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The Impact of Information Technology (IT) in Trade Facilitation on Small and Medium Enterprises (SMEs) in Sri Lanka

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Table of Contents

List of Charts

List of Tables

Box Notes

Executive Summary

The role of trade facilitation in increasing and maximizing benefits of trade has been widely acknowledged. In this regard, the use of Information Technology (IT) in trade facilitation has received considerable attention in policy circles given its potential to reduce costs, paper work and processing times involved in trading goods across borders. Countries around the world including Sri Lanka have automated their import/export processes with some countries having more success than others. In the case of Sri Lanka, the Customs Department introduced the ASYCUDA system as far back as 1994 while the Electronic Data Interchange (EDI) facility was introduced more recently in 2002, which allows traders and customs agents to electronically process trade related documents. Unfortunately, the EDI system has only been *partially* implemented with the progress to date being poor. The main agencies in the import/export process such as the Customs, the Ports, etc., are only partially connected to the system while most regulatory agencies function outside the system. Moreover, important trade documentation such as the manifest and the shipping note cannot be submitted electronically.

While examining the extent to which automation of trade facilitation has taken place - with special focus on automation of the customs process/procedure - this study also examines the impact it has had on the small and medium scale exporters of the country. Towards this end, a small survey which includes both small-medium and large scale traders and agents was carried out. The survey focused on the experiences of the garment industry in Sri Lanka with regard to automation of trade facilitation in the country. The survey attempted to capture a number of issues including the extent to which traders/agents use the electronic (EDI) system, the adjustments they had to make in adapting to it, and the costs and benefits under the electronic system.

Although the small and medium scale traders and agents surveyed for the study were aware about the system, very few of them use it. This was due to many reasons including the partial implementation of the system as well as the additional cost, which have discouraged many traders and agents from lodging trade related documents electronically. In addition, lack of information on the EDI system and how to access it have hindered its use by the SME sector. While the issue of access to the system is a cause of concern, stakeholders emphasized the need for the government to take the lead and fully implement the system in the country on an urgent basis such that everyone including the small and medium scale enterprises involved in international trade could fully realize the benefit from an automated system.

1. Introduction

Global trade has expanded over the years both in absolute and relative terms. World merchandise exports are estimated to have increased from US$58 billion in 1948 to US$ 13.6 trillion by 2006 (WTO, 2007). Tariff reductions, lower trade protective measures, and improvements in transport and ICT facilities have boosted trade across borders. In both the developed and the developing countries, Small and Medium Enterprises (SMEs) have been a driving force in the domestic economies, bringing about innovation, growth and employment opportunities. According to a recent UNCTAD study, SMEs account for about 99 per cent of all enterprises worldwide, contributing to 50 per cent of manufacturing output and generating 44 – 70 per cent of employment. Nevertheless, SME's active participation in international trade has been hampered largely due to red tape rather than tariff barriers.[1] High transaction costs resulting from excessive documentation requirements, considerable clearance times, lack of coordination between relevant bodies, and outdated customs techniques have hindered their full participation in international trade. In this context, trade facilitation has been widely recognized as an important means of expanding trade by both the developed and developing countries, bringing about benefits to both large and small-medium scale enterprises[2].

Although automation of systems and the usage of IT in the import/export process is not considered a 'panacea' to trade facilitation, it has been recognised that cumbersome paper work, rent seeking activities, etc., can be reduced by automating the export/import process. The introduction of IT to facilitate trade has been identified as a powerful tool in promoting exchange of goods across borders. Although the introduction and implementation of these systems might be costly for both governments and businesses, past experiences have shown that the financial benefits in many cases have exceeded costs over time (OECD, 2008). In fact, a majority of the WTO members have implemented some kind of automated system. UNCTAD's ASYCUDA and ASYCUDA++ are installed in 62 out of 110 developing and least developed countries. Sri Lanka Customs too has been using ASYCUDA since 1994 which was updated to ASYCUDA++ in 1998. With the current EDI facility available in the country, traders and agents also have the possibility of processing documents electronically *albeit* partially.

