FDI Guide Sri Lanka

This guide, prepared by **AHK Sri Lanka** in collaboration with **Sudath Perera Associates**, provides companies and investors with a practical overview of the key legal, economic and regulatory considerations for entering and doing business in Sri Lanka.

1. Why Sri Lanka?

As a relatively small country along the strategically important East-West shipping route, Sri Lanka offers various opportunities for foreign investors. Its economy is primarily service-oriented, with growing relevance as a regional logistics and maritime hub. Its strategic geographic position along key international shipping routes enhances its role in facilitating trade, port-related services, and regional connectivity. In addition to logistics, Sri Lanka has developed a niche in IT services and business process outsourcing (BPO). The country leverages its relatively well-educated workforce and comparatively strong English proficiency to position itself as a competitive destination for service-based activities.

Furthermore, Sri Lanka is well-positioned for value-added manufacturing, logistics, services, technology-enabled industries and other sectors where scale is not critical, and that could benefit from its strategic location, skilled workforce and connectivity to regional markets, rather than a focus on low-cost manufacturing.

This guide aims to provide companies with a comprehensive and independent overview of the relevant issues they must consider when entering the Sri Lankan market. After providing general information about Sri Lanka's legal and economic system, this guide shall lead companies through their decision-making process and their first steps in the Sri Lankan market. It shall provide entrepreneurs and decisionmakers with relevant information on corporate vehicles, foreign investment rules, the tax system, employment law and other topics relevant for expanding business operations to Sri Lanka.

2. About AHK Sri Lanka and Sudath Perera Associates

AHK Sri Lanka

AHK Sri Lanka is the representative of the German Economy in Sri Lanka and part of the worldwide network of AHKs, which is coordinated by the German Chamber of Industry and Commerce (DIHK).

Since its inception in 2018, the AHK Sri Lanka has served as a central platform to promote bilateral trade, investment, technology transfer and economic cooperation between Sri Lanka and Germany. The AHK Sri Lanka fulfils three central tasks: it represents the interests of the German economy in Sri Lanka; secondly, it supports companies in both countries through services in the areas of market entry and business development; and thirdly, it promotes business interests and facilitates network building through its industry committees, business forums, delegation trips and networking events, as well as close cooperation with government institutions, regulators, industry associations and private sector companies. Through these activities, AHK Sri Lanka maintains a resilient and extensive network in both markets.

Sudath Perera Associates

Sudath Perera Associates (www.sudathpereraassociates.com) is one of Sri Lanka's leading independent, full-service law firms, advising domestic and international clients on complex transactions, disputes and regulatory matters across a broad range of industries and sectors.

The firm's practice spans corporate and commercial law, banking and finance, civil and commercial dispute resolution, criminal defence, intellectual property, brand protection, employment, real estate and other specialist areas. Bringing together specialist legal expertise, commercial judgment and an in-depth knowledge of Sri Lanka's legal, regulatory and business landscape, the firm advises clients on complex transactions, disputes and other matters of strategic importance, drawing on the collective strength of its practice groups to deliver integrated, commercially focused legal advice.

Sudath Perera Associates is consistently recognised by leading international legal directories, including Legal 500, Chambers and asialaw, with several of its partners and senior lawyers individually recognised as leading practitioners in their respective fields.

3. Sri Lanka's legal and economic system

Sri Lanka's legal system has evolved from a variety of legal traditions. It incorporates Roman-Dutch influences as well as English legal principles. These influences are mixed with Kandyan, Tesawalamai and Muslim personal laws. Roman-Dutch law is the Sri Lankan residuary common law and governs contract and property law where not provided for by statute, while English common law principles govern areas such as commercial law and banking, criminal procedure, evidence, maritime matters and administrative law. Apart from written laws, the doctrine of judicial precedent is widely accepted in Sri Lanka.

The court structure in Sri Lanka comprises district courts and magistrates' courts, which constitute the courts of first instance for civil and criminal proceedings respectively, in most instances. Sri Lanka has also implemented a small claims regime, where cases are heard in the district court. Appeals from the district and magistrates' courts are generally heard by the High Courts of Civil Appeal and High Courts, respectively. However, certain matters, such as commercial disputes beyond a certain value, may be instituted in the Commercial High Courts, while criminal matters, on indictment, are usually heard by the High Courts. The Court of Appeal also has jurisdiction to hear writ applications filed against executive or administrative actions, as well as revisionary jurisdiction for lower courts, in terms of the Constitution. The Supreme Court is the highest court in Sri Lanka. It has original jurisdiction in respect of constitutional matters with regard to the protection of fundamental rights and the power to hear appeals from certain decisions made by the Court of Appeal exercising revisionary jurisdiction. It is also the highest appellate court. Its decisions are binding on all other courts in the country. Sri Lanka also recognises alternative dispute resolution mechanisms such as mediation and arbitration and actively utilises such mechanisms in dispute resolution.

In 2025, Sri Lanka's GDP amounted to USD 108.83 billion, equating to USD 5,002 per capita. Following the economic crisis of 2022, Sri Lanka's economy recovered quickly, growing by 5% in 2025. The country's most important sectors include wholesale and retail trade, transportation and storage, accommodation and food service activities, accounting for around 26.1% of GDP. Other important sectors include manufacturing, agriculture, construction as well as financial and insurance activities.

Sri Lanka's currency (official legal tender) is the Sri Lankan rupee (LKR). As of September 2026, the exchange rate was approximately 380 LKR per 1 EUR and 330 LKR per 1 USD.

Sri Lanka ranks 83rd among the most important countries for German foreign trade. In 2025, the total trade between Sri Lanka and Germany amounted to EUR 1.303 billion, of which EUR 227.8 million was German exports to Sri Lanka. The most important German exports were machinery and chemical products. In contrast, over 50% of German imports from Sri Lanka were fabrics. In 2024, German foreign direct investment totalling EUR 225 million was conducted in Sri Lanka.

The official languages are Sinhala and Tamil, while English is widely used as the language of business in Sri Lanka. Sri Lankan society is heavily influenced by conservative tradition. Status is still very important, as is polite business etiquette when establishing business contacts. Approximately 70% of the population is Buddhist. The other major religious group are Catholics and other Christians, Hindus and Muslims. Temples, religious symbols, and spiritual rituals are held in high regard. Politics and religion are sensitive topics that are usually kept private.

4. Business Structures in Sri Lanka

4.1 Sole Proprietorship and Partnership

A sole proprietorship is the simplest way to establish a business in Sri Lanka. In this structure, the owner is personally liable for all debts and obligations resulting from business operations. Similar to the German *Einzelkaufmann*, the business is not conducted by a separate legal entity but by the entrepreneur themselves.

A partnership is the collaboration between individuals for business purposes with the intention of making a profit. Each partner has the same rights and obligations with regard to acting on behalf of the partnership and sharing the partnership's profits. Conversely, the partners' liability is joint, several, and unlimited. They are personally liable for the partnership's liabilities if the firm's assets are insufficient to cover them. The partnership is not a distinct legal body; there is no separation between the partnership and its partners. It can be formed through a contract between the partners, whether verbal, written or implied by their actions. A limited liability partnership (LLP) structure is currently not available in Sri Lanka.

