



SRI  
LANKA

## Country Update

# Challenges Faced by Sri Lankan e-Commerce Providers

Provided by



VERITE RESEARCH  
Sri Lanka

## 1. BACKGROUND

CUTS International, Geneva is implementing the “Business & Trade Connection” project, which aims to link private sector representatives in South and Southeast Asia (S&SEA) to the multilateral trading system.

The Country Update Note on “Challenges Faced by S&SEA e-commerce Providers” has been prepared to service the first forum meeting under the Business & Trade Connection project on e-commerce. The forum brings together WTO negotiators from participating countries to discuss views, clarify issues, ask questions, and share ideas.

For the purpose of this note, an “e-commerce provider” is defined as **any private enterprise that provides digital services and focuses on e-commerce providers engaged in cross-border trade**. Examples of **digital services** include *software provision, management of online platforms, accommodation booking, any mode of transport booking, digital financial services, payment services, internet services, and the provision of digital goods such as graphics, e-books, or online courses*.

This Country Update Note provides the views of e-commerce providers in Sri Lanka on their perceptions of the most pressing issues they face when undertaking cross-border trade. The objective is to understand the specific barriers they face in e-commerce participation, so that WTO negotiators may address their concerns.

---

<sup>1</sup> Daily FT, ‘Geneva ITC Calls for Opening of Sri Lanka E-Commerce Gateways’, 16 March 2018, available at: <http://www.ft.lk/business/Geneva-ITC-calls-for-opening-of-Sri-Lanka-e-commerce-gateways/34-651334>, [accessed on: April 2019].

<sup>2</sup> U.S. Department of Commerce, ‘Sri Lanka - ECommerce’, 10 October 2018, available at: <https://www.export.gov/article?id=Sri-Lanka-eCommerce>, [accessed on: April 2019].

## 2. LEGAL FRAMEWORK

The Electronic Transactions Act, No. 19 of 2006 (ETA) is the primary legislation that applies to e-commerce in Sri Lanka.<sup>1</sup> The Act covers several key areas including the legal recognition of electronic documents, standards on retention and presentation of electronic information, e-signatures, electronic contracts, use of electronic records in Government institutions and statutory bodies, and the admissibility of electronic evidence.

Several other laws also support e-commerce such as the Evidence Act, No. 14 of 1995, Payment and Settlement Systems Act, No. 28 of 2005, Payment Devices Frauds Act, No. 30 of 2006, and the Computer Crimes Act, No. 24 of 2007.<sup>2</sup> Additionally, companies in the health industry are governed by the National e-Health Guidelines and Standards whereas telecommunications service providers are guided by the Telecommunications Regulatory Commission (TRC) of Sri Lanka.<sup>3</sup>

The ETA was amended in October 2017, making Sri Lanka the first country in South Asia and the second country in Asia to adopt the UN Electronic Communication Convention (UN ECC). This amendment is believed to (i) provide greater legal certainty to e-commerce providers in the country, (ii) ensure the validity of electronic contracts, and (iii) facilitate cross-border trade.<sup>4</sup>

<sup>3</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.

<sup>4</sup> Daily FT, ‘Major Boost with Sri Lanka Harmonising E-Commerce Legislation with New Amendment’, 19 October 2017, available at: <http://www.ft.lk/front-page/Major-boost-with-Sri-Lanka-harmonising-e-commerce-legislation-with-new-amendment/44-641819>, [accessed on: April 2019].

### 3. CHALLENGES

#### 3.1. Challenges faced in relation to existing legislation, proposed new legislation, and lack of legislation

- *Absence of an e-consumer protection framework*

Sri Lanka does not have regulations or policies to foster consumer privacy and protection in the e-commerce sector. The country does not have an umbrella organisation that supports traders and consumers of e-commerce to resolve commercial disputes either. Though the Consumer Affairs Authority Act (CAAA), No. 9 of 2003 provides a framework for the protection of consumers in a traditional setting, it is not sufficient to resolve disputes in a digital era where transactions occur on digital platforms.<sup>5</sup> The CAAA does not confer the Consumer Affairs Authority (CAA) with any specific authority to regulate online trade and services.<sup>6</sup> According to e-commerce providers, the lack of a constructive dialogue between e-commerce providers and the CAA has resulted in many misperceptions among the authorities as to how online platforms operate and how to provide protection to consumers.<sup>7</sup>

