in Enabling Trade Index metrics. While Sri Lanka's overall rank has slipped from 70 in 2008 to 103 in 2016, it appears to have improved its overall business environment and the quality of transport and communication infrastructure (Table 12).

Table 12: Sri Lanka's comparative performance in Enabling Trade Index metrics since 2008

Country	Year	OVERALL INDEX		Market Access		Border Administration		Transport and Communication Infrastructure		Business Environment	
		Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score
Bangladesh	**2016**	123	3.48	84	4.40	130	3.00	108	3.10	128	3.50
	2010	113	3.38	52	4.37	100	3.21	117	2.53	114	3.41
	2008	110	3.03	104	2.87	97	3.12	103	2.51	111	3.6
India	**2016**	102	3.91	135	2.80	75	4.40	60	4.20	76	4.2
	2010	84	3.81	115	3.42	68	3.98	81	3.34	58	4.48
	2008	71	3.74	105	2.82	55	4.08	52	3.54	58	4.53
Sri Lanka	**2016**	103	3.90	127	3.30	97	4.00	68	3.90	63	4.30
	2010	99	3.59	107	3.68	79	3.71	86	3.27	100	3.68
	2008	70	3.75	70	4.08	69	3.83	73	3.13	92	3.97
Vietnam	**2016**	73	4.30	74	4.50	86	4.2	64	4.10	77	4.20
	2010	71	3.96	50	4.41	88	3.46	68	3.62	64	4.34
	2008	91	3.42	112	2.5	76	3.6	75	3.08	62	4.48

Source: The Global Enabling Trade Report 2016, World Economic Forum

Within the World Economic Forum's Global Competitiveness Index which examines the business environment among countries, components like burden of customs procedures and quality of infrastructure are of particular relevance to this audit. In *Burden of Customs Procedures*, Sri Lanka lies below Bhutan and India while in quality of infrastructure, it ranks below India (Table 13).

Table 13: Customs procedures and infrastructure (Global Competitiveness Index 2017)

Country	Burden of Customs Procedures		Quality of Overall Infrastructure	
	Rank (out of 137)	Score (1-7)	Rank (out of 137)	Score (1-7)
India	47	4.6	66	4.2
Pakistan	93	3.7	110	3.0
Sri Lanka	84	3.9	85	3.8
Bangladesh	98	3.6	111	2.9
Nepal	109	3.4	119	2.6
Bhutan	54	4.5	89	3.6

Source: World Economic Forum

3. Trade procedures & documentation and agreements

3.1 Import and export procedures and documentation

Customs Ordinance of Sri Lanka sets out all the rules, regulations and procedures related to the import and export process. Under Sections 47 and 57, every importer and exporter, or the authorized customs house agent, must submit a Customs Declaration (CUSDEC) form to clear or dispatch a cargo. The main documentation requirements for exporting and importing to/from Sri Lanka are listed in table 10.

Table 14: Export and import documents requirements in general

Export Documents	Import Documents
Customs Declaration Form (CUSDEC)	Customs Declaration Form (CUSDEC)
Commercial Invoice	Commercial Invoice
Bill of Lading (B/L) or Air Way Bill	Bill of Lading (B/L) or Air Way Bill
Packing List	Packing List
Certificate of Origin (CoO)	Letter of Credit
	Certificate of Origin (CoO)

Apart from these, the documentation needs differ depending on the product and the country/region products are traded with. Further, additional documentation are required to obtain some of the documents listed above. For example, to get a preferential CoO, an exporter must produce (i) a Qualifying document (value addition criteria, product specific criteria like raw material sourcing criteria, production process, etc.), (ii) Affidavit given by the exporter (for wholly obtained product), (iii) A catch certificate (if the product is fish), (iv) Approved cost statements (for value added products; valid for 6 months-1 year).

There are two parallel import-export processes in Sri Lanka, (1) the standard process, where the exporters/importers go through Sri Lanka Customs to process the documentation and (2) the BOI (Board of Investment) process, which has been designed to speed up the licensing and customs requirements for companies that bring new investment into the country. Taneja et al. (2011) estimate the number of documents BOI companies have to submit for an import declaration to be five, compared to nine that have to be submitted by non-BOI companies; and two documents for BOI exports compared to five for non-BOI export companies (p. 39). A comparison of the BOI and non-BOI processes for imports and exports are given in Annex 1 & Annex 2. Nevertheless, since the time when this study was carried out, the import/export processes, especially the export

process has been largely facilitated and automated, bringing down the number of documents required.

Sri Lanka Customs is the focal point for trade facilitation in Sri Lanka and has taken the lead to undertake trade facilitation measures. Sri Lanka recently appointed a 'National Trade Facilitation Committee', headed by Sri Lanka Customs Director General to facilitate the trade facilitation mechanisms agenda. Having implemented the latest version of Automated System for Customs Data, exporters/declarants are now required to lodge CusDecs (e-CusDec) and Cargo Dispatch Notes (e-CDN), electronically, using the Direct Trade Input (DTI) facility in the ASYCUDA system (Sri Lanka Customs, 2014). Manual submission of CusDecs and CDNs are not accepted. Payments can be made either online[8] or at the Customs. However, the warranting and selection for examination is carried out manually.

Automation and electronic documentation was facilitated by Electronic Transactions Act No. 19 of 2006, adopted in May 2006, which marked an important step in facilitating e-commerce with the legal recognition of electronic documents. The Act recognizes and facilitates electronic contracts, the creation and exchange of data messages and electronic documents, the appointment of a Certification Authority, the accreditation of Certification Service Providers and the formation of regulations to address emerging needs. The setting up of the legal framework made electronic transactions, such as the online lodgment of the CUSDEC and issuing the e-Certificate of Origin, a possibility, thus facilitating trade transactions. Gazette Notification 1786/10 of November 2012 and Gazette Notification 1829/39 of 27.09.2013 are two recent, important developments regarding the legal environment facilitating automation. The former recognizes the possibility of lodging a CUSDEC electronically and the latter introduces a revised tariff system to facilitate the upgrading of the customs hardware and software.

The export process has also been facilitated with the establishment of Export Facilitation Centre**.** The centralized cargo processing facility is situated near Colombo Port and export cargo is being processed 24 x 7 since July 2014. After documentation is complete, the exporters can bring their cargo to the facility, at which point, if the consignment is selected for panel examination, the examination would be carried out at the centre itself. Many exporters are of the view that this has reduced the costs entailed in carrying out panel examinations at the exporter's warehouses, such as overtime payments which had to be made to workers when paneling was carried out after normal work hours, extra costs in terms of electricity, providing transport to customs officers, etc. Furthermore, updates are transmitted by email and short message service (SMS) to the exporter when, (a) a cusdec is assessed; (b) payments are made; (c) if an amendment is made in the cusdec; (d) when warranting is complete and the release order is granted.

Customs has introduced the green channel system to about 100 importers for cargo clearance since September 2013. The system aims to facilitate the low-risk consignees and is available only to the most trusted. It is expected to reduce the turn-around time by six to seven hours.

[8] Currently only two state banks (Bank of Ceylon and People's Bank) are linked to the system for e-payments.

Apart from the customs, BOI and Sri Lanka Ports Authority (SLPA) are two other main agencies involved in the export/import process, while there are over 30 government and non-government agencies linked to the trading process. These include Sri Lanka Standards Institution (for Quality Certificate), Ceylon Chambers of Commerce/Department of Commerce (Certificate of Origin), Department of Animal Production and Health (Health Certificate), Finance Ministry, Ministry of Defense (license for firearms), Inland Revenue, Ministry of Fisheries and Aquatic Resources (permit for restricted list species), Excise Department (license for items under Excise Ordinance), Department of Registration of Motor Vehicles (permit by Registrar of Motor Vehicles and R.M.V. Certificate), Plant Quarantine Department (phytosanitary and fumigation certificates), Telecommunications Regulatory Commission, Cosmetics, Devices and Drugs Regulatory Authority, Sri Lanka Tea Board (permit for tea exports), Coconut Development Board, Import and Export Control Department, Criminal Investigation Division, Wild Life Department (permit for coral), Forest Department (permit for timber) and Archaeological Department (certificates for antiques and wooden furniture).

While Department of Commerce (DOC) is the only authority that can issue Certificates of Origin (COs) for all preferential schemes, including SAFTA and ISFTA, Chambers of Commerce can issue COs for non-preferential cargo. DOC has introduced a green channel facility for the issuance of GSP certificates, where the issuing time is minimum[9]. However, this is not available for other preferential schemes yet.

[9] At the moment 87 companies has been given the Green Channel facility by the DOC. Whoever has achieved the eligibility criteria is eligible for this facility. For the Green Channel customers the COs are issued within 1-2 hours whereas, for general customers it takes about 3-4 hours. COs are issued within a day and usually about 500-600 COs are issued by the DOC within a day.

Case study: Newly introduced export cargo clearance procedure

The new export cargo clearance procedure would be, for the declarant to submit the e-Cusdec online to ASYCUDA World System along with the scanned copies of Export License/Permit (if applicable)[10]. A full description of goods such as status, dimensions, weight, density, colour, texture, scientific name and others would have to be provided, as required for the precise identification of goods for classification, valuation and legislative or regulatory controls. The declarant/exporter would pay the relevant levies and the examination fee to the bank against Assessment Notice generated from Customs System.

Superintendent of Customs (SC) shall check the e-Cusdec and the attached documents without the hard copy being submitted and without Declarant being physically present. However, if any error is detected SC will inform the error to Declarant via email and make request to amend the Cusdec. During the checking, if there is any need to examine the paper copy of Invoice or scanned documents SC may inform Declarant via email or over the phone to submit the same.

If everything is in order SC shall warrant the e-Cusdec by selecting and validating "Release Order" in the ASYCUDA World system. If selected for physical examination it shall be informed to Declarant via email along with the names, designations and the contact numbers of the officers appointed for panel examination. Panel examination will be carried out at Export Facilitation Centre. The originals of Cusdec, Invoice, Packing List and License/Permit, if applicable, shall be submitted to the panel of officers at the time of the examination. The examination report shall be made on the original Cusdec until a system is established to enter the examination report in the ASYCUDA World system. For FCL, Declarant or Exporter and, for LCL, the Container Freight Station operator, shall submit the e-CDN (Electronic Cargo Dispatch Note) online to the ASYCUDA World system and dispatch the containers to the port. One copy of the e-CDN shall be sent along with the container for easy identification. At NCT Gate, the officers shall check the e-CDN and allow the container into the port. The originals of Cusdec, Invoice, Packing List and License/Permit, if applicable, and Boat Note shall be submitted to Boat Note Officer by Declarant. If everything is in order Boat Note Officer shall pass Boat Note and grant "Export Release" in the ASYCUDA World system.