These forms of business are often used by small, private enterprises to conduct business in Sri Lanka. However, neither a sole proprietorship nor a partnership is available to non-resident foreigners. Therefore, these business structures do not generally facilitate foreign investment in the country.

4.2 Private Limited Company ((Pvt) Ltd – private company)

The private limited company (a form of limited liability company, limited by shares) offers entrepreneurs limited liability as well as flexible business operations. This type of company is therefore

widely used by small and medium-sized enterprises and developing businesses. A private company is a separate legal entity. As such, it can own property, enter into contracts, institute legal action in its own name and be held liable for its representative's actions.

Limited liability means that the company's shareholders/ owners are not generally personally responsible for its debts, while the board of directors of the company, which has powers of management, has responsibility for the operations of the company. There is no minimum capital requirement, except in sector-specific instances, which means that the company can even be incorporated with a share capital of 1 LKR. The private company is therefore commonly considered the best vehicle for protecting the personal assets of the entrepreneur and is a popular structure for foreign investors

A private company must have at least one director, one company secretary, and one shareholder. It can be operated more flexibly than a 'public' limited liability company. Conversely, shares must not be offered to the public. The number of shareholders is restricted to 50, except for current and former employees. Moreover, the transfer of shares usually requires the approval of the board of directors (if provided for by the company's articles of association). A transfer of shares is entered in a share register maintained by the company. Under recently published regulations, companies must also record the ultimate beneficial owners (having direct or indirect ownership or exercising effective control) of holders of 10% or more of the shares of the company and must maintain a register of ultimate beneficial owners. This means that the structure is not suitable for companies aiming to have a large number of shareholders.

4.3 Public Limited Liability Company ("**Public Company**")

Unlike a private company, a public company can offer the shares or other securities issued by it, to the public. With this company structure, the number of shareholders is unlimited, and shares can generally be transferred freely (subject to any restrictions or limitations imposed by its articles of association, by contract, or other applicable laws). Similar to a private company, the shareholders only bear the risk of their shares decreasing in value; they are generally not personally liable for any of the company's debts. The company's management powers lie with the board of directors.

However, the public structure of the entity brings tighter restrictions for the company. The Companies Act, No. 7 of 2007 (as amended) ("**Companies Act**") requires at least two directors, one company secretary and one shareholder at the time of incorporation. Additionally, the public company is subject to strict regulations and compliance requirements. Thus, this corporate structure is generally suitable for large companies which want to raise funds from the public.

Public companies may also choose to list their shares on the Colombo Stock Exchange ("**CSE**"). Listed companies ("**PLCs"**) are subject to the Listing Rules of the CSE, the Securities and Exchange Commission of Sri Lanka Act No. 19 of 2021 and regulations thereunder. The requirements for listing are stringent, and listing is available to companies with a track record of performance that satisfies the regulatory requirements. The shares of PLCs can be freely traded on the CSE, subject to regulatory oversight. There is also a requirement for a minimum public float (i.e., for a percentage of the shares to be held by public investors not connected to the major shareholders or controllers of the listed company).

4.4 Company Limited by Guarantee

A company limited by guarantee has no share capital and no shareholders. It is formed by members who commit to contributing (i.e. guarantee) a specified amount to the assets of the company in case

of the company being put into liquidation. A company limited by guarantee is required to have at least two members and at least one director. It is often used for non-profit purposes, for example by NGOs, foundations, chambers and clubs. Companies limited by guarantee are used only in limited circumstances and are not usually utilised for profit-generating businesses in Sri Lanka.

4.5 Overseas Company

Foreign companies can also register overseas companies in Sri Lanka, which are places of business established *in* Sri Lanka, by bodies corporate incorporated *outside* Sri Lanka (in the form of a branch, project, liaison, representative or regional office or equivalent). To do so, it must submit to the Department of Registrar of Companies certain documents within one month after establishing its place of business in Sri Lanka and must obtain registration as an overseas company.

Companies carrying out commercial, trading or industrial activities which establish a place of business such as a branch office, project office or a similar office require an investment of at least USD 200,000 (or equivalent in any other designated foreign currency) in foreign remittances to Sri Lanka. However, in the event a foreign company wishes to register a liaison office, a representative office or a similar office, no minimum capital amount has been prescribed, and the funds required to set up and maintain the liaison office will need to be remitted to Sri Lanka from overseas. Such overseas companies may only carry out non-commercial, non-trading or non-industrial activities, and cannot generate any income, either directly or indirectly, to the overseas company in Sri Lanka.

4.6 Offshore Company

An offshore company refers to the opportunity for companies to register in Sri Lanka to conduct business exclusively outside the country. A key advantage is that offshore companies are exempt from most compliance requirements, making them simpler to maintain than domestic companies. However, the critical restriction is that such companies cannot conduct any business within Sri Lanka itself—all operations must be directed toward international markets.

In addition, companies that wish to conduct business within Colombo Port City are also required to register as offshore companies under the Companies Act and thereafter register as an authorised person under the Colombo Port City Economic Commission Act No.11 of 2021 (as amended), within its area of authority. Registration as an authorised person will exempt such companies from the application of the other provisions of the Companies Act. Companies that are focused on the offshore services sector (including the IT & BPO sectors) are now able to register as authorised persons to conduct business within the Colombo Port City. Such authorised persons may enjoy certain incentives based on their investments, which are further discussed in Section 5 of this FDI Guide.

5. Foreign Investment Regulations and Incentives

5.1 Restrictions on foreign ownership

Generally, Sri Lanka has a liberal foreign investment law. In accordance with regulations issued under the Foreign Exchange Act, No. 12 of 2017 ("**FEA**"), foreigners are generally permitted to hold up to 100% of the voting shares of companies operating in most sectors.

However, foreign ownership of voting shares in a company carrying out business in the following sectors is prohibited:

- coastal fishing;
- pawn-broking; and
- retail trade, where capital contributed by persons resident outside Sri Lanka will be less than USD 5 million.

Sectors in which foreign ownership is restricted to up to 40% of the number of fully paid voting shares of the relevant company (unless a higher threshold has been approved by the Board of Investment of Sri Lanka ("**BOI**")):

- production of goods where Sri Lanka's exports are subject to internationally determined quota restrictions;
- growing and primary processing of tea, rubber, coconut, cocoa, sugar, rice and spices;
- mining and primary processing of non-renewable national resources;
- timber-based industries using local timber;
- deep sea fishing;
- mass communication;
- education;
- freight forwarding;
- travel agencies; and,
- shipping agencies.

Sectors in which foreign ownership is permitted up to such percentage of fully paid voting shares of a company, for which general or special approval has been granted by a legal or administrative authority set up for the approval of foreign investment into such businesses:

- air transportation;
- coastal shipping;
- manufacturing of arms ammunitions, explosives, military vehicles and equipment, aircraft and other military hardware;
- manufacturing of poisons, narcotics, alcohol, dangerous drugs and toxic, hazardous or carcinogenic material;
- producing of currency, coins or security documents;
- large-scale mechanized mining of gems; and
- lotteries.