In the absence of a proper mechanism to

protect the rights of consumers who engage in e-commerce activities, consumers find it hard to trust e-commerce providers. Therefore, the absence of an e-consumer protection framework not only adversely affects consumers who make online purchases, but also e-commerce providers, and ultimately, the e-commerce sector of the country as a whole.<sup>8</sup>

To address these issues, a new consumer protection framework, which includes new legislation that suits the e-commerce marketplace in the country is being drafted. The framework aims to protect consumers at pre-purchase, purchase and post-purchase stages by strengthening consumer rights and knowledge under five priority areas: access, education, awareness, payments, and data protection.<sup>9</sup> The proposed legislation includes provisions to recall unsafe or defective products and to deal with e-commerce security and marketing of digital content and misleading advertisements.<sup>10</sup> However, delays in enacting the law pose the afore-discussed challenges for both consumers and e-commerce providers.

In the absence of data privacy and security laws, many leading e-commerce providers have resorted to developing and following their own policies based on international

---

<sup>5</sup> The Island, 'Gaps Exist in Digital Consumer and Data Protection Laws in Sri Lanka' Experts Discuss Consumer Rights in the Digital Age at Forum Organized by IPS', 17 March 2017, available at:

[http://www.island.lk/index.php?page\\_cat=article-details&page=article-details&code\\_title=162068](http://www.island.lk/index.php?page_cat=article-details&page=article-details&code_title=162068), [accessed on: April 2019].

<sup>6</sup> Bamunu Achchige Rishanthi Ruwanthika Ariyaratna, OUSL Journal 13, no. 2 (2018): 5–23, 'Protection of Consumer Rights on the Internet: Prospects and Challenges for the Sri Lankan Legal System'.

<sup>7</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.

<sup>8</sup> Bamunu Achchige Rishanthi Ruwanthika Ariyaratna, OUSL Journal 13, no. 2 (2018): 5–23,

'Protection of Consumer Rights on the Internet: Prospects and Challenges for the Sri Lankan Legal System'.

<sup>9</sup> 'Sri Lanka Updating E-Commerce Consumer Protection Laws', 6 September 2018, available at:

[https://economynext.com/Sri\\_Lanka\\_updating\\_e-commerce\\_consumer\\_protection\\_laws-3-11805-7.html](https://economynext.com/Sri_Lanka_updating_e-commerce_consumer_protection_laws-3-11805-7.html), [accessed on: April 2019].

<sup>10</sup> Randima Attygalle, The Sunday Times, 'Workshop to Focus on Protecting Digital Consumer's Rights', 11 March 2018, available at: <http://www.sundaytimes.lk/180311/news/workshop-to-focus-on-protecting-digital-consumers-rights-285492.html>, [accessed on: April 2019].

best practices.<sup>11</sup> However, in the absence of strict laws and regulations, e-commerce providers noted that there have been numerous instances in the industry where customer data has been hacked or leaked to third parties.<sup>12</sup> In such instances, it was noted that the relevant authorities were ineffective in taking action against such perpetrators.<sup>13</sup>

- *Proposal to make data localization mandatory puts SMEs at a disadvantage*

The Central Bank of Sri Lanka has proposed to introduce laws making data localization mandatory. This requires businesses to process and store data within the country, but a majority of e-commerce providers currently store data outside the country, utilizing servers located in other countries. This is due to the fact that data storage facilities in Sri Lanka is costly and does not meet international security standards as compared to facilities that e-commerce providers could obtain from overseas. Moreover, large scale enterprises may have the capacity to bear the additional costs and establish local data centres, but SMEs will not be able to do the same. This puts local SMEs in the e-commerce sector in Sri Lanka in a disadvantaged position. Hence, as pointed out by a leading online shopping platform, data localization laws similar to those of Australia would be preferred by local players, whereby the government identifies specific safe harbour countries in which e-commerce providers can locate their data.<sup>14</sup>

---

<sup>11</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.

<sup>12</sup> Key Person Interview. Busseat.lk. 7 May 2019.

<sup>13</sup> Key Person Interview. Glitteray. 7 May 2019.