Given the increasing importance of trade facilitation especially with regard to automation of Customs process/procedures, the objectives of this study are, a) to examine the extent of automation of trade facilitation in Sri Lanka, and b) to assess the impact of automation on SMEs in the country. This study focuses on the automation of customs procedure and the SME sector as it is commonly believed that automation would lead to

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[1] It has been found that in many instances the cost of complying with customs formalities exceed the cost of payable duties.

[2] Trade facilitation has been defined by the WTO as, "the simplification and harmonisation of international trade procedures", including "activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade".

further marginalization of the this sector, which plays an important role in the Sri Lankan economy[3].

The remainder of the paper is organized as follows. Section 2 provides background information on trade facilitation in Sri Lanka by examining some indicators and reviewing the main findings of a previous study conducted by the IPS on trade facilitation in South Asia. Section 3 looks in detail at the rules, regulations and procedures governing cargo declaration and clearance/forwarding, and documentation requirements in the country. Section 4 examines the extent to which automation of trade facilitation has taken place in Sri Lanka while Section 5 draws upon results from the survey of traders and agents to assess the impact of automation on enterprises in the country. In order to examine the impact of automation on the SMEs, the study focuses on the experiences of the garment industry, which has been a driver in the Sri Lankan economy over the years, with regard to automation in Sri Lanka.

Box 1: Definition of an SME

In Sri Lanka, there is no nationally accepted definition for SMEs. Different institutions use different criteria and definitions of SMEs for different purposes. Most classifications are based either on the value of fixed assets or the number of employees or a combination of both. For example, the Industrial Development Board (IDB) definition is based only in terms of capital investments of less than Rs.4mn. The Department of Small Industries defines SMEs as those with a capital investment of less than Rs.5mn and those employing less than 50 persons. The Department of Census and Statistics (DCS) of Sri Lanka defines SMEs in terms of the number of employees: firms which have employees of 5-25 are classified as ‘small’ while more than 25 are classified as ‘large’. The Export Development Board (EDB) defines in terms of capital – investments of less than Rs. 20mn in plant, machinery and equipment excluding land and buildings – as well as annual export turnover (not exceeding Rs.40 mn) and total turnover not exceeding Rs.100 mn. Apart from these institutions, other statutory bodies dealing with SMEs have adopted their own definitions based on their own purpose of classification. No differentiation is made between small and medium size enterprises. However, in the ‘White Paper on National Strategy for Small and Medium Enterprise Sector Development in Sri Lanka’(2002) by the Task Force for SME Sector Development Programme, small enterprises are defined as those with 5-29 employees, medium enterprises with 30-149 employees, and large scale, as those with 150 or more employees.

[3] Small and medium scale industries account for about 96 per cent of industrial units, 36 per cent of industrial employment, and 20 per cent of value addition of the industry (White Paper, 2002). The present government in its economic policy framework "Mahinda Chinthana” has identified the SME sector as a strategically important sector for promoting growth and social development in the country.

2. Background - Trade Facilitation in Sri Lanka

In line with the liberalisation of the economy in 1977, the Government of Sri Lanka undertook several measures to facilitate trade and integrate the country with the rest of the world. Its first major initiative was the establishment of the National Trade Facilitation Committee in 1980. This Committee which later adopted the acronym SRILPRO was given legal status as an Advisory Committee to the Export Development Board (EDB) under the Sri Lanka Export Development Act No.40 of 1977. It was mandated to take action as necessary to simplify external trade procedures/documents. It was widely represented by both the public and the private sector[4], and played a key role in introducing important trade facilitation initiatives to the country. Amongst its main achievements were: the introduction of a set of three UNLK Aligned Documents (United Nations Layout Key for Trade and Transport Documents) eliminating unnecessary documents and replacing a number of other documents[5], introduction of the Electronic Data Interchange (EDI) concept, further simplification of the import/export procedure, etc.