Other sector specific regulations may also impose foreign investment restrictions. For example, under the Sri Lanka Bureau of Foreign Employment Act No. 21 of 1985 (as amended), a company is eligible for a licence to carry on a 'foreign employment agency' in Sri Lanka only if a majority of its shares are held by Sri Lankan citizens.

5.2 Regulations for share investments and loans

Investments into shares of a company, listed debt securities or other types of securities provided in regulations issued under the FEA, must be carried out through remittance of the consideration for such shares into an 'Inward Investment Account' ("**IIA**"). The IIA is a special-purpose bank account that facilitates the free movement of capital in and out of the country. All returns from the investment (e.g. dividend payments) and capital proceeds must therefore be repatriated through the same account.

The account must be set up with a licensed commercial bank in Sri Lanka in the name of the foreign investor. It can be maintained in Sri Lankan rupees or any of the following designated foreign currencies: United States Dollars, Euros, Sterling Pound, Japanese Yen, Australian Dollars, Swiss Franc,

Canadian Dollars, Singapore Dollars, Hong Kong Dollars, New Zealand Dollars, Swedish Kroner, Danish Kroner, Norwegian Kroner, Indian Rupees, Thai Baht and Chinese Renminbi.

A foreign investor may grant a loan (for a tenure of three or more years) or invest in unlisted debt securities issued by a company incorporated in Sri Lanka under the Companies Act, in foreign currency or in Sri Lankan Rupees. This general permission is however excluded for granting loans/ investing in debt securities of licensed commercial banks, licensed specialised banks, licensed finance companies, specialised leasing companies ("**Financial Institutions**"), companies limited by guarantee, overseas companies registered in Sri Lanka, the Government of Sri Lanka and state owned enterprises. A parent or principal company incorporated outside Sri Lanka may grant loans to its branch or project office registered as an overseas company under the Companies Act. Granting of loans to Financial Institutions and the Government of Sri Lanka/ state owned enterprises, or investment in debt securities of such Financial Institutions, require additional permissions from regulatory authorities.

The proceeds of a loan borrowed by persons permitted to obtain loans from overseas, must be routed through an 'External Commercial Borrowing Account' ("**ECBA**"), which is opened in the name of the borrower (which excludes the aforesaid Financial Institutions and state-owned enterprises). The loan must be granted pursuant to a loan agreement and other documentary requirements, and loan and interest repayments must be routed through the ECBA (as provided in the regulations and directions issued under the FEA).

5.3 The Sri Lankan Board of Investment ("**BOI"**)

The Board of Investment is a public entity responsible for promoting foreign direct investment in Sri Lanka. The Board was established by the Board of Investment of Sri Lanka Law No. 4 of 1978 (as amended) ("**BOI Law**"). Currently, over 1,600 companies operate under the BOI's supervision and purview. The BOI promotes foreign investment in Sri Lanka by seeking to function as a 'single window' for approvals required by investors and offering various investment incentives to foreign companies. However, registration with the BOI is not obligatory for all foreign investments in Sri Lanka and depends on the proposed activities and industry in which the investment is to be made, as well as the incentives sought.

The BOI offers two different types of approval – under Section 16 and under Section 17 of the BOI Law. Approval is generally granted to completely new investments, although approval under Section 17 may be granted to investments into existing businesses for expansion, or purchase of the local shareholding, in certain industries. The BOI has several focus sectors, such as tourism, hospitality and leisure, export-oriented businesses and manufacturing industries (e.g. garments, pharmaceuticals etc.)

Approval under Section 16 of the BOI Law requires a minimum investment of USD 250,000 or its equivalent (subject to other restrictions under the FEA, discussed above). This investment can be in the form of either 100% foreign ownership or a joint venture with a local partner. Registration under this section offers mainly non-financial incentives for foreign companies, such as facilitation of residency visas/ work permits for investors.

Approval under Section 17 of the BOI Law, wherein the BOI would enter into an agreement to provide a wider range of incentives to foreign investors. The minimum investment required varies for different sectors and is prescribed by regulations issued by the BOI from time to time and additionally subject to the prevailing government policies.

The grant of BOI approval, particularly under section 17, results in certain fiscal and non-fiscal incentives for foreign investors. Non-fiscal incentives include approval granted to foreign investors to hold up to 100% of voting shares in companies engaged in several restricted sectors (discussed in section 5.1 above).

BOI-approved companies, especially in the manufacturing sector, can also gain access to special BOI Zones (free trade zones or export processing zones) which offer leasehold rights over factories and premises, development and environmental approvals granted by the BOI, improved infrastructure and proximity to highways, airports and ports. Furthermore, the BOI provides foreign investors with assistance and facilitation services to enable them to obtain, on a case-by-case basis, resident work visas for the investors and their expatriate employees, such as directors, senior management and/ or highly skilled employees.

Fiscal incentives currently being granted include exemptions from customs duties, Ports and Airport Levy ("**PAL**") and CESS for the import of certain capital goods and equipment during the project implementation period, and for raw materials of export-oriented businesses, for the lifetime of the project, as well as deferments for value added tax ("**VAT**").

5.4 Strategic Development Projects

The Strategic Development Projects Act No. 14 of 2008 (as amended) ("**SDP Act**") designates certain very large-scale projects approved by the Government with investment of at least USD 50 Million as Strategic Development Projects ("**SDPs**"). SDP status is granted to entities that will make investments in sectors such as infrastructure, services and utilities, tourism and leisure (excluding casinos), manufacturing, agriculture, education, technological establishments or information communication technology and create a minimum number of job opportunities, as prescribed by the regulations under the SDP Act. SDPs may obtain exemptions of up to 10 years from the application of corporate income tax, exemptions from certain taxes and tariffs including VAT, PAL, CESS and Customs duty during the project implementation period for capital goods, and other fiscal and non-fiscal benefits.

In order to qualify as an SDP, the BOI must assess such project to be an SDP and enter into an agreement with such SDP to grant the relevant concessions. Currently, several BOI Zones, such as the Hambanthota Pharmaceutical Manufacturing Zone in the south of Sri Lanka, and the Eravur-Batticaloa Textile Zone in the east, have also been designated SDPs and businesses established within those zones can potentially avail themselves of SDP incentives.

5.5 Port City Colombo Special Economic Zone

The Port City Colombo ("**PCC**") is a special economic zone which is set to become a vibrant hub for services in the South Asian region. To this end, the regulatory framework under the Colombo Port City Economic Commission Act, No. 11 of 2021 ("**CPCEC Act**") establishes a special business environment that promotes foreign direct investment in the PCC. The relevant authority is the Colombo Port City Economic Commission (the "**Commission**"), which serves as a single window investment facilitator for the approval and facilitation of investments within the PCC.