Source: Sri Lanka Customs

[10]Scanned copies of the Invoice and the Packing List need not be submitted with the e-Cusdec.

3.2 Agreements and Conventions

Sri Lanka is a member of GATT/WTO and a pioneer in the region in trade liberalization. Sri Lanka is also a partner to four fully operational trade agreements: two regional agreements and two bilateral agreements (see table 11).

Table 15: Sri Lanka's key trade agreements in the region

Trade Arrangement	Type	Scope	Status
South Asia Free Trade Agreement (SAFTA)	Free Trade Agreement	Regional	Signed in 2004. In force since 2006
Asia-Pacific Trade Agreement (APTA)	Preferential Trade Agreement	Regional	Signed in 1975. In force from 1976
Indo-Sri Lanka Free Trade Agreement (ISFTA)	Free Trade Agreement	Bilateral	Signed in 1998. In force from 2001
Pakistan Sri Lanka Free Trade Agreement (PSFTA)	Free Trade Agreement	Bilateral	Signed in 2002. In force from 2005

In addition to the above agreements, Sri Lanka enjoys some duty-free privileges under US Generalized System of Preferences (or GSP, which offers preferential duty-free treatment for up to 5,000 products in which excluded are apparel and related products). Under US – Sri Lanka bilateral Trade and Investment Framework Agreement, GSP and other issues are discussed[11]. In May 2017, Sri Lanka regained European Union's GSP+[12] treatment, which is conditional on Sri Lanka advancing human and labor rights and working towards sustainable development. Sri Lanka recently ratified WTO Trade Facilitation Agreement with the number of ratifying parties making up three-fourths of the members (WTO 2016).

Most agreements deal with trade facilitation in varying degrees. For example, in SAFTA, there are calls for prompt publication of rules and regulations and identification of enquiry points for exchange of information on mandatory requirements; provisions for simplification of formalities with regard to exportation and importation; suggestions of paperless trading, electronic means of reporting and identification of low risk, high risk goods; and the provision for harmonization of standards, technical assistance for LDCs and customs cooperation at the SAARC level (Chaturvedi, 2007). In APTA, a Framework Agreement on Trade Facilitation was completed in 2009. It addresses the areas of transparency and consistency, simplicity and efficiency and harmonization and standardization. Article 5.2 of Framework Agreement specifies that member

[11] https://www.export.gov/article?id=Sri-Lanka-Trade-Agreements

[12] The GSP+ has a more expansive domain than the GSP and includes Everything But Arms (EBA) and the GSP.

countries work on establishing a single window. However, this does neither entail a time frame, nor any specific commitments, on achieving the objective (United Nations, 2011). Trade facilitation provisions are, however, limited in ISFTA and PSFTA, unlike the regional agreements.

4. Review of Trade Facilitation Literature on Sri Lanka

Sri Lanka stands to benefit greatly from improved Trade Facilitation (TF) as it has the potential to expand trade and investment and, thereby, potentially resulting in better economic growth and development. Given the significance of reducing trade-related transaction costs in enabling greater growth and development, several Sri Lanka specific studies on trade facilitation have been undertaken.

Studies find that trade facilitation reduces transaction costs in many ways. Corruption, poor quality of services by trade officials and high overall charges and fees – all major shortcomings associated with trade-related agencies – are said to result in cumbersome red tape procedures – and, hence, exorbitant trade costs (Weerakoon et al., 2005). A study by De Mel et al. (2011) finds that while the trading procedures of large-scale firms and SMEs are nearly the same in terms of time and cost, there is significant difference in costs between BOI companies and non-BOI companies. The study finds that BOI companies have a significant advantage because the process enables traders to lodge CUSDECs, make payments and examine cargo within Free Trade Zones thus bypassing the hassle of long delays at customs and the port (ibid.). The study recommends persistent effort towards computerization and automation, even going beyond initiatives such as the CUSDEC electronic lodging. After this, the process returns to a manual one to minimize bottlenecks in trading. The latter process includes facilitating the electronic issuance of Certificate of Origin (COO), extending clearance times beyond 4.00 pm by paying overtime to customs officials, providing clearance during holidays, establishing better regulation and control over freight and insurance charges and developing credit facilities at ports.

Automation of processes and procedures has a significant impact on efficiency. A study by Wijayasiri and Jayaratne (2009) argues that the computerized customs management system, introduced in 1992 and subsequently upgraded to ASYCUDA++ in 1998, is only partially implemented in Sri Lanka. The platform does facilitate lodging Customs Declarations (CUSDECs). However, the high cost of electronic data communication in Sri Lanka means only 40 percent of the companies are currently using EDI (Wijayasiri and Jayaratne 2009). On the usage of the electronic system by firms, Wijayasiri and Jayaratne (2009) finds that large scale enterprises use both the manual and electronic systems to lodge CUSDECs, while most SMEs use only the manual system. Further, the study suggests significant investments in staffing, equipment etc. by SMEs to shift from the manual system to an electronic one. Interestingly, the study finds that all large-scale enterprises are dissatisfied with the status of automation of export and import procedures in the country, while a majority of SMEs seemed to be unaware of the system in place and do not know if the automation has had an impact on them. Few SMEs that were aware of the system believed that automation of import/export processes had no impact on them. The study recommends *inter alia*, implementation of the single window system, which has recently been launched (See TFAF, 2016). Furthermore, the paper suggests that computer literacy among officials involved in the process needs to be enhanced while the procedures need to be streamlined.

A major impediment in engaging in trade in Sri Lanka are the cumbersome procedures, laws and regulations. A study by Weerakoon et al. (2005) finds that export and import procedures in the country were laborious and that the documentation requirements disproportionately hurt small-scale industries. The study concludes that administrative procedures, laws, formalities and the

regulations are still complex, and often even irrational, despite efforts towards trade facilitation. Export procedures are apparently more cumbersome than the import process, for example, in terms of the number of documents required and government agencies to be visited. All these result in higher cost (de Mel et al., 2011). ITC (2011) finds that most procedural obstacles relate to customs and port authorities. Some of the cost raising issues identified by the study were long delays in manual compliance of procedures, frequent cargo damage due to lengthy assessments, poor quality and scale of the cargo handling capacity, unending paperwork, insufficient opening hours and high incidence of bribery and corruption (ITC, 2011).

Asymmetric information also hinders the smooth flow of exports and imports. Most traders are unaware of trade-related information because collecting such information in Sri Lanka is costly and time consuming (Weerakoon et al., 2005). For instance, Electronic Data Inter-exchange (EDI), albeit effective in reducing unnecessary delays, was found to be ineffective due to lack of awareness among traders of its potential benefits (Weerakoon et al., 2005). Furthermore, due to lack of coordination between government agencies, information flow from the relevant agencies to traders has been inefficient and inaccurate and, at times, overlapping (de Mel et al., 2011).

Capacity building needs, both in terms of hard and soft infrastructure, across all relevant trade institutions are manifold. In the absence of credible capabilities, numerous impediments persist. High dwelling time in customs and ports, often due to insufficient operating hours, random opening of self-sealed containers, non-availability of customs officials for inspection, congestion at ports and poor port handling were noted as impediments to trade that raise trade costs (Weerakoon et al. 2005). ITC (2011) has traced the weaknesses in testing and certification capabilities and listed them as among the most significant challenge. The study notes that Sri Lanka Standards Institution (SLSI) has been criticized by traders for continuous delays, high costs and lack of testing capability. The report states that SLSI grapples with financial constraints that limits its ability to expand thereby requiring public investment in the technical testing and certification infrastructure. While the fees and charges are already high, several additional levies are imposed, often arbitrarily, on traders (ibid.). Though several incentive schemes exist to relieve domestic producers of these charges, they entail cumbersome administrative burdens and extensive paperwork (ibid.).

Taneja et al (2011) assess the effectiveness and efficiency of freight logistics in Sri Lanka. The study has utilized published information and data to investigate the key features and performance of logistics systems and key features of the country's export industries. The paper identifies opportunities for improving logistics to further the export expansion and diversification. Based on two rounds of interviews, as well as a survey, it collects information on logistics costs in various transactions. One component of the findings of Taneja et al (2011) is that the country's transport infrastructure is not essentially the chief constraint in the short-term, but rather that soft infrastructure and quality of services provided by the relevant trade bodies. Their recommendations have been under consideration for some time now. But they have not been given priority in part because of the lack a unifying strategy to improve trade competitiveness through improvements in supply chain management. Despite its relative underdevelopment, Sri Lanka, like most countries, has established a two-tier system to incentivize exports. Sri Lanka provides relatively efficient clearance procedures for the larger shippers, who have displayed a

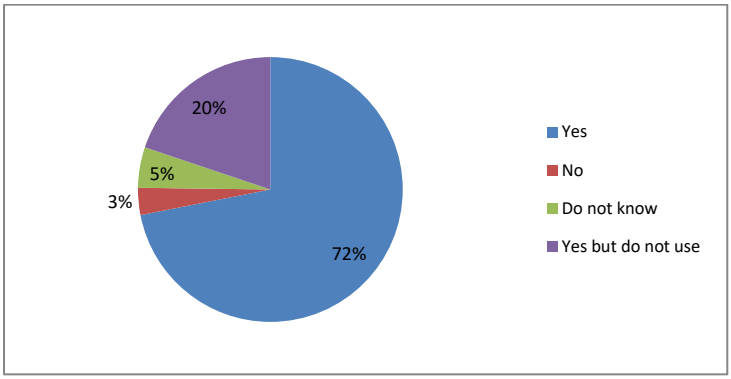
willingness to comply with various regulations and conduct business in a transparent manner. For the remainder of the country's trade, particularly imports, the government procedures are unwieldy and lack transparency. This leads to inefficiencies and distortions in the behavior of those involved in trade.