<sup>14</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.

- *Lack of laws to address intermediary liability in Sri Lanka*

Currently, the level of liability borne by e-commerce providers for content uploaded on their platform remains an area of uncertainty for businesses and legal professionals alike. For example, an e-commerce provider which operates a platform utilized to connect customers with builders and tradesmen stated that it endures numerous complaints regarding breaching of contracts by such service providers.<sup>15</sup>

- *Lack of acceptance of E-Signatures in Sri Lanka*

While the regulations are in place to accept e-signatures following the recent updates to the Electronics Transaction Act, regulatory support has not translated into practical usage in both the private sector and public sector. In Sri Lanka, all banks and legal institutes still request physical signatures even in the presence of e-signatures.<sup>16,17</sup> As such, increased awareness about the benefits of e-signatures and the assurance of its security to make it more widespread should be a priority.

- *Legislation requiring an audit of mobile applications handling payments*

A recent Central Bank regulation requires all mobile applications handling payments to be audited by a Central Bank approved entity. However, such approved entities demand extremely high fees (approximately Rs. 1 million) for such services. Hence, this regulation has proven to be more of a burden than an asset to the e-commerce

<sup>15</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.

<sup>16</sup> Key Person Interview with a local IPG provider. 7 May 2019.

<sup>17</sup> Key Person Interview. Tickets.lk, 6 May 2019.

sector.<sup>18</sup>

- *Time taken for registration of trademarks*

The time taken for registration of trademarks has proved to be another challenge for companies in the e-commerce sector. Presently, it takes up to two years for a trademark to be registered in Sri Lanka, by which time the company's products have already been replicated by competitors.<sup>19</sup>

- *Lack of awareness and regulation to accommodate non-bank payment platforms in Sri Lanka*

A local player that hosts an Internet Payment Gateway (IPG) stated that when the company first started operations in 2016, it was forced to halt its operations after two and half months of operation as it was in violation of the Payment and Settlement Systems Act, No. 28 of 2005. There were no legal provisions in Sri Lanka at the time to accommodate the innovative payment models that were being used in the country. The ban was reversed in 2018 as the Central Bank of Sri Lanka issued a direction to the Payment and Settlement Systems Act, No. 28 of 2005 which allows for such companies to operate (Direction No. 1 of 2018 issued by the Payment and Settlement Department of the Central Bank of Sri Lanka). There is a general lack of awareness amongst regulators and the general public about companies that facilitate payment platforms for other e-commerce providers but are not financial companies – rather they are technology companies. As such, initiatives should be taken to increase awareness about such new technological advancements amongst regulators and

consumers.<sup>20</sup>

- *Need to factor in concerns and capacity of SMEs in e-commerce when drafting regulations*

Overall, in drafting new regulations, it is pertinent to consider that a large number of e-commerce providers in the country are SMEs. Hence, these regulations should be easy to understand and to implement for such businesses.<sup>21</sup>

### **3.2. Challenges faced when competing with global/foreign companies**

- *Revising domestic regulations to facilitate cross border trade*

Many of Sri Lanka's e-commerce providers aim to enter foreign markets although a majority presently caters only to the domestic market. An e-commerce provider in the health sector stated that a key challenge in entering foreign markets is the necessity to adapt to the regulations of that country. In this regard, the company noted that many countries have modelled their legislation based on the General Data Protection Regulations (GDPR) of the EU. Hence, having similar legislation in Sri Lanka would not only support Sri Lankan e-commerce providers by making the shift to foreign markets less challenging, but also increase the confidence of foreign businesses to partner with domestic companies. However, e-commerce providers in the health sector noted that such regulations need to be reconciled with local regulations. There are currently contradictions between certain local regulations and GDPR. For example, the GDPR allows customers to understand and request the deletion of data stored about

<sup>18</sup> Key Person Interview. Tickets.lk, 6 May 2019.

<sup>19</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.

<sup>20</sup> Key Person Interview with a local IPG provider. 7 May 2019.