To operate in the PCC special economic zone, a person (including a foreign company) must register as an 'authorised person' with the CPCEC, which registration is granted by the Commission. Registration is available to persons and businesses developing land within the PCC or providing services from the PCC's area of authority, which, *inter alia,* include international trade, offshore banking and finance, IT/BPO, regional distribution, tourism and related services. A minimum investment amount is not required for the standard authorised person status. However, should an authorised person wish to

qualify for certain incentives, they must meet specific qualification criteria that apply to Business of Strategic Importance ("**BSI**") status.

Companies operating within the PCC may conduct business offshore and within the area of authority of the PCC and may receive payments for goods and services provided within the PCC in designated foreign currency or Sri Lankan Rupees, which may be converted to a designated foreign currency through a licensed commercial bank. Authorised persons may only conduct business with a Sri Lankan citizen or a resident engaged in business in Sri Lanka outside the PCC ("**Sri Lankan Residents**") with specific prior approval of the Commission, which may permit such application or reject the same with reasons. Any such authorisation granted by the Commission shall be on the basis that the business is not set up solely to conduct business with such Sri Lankan Residents outside the area of authority of the PCC. More than half the revenue of the business of an authorised person must also be generated from business transacted other than with Sri Lankan Residents (i.e. offshore business).

Registration as an Authorised Person requires the business to be set up and carried out from within the limits of the PCC area of authority. However, as infrastructure within PCC is currently being developed for occupation, businesses have been permitted to be situated in designated areas outside of the PCC until space becomes available, until May 2026. The regulatory position has not yet been formally updated in this regard.

Authorised persons can be fully owned by foreigners and must raise capital outside Sri Lanka, in designated foreign currency. The investment must be routed through the Colombo Port City Investment Account – Investor, and up to 100% of capital and profits can be repatriated, in designated foreign currency. The authorised person operating within the PCC can open and operate a 'Colombo Port City Investment Account – Investee' in designated foreign currency, as well as Sri Lankan Rupee accounts for permitted Sri Lankan Rupee transactions.

Moreover, employees and investors of authorised persons are entitled to residence /work visa arrangements, including visas of 5–10 years respectively, for qualifying investors, employees and their spouses and children, subject to the applicable rules and approval processes. There are presently no income tax exemptions granted to resident employees of authorised persons that obtain registration/licensing on or after February 2026 due to an amendment in the law, although this was previously granted under the CPCEC Act.

BSI status is granted by the Commission based on criteria relating to two broad types of foreign investment into businesses set up and operating within the PCC. They are entitled to exemptions in terms of the 'Colombo Port City (Guidelines on the Grant of Exemptions or Incentives to Businesses of Strategic Importance) Regulations, No. 1 of 2025' which will remain in force for five years until 20 September 2030.

- Primary BSIs which invest between USD 25 Million - USD 1 Billion in leasing and development of defined categories of land within the PCC, and also create between 100 -300 employment opportunities, are entitled to exemptions from several laws, including CIT, for periods between 8-15 years after the completion of the project implementation period. Further, exemptions are granted for as customs duty- under the Customs Ordinance, the Ports and Airports Development Levy Act and the Sri Lanka Export Development Act during the project implementation period. Further exemptions may also be granted from, *inter alia*, the FEA and the Termination of Employment of Workmen (Special Provisions) Act (relating to non-disciplinary termination of employment of workmen).

- Authorised persons designated as Secondary BSIs are those that do not fall within the categories of Primary BSIs discussed above but are designated as BSIs, engaged in in business activities in the following fields:

    - global and regional economic activity in international trade;
    - shipping logistic operations;
    - offshore banking and finance;
    - information technology;
    - business process outsourcing;
    - corporate headquarters operations;
    - regional distribution operations;
    - tourism and other ancillary services;
    - innovation;
    - entrepreneurship;
    - entertainment;
    - generation of employment opportunities;
    - sustainable development; or
    - urban amenity operations in the settlement of a residential community.

  Secondary BSIs will benefit from a concessionary 7.5% CIT rate for 4 years from the commencement of commercial operations. In addition, they are exempt from Customs Ordinance, and the Ports and Airports Development Levy Act and the Sri Lanka Export Development Act until commencement of commercial operations, as well as exemptions that maybe granted from *inter alia*, the FEA and the Termination of Employment of Workmen (Special Provisions) Act.

6. Business Registrations and Requirements

6.1 Registration of Companies

The Department of the Registrar of Companies ("**ROC**") is the relevant public authority administering the incorporation of companies and registering of overseas companies. Companies can be registered/ incorporated using the e-ROC online registration platform. All relevant documents must be uploaded to this system. Incorporation documents are usually filed by company secretaries.

The documents required to incorporate a private or public limited liability company include the application for registration of a company (Form 1), the consent and certificate of the directors (Form 18) and the company secretary (Form 19). In addition, the company's charter document, which is the 'articles of association', must also be filed, either in the standard form as provided under the Companies Act, or containing modifications. The ROC also has an administrative requirement for the inclusion of an 'objects clause' in the articles of association (i.e., setting out the business activities that are proposed to be carried out), where foreign shareholders are to be involved in the company.

In order to register an overseas company (e.g. branch, project or liaison offices), the incorporation and charter documents of the overseas principal company, a statement containing the details of the registered or principal office of the company (Form 44), a list of directors (Form 45) and a form identifying the company's local representatives authorized to accept legal notices on behalf of the foreign company (Form 46) must be filed. A local representative who must be a resident individual is administratively required to be granted power of attorney by the foreign principal. Where the documents are not in English, an English translation must be provided.

The first step to incorporate limited liability companies is choosing a specific and unique name. Once selected and approved, the 'name reservation' is valid for three months. During this period, the company must be incorporated under the chosen name. The Registrar General of Companies (or his officers) has sole discretion to approve the name, including requiring changes to the proposed name if for example, it is similar to the name of an existing company. Overseas companies are generally registered under its own name (i.e., and not a separate name for the Sri Lankan branch/project/liaison/representative/regional office).

Once the initial documents have been reviewed and approved by the ROC, a certificate of incorporation or registration (for limited liability companies or overseas companies, respectively) will be issued by the ROC, confirming incorporation or registration. These documents are mandatory for opening bank accounts, obtaining taxpayer registration and other administrative requirements in Sri Lanka.

6.2 Obtaining a Taxpayer Identification Number and registration for taxes

To obtain a taxpayer identification number ("**TIN**"), proof of the business's or company's registration must be provided to the Taxpayer Service Centres at the Inland Revenue Department, either in person or online. Depending on the type of company, further documents may be required, such as articles of association and information about the directors.

Once a TIN has been obtained, it is necessary for a taxpayer to register for relevant taxes applicable which could be done either online or by visiting the Tax Registration Unit at the Inland Revenue Department Head Office or any regional office. Once a TIN is obtained by a company, it is also registered for 'Corporate Income Tax' ("**CIT**"). The required documents for other tax types differ depending on the type of tax to which the registration relates. For example, the company would need to register for VAT and 'Social Security Contribution Levy'' ("**SSCL**") (based on turnover thresholds) and 'Advance Personal Income Tax' ("**APIT**"). Companies are required to deduct and remit 'Withholding Tax' ("**WHT**") or 'Advance Income Tax' ("**AIT**"), for which they must also be registered as Withholding Tax agents.

