Reducing Domestic Barriers to Export Success
Simplifying and Rationalising the Exporter Registration Process is Critical

This policy note finds that although the current registration process was introduced with the intention of identifying and supporting new exporters, its execution severely impedes the achievement of this goal. The lengthy, inefficient and burdensome process currently in place does more to hinder rather than help Small and Medium Enterprises (SMEs) that are more in need of government assistance to enter international markets compared to larger firms.

Summary
Export promotion has been a key policy objective of successive governments in Sri Lanka. The present Government in its Vision Statement targets to double the current value of exports to USD 20 billion by 2020.¹ This policy note sets out the main findings of a study conducted by Verité Research. This note critically examines the current process that local businesses in Sri Lanka must follow when venturing into export markets for the first time; transitioning from a business catering exclusively to the domestic market to one that engages with an export market. This study finds that the current registration process is unnecessarily lengthy, inefficient and unduly burdensome for sole proprietors/partnerships in comparison to other businesses. Many of these unnecessary steps cannot be justified on a rational basis. These steps stem from fulfilling the requirements of the registration process at the Export Development Board (EDB),² which enables businesses to export. Registration with the EDB is also a prerequisite for registration with two other government agencies that are central to the export process: the Inland Revenue Department (IRD) and Sri Lanka Customs (SLC).

This policy note finds that although the current registration process was introduced with the intention of identifying and supporting new exporters, its execution severely impedes the achievement of this goal. These lengthy, inefficient and burdensome processes result in more hindrance than assistance to Small and Medium Enterprises (SMEs) that are more in need of government assistance than larger firms to enter international markets.

Key Findings

1. The exporter registration process is lengthy, inconsistent and lacks rationality

The current registration process for a sole proprietor/partnership involves a minimum of 10 steps and six different agencies and can take between 1-3 weeks to complete. Businesses exporting products that require export permits/licenses,³ are subject to an extended process. Obtaining a licence, for example, for a business exporting coconut products, adds a further 2-4 weeks to the process, increasing the total time taken to register as an exporter to 3-7 weeks.

Many of the steps in the process lack a clear rationale. For example, the mandatory registration with the EDB, which also serves as a documentary prerequisite for registration with other authorities, is based on a site assessment of the business by a Grama Niladhari (GN). As explained in detail below, a GN is neither trained to carry out site assessments, nor is he/she given a clear set of criteria to assess businesses’ capacity to export.

Further, the relevant agencies do not consistently apply the registration process across the board. For example, some Divisional Secretariats (DSs) require a letter of approval from the Department of Import and Export Control (DIEC), while others do not. A business registered with such a DS faces a more burdensome and lengthy process.

2. The process in place is burdensome due to its opacity and information paucity

The difficulties businesses face in finding information on the registration process and requirements makes the pro-
cess opaque. Due to the lack of a single source of information, detailing the entire registration process, businesses are required to peruse every institution’s website and/or visit the agencies in-person to obtain information. Furthermore, information pertaining to registering with a single agency is scattered across several websites. For example, the websites of IRD, EDB and Tea Board do not provide information on the time taken to register with them on their respective websites. Instead, this information is provided on the Government Information Centre website.

Potential exporters also suffer from a paucity of information. For example, to register with SLC, potential exporters need the assistance of a Customs House Agent (CHA). However, obtaining a list of CHAs registered with SLC is not easy.

This opacity and information paucity places an undue burden on SMEs, especially those located outside the Western Province. This could result in several trips to Colombo for SMEs to register as an exporter.