<sup>21</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.



themselves, whereas the National e-Health Guidelines issued by the Ministry of Health do not provide such rights.<sup>22</sup>

Moreover, deficiencies in Sri Lanka's (i) regulatory framework, (ii) governance, (iii) transparency, and (iv) ease of doing business were highlighted as unfavourable factors to the e-commerce providers interviewed. Hence, incorporating a company in a country such as Singapore was seen as a preferable method of engaging in cross-border trade as opposed to carrying out global operations from Sri Lanka.<sup>23,24</sup>

▪ *Stringent labour laws and taxes*

Other regulatory concerns raised by e-commerce providers included the need to create a level playing field. Less stringent labour laws which would allow for flexible hiring and firing of workers would be beneficial for the e-commerce sector.

In relation to taxes, domestic e-commerce providers are required to pay Nation Building Tax on international payments, whereas foreign competitors are not subject to this tax in Sri Lanka. Hence, domestic companies find themselves at a disadvantage.<sup>25</sup>

▪ *Regulating competition*

Sri Lankan e-commerce providers have mixed views regarding the regulation of the e-commerce sector of the country in relation to competition from foreign firms. Some

entities such as the Tourist Hotels Association of Sri Lanka, which face increasing competition from international e-commerce providers such as Airbnb and Booking.com, have requested the government to regulate e-commerce businesses.<sup>26</sup> Others such as Sachira Fernando, the CEO of NicNac argue that introducing legislation to regulate e-commerce providers without providing them with supportive infrastructure and facilities could hamper the growth of the e-commerce sector.<sup>27</sup>

**3.3. Challenges related to internal and external capacity**

▪ *Difficulties faced in gaining and maintaining consumer trust*

As Sri Lankans are new to the concept of online purchases, they tend to have security concerns regarding online payments as well as their personal data.<sup>28</sup> Therefore, convincing consumers to try out products of a store that they have not visited in person tends to be somewhat daunting for e-commerce entities, especially for start-ups that are yet to prove their trustworthiness. The fact that one of the biggest hurdles that Takas, a pioneering e-commerce marketplace in Sri Lanka had to overcome during its first years in operation was establishing its credibility in the Sri Lankan retail sector, proves this point.<sup>29</sup>

<sup>22</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.

<sup>23</sup> Key Person Interview. Tickets.lk, 6 May 2019.

<sup>24</sup> Key Person Interview. Yamu.lk, 2 May 2019.

<sup>25</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.

<sup>26</sup> U.S. Department of Commerce, 'Sri Lanka - ECommerce', 10 October 2018, available at: <https://www.export.gov/article?id=Sri-Lanka-eCommerce>, [accessed on: April 2019].

<sup>27</sup> Sachith Perera, ReadMe, 'The Sri Lankan Government Wants To Regulate E-Commerce', 14 September 2016, available at: <https://www.readme.lk/sri-lankan-government-regulate-e-commerce/>, [accessed on: April 2019].

<sup>28</sup> Kantar, 'Increased Use of Mobile in Sri Lanka, Is ECommerce Next?', available at: <http://www.tnsglobal.com/asia-pacific/intelligence-applied/increase-use-mobile-sri-lanka-ecommerce-next>, [accessed on: April 2019].

<sup>29</sup> Andre Howson, Roar Media, 'Takas And The Difficulties of E-Commerce', 13 March 2017, available at: <https://roar.media/english/tech/insights/takas-and-the-difficulties-of-e-commerce/>, [accessed on: April 2019].

Bart Van Dijk, the country manager of Daraz.lk, states that operating in the e-commerce sector of Sri Lanka is challenging as consumer expectations regarding e-commerce entities are higher than those of typical retail entities. These include expectations such as faster processing periods and omnichannel experiences.<sup>30</sup>

Furthermore, online fashion platforms also find it a challenge to attract customers in an environment in which the customers are not able to get an accurate view of the product details and quality.<sup>31</sup>

- *Low internet penetration and lack of technical knowledge*

Despite the high rates of mobile and social media utilisation and the high potential for expansion of e-commerce activities, the e-commerce sector of the country is still in early stages.<sup>32</sup> One reason is the low usage of credit cards, IPGs, and other methods of electronic payment in rural parts of the island.<sup>33</sup> Therefore, the e-commerce providers' market is limited to urban areas at present.<sup>34</sup>

- *Non-availability of reliable and efficient Internet Payment Gateways (IPGs)*

PayPal, one of the most widely used IPGs in

the world, does not facilitate inward receipts to Sri Lanka. It is believed that the low volume of e-commerce transactions in the country is the main reason for PayPal not offering its complete package in Sri Lanka. The limited operations of this key global IPG and other such payment platforms such as Stripe and Skrill have restricted the capacity of Sri Lankan e-commerce operators, especially with regard to cross-border trade.<sup>35</sup> Many of the companies interviewed cited the lack of PayPal as an impediment to the e-commerce sector in Sri Lanka.