6.3 Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF)

Any company aiming to employ workers in Sri Lanka is obliged to contribute to the Employees' Provident Fund ("**EPF**") and the Employees' Trust Fund ("**ETF**"), which are statutory pension/retirement funds administered by the Department of Labour and the Central Bank of Sri Lanka. Therefore, EPF and ETF registration is mandatory. This must be done within 14 days of hiring the first employee. All employees, whether permanent, temporary, apprentices, casual or shift workers, should be enrolled by furnishing the relevant registration form, "A", "B" or "H". The employer is required by law to make contributions equivalent to 12% and 3% of each employee's wages or salary (inclusive of certain prescribed allowances and other payments) to the EPF and ETF respectively. Further, an employee is liable to contribute 8% of his wages or salary to the EPF, which must be deducted from the salary paid to the employee and remitted, along with the employer's contribution. Contributions must be remitted before the last working day of the immediately following month.

7. Taxes

The Inland Revenue Department ("**IRD**") is the main body charged with administration of taxation within Sri Lanka, under various statutes. The most frequently applied types of taxes, introduced under such statutes, have been discussed in the sections below.

7.1 Income Tax for Individuals

Residents are entitled to a tax-free allowance of Rs. 1.8 million per year. Thereafter, a progressive income tax system applies. The first Rs. 1 million is taxed at 6%, with subsequent slabs of Rs. 500,000 being taxed at 18%, 24%, 30% and 36% respectively. Therefore, the highest income tax rate applies to incomes exceeding Rs. 4.3 million annually.

Employers are required to fulfil their obligation to deduct APIT when paying salaries to their employees.

7.2 Corporate Income Tax

The standard CIT rate in Sri Lanka is 30%. However, some variations are possible in certain industries, based on provisions of the Inland Revenue Act No.24 of 2017 (as amended) ("**IRA**") and other applicable laws and regulations. Companies involved in betting and gaming business, or the manufacture and sale, or import and sale of liquor or tobacco products are subject to a 45% CIT. Meanwhile, a reduced tax rate of 15% (subject to certain prescribed conditions) applies to income earned from services rendered to persons to be utilised outside Sri Lanka and to gains and profits earned from foreign sources, when they are received in foreign currency and remitted through a bank to Sri Lanka.

Group consolidation of taxes is not permitted in Sri Lanka. This means that companies belonging to the same group cannot consolidate their respective taxable incomes to reduce their tax liability. Each company is treated as a single and separate taxable entity even if other companies in the group report losses.

Accordingly, Sri Lanka has comprehensive transfer pricing regulations under the IRA. Transactions between associated persons must be conducted based on standard market terms on an arm's-length basis. These regulations are intended to prevent profit shifting and erosion of the tax base, and they apply not only to foreign multinational enterprises but also to domestic groups and BOI-approved entities alike.

7.3 Capital Gains Tax and Withholding Tax

Income derived from investment assets (such as land &buildings, shares etc, which are held as investments) are subject to a capital gains tax ("**CGT**") of 30% for companies and 15% for individuals. However, there are some exemptions such as:

- gains from the realization of an asset consisting of shares listed on the Colombo Stock Exchange;
- gains made by resident individuals which do not exceed Rs. 50,000 per transaction or Rs. 600,000 per assessment year;
- gains made by a resident individual from the disposal of their principal residence (subject to certain conditions); and
- dividends from and gains made on the realization of shares in a non-resident company derived by any person with respect to a substantial participation in the non-resident company.

Withholding taxes will apply to any payments which have a source in Sri Lanka and is due and payable to residents and non-resident persons. Different withholding taxes apply to certain sources of income. Generally, dividend income is subject to a 15% withholding tax, while interest income is taxed at 10%, unless specifically exempted by applicable legal provisions or double tax arrangements between countries.

7.4 Value Added Tax (VAT)

VAT charged in terms of the Value Added Tax Act, No. 14 of 2002 (as amended) and regulations thereunder, must be paid on the import of goods to Sri Lanka, as well as on the taxable supply of goods and services made by a registered person within the country. VAT invoices may be chargeable only by businesses that have registered for VAT. The threshold required to register for VAT (for taxable supplies of goods and services other than financial services) is Rs. 15 million per quarter or Rs. 60 million for a 12-month period. The standard VAT rate is 18%. From July 2026, this rate shall also apply to non-resident companies providing digital services to Sri Lankan customers. However, some products are subject to exemptions, the details of which are regularly updated and published by the IRD.

7.5 Further levies and taxes

SSCL of 2.5% applies to businesses with a quarterly turnover exceeding Rs. 9 million or where the aggregate turnover for four consecutive quarters exceeds Rs. 36 million.

Furthermore, any product imported into Sri Lanka may be subject to tariffs, para-tariffs and taxes, the rates of which depend on the product's HS code. This includes machinery and equipment.

Finally, other applicable taxes include 'Stamp Duty', 'Share Transaction Levy', and the 'Betting and Gaming Levy', which are incurred in specific circumstances.

7.6 Enhanced Capital Allowances

Enhanced capital allowances are presently available under the Second Schedule to the IRA for a person who invests in Sri Lanka, other than by expanding an existing business. However, enhanced capital allowances have also been made available to expansion of existing BOI projects. The concession applies to qualifying depreciable assets (other than intangible assets), including certain buildings/structures and plant or machinery fixed to the business premises, and is granted in addition to the normal capital allowances under the Fourth Schedule. The main rates are, where the investment is made outside the Norther Province, 100% of the cost of the qualifying assets, where the investment is above USD 3 million but not more than USD 100 million and 150% for qualifying assets where the investment exceeds USD 100 million. The investor may deduct up to 200% for qualifying assets used in the Northern Province where the investment exceeds USD 3 million; and 150% for qualifying assets or shares of a state-owned company where the investment exceeds USD 250 million. The Sixth Schedule to the IRA also provides for deductions of up to 100% for certain classes of assets, where the investment is between USD 250,000 - USD 3 Million.

The allowance must be claimed in the year of assessment in which the expenditure is incurred. If the losses of the business exceed the enhanced allowance, that loss may be carried forward and set off against business income for up to 10 succeeding years. Where the investment is exceptionally large (more than USD 1 billion), the loss may be carried forward for up to 25 succeeding years. A 3-year project implementation period may also apply where the intended total investment has not yet been completed.

7.7 Double Taxation Avoidance Agreements

Sri Lanka and Germany are covered by an existing Double Taxation Avoidance Agreement ("**DTAA**"). to avoid double taxation and prevent fiscal evasion in relation to taxes imposed by either country. As

its core purpose is to avoid the taxation of income in both countries, taxes shall be imposed only in the country where the income was generated. If income is earned in Sri Lanka, it shall be exempt from taxation in Germany, or tax paid in Sri Lanka shall be at least deducted from that payable in Germany. The provisions of the DTAA cover the principal categories of income and capital, including business profits, income from immovable property, shipping and air transport, dividends, interest, royalties, capital gains, employment and professional income, pensions and capital, while also providing mechanisms for relief from double taxation, non-discrimination, mutual agreement between the tax authorities, and exchange of information.