### Research Overview

1. The process of registering as an exporter is lengthy, inconsistent and lacks rationality

1.1. The process is lengthy

Businesses in Sri Lanka that are seeking to expand from the domestic market into international markets need to register as an exporter. The mandated registration process for sole proprietors/partnerships intending to export is outlined in Table 1. This process involves a minimum of 10 steps and six different agencies and can take between 1-3 weeks to complete. However, not all businesses are required to follow the same steps. Those registered with the Registrar of Companies (as Limited Liability Companies) can skip six steps of the process; steps 1, 2, 3, 5, 6 and 7 (highlighted in blue in Table 1). Depending on the DS Division in which the business is located and whether their exports require licensing, businesses may be subject to an extended process with additional steps (steps 3a and 4a highlighted in yellow). For example, a business intending to export coconuts, which are a licensed product, must register with the Coconut Development Authority (CDA) as an exporter. Box 1 summarises the steps involved in this process. This process can take an additional 2-4 weeks, extending the total time taken to register as an exporter to 3-7 weeks.

1.2. The following requirements lack rationality

1.2.1. The need to change the ‘Nature of Business’ in Business Registrations to include the word export

The first three additional steps listed in Table 1 for sole proprietors/partnerships originate from Extraordinary Gazette notification 355/14, dated 27th June 1985, which makes it mandatory to register with EDB to be eligible to export from Sri Lanka. In order to register with EDB, business entities must apply to their DSs to amend the nature of their business registration to include the word ‘exports’. According to the EDB, the objective of the current process of registering with the EDB is to identify export ready businesses, genuine exporters and new exporters to whom the EDB can offer support.

Box 1: Process involved in registering with the Coconut Development Authority (CDA)

Step 1: New manufacturers obtain a Manufacturers’ Registration (for kernel and non-kernel products) from the Processing Development Division of the CDA. Non-manufacturers obtain a letter of consent from a manufacturer registered with the Processing Development Division of CDA and a copy of their Manufacturer’s Registration.

Step 2: Store-owners obtain an insurance policy for their store(s). Those who do not own stores and are renting store facilities, obtain a letter of consent to use these facilities from the store-owner, who in turn must be registered as an exporter with the CDA.

Step 3: The applicant submits the completed application form along with other necessary documents and pays the registration fees. Other necessary documentation include: business registration form, request letter, manufacturer registration/letter of consent from a manufacturer, insurance policy and letter of consent to utilise store facilities in the absence of stores.

Step 4: CDA conducts a preliminary inspection of stores of specifically store owners, to ensure that stores meet the required CDA standards.
Table 1: Details of the process for sole proprietors/partnerships - already registered with the DS to do business in Sri Lanka - to register as exporters

<table>
<thead>
<tr>
<th>Steps</th>
<th>Key institutions where registration is mandatory and requirements of each step</th>
<th>Time taken</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Step 1</strong> Application form from the Divisional Secretariat</td>
<td>In order to amend the 'nature of business', a completed application form is to be submitted by the relevant business to the DS of the respective area (except in the case of businesses originating in Colombo, where business registration is handled by the Department of Business Names Registration in the Western Province). The relevant application forms are not available online on the DS divisions’ websites. Hence, the business owner must visit the DS division in-person to obtain the application form to change the nature of a business. The Department of Business Names Registration has made the relevant documents available on their website for download.</td>
<td>3 days to 1 week</td>
</tr>
<tr>
<td><strong>Step 2</strong> Recommendation letter from Grama Niladhari</td>
<td>The GN conducts a site visit to determine the organisation's viability to export and provides a letter stating that the request for exporter registration is justified.</td>
<td></td>
</tr>
<tr>
<td><strong>Step 3</strong> Amend the Business Registration at Divisional Secretariat</td>
<td>Businesses submit the completed application form, the recommendation letter from the GN, and an affidavit to obtain the amended Business Registration Form with ‘export’ included under ‘Nature of Business’.</td>
<td>1 week (if the letter is sent by post), and 1-2 days if collected in person</td>
</tr>
<tr>
<td><strong>Step 3A</strong> Letter from Department of Import and Export Control</td>
<td>In addition to the above requirements, a few DSs require approval from the DIEC as well. This is to confirm that the products are permitted to be exported from Sri Lanka.</td>
<td></td>
</tr>
<tr>
<td><strong>Step 4</strong> Temporary Registration granted by the Export Development Board</td>
<td>Businesses submit the amended Business Registration Form together with the completed EDB registration application form, to the EDB, to obtain a temporary registration certificate. This certificate is valid for three months.</td>
<td>30 minutes</td>
</tr>
</tbody>
</table>
### Key institutions where registration is mandatory and requirements of each step