- *Outdated technology used to facilitate payments*

The outdatedness of the interfaces of these IPGs in terms of technology and usability is a hindrance to the operations of e-commerce providers such as Takas, which process a large number of payments online.<sup>36</sup> According to Lankitha Wimalaratne, Founder of Vesess, local banks that provide IPGs have weak Application Programming Interfaces (APIs) and unappealing User Experience (UX) Designs.<sup>37</sup> Furthermore, IPGs provided by domestic companies are not able to satisfactorily meet the needs of e-commerce providers in terms of functionality. For example, the ability to store card details and to block funds on the card with the option to release later are not

---

<sup>30</sup> Nishel Fernando, Daily Mirror, 'Lankan E-Commerce Space Could Expand to US \$ 500mn in next 5-7 Years: Daraz', 19 October 2018, available at: <http://www.dailymirror.lk/article/Lankan-e-commerce-space-could-expand-to-US-mn-in-next-years-Daraz-157101.html> [accessed on: April 2019].

<sup>31</sup> Key Person Interview. Fashionmarket.lk. 8 May 2019.

<sup>32</sup> Colombo Page, 'ITC Calls for Expanding Sri Lankan E-Commerce Payment Facilities beyond Large Financial Institutions', 15 March 2018, available at: [http://www.colombopage.com/archive\\_18A/Mar15\\_1521132755CH.php](http://www.colombopage.com/archive_18A/Mar15_1521132755CH.php), [accessed on: April 2019].

<sup>33</sup> Key Person Interview. Busseat.lk. 7 May 2019.

<sup>34</sup> Andre Howson, Roar Media, 'Takas And The Difficulties of E-Commerce', 13 March 2017, available at: [https://roar.media/english/tech/insights/takas-and-](https://roar.media/english/tech/insights/takas-and-the-difficulties-of-e-commerce/)

[the-difficulties-of-e-commerce/](https://roar.media/english/tech/insights/takas-and-the-difficulties-of-e-commerce/), [accessed on: April 2019].

<sup>35</sup> Kanishka Weeramunda, The Morning, 'Who Needs PayPal Anyway?' The Morning, 29 January 2019, available at: <http://www.themorning.lk/biz-pg-5-lead-who-needs-paypal/>, [accessed on: April 2019].

<sup>36</sup> Andre Howson, Roar Media, 'Takas And The Difficulties of E-Commerce', 13 March 2017, available at: <https://roar.media/english/tech/insights/takas-and-the-difficulties-of-e-commerce/>, [accessed on: April 2019].

<sup>37</sup> Hanif Hakiem, Roar Media, 'What's Holding Back E-Commerce In Sri Lanka?', 22 February 2016, available at: <https://roar.media/english/life/economy/whats-holding-back-e-commerce-in-sri-lanka/>, [accessed on: April 2019].

available.<sup>38</sup>

- *Low brand credibility of alternative IPGs*

Even though local financial technology start-ups such as PayHere, WEBXPAY, DirectPay, and Genie have come up with alternative IPGs to international ones and those provided by local banks and financial institutions, all of these have been in operation only for a few years and do not have brand credibility.<sup>39</sup> Therefore, unlike Indian e-commerce providers who rely on domestic non-bank IPGs,<sup>40</sup> the Sri Lankan e-commerce sector cannot rely on local non-bank IPGs.