In relation to personal income tax of employees, income earned in Sri Lanka is only subject to the Sri Lankan income tax. Nevertheless, an exception may apply if the foreign employee stays in the respective country for less than 183 days. In this case, their income may be still taxed in their home country.

8. Employment Law

8.1 General requirements for formation of employment contracts

In Sri Lanka, employment contracts can be formed either in writing or verbally. However, the particulars relating to conditions of employment of an employee must be furnished to the employee in writing and signed by the employer, in accordance with the Shop and Office Employees (Regulation of Employment and Remuneration) Act No. 19 of 1954 (as amended) ("**SOEA**") and regulations issued thereunder (i.e., for the classes of employees covered under such law). However, employment relationships can be established through conduct and the circumstances surrounding it. Employment contracts may be formed either permanently or with a fixed termination date. Generally, there are no restrictions on fixed-term employment contracts; however, fixed-term contracts may be reclassified as permanent if a court deems that such contract has been continued in a manner and for a continuous period that infers a permanent employment relationship.

The Wages Board Ordinance No. 27 of 1941 (as amended) ("**WBO**") regulates the wages and other payments of workmen employed in different trades as well as minimum wages and other entitlements. Currently there are 43 'wages boards' in operation.

Along with EPF and ETF, employees who have completed 5 years of uninterrupted service with an employer (with more than 15 employees at any time during the preceding 12 months from the termination of the employee) are entitled to 'gratuity' payment in terms of the Payment of Gratuity Act No. 12 of 1983. Employees to whom the SOEA applies are also statutorily entitled to 14 days of annual leave, accrued after the first year of service, and 7 days of casual leave. Each wages board specifies the leave entitlement for the employees governed by the WBO. Employees may also be entitled to overtime based on any extra hours worked, as well as payment at higher rates for working on public holidays, as stated in their employment contracts or applicable laws.

8.2 Additional regulations for employment contracts

The minimum monthly wage in Sri Lanka is presently set at LKR 30,000 per month or LKR 1,200 per day effective from 1 January 2026, by the National Minimum Wage of Workers Act No. 3 of 2016 (as amended). However, different regulations may apply to certain sectors under the WBO, such as manufacturing of textiles or agriculture.

Regular working hours are generally restricted to 8 hours (exclusive of intervals for rest and meals) per day and should not exceed 45 hours per week. Any overtime must be compensated at a special

rate, typically 1.5 times higher than the regular salary. The overtime limit is 12 hours per week. While the SOEA mandates that overtime must be paid to all employees for work over regular hours of work, administratively, the Commissioner of Labour and the Labour Tribunals have accepted and held that management, supervisory and executive employees are not required to be paid overtime.

8.3 Termination of employment contracts

As Sri Lanka has no 'employment-at-will' regulations, termination of employment contracts is restricted to limited circumstances. Non-disciplinary termination is generally governed under the Termination of Employment of Workmen (Special Provisions) Act No. 45 of 1971 (as amended) ("**TEWA**"). TEWA applies to an employer who has employed 15 or more employees during the 6 months preceding the month in which the employer seeks to terminate the employment of the workman, and the employee must have been employed for 180 days in a continuous period of 12 months from the date of employment.

An employer is only permitted to terminate the employment of an employee with the employee's consent or with the consent of the Commissioner of Labour. In order to obtain the Commissioner of Labour's permission, the employer must provide reasonable grounds for termination. These can include business closure or redundancy. The Commissioner of Labour decides at his own absolute discretion whether or not to permit such termination, and how much compensation the employer must pay the employee in the event of a permitted termination, in accordance with the statutory formula prescribed under TEWA. The statutory maximum the Commissioner of Labour can currently prescribe is Rs. 2.5 Million. The Commissioner of Labour is required to provide his order within 3 months. This permission also cannot be refused in the event of a closure of a business.

In practice, however, employers are encouraged to offer voluntary resignation/retrenchment schemes, and the compensation offered is generally recommended to be higher than that offered by the statutory compensation scheme, in order to obtain the employee's consent to terminate the employment relationship.

Employment may also be terminated on certain limited disciplinary grounds, such as misconduct, insubordination or fraud, although these grounds of termination could be contested before a number of forums, such as before the Department of Labour, the Labour Tribunals or even the courts of Sri Lanka.

9. Visas and Work Permits

To visit Sri Lanka, foreigners are generally required to apply for an entry visa, prior to landing in Sri Lanka, through the Electronic Travel Authorization ("**ETA**") scheme. With effect from 25 May 2026, nationals of 40 countries are eligible to obtain tourist visas for 30 days, via the ETA system, free of charge. The countries permitted to do so include Germany and several other European countries, and India. The visa application process is conducted online, and all the relevant documents must be submitted via the government's online platform.

For business purposes, there are two main types of visa. For short-term stays, travellers must apply for a Business ETA. This visa allows for either single, double or multiple entries, valid for an initial period of 30 days, and extendable thereafter. However, this type of visa does not permit paid or unpaid employment, self-employment, or living in Sri Lanka for an extended period through frequent or successive visits.

For long-term stays, visitors must apply for a residence visa that includes an employment permit, in order to work in Sri Lanka. This generally requires an employer's sponsorship and justification of the need for the position to be filled by a foreign national (resident labour market test). BOI companies may sponsor an approved number of directors, senior management personnel or skilled foreign employees. The visa is usually valid for 1 year and can be extended on a yearly basis. Investors may be provided extended resident visas under various schemes.

10. Intellectual Property

Intellectual property is protected by the Intellectual Property Act, No. 36 of 2003 (as amended) ("**IPA**"). This legislation covers the protection of patents, trademarks, industrial designs, copyrights, and geographical indications, enabling businesses to protect and secure their intellectual property.

For newly developed products and technologies, companies can apply for a patent at the National Intellectual Property Office of Sri Lanka ("**NIPO**"). The authority examines the product's novelty and uniqueness and grants a corresponding patent. Patent protection lasts for 20 years and cannot be extended.

Words, names, symbols, or combinations thereof can be registered as trademarks. NIPO assesses the formal and material suitability for registration, upon an application being filed, after which, if accepted by NIPO for registration, the trademark is published in the Government Gazette. A 3-month opposition period then begins, during which third parties can challenge the registration. Once this period has expired, the trademarks will be granted full protection under the IPA as registered trademarks. The date of priority will be the date of submission of the application, and the registration is valid for ten years, and renewable for consecutive ten-year terms.

Similarly, the individual appearance of a product can be registered as an industrial design. This provides protection for the design for 5 years, which can be extended twice for a further 5 years each time. Therefore, the applicant must prove that the design is unique and not solely determined by the product's function.

In Sri Lanka, copyright lasts for life of the author plus 70 years in most cases, e.g. for literary works, artistic works or music, and cinematographic works. For applied art, the period of protection ends after just 25 years. Software is also included under the copyright regime. There is no registration requirement to establish copyright.