<table>
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<tr>
<th>Steps</th>
<th>Description</th>
<th>Time taken</th>
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<tr>
<td><strong>Step 4A</strong> Registration with licensing agencies</td>
<td>A number of products exported from Sri Lanka require export permits/licenses from agencies overseeing these product sectors. The potential exporters need to register with the respective agencies in order to obtain the permits/licenses. EDB requires businesses intending to export such products to complete registration with the respective agencies, prior to EDB registration. This results in the process being extended (Refer Box 1 for a case study of businesses intending to export coconuts).</td>
<td>2-4 weeks</td>
</tr>
<tr>
<td><strong>Step 5</strong> Tax Identification Number Registration (TIN)</td>
<td>All exporters must have a TIN from the IRD to execute payment of applicable taxes at the time of export.</td>
<td>30 minutes</td>
</tr>
<tr>
<td><strong>Step 6</strong> Value Added Tax Registration</td>
<td>After obtaining the TIN, the applicant submits the same set of documents submitted to obtain the TIN, to complete VAT registration.</td>
<td>30 minutes</td>
</tr>
<tr>
<td><strong>Step 7</strong> Certification of the Location of the Business by the Grama Niladhari</td>
<td>The GN approves and signs Section 10 of the Customs Registration application form, verifying the business address stated in the documents. This application form can be downloaded from the Customs website.</td>
<td>1 Day</td>
</tr>
<tr>
<td><strong>Step 8</strong> Obtain the services of a Customs House Agent (CHA) to register with Sri Lanka Customs</td>
<td>Applicants provide the name and address of their CHA, in Section 7 of the Customs Registration form. Furthermore, the applicants’ information need to be uploaded onto the SLC ASYCUDA system. To do so, applicants procure the services of their CHA for a fee. The exporter can request for a list of CHAs from the Human Resources Department of SLC or seek the services of CHAs physically present at the premises.</td>
<td>2 Days</td>
</tr>
<tr>
<td><strong>Step 9</strong> Register with Sri Lanka Customs</td>
<td>Upon completion of step 8 above, the exporter submits the completed application form and supplementary documents specified in the application form, to the TIN and VAT Registration Department of the SLC. Supplementary documents include the EDB certificate, TIN and VAT certificates, and other documentation such as proof of address (land deeds, water and electricity bills). Submission of these documents, completes the SLC registration process.</td>
<td>A few hours to 1 day</td>
</tr>
</tbody>
</table>
Steps | Key institutions where registration is mandatory and requirements of each step | Time taken
--- | --- | ---
**Export Development Board**
**Step 10**
Obtain permanent certificate of registration from the Export Development Board

Once the exporter has completed two to three exports of a significant amount\(^9\) (the volume or value of exports required to qualify as being significant is not clear), the business may apply for permanent registration with the EDB.

However, whether the current process helps achieve EDB’s goals is questionable. In order to amend the Business Registration Certificate to include ‘export’ under ‘Nature of Business’, the DS relies on the GN’s recommendation.

The GN visits the business location and issues a recommendation when he/she deems the business viable for export. The GN has limited knowledge on what qualifies as an export ready business and is neither trained nor given a list of criteria or guidelines to assist him/her to make an objective and fair assessment. This raises concerns on the reliability and the usefulness of the current EDB registration process as a means of identifying genuine or export ready businesses in Sri Lanka.

EDB can identify new exporters by obtaining such information from SLC. The SLC records all exports executed, and hence can easily provide EDB with a list of new exporters within any given period. The SLC database is a more reliable source to identify new exporters than recommendation letters from GNs.