There is a negative perception amongst the public towards the use of non-bank payment platforms in Sri Lanka and it has been a struggle for such companies to convince potential clients. A local IPG provider who caters to other e-commerce providers was of the view that there are misconceptions amongst their clients about the use of alternative IPG platforms such as using these platforms as a means for cross-border transactions. Clients are concerned that their foreign partners will not be willing to use local platforms, as opposed to more recognized platforms such as PayPal.<sup>41</sup>

- *High fees levied by financial institutions when facilitating payments*

Financial institutes that provide IPGs in the country tend to charge high usage fees in the forms of initial charges, monthly recurring

fees, and transaction fees, which reduce the profit margins of e-commerce providers, especially those of small-scale businesses and start-ups.<sup>42</sup>

Shortcomings in the IPG infrastructure of the country have resulted in customers having to use less convenient payment methods such as bank transfers. In carrying out bank transfers, fees and commissions are required to be paid to multiple parties, including the merchant's bank, client bank, and the Central Bank of Sri Lanka. According to the CEO of an internet marketing agency in Sri Lanka, such transaction costs relating to bank transfers from foreign clients are extremely high and are difficult for SMEs to bear. These costs could be avoided by having a sound IPG infrastructure, thus avoiding such intermediary costs. In addition to high transaction costs, minimum bank account balances required to be maintained by start-ups have been identified as another constraint imposed by the financial sector. Considering that most e-commerce providers operate a high-volume low-margin business model, high financial costs pose a significant burden to such businesses.<sup>43</sup>

The prevalence of technical issues in undertaking e-commerce in Sri Lanka is not a sentiment shared by all the companies, as some do feel differently and are currently not facing any major technical issues.<sup>44</sup>

- *Under-developed transport and delivery services*

<sup>38</sup> Key Person Interview. oDoc. 10 May 2019.

<sup>39</sup> Kanishka Weeramunda, The Morning, 'Who Needs PayPal Anyway?' The Morning, 29 January 2019, available at: <http://www.themorning.lk/biz-pg-5-lead-who-needs-paypal/>, [accessed on: April 2019].

<sup>40</sup> Hanif Hakiem, Roar Media, 'What's Holding Back E-Commerce In Sri Lanka?', 22 February 2016, available at: <https://roar.media/english/life/economy/whats-holding-back-e-commerce-in-sri-lanka/>, [accessed on: April 2019].

<sup>41</sup> Key Person Interview with a local IPG provider. 7 May 2019.

<sup>42</sup> Hanif Hakiem, Roar Media, 'What's Holding Back E-Commerce In Sri Lanka?', 22 February 2016, available at: <https://roar.media/english/life/economy/whats-holding-back-e-commerce-in-sri-lanka/>, [accessed on: April 2019].

<sup>43</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.

<sup>44</sup> Key Person Interview. Mydeal.lk. 8 May 2019.



Another capacity-related challenge that e-commerce providers face when operating in the e-commerce sector of the country is related to suppliers and logistics, leading to delays in delivery and damages to goods. E-commerce providers, especially those who engage in delivery services, have to depend on a large number of suppliers, but deliveries can be complicated as customers tend to be constantly on the move.<sup>45</sup> Moreover, due to a lack of suppliers in rural areas, e-commerce providers find it challenging to manage on-time delivery to these areas. Due to a lack of resources such as warehousing, stocks, raw materials, skilled labour, vehicles, and up-to-date logistics, they find it difficult to provide same-day delivery services.<sup>46</sup> Further lack of required knowledge on the professional handling of goods (especially products that require such knowledge – e.g. potted plants sold online) results in goods being damaged during transport. Additionally, for overseas deliveries, the cost of using global courier companies to ensure on-time delivery is extremely high from the perspective of SME e-commerce companies that do not supply in bulk.<sup>47</sup>

- *Finance-related restrictions faced by SMEs*

Many of the SME e-commerce providers interviewed noted that they face numerous disadvantages when dealing with financial institutions relative to an established e-commerce provider. For example, financial institutions tend to charge higher fees for IPGs from start-ups since they are unable to leverage the size of their business or brand name.<sup>48</sup> Similarly, financial institutions allocate a higher proportion of their budget

for marketing activities (such as card promotions) to larger companies which have steady financial backing compared to SMEs.<sup>49</sup> Furthermore, many small-scale e-commerce platforms do not maintain high levels of inventory which banks require as collateral for providing bank overdrafts.<sup>50</sup>

A key person interviewed considered it important to have policies and regulations to financially support SMEs particularly with regard to encouraging cross-border trade, as SMEs do not have strong financial backing similar to that of larger established businesses.<sup>51</sup>