Sri Lanka offers geographical indications for certain products. These labels (e.g. *Ceylon Tea* or *Ceylon Cinnamon*) shall distinguish Sri Lankan products from others. Protection can be obtained by registering collective marks or certification marks with NIPO, under the trademark registration regime.

11. Data Protection

Sri Lanka's Personal Data Protection Act, No. 9 of 2022 (as amended) ("**PDPA**") sets up a data protection regime that is comparable to European data protection regulations, such as the GDPR. Companies processing personal data must adhere to the principles of lawfulness, fairness, transparency, purpose limitation, data minimization and accountability. They must therefore implement appropriate security measures and maintain records of processing activities, and, in most cases, obtain freely given, specific, informed and unambiguous consent before processing personal data.

This law applies to all entities processing personal data in Sri Lanka or personal data of Sri Lankan residents, whether they are incorporated in Sri Lanka or elsewhere. The relevant public authority is the Data Protection Authority of Sri Lanka which monitors compliance with the relevant limitations and restrictions. It will impose penalties for companies that breach its directives. In light of recent regulations issued under the PDPA, section 2, section 3, Part I (Processing of Personal Data) and part III (Controllers and Processors) of the PDPA, will come into force on 1 January 2027.

12. Enforcement of Contracts – Litigation, Arbitration and ADR

12.1 Litigation in Sri Lanka

The primary courts for hearing criminal matters and civil matters are the magistrate's courts and district courts respectively. Appeals from these courts, as well as the original jurisdiction for some matters, lie with the high courts, and further appeals can be preferred to the Court of Appeal and Supreme Court, in accordance with their jurisdictions and permissions granted by law.

For litigation proceedings, it is highly recommended to hire a local lawyer who is familiar with court processes and customs. However, it is not obligatory to be represented by a lawyer, except where applicable law expressly requires representation by an Attorney-at-Law. While the court-related costs of the proceedings are determined by government regulations, the fees for legal assistance would be as agreed with the Attorneys-at-Law representing the client. It may be concluded that civil proceedings in Sri Lanka are long-lasting and often accompanied by an unpredictable outcome and high costs.

Even though courts are burdened with a significant backlog of cases, it is important to note, however, that most commercial matters are heard by the specialist Commercial High Courts in Colombo, with some expediency in completing matters.

12.2 Arbitration and mediation

In Sri Lanka, arbitration is governed by the Arbitration Act, No. 11 of 1995, which enables arbitration to be used for disputes that are neither contrary to public policy nor incapable of determination by arbitration. However, as in other jurisdictions, criminal cases and certain family law cases are generally not eligible for arbitration.

The most widely known arbitration bodies in Sri Lanka are the Sri Lanka National Arbitration Centre ("**SLNAC**"), the CCC-ICLP International ADR Center ("**IADRC**"), and the ICC Sri Lanka Arbitration and Mediation Hearing Centre which is affiliated with the International Chamber of Commerce ("**ICC**").

Compared to legal proceedings in public courts, the parties can mutually agree on the framework under which their dispute shall be settled. Other advantages include the factor of time and the possibility of ensuring confidentiality.

Mediation is another time-efficient and confidential solution to resolve international legal disputes. Rather than being settled by a public or private judge, the conflict is resolved by the parties themselves. The mediator facilitates the process of reaching a mutually agreeable solution that meets the interests of both parties. Therefore, mediation is particularly suitable for disputes within long-lasting partnerships that are intended to continue. In Sri Lanka, mediation operates within formal legal frameworks, including the Mediation Boards Act, No. 72 of 1988, Mediation (Special Categories of Disputes) Act, No. 21 of 2003, and the Mediation (Civil and Commercial Disputes) Act, No. 13 of 2026. Mediation is also facilitated through institutional centres such as the IADRC and the Commercial

Mediation Centre set up by the Commercial Mediation Centre of Sri Lanka Act, No. 44 of 2000 (as amended). While the parties have flexibility in reaching an agreement under the facilitation of a mediator, the process is subject to statutory and institutional requirements. Sri Lanka has also implemented the Recognition and Enforcement of International Settlement Agreements Resulting from Mediation Act, No. 5 of 2024, to give effect to the United Nations Convention on International Settlement Agreements Resulting from Mediation.

In an international context, AHK Sri Lanka can provide mediation solutions developed in accordance with DIHK's German standards in cooperation with regional partners. If any further information is required, comprehensive and professional know-how about the topic can be provided on request.

13. Property and Infrastructure

13.1 Ownership and leasing of land

The Land (Restrictions on Alienation) Act No. 38 of 2014 (as amended) prohibits transfers of freehold title to land in Sri Lanka to foreign persons (including foreign companies), or companies incorporated in Sri Lanka, where the foreign shareholding is 50% or more (except in certain limited circumstances).

These ownership restrictions do not, however, apply to the transfer of freehold title to land to companies incorporated in Sri Lanka and listed on the CSE, or to the transfer of condominium property units to foreign persons/companies (regardless of percentage of foreign shareholding) - subject to the entire purchase consideration being received upfront through inward foreign remittance via an IIA, prior to the execution of the relevant deed of transfer. There are also no restrictions on foreigners, foreign companies, or companies incorporated in Sri Lanka which have 50% or more foreign shareholding, leasing land (subject to each such lease not exceeding a maximum term of 99 years). Companies obtaining SDP approval may also be able to obtain exemption from the application of this law in some circumstances.

Land transactions are carried out by executing deeds, physically, before a notary public, and must be registered at the relevant land registry where the land is situated. Stamp duty is payable on the execution of a deed, which is currently approximately 4% of the transfer value for a deed of transfer (of ownership) and 2% of the lease rental for lease agreements. VAT and SSCL are also chargeable by businesses registered for these turnover taxes, in relation to property transactions.

13.2 Planning clearance, water and electricity

Before building a company site, planning clearance must be obtained from the relevant local authority, such as the Colombo Municipal Council, or the Urban Development Authority, based on the zoning, size, height and nature of the property development. Therefore, all relevant documents must be submitted to the public authority which decides on the eligibility for approval.

The institutions responsible for water and electricity supply are the National Water Supply and Drainage Board and the newly established Electricity Distribution Lanka (Private) Limited under the Sri Lanka Electricity Act No 36 of 2024 (which takes on the distribution business of the Ceylon Electricity Board) as well as the Lanka Electricity Company (Pvt) Ltd, in their designated service areas.

14. Environmental Regulations

Based on the National Environmental Act No. 47 of 1980 (as amended) ("**NEA**") as well as several other statutes, Sri Lanka has one of the most comprehensive environmental legal frameworks in the region,

including regulations on pollution control and flora and fauna protection. Still, implementation of these measures remains an ongoing challenge.