5. Trade and transport facilitation audit: Survey findings

5.1 Publication of trade-related rules and regulations

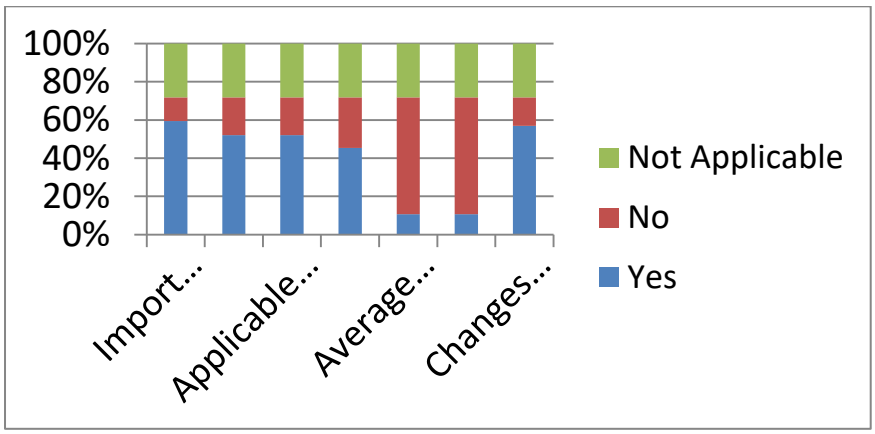
Out of the 121 respondents of the study, 92 percent responded that there is a National Customs Website which provides information on custom clearance procedures and other formalities. Only 72 percent of the respondents stated that they use the website for information (see Figure 19).

Figure 19: Knowledge and usage of National Customs Website



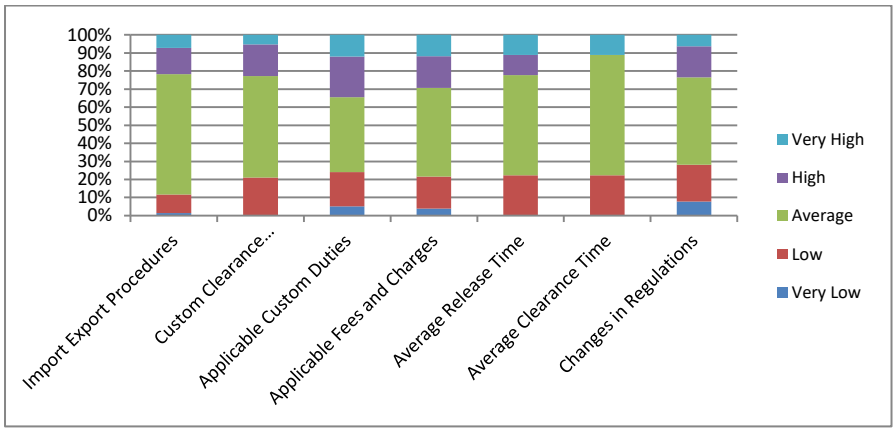
As illustrated in Figure 20, the respondents mentioned that the website provides information on Import Export Procedures (60 percent), Customs Clearance Procedures (52 percent), Applicable Customs Duties (52 percent), Applicable Fees and Charges (46 percent) and Changes in Regulations (57 percent). But 61 percent said that the website does not have information on Average Release Time and Clearance Time. Moreover, some freight forwarders were of the view that some information on the website is not always accurate as it is not regularly updated. Hence, for instance, many of them have a tendency to refer to the tariff book published by the customs rather than using the website to find applicable customs duties.

Figure 20: Availability of the information on the website



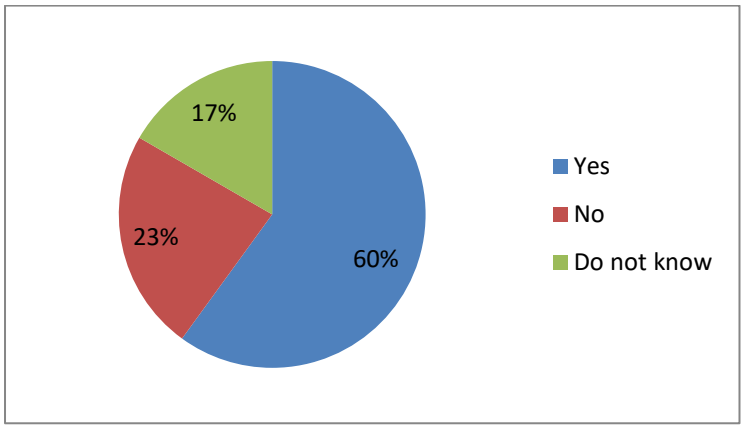
The effectiveness of the information available on the website was rated as "average" by the majority of the respondents (see figure 21). Those who rated the effectiveness of the information on Import/ Export Procedures and Customs Clearance Procedures as "very low" or "low" stated that available information is not sufficient and comprehensive about the total import/ export process and clearance process. Additionally, some respondents rated the effectiveness of the information on "changes in regulations" as "very low" and "low" as the website is not updated regularly with the changes.

Figure 21: Effectiveness of the Information on the website



With respect to an inquiry point to address queries regarding import/export procedures and formalities, 60 percent answered that there is an inquiry point at the customs to direct their queries, whereas 40 percent were unaware of such a facility (see figure 22). Despite there being an inquiry point, one of the common grievances that almost all the respondents brought up was the inefficiency of the service to address their queries.

Figure 22: Inquiry Point regarding Import/ Export Procedures and formalities.



5.2. Rules and procedures for export and import

The border management agencies of Revenue and Customs, Health Authority, Quarantine Inspection Services, Food Standards Agency and Security Agencies operate within the premises of Colombo Port. Immigration services are available at the passenger terminal and the services provided by Plant Health Inspectorate and Archaeological Agencies are rendered by Customs. Katunayake Airport also has Revenue and Customs Agency, Immigration Service, Health Authority, Quarantine Inspection Service, Food Standards Agency, Plant Health Inspectorate and Security Agencies. There is no representation of Archaeological Agency at the airport.

Figure 23 and 24 present the responses of the survey respondents on the availability of border management agencies at the chosen border points.

Figure 23: Availability of border management agencies at the seaport

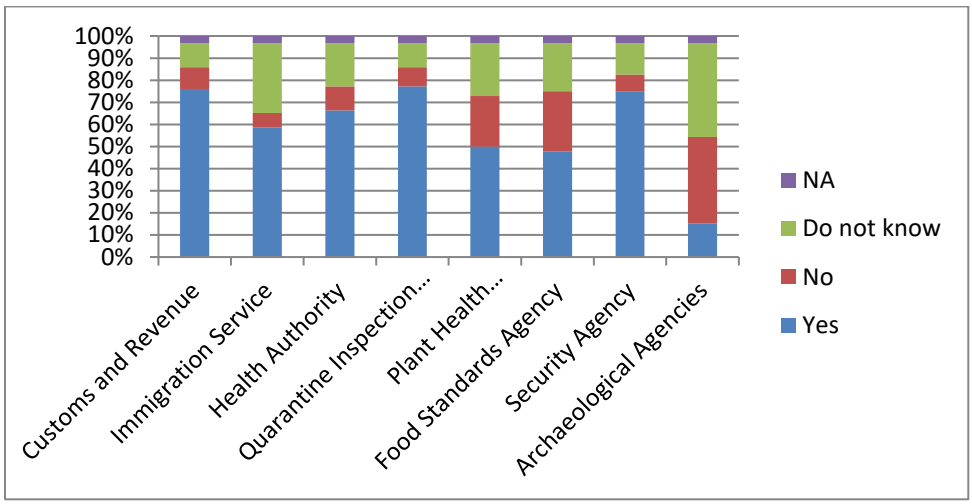
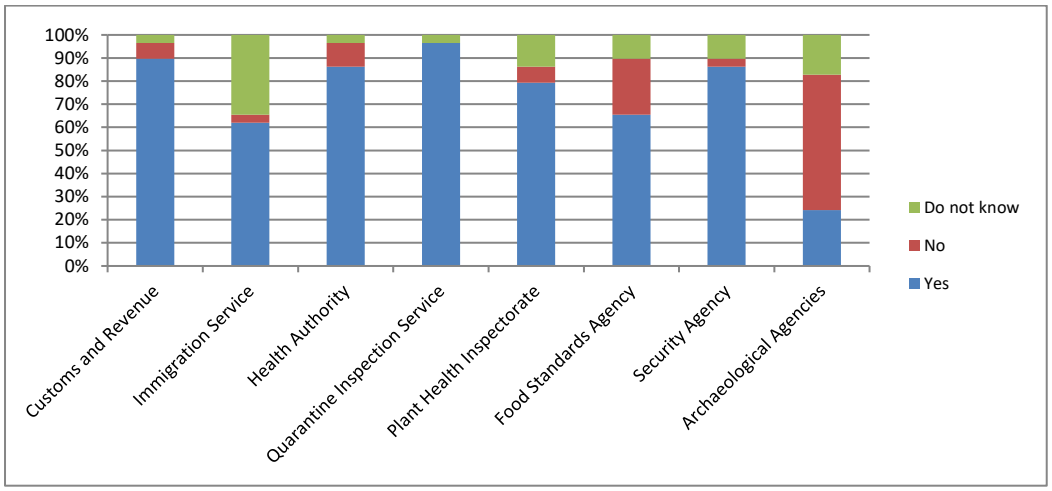


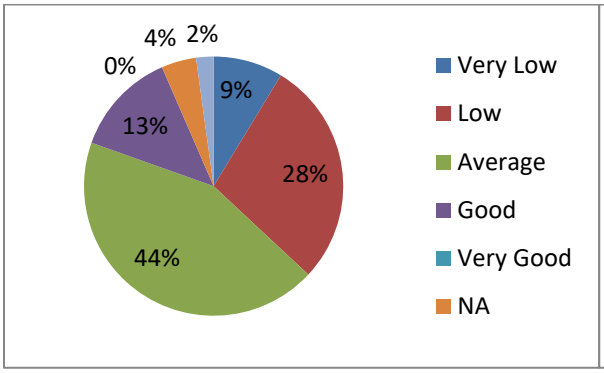
Figure 24: Availability of Border Management Agencies at the Airport



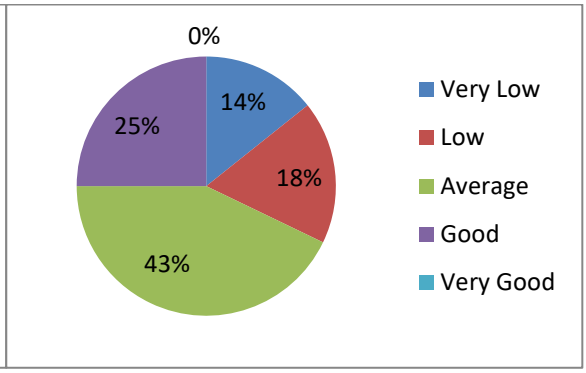
As given in Figure 25, a majority of the respondents rated the coordination between the border management agencies at the seaport (44 percent) and airport (43 percent) as "average". However, another 28 percent and 18 percent of the total respondents declared that there is "low" coordination between the border management agencies available at the sea and airports, respectively.