One of the mandates of this Committee, as far back in the 1980s, was to look into electronic data processing. In 1986 a Sub-committee was set up to work on electronic data processing and a National EDI Commission was set up later on. EDI as a concept was introduced to Sri Lanka in 1995. In spite of these developments, SRILPRO died a natural death towards the end of the 1990s[6]. However, the Department of Commerce (DOC) of Sri Lanka appointed a Steering Committee in 2006 on trade facilitation following WTO recommendations. This Committee focused especially on WTO concerns but this body is now defunct. Currently, there is no government institution driving trade facilitation initiatives in the country, which is unfortunate given that the Sri Lankan economy is highly dependent on international trade. Nevertheless, individual public and private institutions/organizations such as the Joint Apparel Association Forum (JAAF)[7] to name one have been advocating trade facilitation measures in order to improve the competitiveness of Sri Lanka and its exports.

Table 1 provides an overview of some selected indicators, drawn from *The World Competitiveness Report*, on trade facilitation in Sri Lanka and the rest of South Asia together

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[4] Public Sector: Ministry of Trade and Shipping, Customs Department, Department of Commerce, Central Bank of Sri Lanka, Sri Lanka Ports Authority, Import and Export Control Department, Airport and Aviation Services Ltd., Sri Lanka Export Development Board (EDB).

Private Sector: Sri Lanka Shippers' Council, National Council of the ICC, Sri Lanka Bankers' Association, Ceylon Association of Ships' Agents, Sri Lanka Freight Forwarders' Association.

Other stakeholders were invited when the need arose.

[5] The shipping note was introduced in 1986 instead of 9 documents used till then.

[6] There was no adequate commitment from the top to establish a separate unit for SRILPRO within the EDB. SRILPRO was part of the Services Division of the EDB. Since it was just another function of the Services Division within the EDB and there were interests in other areas within the organisation, SRILPRO died a natural death.

[7] The Joint Apparel Association Forum (JAAF) is the apex body for all textile and apparel related associations in the country.

with Singapore which is seen as a model of trade facilitation. The table shows that the *burden of customs procedures* in Sri Lanka is still high, just surpassing the mean value but fares relatively better compared to its South Asian neighbours. Moreover, the required paper work and the number of organizations/government agencies an exporter/importer has to visit in order to get the necessary approvals are considerable and costly.

Table 2 provides further information on the costs and documentation involved in importing and exporting goods in Sri Lanka. According to the World Bank's *Doing Business Report* of 2008/09[8], trading requires an average of 8 documents, 21 days and costs US$ 865 to export while imports requires 6 documents, 20 days and US$ 895.While Sri Lanka has improved its trading across borders ranking over the years and performs better than its neighbours in South Asia, it fares far below that of Singapore[9].

Table 1: Selected Indicators of Trade Facilitation in Singapore and South Asia, 2007-08

Country	**Mean**	**Singapore**	**Bangladesh**	**India**	**Pakistan**	**Sri Lanka**	**Nepal**
Hidden Barriers to Trade (1)*	4.5	6.3	3.8	4.7	3.8	4.9	NA
Burden of Customs Procedure (2)	3.9	6.4	2.3	3.6	3.4	4.0	2.5
Overall infrastructure quality (3)	3.8	6.6	2.2	3.1	3.4	3.3	1.9
Road quality (4)	3.7	6.6	3.1	3.1	3.6	3.1	3.1
Railroad infrastructure quality (5)	2.9	5.7	2.3	4.5	3.2	2.8	1.3
Port infrastructure quality (6)	4.0	6.8	2.4	3.5	3.7	4.1	3.0
Air transport infrastructure quality (7)	4.6	6.9	3.0	4.8	4.2	4.5	3.4
Transparency of government policymaking (8)	4.1	6.1	3.5	4.4	3.5	4.0	3.2
Irregular payments in exports and imports (9)*	4.9	6.5	2.5	4.0	3.1	3.8	NA
Global Competitiveness Index (Rank)	-	7	107	48	92	70	114

Notes: NA= Not Available.
* data based on the 2004-2005 Report.
(1) 1= important problem,7= not an important problem.
(2) 1= extremely slow and cumbersome, 7= rapid and efficient.