- *Unavailability of data servers that are cost effective and compliant with standards*

Another crucial deficiency in Sri Lanka's internet infrastructure is the unavailability of data servers that are both cost effective and compliant with regulations such as Payment Card Industry Data Security Standard (PCI DSS), the US Health Insurance Portability, and Accountability Act of 1996 (HIPAA). Consequently, most e-commerce providers prefer to utilize foreign data servers to store their data.<sup>52</sup>

- *Lack of a robust system for customer verification*

The lack of a robust system for customer verification is also a significant shortcoming faced by e-commerce providers in Sri Lanka. Although the country has laws in place requiring verification through the National Identity Card (NIC), there still exists no centralized database that can be utilized by companies to verify the identity of customers. Hence, e-commerce providers resort to verification through physical

<sup>45</sup> Andre Howson, Roar Media, 'Takas And The Difficulties of E-Commerce', 13 March 2017, available at: <https://roar.media/english/tech/insights/takas-and-the-difficulties-of-e-commerce/>, [accessed on: April 2019].

<sup>46</sup> Kapruka Blog, 'E-Commerce Delivery in Sri Lanka.....!!!', 04 April 2019, available at: <https://blog.kapruka.com/2019/04/04/e-commerce-delivery-in-sri-lanka/>, [accessed on: April 2019].

<sup>47</sup> Key Person Interview. Glitteray. 7 May 2019.

<sup>48</sup> Key Person Interview. Busseat.lk. 7 May 2019.

<sup>49</sup> Key Person Interview. Lino.lk. 25 April 2019.

<sup>50</sup> Key Person Interview. Glitteray. 7 May 2019.

<sup>51</sup> Key Person Interview. Glitteray. 7 May 2019.

<sup>52</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.

documents to the best of their ability, despite this method displaying many shortcomings. The inability to accurately verify customers has led to instances of theft faced by online shopping platforms.<sup>53</sup>

- *Access to information related to e-commerce and cross-border trade*

A majority of e-commerce providers stated that they have limited access to comprehensive and up-to-date information on regulations and market opportunities in relation to both domestic and foreign markets. Although information required by traditional export sectors of Sri Lanka is more readily available, emerging areas of the economy such as e-commerce have minimal information at their disposal. Hence, many businesses rely on their own independent research to keep themselves informed on such topics. This has proven to be a challenge in making effective business decisions. Although more advanced markets would have much of the information readily available digitally, emerging markets are more reliant on potential local partners. Hence, the lack of information has proven to be a significant challenge for local businesses to both enter the foreign market and to attract foreign investors' investment in the domestic e-commerce sector. In this regard, a number of e-commerce providers interviewed expressed the pertinent need to establish a single source to obtain up-to-date information that is easily accessible by the public. Moreover, e-commerce providers indicated that taxes, duties, and data security legislation were areas of concern about which they sought information.

- *Shortages of skilled labour in the e-commerce sector*

The companies face a shortage of skilled employees due to "brain drain". To prevent brain drain, some were of the view that the

government should have policies aimed at retention of workers in the country to support the industry.<sup>54</sup> The shortage of skilled workers is a greater problem for SMEs as the most skilled employees are recruited while at university by larger IT firms. Students receive higher exposure and access to such firms as their brand names better enable them to conduct workshops and seminars at universities. Start-ups are not given similar exposure by universities, leading to difficulties for smaller e-commerce providers to recruit talented students.<sup>55</sup>

- *Exchange rate fluctuations*

E-commerce providers rely more heavily on online marketing techniques than companies operating with traditional business models. Hence, a significant portion of such businesses' advertising expenditure is spent on foreign currency payments to Facebook, Google, and other similar vendors than on payments to local vendors. This has proven to be challenging in terms of both budgeting and actual expenditure due to exchange rate fluctuations in recent times.<sup>56</sup>

- *Challenges faced by women e-commerce providers*

A female e-commerce provider interviewed stated that she cannot think of any gender-specific barriers in the e-commerce sector faced solely by women-led enterprises.

---

<sup>53</sup> EU-Sri Lanka Trade Related Assistance: National Public-Private Dialogue on E-Commerce Platform Policy/ Regulatory Issues held on 2nd April 2019.