Figure 25: Coordination between Border Management Agencies

Sea Port



Airport



5.2.1 Exports Documentation

Of the 70 respondents on documentation, a majority stated that the minimum number of documents to export to South Asia is between three and four while 23 percent stated the maximum number is five (See Figure 26). Further, according to the respondents, there are no significant differences between the document requirements for South Asia and developed countries in the chosen products, as the documentation requirements are mostly product based and not region/country based.

Table 16: Export Documentation

Export Documents	
Sea Cargo	**Air Cargo**
Customs Declaration	Customs Declaration
Commercial Invoice	Commercial Invoice
Packing List	Packing List
Certificate or Origin	Certificate of Origin

Figure 26: Number of Documents Required to Export to South Asia

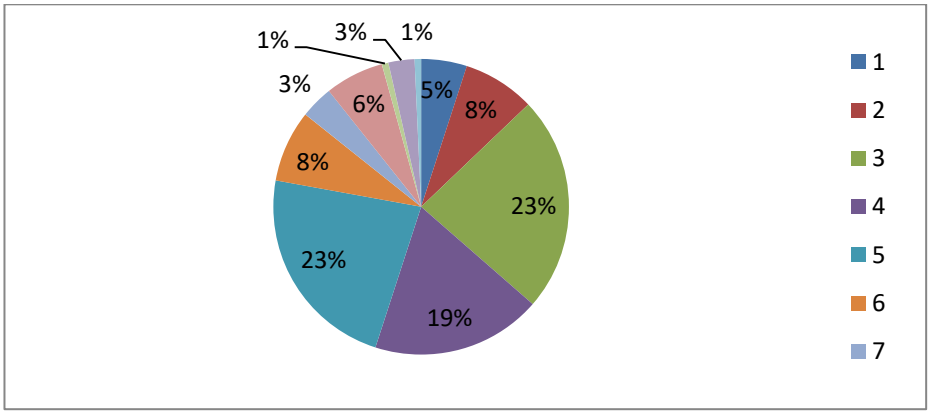
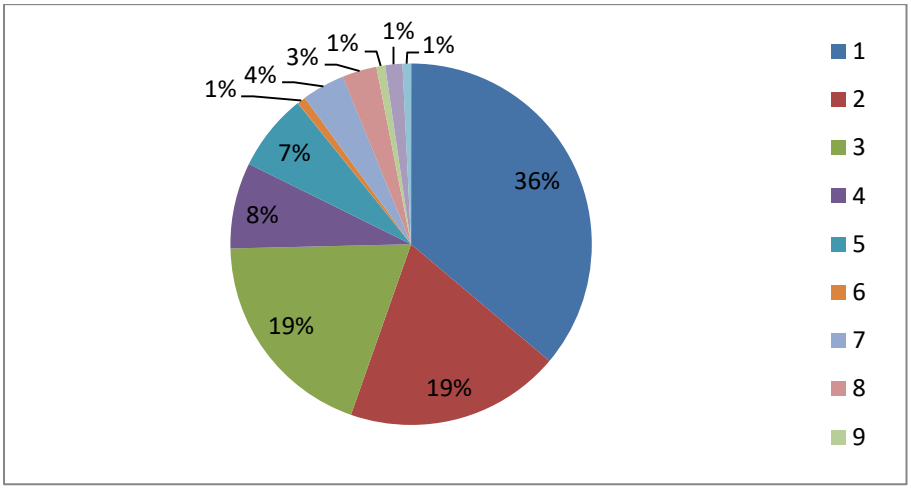


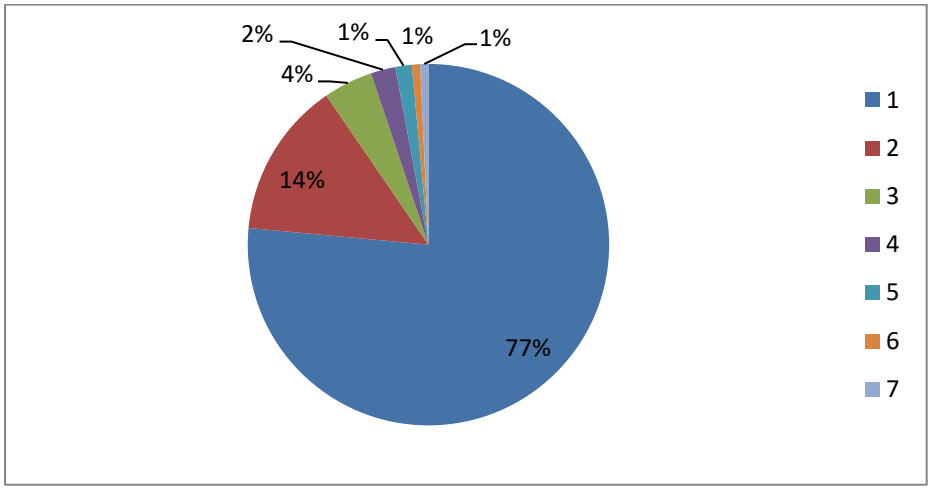
Figure 27 presents the responses for the number of signatures required to export to South Asia. 36 percent of the respondents stated that only one signature is required for the processing of documents for export to South Asia. For exporting to developed countries, the largest number of respondents (36 percent) said that only one signature was necessary.

Figure 27: Number of Signatures Required to Export to South Asia



Regarding the number of days required to prepare the necessary documents to export to South Asia and developed countries, 77 percent of 68 respondents stated that all the documents could be prepared within a day.

Figure 28: Number of Days Required to Prepare Documents to Export to South Asia



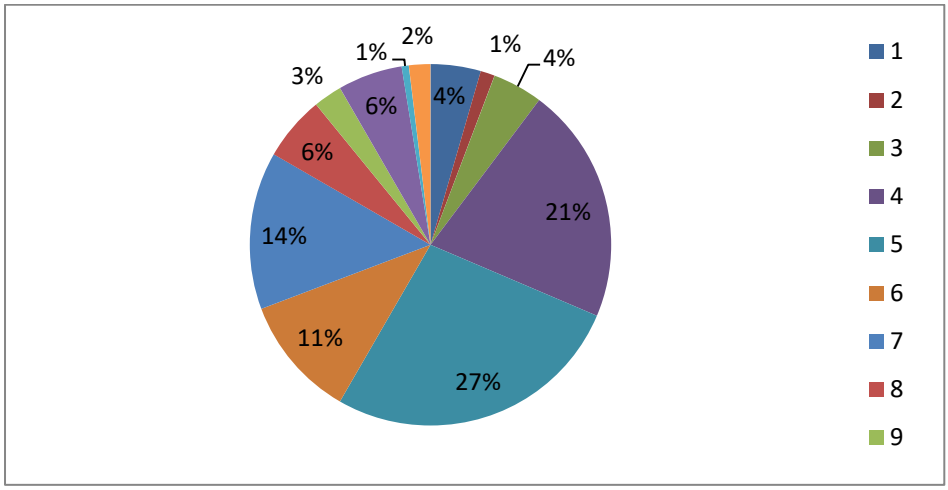
5.2.2 Import Documentation

Out of the 64 percent of the 121 respondents that answered, many said that the minimum number of documents was between four to five (See Figure 29). Regarding documentation for import from developed countries, the most responses point to four to five documents. The key documents involved with imports are listed in Table 17. Moreover, importers who trade under SAFTA and ISFTA, should also produce the relevant certificates with the other documents. Also, specific documents for the products chosen by the study include Certificate of Analysis, the PHYTO certificate and the Load-port certificate required for sugar imports.

Table 17: Import Documents

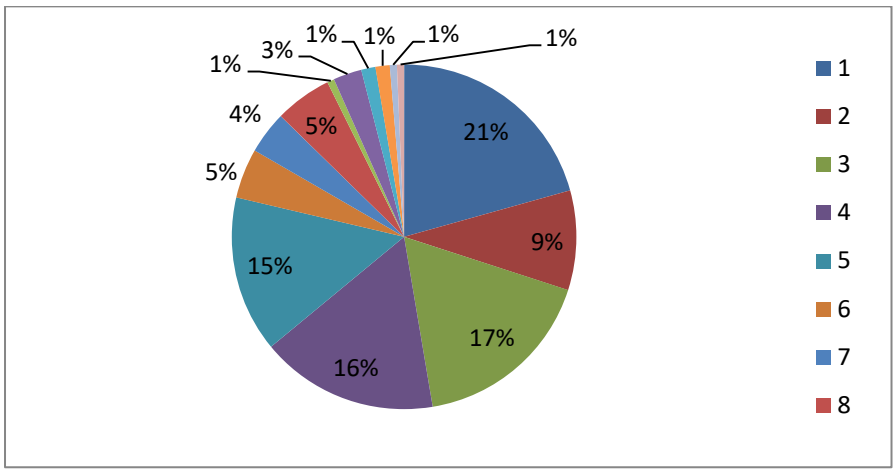
Import Documents	
Sea Cargo	**Air Cargo**
Customs Declaration	Customs Declaration
Commercial Invoice	Commercial Invoice
Packing List	Packing List
Certificate or Origin	Certificate of Origin
Bill of Lading	Airway Bill

Figure 29: Number of documents required to import from South Asia



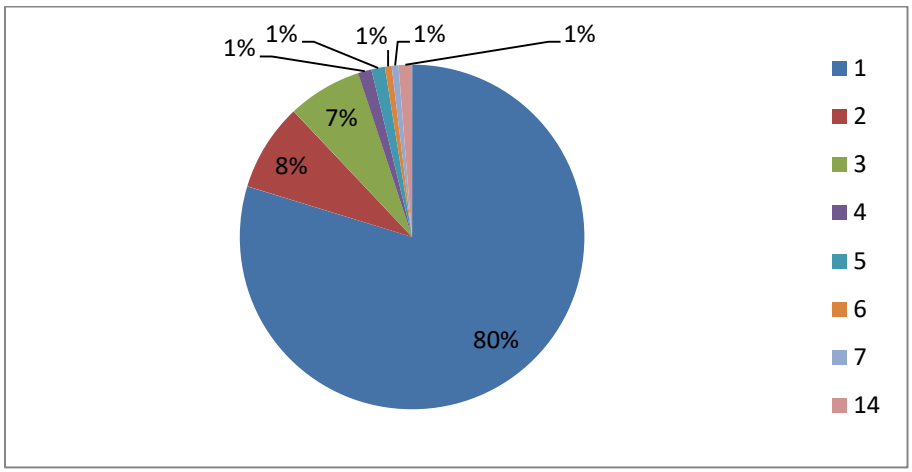
To the question on number of signatures required to import from South Asia, 78 percent of the respondents declared it to be between one and five. The same response was given for import from developed countries.