Thus, the current process not only fails to generate reliable information about export ready businesses and new exporters, but also lacks a clear rationale and is in effect redundant. Not only does the process impose an additional burden on new exporters, the current process is also vulnerable to abuse. For example, some businesses had obtained the EDB certificate to strengthen their chances of securing a loan, as banks consider an EDB exporter registration certificate as an indication of the credibility of the applicant’s business.\(^{20}\)

If the EDB registration was made voluntary, the process to register as an exporter could be cut down to five steps (i.e. Step 5 – Step 9 in Table 1). Further, voluntary registration could also serve as an important yardstick to measure the value exporters assign to the services provided by EDB. Such a mechanism could in turn serve to encourage organisations like the EDB, whose mandates are to support exporters, to make further improvements to the quality and effectiveness of their services to demonstrate their value to exporters.

1.2.2. The prerequisite of registering with licensing authorities before registering with the EDB and IRD

At present, both the EDB and the IRD require business owners to submit certificates of registration with product-specific licensing agencies as a prerequisite to registration. However, the rationale for this requirement is unclear. The objective of these registrations and permits is largely to ensure that businesses have adhered to the manufacturing standards and best practices outlined by the respective agencies and to ensure that they are not exporting prohibited items. Further, all exporters of such products are required to produce the relevant permits, licenses, and certificates to SLC at the time of export – without these documents, the exporter is not allowed to export. Furthermore, not having submitted the product-specific registrations at the time of initial registration with EDB and IRD does not prevent any registered exporter from exporting these products later. To do so, they need to obtain the relevant permit from the product-specific licensing agency and submit it to SLC at the time of export. Thus, any justification made by the EDB and the IRD for having this pre-requisite in place is rendered irrelevant.
1.3. The following inconsistencies makes the process more cumbersome for some businesses over others

1.3.1. The need for a letter from the DIEC

Some DSs require the approval of the DIEC in order to confirm that the applicant’s product is permitted to be exported. The DSs obtain this approval by sending a letter to the DIEC specifying the applicant’s product details. The DIEC then communicates its approval to the DS. If a business is registered with a DS that requires an approval from the DIEC, the process of amending the ‘Nature of Business’ to include the term ‘export’ is lengthier than for a business registered with a DS that does not require this approval. The additional time taken to register is 1 week if the letter is transferred through the DS divisions via post, and 1-2 days if the letter is sent to and collected from the DIEC in person. These inconsistencies in the documentary requirements of different DSs to produce an identical outcome makes the process arbitrary and unfair.

1.3.2. The mandatory use of a CHA

CHAs act as intermediaries between the traders and the SLC during the Customs clearance process. Their domain knowledge of Customs laws and processes and their working experience of the trade supply chain can be useful for both the traders and the Customs Administration. The current registration process makes the use of the services of a CHA unavoidable. This however is inconsistent with the provisions of the Revised Kyoto Convention (RKC) of the World Customs Organisation as well as the Trade Facilitation Agreement of the World Trade Organisation. Sri Lanka is party to both the RKC as well as the WTO TFA.

RKC states that the engagement of broker services be “optional” for the importer/exporter. Furthermore, Article 10.6 of the WTO Agreement on Trade Facilitation (TFA) also states in Article 10.6 that “Members shall not introduce the mandatory use of Customs brokers”. Article 10.6 is one of Sri Lanka’s Category “A” commitments under the TFA, which as per Agreement comes into force immediately following the enactment of the Agreement.

Aside from this inconsistency, mandating the use of a CHA can also increase the cost of registering as an exporter, especially for SMEs. As in the case of registering with the EDB, making this service a voluntary alternative would promote competition between CHAs and consequently increase the quality of the services that they offer to businesses.

2. The process in place is burdensome due to its opacity and information paucity

2.1. Information is not made available in a user-friendly manner

Publishing information in a user-friendly manner is critical to enhance access. The research reveals that information pertaining to the registration process is fragmented across several websites. As a result, finding information on the complete process requires visiting multiple websites. For example, the individual government agencies involved in the process of registering exporters, outline their relevant processes in their respective websites. However, there is no single document or website that lists the entire process and documents required at each step. Most agencies are also unaware of the steps that applicants must take prior to or after registering with them.