<sup>54</sup> Key Person Interview. Busseat.lk. 7 May 2019

<sup>55</sup> Key Person Interview. Glitteray. 7 May 2019

<sup>56</sup> Key Person Interview. Glitteray. 7 May 2019

## ANNEXURE 1

### Summary of legislation in Sri Lanka relating to e-commerce

Legislation	Content
Electronic Transactions Act No. 19 of 2006	The Act provides for the legal recognition of electronic documents, standards on retention and presentation of electronic information, legal recognition of e-signatures and electronic contracts, use of electronic records in Government institutions and statutory bodies and the admissibility of electronic evidence. The Act is based on standards established by United Nations Commission on International Trade Law (UNCITRAL) Model Law on Electronic Commerce (1996) and Model Law on Electronic Signatures (2001).
Evidence (Special Provisions) Act No. 14 of 1995	Provides for the admissibility of audio visual recordings, and of information contained in statements produced by computers in civil and criminal proceedings.
Payment and Settlement Systems Act No. 28 of 2005	Provisions for the regulation, supervision and monitoring of payment, clearing and settlement systems and providers of money services. It also includes provisions for the disposition of securities in securities accounts maintained at the Central Bank and facilitation of electronic presentment of cheques.
Payment Devices Frauds Act No. 30 of 2006	Provides for the prevention of possession and use of counterfeit payment devices and the investigation and prosecution of such offenders. This Act was introduced in order to curb the high incidence of credit card fraud in Sri Lanka that existed at the time.
Computer Crimes Act of No. 24 of 2007	This Act primarily addresses computer-related crimes and hacking offences. It provides for the identification of computer crime and the procedure for the investigation and prevention of such crimes.

## ANNEXURE 2

### List of e-commerce providers contacted

Institution	Contact details
Tickets.lk	No. 257/15, Torrington Avenue, Colombo 05. <a href="mailto:support@ticketslk.com">support@ticketslk.com</a>
Mydeal.lk	No. 385, R. A. De Mel Mawatha, Colombo 03. 0117 588 888 <a href="mailto:info@mydeal.lk">info@mydeal.lk</a>
Fashionmarket.lk	No. 50, Ananda Coomaraswamy Mawatha, Colombo 03. customercare@fashionmarket.lk
Yamu.lk	No. 14/15A, R. A. De Mel Mawatha, Colombo 04. indi@yamu.lk
Lino.lk	T19, Dedicated Economic Centre, Kirimandala Mawatha, Narahenpita, Colombo 05. info@lino.lk
Govipola mobile application	Level 3, No. 156, Walukarama road, Colombo 03 info@govipola.com
Busseat.lk	No. 33, Lauries Road, Colombo 04. info@busseat.lk
oDoc mobile application	No. 177 Galle Road, Colombo 03. info@odoc.life
Local IPG provider	-



## CUTS International, Geneva

CUTS International, Geneva is a non-profit NGO that catalyses the pro-trade, pro-equity voices of the Global South in international trade and development debates in Geneva. We and our sister CUTS organizations in India, Kenya, Zambia, Vietnam, and Ghana have made our footprints in the realm of economic governance across the developing world.

© 2019. CUTS International, Geneva.

This country update note is authored by Verité Research (Sri Lanka). CUTS' country updates aim to inform negotiators and policy makers about stakeholders' perspectives on the ground related to a particular issue. Readers are encouraged to quote or reproduce material from this paper for their own use, provided due acknowledgement of the source is made.

37-39, Rue de Vermont, 1202 Geneva, Switzerland  
geneva@cuts.org • www.cuts-geneva.org  
Ph: +41 (0) 22 734 60 80 | Fax:+41 (0) 22 734 39 14 | Skype: cuts.grc

### BUSINESS & TRADE CONNECTION INITIATIVE

The Business & Trade Connection Initiative aims to link private sector in South and Southeast Asia to the multilateral trading system. Web: [http://www.cuts-geneva.org/WTOForum\(SSEA\).html#view3](http://www.cuts-geneva.org/WTOForum(SSEA).html#view3)



The Business & Trade Connection Initiative is undertaken with funding support from the Australian Aid agency (Australian government).