Figure 30: Number of signatures required to import from South Asia



Eighty percent of the respondents answered that preparing import documents generally took a day. (Figure 31).

Figure 31: Days **required to prepare import documents**



For the question on whether the customs accepts unauthenticated copies of documents, more than 90 percent of the respondents said, "No".

In order to get a sense of the automation of import/export procedures, the survey had included several questions on online submission and processing of customs documents. 90 percent of the respondents said that Customs Declaration could be submitted online and 61 percent mentioned that it could also be processed online (Figure 32 and 33).

Figure 32: Customs declarations online submission

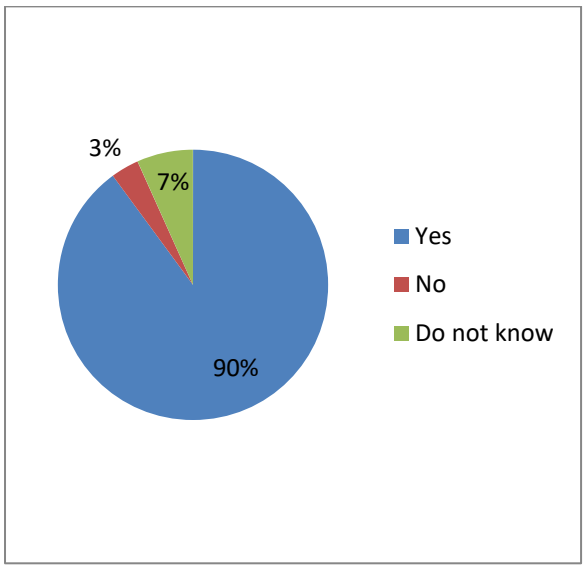
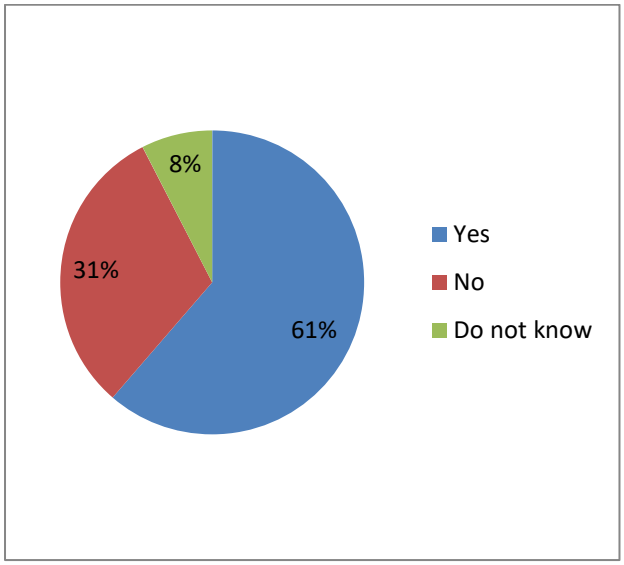
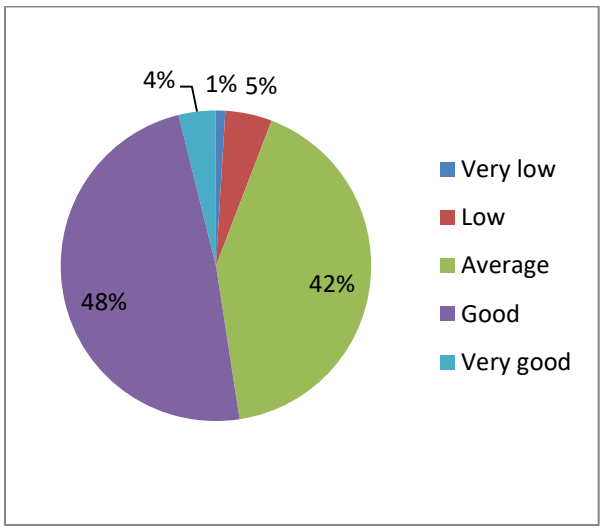


Figure 33: Customs declarations online processing



Over 50 percent of respondents declared the quality of the functioning of both the submission and the processing parts of online submission of the customs declaration as good and very good. About 40 percent said that the functioning of the system as "average".

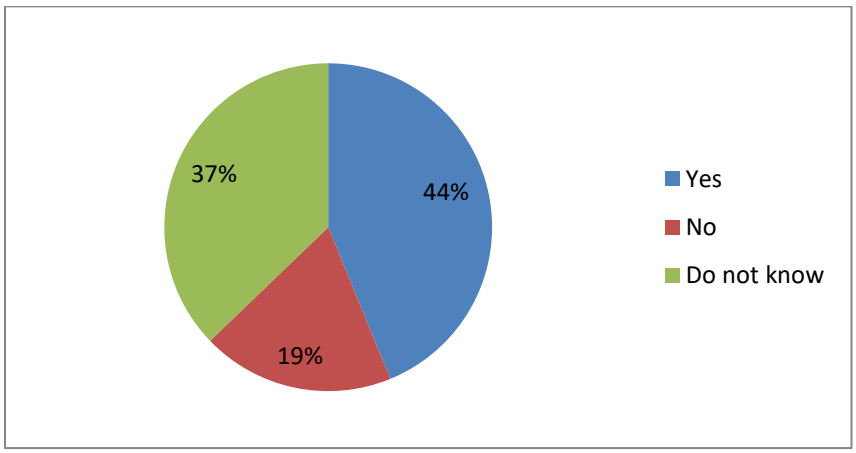
Figure 34: Quality of functioning of online submission and processing of custom declarations



5.2.3 Advance Rulings

44 percent of the 121 respondents said that they are aware of the facility of advance rulings issued by Customs (see figure 35). However, very few of them have used the service. On the other hand, 56 percent either said, "No", to the availability of such a service or were unaware of it. According to Sri Lanka Customs, it is possible to obtain advance ruling of classification (H.S. Code), for commodities from Commodity Classification Division of Sri Lanka Customs Department, prior to the importation or exportation of a commodity. The application for advance ruling is also available on the Sri Lanka Customs website.

Figure 35: Issuance of advance rulings



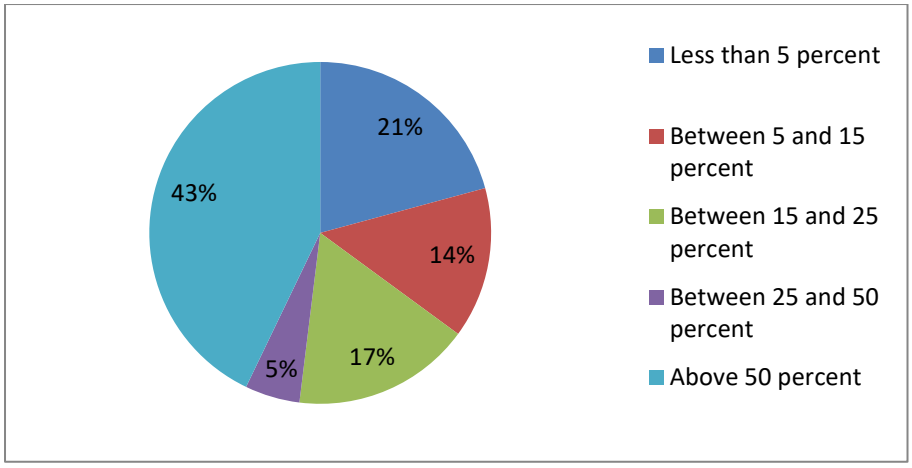
5.2.4 Pre-arrival Processing of Import/Export Consignments

Seventy percent of the respondents said that pre-arrival processing of import/ export consignments is either not available in the country or that they are unaware of it, while 21 percent said that it is. According to Customs, pre-arrival processing is available only for a few selected perishable products, such as rice and potatoes. Hence, many importers and freight forwarders may not be aware of this facility.

5.2.5 Risk or threat assessment technique and physical inspection of inward consignments by customs

A majority of (54 percent) the respondents said that the country uses a risk or threat assessment technique. The other 46 percent were either unaware or said, "No". On physical inspection, of the 120 respondents, 43 percent said that more than 50 percent of their consignments were subject to physical inspection.

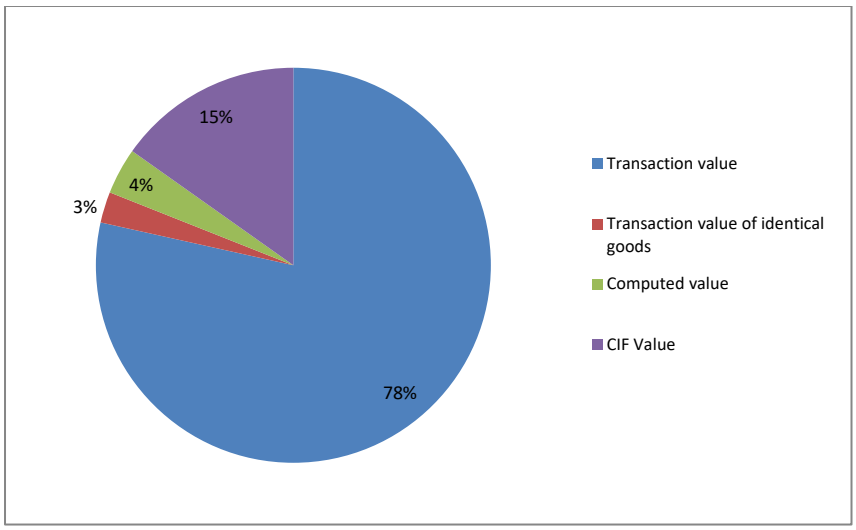
Figure 36: Proportion on physical Inspection on inward consignments



5.2.6 Valuation of customs duties

Seventy eight of 79 respondents said that valuation of customs duties is based only on "Transaction Value". Another four percent mentioned that it is based on computed value, while still another three percent said the basis is transaction value of identical goods.