Projects that could have an impact on the environment require compliance with certain procedures, including preparation of an 'Environmental Impact Assessment' ("**EIA**") report or 'Initial Environmental Examination' ("**IEE**") report, and obtaining an 'Environmental Protection License' ("**EPL**") that regulates air emissions, water discharge, and waste management. The Central Environmental Authority is the main agency responsible for issuing environmental permits in Sri Lanka. However, the Provincial Environmental Authority of the North-Western Province issues environmental permits for the area of its authority. The North-Western Provincial Council was empowered to enact the Provincial Environmental Statute No. 12 of 1990 due to a constitutional amendment that devolved certain powers on provincial councils. Other authorities, such as the Coast Conservation Department, Ministry of Defense, Department of Archaeology or the Forestry Department, may be required to issue clearances for certain developments, based on their location or proximity to restricted areas.

15. Imports & Exports

15.1 Trade barriers

The Department of Import and Export Control is the present regulatory authority responsible for the implementation and enforcement of the Imports and Exports (Control) Act (as amended). It issues licenses for controlled items, implements regulatory policy in accordance with government decisions, and works with other agencies including Sri Lanka Customs to enforce import/export regulations designed to safeguard public health, the environment, the economy, and national security. Sri Lanka restricts the import of certain goods, including military technology and specific chemicals, which may only be imported with specific regulatory approvals. Furthermore, over 400 products require a special license for import into the country. Importers must pay a fee to obtain an import license, and approval of the same is at the discretion of the regulators.

Export of specific items, such as endemic flora and fauna, is also restricted. Exportation of gems and jewellery, and other high-value or rare items will usually also require specific licenses from the relevant authorities.

15.2 Import Tariffs and Taxes

Goods imported to Sri Lanka are subject to various import duties, tariffs, para-tariffs, levies and taxes depending on the applicable Harmonised System code (HS code) and the nature of goods. These may (among others) include VAT, Customs Duty, Excise Duty, PAL, CESS, Social Security Contribution Levy and Special Commodity Levy. The applicable rates for all product categories and goods can be checked against the official Sri Lanka Customs Tariff Guide and any other relevant notices or regulations issued by the authorities (https://www.customs.gov.lk/customs-tariff/import-tariff/).

16. Distributorship/Franchise agreements and other commercial arrangements

16.1 Entering the Market through Local Partners

Apart from setting up one's own company in Sri Lanka, another option is to cooperate with a local distributor or franchisee. This allows the producer to benefit from their partner's established distribution structures and local market expertise. As no company is established under Sri Lankan law, governmental or regulatory authorities do not necessarily need to be involved, thus facilitating the

process of simplified/expedited market entry. Nevertheless, import/ importer licenses, customs registration, and other approvals may need to be obtained for this purpose, for example, for products such as pharmaceuticals or medical devices.

To establish a distributorship relationship, the parties generally execute a distributorship contract, granting the distributor the right to promote and sell the producer's products. Typically, the distributor may gain the exclusive or non-exclusive right to sell the goods specified in the respective distributorship contract in a defined region at their own risk. This minimizes the financial risk for the producer in the new market environment.

To this end, the producer may grant the distributor the right to use its trademark and products in the market within the region, enabling the distributor to promote and distribute the products independently, subject to the parties' mutual understanding. Furthermore, the distributor is entitled to financial compensation, which is typically fixed or dependent on the sales generated by the distributor. Another arrangement could be for the distributor to purchase the products and resell them. In this case, the producer profits from the margin generated by sales.

16.2 Designs of distributorship agreements

Distributorship agreements can be arranged in a variety of ways, depending on the specific interests and requirements of the parties involved. However, three designs are typical in international agreements.

- The franchise system establishes a strong relationship between the producer and distributor. Although the distributor remains economically independent, they are fully integrated into the franchisor's business concept. The distributor uses the franchisor's know-how, brand, trademark and corporate design to promote their products. In exchange, the franchisee must pay a franchise fee. This enables the franchisee to benefit from an established business concept, while the franchisor receives an assured income by licensing its intellectual property rights and market knowledge. This concept is advantageous for brand-centric companies (e.g. restaurants chains, consumer services, entertainment, hospitality and leisure activities) that have already established a franchise system in other countries and wish to expand their business with Sri Lankan franchisees.

- Authorized dealers are more independent of the producer. They purchase products at their own expense and obtain the right to sell them in a specific region under the producer's trademark. Typically, the contract includes provisions regarding the use of the producer's intellectual property, minimum purchase quantities, the distributor's exclusive/ non-exclusive distribution rights, pricing guidelines, and reporting requirements. While the producer gains secure sales opportunities, the distributor earns income through their sales margin, or other fees/ commission arrangements.

- Sales agents do not sell goods in their own name but act as a broker for the producer/principal. Ultimately, the sales contract is signed directly between the producer/principal and the end customer. This arrangement has the advantage for the producer/principal of enabling them to control the terms and conditions of the contract, as well as building direct relationships with their customers. However, the producer/principal must pay the sales representative a commission or other fee.

16.3 Distributorship agreements in an international context

Distributorship contracts should always contain specific information about the rights and obligations of both parties. As these agreements are becoming increasingly complex in an international context, we strongly recommend seeking professional legal advice when drafting the contract. Generally, such contracts should contain information on the following topics:

- Specific description of the parties' rights and obligations: The contract should state whether the distributor shall act in their own name, as a broker or within a franchise system. It is important to establish a clear remuneration system in the contract.

- Use of intellectual property: The parties should agree on the scope of use of intellectual property. This means that the parties should develop rules on the transfer of intellectual property by the producer, as well as restrictions on the distributor's use of intellectual property. These should include regulations on the use of intellectual property after the contract expires.

- Geographical boundaries: The contract should contain regulations on the geographical boundaries of the distributor's exclusive selling rights. This avoids disputes when the producer plans to use other distribution systems.

- Regulations on the contract's expiry: The parties should agree on the contract's duration and the exceptional reasons for ending it. The contract should set out the obligations of the parties in the event of termination, particularly with regard to compensation payments, return obligations and post-contractual fiduciary duties.

When the contract is to be utilised or enforced in an international/cross-border context, the following additional regulations should be considered for inclusion:

- Governing law and dispute resolution clause: In every contract involving parties in different countries, the parties should agree on the governing law and dispute resolution mechanism in case of legal disputes. This minimises the risk of having to file a lawsuit in an unfamiliar jurisdiction or in a disadvantageous or difficult forum, with unexpected risks and an uncertain outcome.

- Language and interpretation of the contract: To ensure a clear and consistent understanding of the parties' rights and responsibilities, it is crucial that the parties agree on a single definitive version of the agreement. This includes the choice of the language in which the contract is legally enforceable.

- Tariffs and export control regulations: The parties should take different tariffs and export control regulations into account. The contract should set out the respective obligations of the parties regarding the export and import of the products in the relevant countries. This should include delivery terms, e.g. based on Incoterms.

- Terms of payment and regulations on currencies: The contract should specify the currency in which payments must be made. It should also include regulations on the timing and circumstances of payment.

Disclaimer

The information provided on this website has been researched and compiled with the care and to the best of our knowledge and belief. It is intended for general informational purposes only and aims to provide an overview of relevant conditions, developments, and investment opportunities in Sri Lanka.

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