Further, relevant agencies do not provide information on the time taken to register or to provide approvals, on their respective websites or guidelines published by the respective agencies. Instead, the applicable timelines to register with the EDB, IRD and the Tea Board are published on the website of the Government Information Centre.

2.2. Information available is incomplete

The EDB has published general guidelines that provide limited information on the registration process. These guidelines identify the three primary institutions involved in the process – the EDB, IRD, and SLC – as well as the relevant licensing agencies with which an exporter must register. However, these guidelines do not provide information on the specific procedures, required documents, fees, or time taken to complete the registration process at each institution. Businesses are often compelled to go back and forth between the multiple agencies involved, to satisfy the requirements of all the agencies involved in this process.

As mentioned earlier, the current process in place to register with SLC compels potential exporters to seek the assistance of a CHA to complete the registration process. However, it is difficult to obtain updated and reliable information on all CHAs registered with SLC. At present, the list of all CHAs registered with SLC is not easily accessible. A list is available with SLC, and it can only be referred to by visiting the Customs premises in person.

The opacity and information paucity of the current process is burdensome on businesses that intend to export. It imposes a greater burden on businesses located out-
side the Western Province, as such businesses may have to make several trips to Colombo, where most of the agencies are located.

The government can reduce financial and time costs significantly, by rationalising and simplifying the process and making all the relevant information available at a single, easily accessible location (preferably online). Furthermore, agencies central to the process can contribute to reducing the burden on applicants by publishing relevant information on their respective websites (e.g. timelines, list of CHAs).

**Conclusion**

Successive Governments of Sri Lanka have made export promotion a priority. This includes both, encouraging businesses to export and removing impediments to exporting. In this context, a separate process has been introduced to register as an exporter with the objective of promoting exports and supporting new exporters. However, some of its features undermine this aim by making the process lengthy and inefficient.

The process also imposes an undue burden on businesses, particularly SMEs that are registered as sole proprietors/partnerships and that are located outside the Western Province. Rules and regulations that are burdensome and lack a clear rationale serve to discourage businesses from exporting, and therefore undermine the objective the Government aims to achieve. In this light, the Government may benefit from re-evaluating this process to identify how it can be made simpler and more effective in achieving its objectives.

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ENDNOTES


2. Export Development Board is the key export promotion agency in Sri Lanka.

3. A licensed product is one that requires an export permit/license from the Sri Lankan agencies that overlook the relevant product sectors. (Please refer to the guide ‘The Export Procedure of Sri Lanka’ prepared by the Export Development Board (EDB), available at: http://www.srilankabusiness.com/ for a list of products subject to licenses/permits.)


12. The EDB website states that, “the exporters should submit Certifications / Licenses of relevant Organizations to consider eligibility to the EDB Registration for items under license i.e. Tea, Gems & Jewellery, Mineral Sands, Wooden products, Fisheries products and Chemicals etc.” available at: http://www.srilankabusiness.com/edb/registration.html, [accessed on: January 2018].

13. Existing firms who meet the threshold specified by the IRD, including most Limited Liability Companies are likely to already have a TIN and VAT number (more information available at: http://www.ird.gov.lk/en/Type%20of%20Taxes/SitePages/Value%20%20Added%20Tax%20(VAT).aspx?menuid=1204).  


17. ASYCUDA (Automated SYstem for CUstoms Data) is a computerised customs management system which covers most
foreign trade procedures. The system handles manifests and customs declarations, accounting procedures, transit and suspense procedures. (For more information refer to: https://asycuda.org/aboutas.asp).


19 Key person interviews with EDB officers, 23 November 2017.

20 Ibid.

21 Key person interviews with officers from selected DS divisions and the DIEC, November and December 2017.