Figure 37: Basis for valuation of customs Duties



5.2.7 Clearance against accepted guarantee

48 percent of the respondents said that goods could be cleared using an accepted guarantee- i.e. a bank guarantee or a cash guarantee.

5.2.8 Authorized traders' schemes

Authorized Traders Scheme, available in Sri Lanka, is called the "green channel" and this facility was recommenced in 2014. It is currently available for 100 of the most trusted importers with good trading histories. 57 percent of the respondents were aware of the green channel facility provided by Customs.

5.2.9 Single window system and post-clearance audit

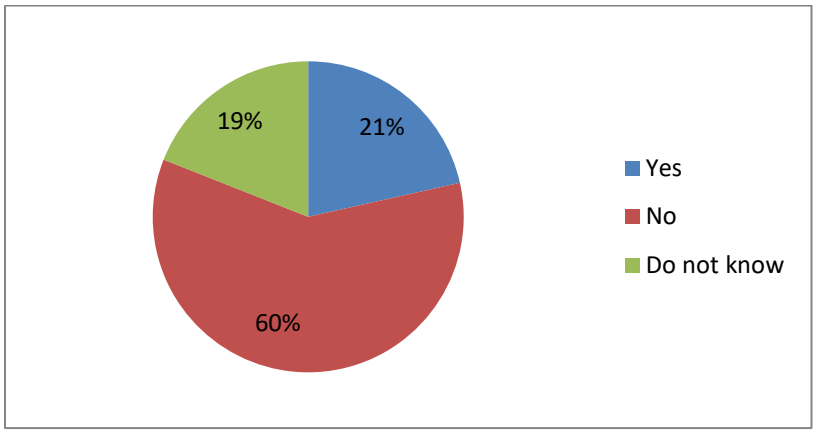
This survey captures a scenario when the Single Window did not exist as it was launched only in 2016. 95 percent of the respondents of the survey said that the customs agencies had not adopted the Single Window system. While automation of systems and documentation of the export process has been carried out to a substantial extent, traders are yet to see the same for the import process. Further, except for Tea Board, the many other relevant organizations are not linked to the system.

Fifty-three percent of the respondents said that the customs exercises post-clearance audits. However, most of them said that it is not a regular practice carried out to facilitate trade. Rather, post clearance audits are carried out when there are suspicions/complaints on a customer's documentation/activities.

5.2.10 Availability of appeal/review procedure

Sixty percent of the respondents said that there is no review or appeal procedure available in the country in case traders are not satisfied with a decision taken by the customs or any other border management agency. A majority said that if such an issue comes up, they try to resolve it with customs officers at an informal level, rather than make a formal complaint. However, according to Customs, traders can appeal to Director General of Customs if they are not in agreement with a decision.

Figure 38: Availability of an Appeal Procedure



5.2.11 Irregular payments and bribes

Sixty percent of 121 respondents said that they need to pay bribes or irregular payments in the process of documentation processing or cargo clearance. 75 percent of the respondents stated that the percentage of the cases that they have to make such payments is above 50 percent, while 12 percent mentioned that it is for less than five percent of cases.

Figure 39: Payment of irregular payments and bribes

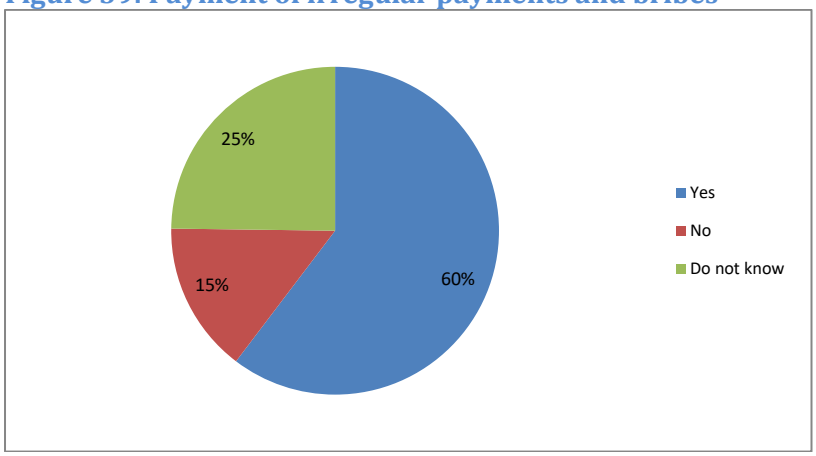
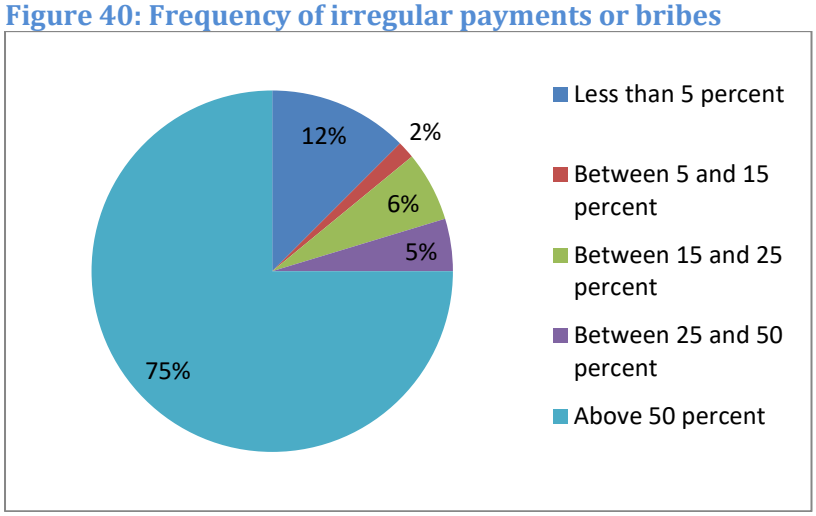


Figure 40: Frequency of irregular payments or bribes



5.2.12 Average duration to clear outward goods

Sixty-nine percent of the respondents state that cargo clearance can be done in a day at ports. Furthermore, 83 percent respondents say that the same takes a day at airports given that all documents are in place. According to the port authority (SLPA), a consignment could be cleared from the terminal within half an hour after which they have to go through normal customs checks and procedures. While demurrage free period for perishables is 48 hours, other containers are given three days from the day, following discharging, to clear the goods.

Figure 41: At port

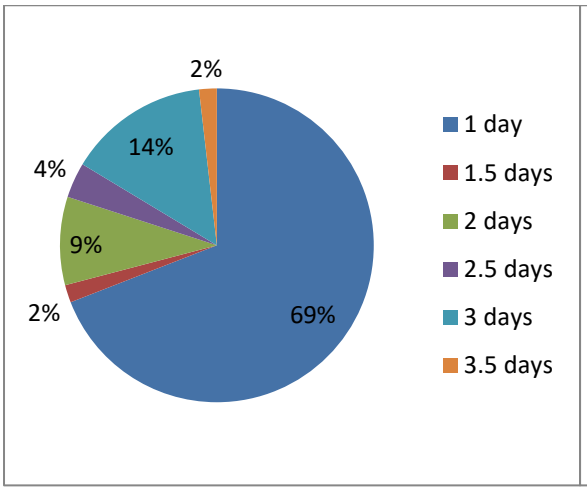
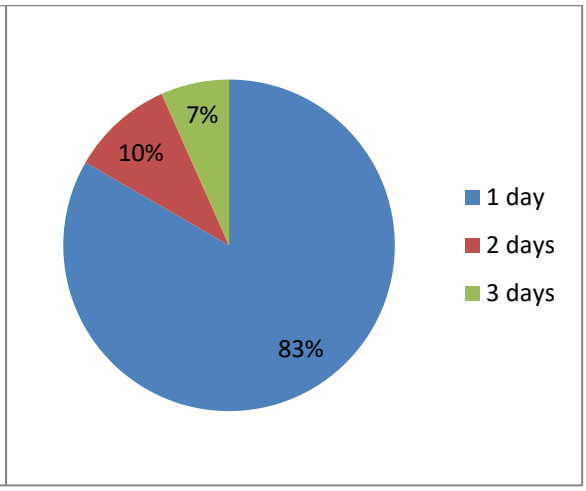


Figure 42: At airport



5.2.13 Average duration to clear inward goods

Clearance of import cargo appears to take more time than export cargo as 93 percent of the respondents said that it needs about one to three days for port clearance (Figure 43). On the other hand, 75 percent of the respondents said that the whole airport process can be completed within a day (Figure 43).

Figure 43: At port

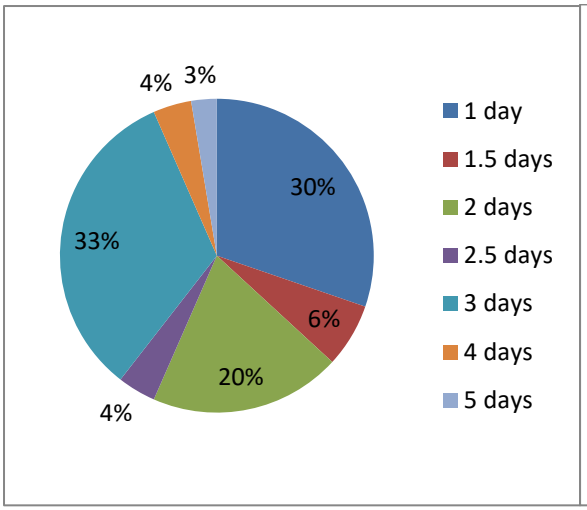
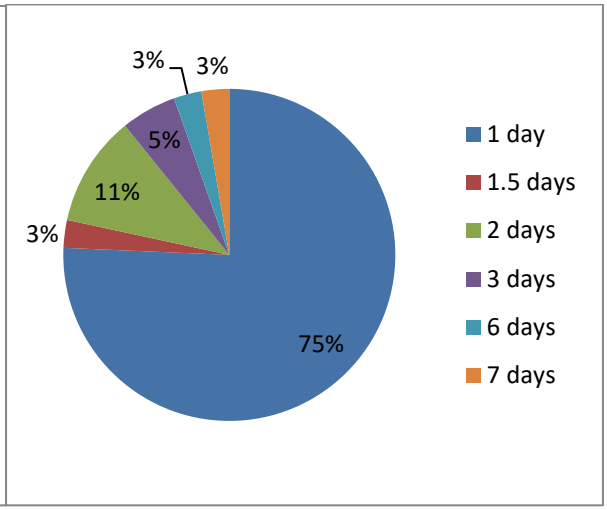


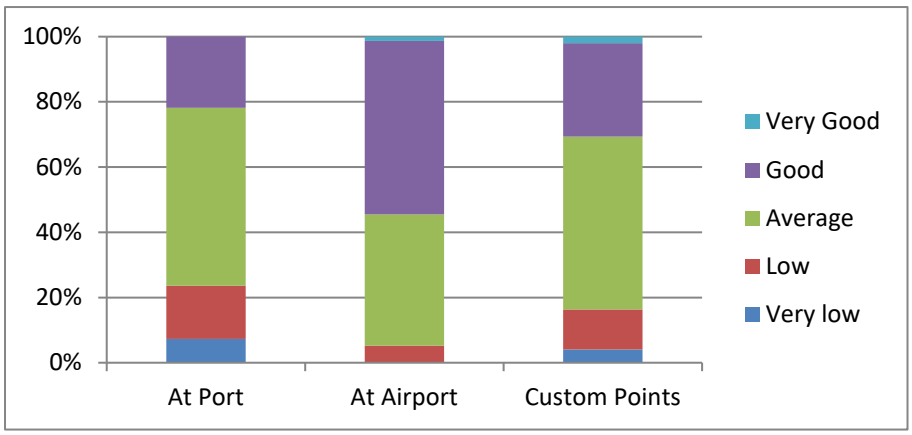
Figure 44: At airport



5.2.14 Customs operational efficiency

Responses on questions on customs operational efficiency for different places are given below in Figure 45. 55 percent said that the operational efficiency of ports is "average". The same for custom points was also rated "average" by more than 50 percent of the respondents. However, airport customs efficiency was rated "good" by 53 percent of the respondents.

Figure 45: Customs operational efficiency



5.3 Trade-related infrastructure and services

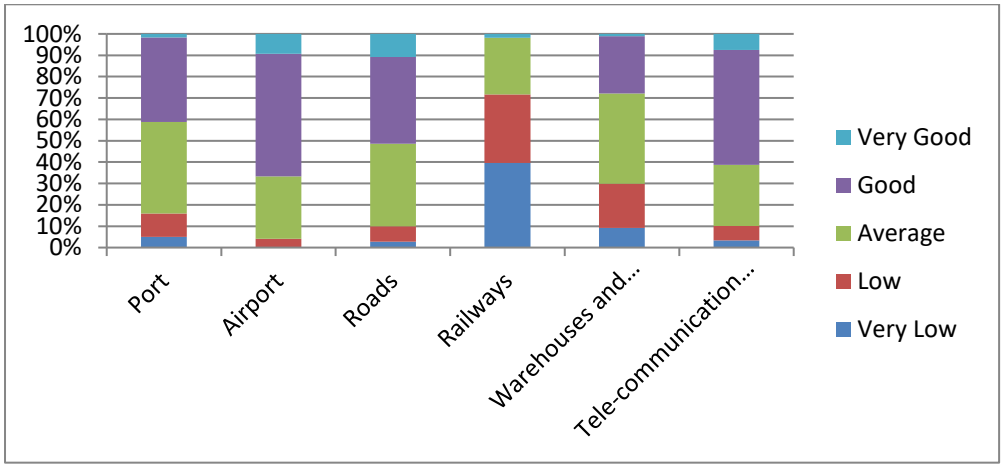
The respondents' perspective on the quality of infrastructure and the efficiency and cost of service providers is outlined below.

5.3.1 Quality of Infrastructure

The quality of trade related infrastructure is depicted in Figure 46. 43 percent of 119 respondents rated the infrastructure at ports as "average". The reasons they gave were poor quality of warehouses at the port, lack of equipment to handle cargo and congestion at the ports. For example, of the nine gates in the ports only two gates are opened for container traffic, one for empty containers and the other for full containers. This is said to be one reason for the congestion. Infrastructure quality at airports was rated "Good" by 57 percent of the respondents. The quality of roads was also rated "Good" by 41 percent respondents. Out of the 53 respondents who answered the question on the quality of infrastructure on railways, 71 percent rated the quality to be "Very low" and "low", given that the railway system in the country is underdeveloped and is not utilized for regular transportation of cargo. Also, 42 percent of the respondents rated the quality of warehouses and transloading facilities as "average". Out of the 119 respondents, who

answered the question on tele-communication and IT services in the country, 54 percent rated the service to be “Good”.

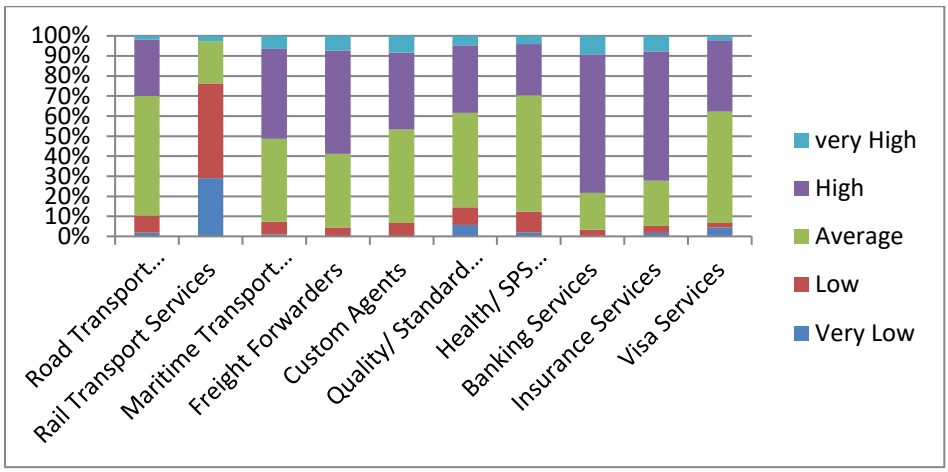
Figure 46: Quality of infrastructure facilities



5.3.2 Efficiency of service providers

A majority of the respondents (60 percent) consider the efficiency of road transport providers as “average”. However, the efficiency of rail transportation was said to be “low” and “very low” by 76 percent of the respondents. 45 percent rated the efficiency of maritime transport providers as “high” and 51 percent rated freight forwarder efficiency as “high”. Forty seven percent thought that the efficiency of custom agents and quality/ standard inspection agencies was “average”. Fifty eight percent said that the services provided by health/ SPS agencies and quarantine are “average”. Out of the total respondents, 69 percent and 64 percent respectively said that the efficiency of banking services and insurance services, respectively, was “high”. Finally, 56 percent stated that visa services were “average”.

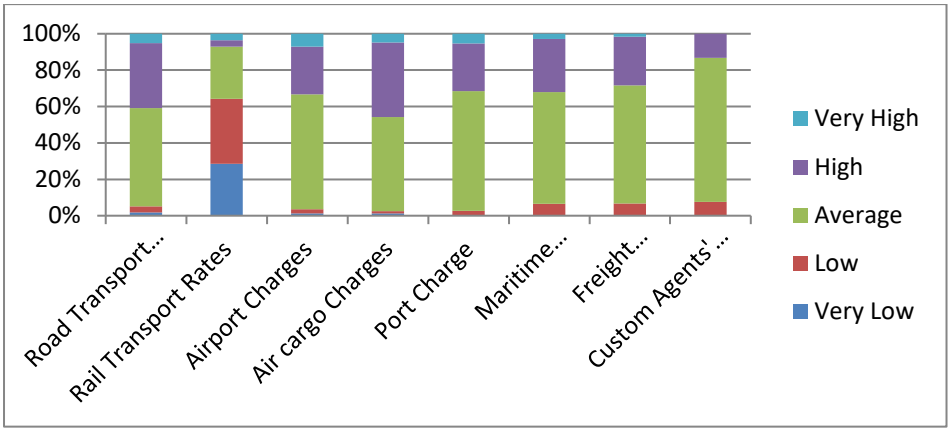
Figure 47: Efficiency of service providers



5.3.3 Cost of logistics services

A majority of respondents (54 percent) said that road transport rates were “average”. But, rail transport charges were rated as “low” or “very low” by 64 percent of the respondents. The costs of all the other logistics services—airport charges, air cargo charges, port charges, maritime transport charges, freight forwarders' charges and customs agents' charges—were rated as “average” by a majority of the respondents—63 percent, 52 percent, 66 percent, 61 percent, 65 percent and 79 percent, respectively.

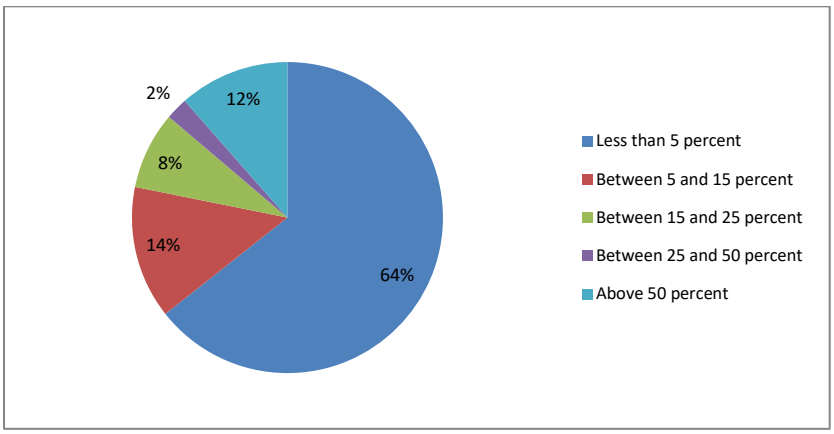
Figure 48: Cost of logistics services



5.3.4 Losses and damages

The questions on losses and damages incurred in the past five years were answered by 120 respondents. Out of them 73 percent said that they have incurred some form of loss and damage in the last five years. However, a majority said that the losses were minimal (less than 5 percent; see Figure 49). The reason identified was mishandling of cargo, mainly at ports and warehouses. Apart from that, other common reasons for damage were either the use of damaged containers or packaging defects.

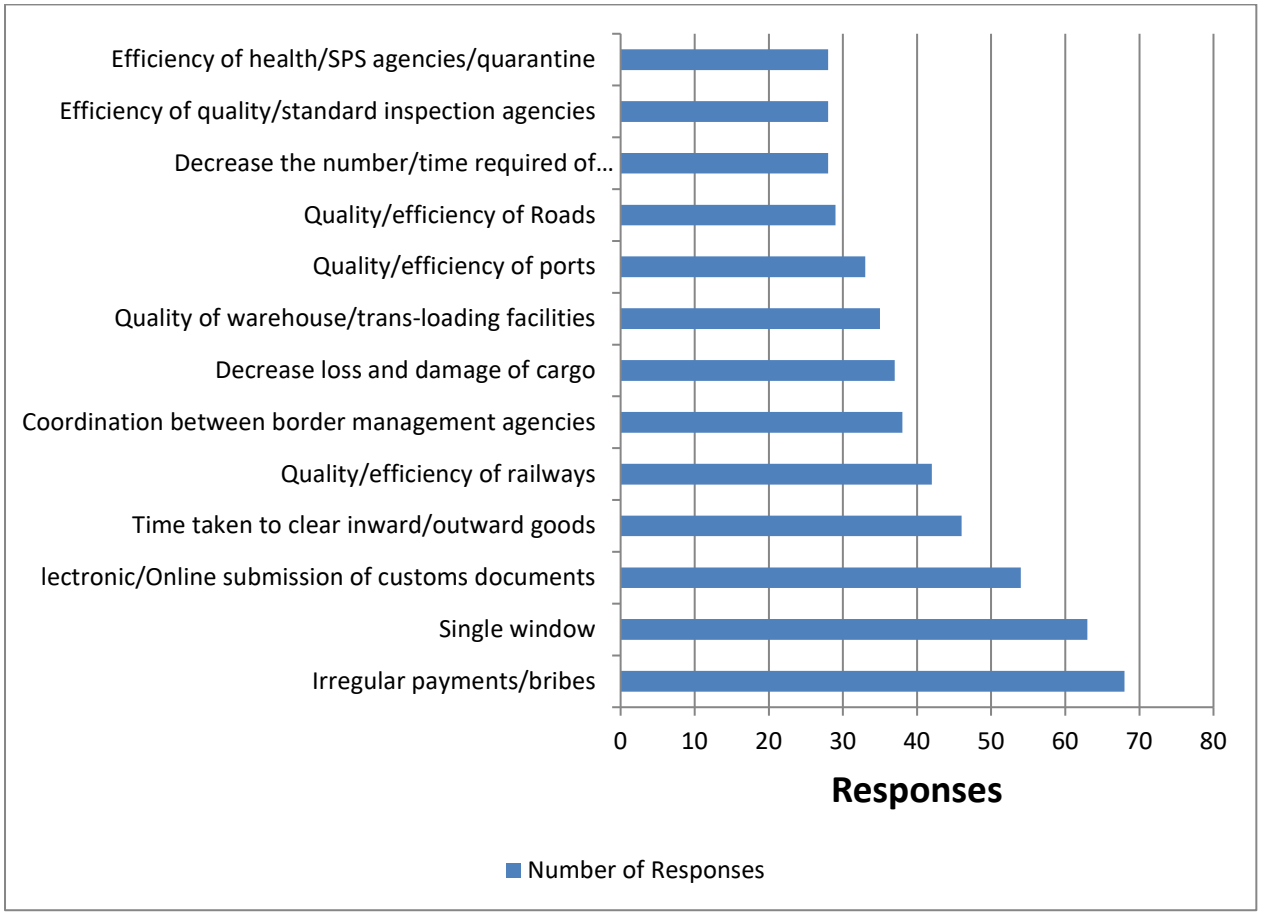
Figure 49: Losses and Damages Incurred



5.4 Priority areas of trade and transport facilitation

Respondents were asked to rank identified areas of trade facilitation that they thought were needed. The top 10 areas that they identified as of "High Priority" are depicted by the chart below (Figure 50). A majority of the 68 respondents said that the need to reduce irregular payments/bribes was the most important requirement. The need for Single Window was deemed by them to be the second most important priority. In addition to these, online submission of customs documents, reducing the time taken to clear goods and improving the quality/efficiency of railways were identified as the top five very high priority areas.

Figure 50: Priority reforms in trade and transport facilitation



Likewise, other identified "high priority" areas were the need to improve the quality/efficiency of ports, setting up an inquiry point on import/export procedures, publication of trade related rules and regulation, reducing the cost of using logistics services and improving the quality and efficiency of roads.

6. Way forward

Section 1 sets the context for the assessment of Sri Lanka's trade and transport facilitation bottlenecks in relation to its trade with SAARC countries. This is followed by a detailed outline of

Sri Lanka's trade performance with the SAARC region. Section 2 examines Sri Lanka's major trade routes and corridors wherein Colombo port handles much of Sri Lanka's international trade. The section also looks at Sri Lanka's performance in trade logistics in comparison to peers in the region like India and Pakistan. This is done via drawings from LPI and UNCTAD's Liner Shipping Connectivity Index. Section 3 and 4 present trade procedures and the literature review respectively while Section 5 showcases the findings from the survey. From the above discussion and findings, the following action points can be suggested:

- Policy interventions to reduce irregular payments and bribes in getting international trade processed has been considered the top trade facilitation reform area. This is followed by the setting up of Single Window and electronic submission of trade documents. Furthermore, respondents suggested that efficiency of railways needs to be improved while coordination among border agencies, which remains problematic, requires reforms. Consider this: when it comes to implementation of trade procedures, over 40 percent respondents suggest that coordination among border agencies such as Revenue and Customs, Health Authority, Quarantine Inspection Services, Food Standards Agency and Security Agencies is average.

- On the publication of trade-related procedures and rules, the national customs website needs to be made further effective as, for instance, 46 percent of the respondents suggest that the website does not provide information on fees and charges. Some freight forwarders said that the website often does not provide updated information. Majority of the respondents do not consider the information on procedures, fees and changes and average clearance and release time as effective.

- On implementation of trade procedures, risk assessment techniques continue to be in less of practice as about 50 percent consignments are subjected to physical inspection. In the survey, it was suggested that this requires major reforms. Furthermore, the operational efficiency of customs needs improvement as only about half of the respondents' rate customs' operational efficiency as good.

- Mishandling of cargo at ports as well as poor quality of warehouses has meant that nearly 73 percent of the respondents have experience of cargo damage. While the damage is under 5 percent, this still calls for action in the form of infrastructure upgrades at ports.

- While practices like advance ruling lubricate trade significantly, 56 percent respondents say they are not aware if such practice exists.

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Annex 1: Imports – Comparison of BOI and Non-BOI Processes

Activity	Non-BOI Company	BOI Company
Line Ministry approval	Required	Required
Import License	Required	Not required
Payment terms	Limited to L/C, DA, DP, or Advance (T/T, bank draft)*	None-payment can also be made by offshore third party
Advance payment limits	$10,000	No limit
No-foreign-exchange-basis imports	Maximum of $1,000 and no commercial quantities	No limit
Original documents	Received through bank	Received directly from shipper
Delivery order	Obtained from shipping agent	Obtained from shipping agent
Import declaration	Customs Declaration (CUSDEC) submitted to Customs (Long Room)	Customs declaration submitted to BOI service centre in Colombo or FTZs
Payment of duties and taxes	Bank of Ceylon located near Long Room	Bank of Ceylon counter at BOI location
Determination of examination level	By Customs	By Customs/BOI Coordination Unit (CBCU)
CBCU registration - sea cargo only	Not required	Required-Hemas Building near BOI office
Payment of SLPA charges	SLPA centre at Canal Row	SLPA counter at BOI office or at Canal Row
Collect gate pass from SLPA	Delivery set of documents taken to SLPA Canal Row	Delivery set of documents taken to SLPA Canal Row
Cargo pickup	From port	From port
Cargo examination	Examination by Customs at Grayline yard	Examination by BOI/ Customs at Customs Verification Unit, FTZs or consignee location

Activity	Non-BOI Company	BOI Company
Transport cargo to importer location	Only after examination-if required	Possible before examination

Note: * L/C = Letter of Credit, DA=Documents against acceptance, DP=Documents against Payment Transfer.

Source: USAID, 2007.

Annex 2: Exports - Comparison of BOI and Non-BOI Documentation

Non-BOI		BOI	
Activity	**Documents**	**Activity**	**Documents**
Reserve shipping space with shipping agent	• Shipping notes prepared by exporter-3 copies submitted to shipping agent, who assigns bill of lading no. and returns 2 copies, including captain's copy • Additional copies made for loading of cargo at port	Reserve shipping space with shipping agent	• Shipping notes prepared by exporter or consolidator (apparel) – bill of lading no. assigned by shipping agent, who signs and seals the document • Nine copies made for payment of SLPA charges and loading of cargo
Submit documents to Customs for approval	• Customs Declaration – 6 copies[13] • Commercial invoice – 3 copies • Licenses and permits if required • Shipping note/airway bill • Packing list and other supporting documents when necessary	Submit documents to BOI for approval	• Customs declaration – 6 copies • Commercial invoice – 3 copies

[13] According to survey findings the number of CUSDECs to be submitted to the Customs has reduced to 4 copies from 6 copies for both BOI and Non-BOI companies by 2010.

Non-BOI		**BOI**	
Activity	**Documents**	**Activity**	**Documents**
Payment of SLPA fees to Finance Division – (wharfage, wharf handling, fork lift and heavy lift fees)	Three copies of shipping notes to be submitted to SLPA Finance Division-two are returned-charges pay and captain's copies	Payment of SLPA fees at SLPA office located at BOI Colombo or at FTZs	3 copies of shipping notes required – charges pay and captain's copies are returned
Cargo examination (when necessary) by Customs	• Above documents • Customs retain the warrant and statistical copies and return the rest to the exporter	Cargo verification (when necessary) by BOI	• Customs declaration • Commercial invoice with BOI endorsement
Move cargo to the port		Move cargo to the port	