



## EU – Sri Lanka Trade-Related Assistance

# Increasing SMEs' Trade Competitiveness in Regional and EU Markets



## PROJECT SUMMARY

The EU – Sri Lanka Trade-Related Assistance Project aims to increase the trade competitiveness of Small and Medium Size Enterprises (SMEs) in regional and European Union (EU) markets.

The 4-year EU-funded project, worth EUR 8 million, contributes to inclusive trade-led growth and regional integration. It supports SME export competitiveness and value addition in sectors with high potential for economic growth and development.

The project helps Sri Lanka integrate the policies and regulatory reforms of the World Trade Organization (WTO), allowing SMEs to make the most of the potential opportunities resulting from the EU's Generalised Scheme of Preferences (GSP) Plus. It also enables greater regional integration within the South Asian Association for Regional Cooperation (SAARC).

The project addresses compliance standards and efficiencies in cross border procedures, which are key constraints to market access, especially for SMEs. Specific attention is given to enhancing value chains in the spice, food and Information Technology/Business Process Outsourcing (IT/BPO) sectors.

The project provides trade capacity building and technical assistance, with a strong focus on training and skills development.

Women are heavily involved in trade and are therefore a target group when it comes to capacity building of SMEs and exporters.

## CONTEXT

Sri Lanka has great export potential with one of the fastest growing economies in the Asia-Pacific region.

Sri Lanka has risen steadily to become a regional trade and business hub. It is strategically located within the SAARC region, at the crossroads of major shipping routes that connect the Far East and the Pacific with Europe and the Americas, next to the rapidly growing India sub-continent with close proximity to South-East Asia and the Middle East.

Despite numerous indicators suggesting a decrease in the level of poverty and increased per capita income, Sri Lanka faces the challenge of ensuring that growth is inclusive. Poverty is indeed higher in rural areas and pockets of poverty remain. Youth unemployment (ages 15-24) was estimated at around 19% and women represented 35% of the country's labour force in 2014.

Across sectors, over 80% of the businesses in Sri Lanka are SMEs, representing 35% of total employment. Supporting production and exports by SMEs in sectors with high potential for job creation is therefore critical to contribute to the country's inclusive growth.

The Government of Sri Lanka has placed export growth and private sector development high on its development agenda. The project supports the country's trade priorities.

### OVERALL OBJECTIVE:

Contribute to Sri Lanka's inclusive trade-led growth and regional integration, thereby contributing to poverty alleviation

### SPECIFIC OBJECTIVE:

Increase trade competitiveness of Sri Lankan SMEs in regional and EU markets

### EXPECTED RESULTS:

- ER 1. Coherent trade strategy for export competitiveness designed and implemented, including policies, regulatory reforms and trade negotiations as shaped by the WTO, regional integration process, EU GSP+ scheme
- ER 2. Enhanced efficiency of cross-border procedures and SMEs' capacities to comply with cross-border procedures for exporting to SAARC and EU
- ER 3. Improved compliance and quality infrastructure services to meet quality and SPS requirements in the regional and EU markets
- ER 4. Increased SME competitiveness in export-oriented sectors (spices, food and ITO/BPO industry)

## EXPECTED RESULTS

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**Expected Result 1: Coherent trade strategy for export competitiveness designed and implemented, including policies, regulatory reforms and trade negotiations as shaped by the WTO, regional integration process, EU GSP+ scheme**

Sri Lanka has opened up its economy, entering into and currently negotiating various multilateral, regional and bilateral free trade agreements to support companies to access global and regional markets. As Sri Lanka has liberalised its economy, developing a national export strategy for trade competitiveness, including policy and regulatory framework which comply with the trade provisions foreseen in free trade agreements, has become a complex process. While the Sri Lankan economy has opened-up, exporting SMEs have also faced difficulties and lack information to understand the complex multilateral, regional and domestic trading environments. They can therefore not fully benefit from new market opportunities and comply with market requirements.

The project will:

- Design and provide advisory support for the implementation of a National Export Strategy, under the leadership of the Sri Lanka Export Development Board and the private sector, for the benefit of SMEs in the country,
- Strengthen national capacities for the formulation and implementation of trade negotiations,
- Establish a Trade Remedy Unit,
- Support the private sector to engage in business advocacy for coherent trade policy formulation and implementation, and
- Stimulate public-private policy dialogue on pressing trade policy, regulatory and negotiation issues.

**Expected Result 2: Enhanced efficiency of cross-border procedures and SMEs' capacities to comply with cross-border procedures for exporting to SAARC and EU**

While the business environment in Sri Lanka has improved, exporting SMEs still face many challenges which limit their competitiveness in regional and international markets. Facilitating border operations is critical to improve the country's business environment and increase the trade competitiveness of Sri Lankan SMEs in regional (SAARC) and international (EU) markets.

The project will:

- Strengthen the National Trade Facilitation Committee as a platform to stimulate the informed participation of SMEs, and to support the implementation of the WTO's Trade Facilitation Agreement ratified by Sri Lanka in May 2016,

- Create a national trade facilitation information portal for SMEs to enhance transparency and accessibility to international trade transaction information,
- Provide advisory services for the implementation of a Single Window system, and
- Provide capacity building trainings to SMEs to manage cross-border procedures and comply with EU and SAARC markets' requirements.

**Expected Result 3: Improved compliance and quality infrastructure services to meet quality and SPS requirements in the regional and EU markets**

Increasing supply capacity is essential to, but not sufficient for, gaining entry into world markets or achieving regional harmonisation and integration. Once the critical quantity is achieved, the problem of reaching a certain quality requested by international and regional markets arises and the associated challenge of proving conformity with international standards and technical regulations. Furthermore, besides complying with standards and technical regulations, producers are increasingly expected to demonstrate that they apply sustainable practices that do not adversely impact the environment or people. They need to be aware of and apply international standards and guidelines to the areas of environmental management and social responsibility.

The project will:

- Support Sri Lanka's efforts to integrate into the regional and multilateral trading system through a quality programme to strengthen the National Quality Infrastructure, enhance the technical capacity and improve compliance with quality and sanitary and phytosanitary requirements, and
- Support the development of local expertise with the adequate technical knowledge to provide quality-related advisory services to SMEs.

**Expected Result 4: Increased SME competitiveness in export-oriented sectors (spices, food and ITO/BPO industry)**

Sri Lankan SMEs face many challenges to access foreign markets. The project will be selective in addressing them. It will adopt a sector-focused and market-driven approach underpinned by poverty reduction goals. The prioritized sectors include spices, food and the ITO/BPO industry.

Direct support to SMEs in these sectors will include:

- Compliance with SPS and market requirements,
- Strengthening of sector associations,
- Branding and marketing,
- Business to business linkages with buyers.

## PROJECT PARTNERS

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### European Union

The EUR 8 million EU – Sri Lanka Trade-Related Assistance Project: “Increasing SMEs' Trade Competitiveness in regional and EU Markets” is fully funded by the European Union (EU).

It is an integral part of the EU Regional Multi-annual Indicative Programme for Asia 2014-2020 which, in South and North-East Asia, aims to support regional integration in the context of the SAARC and the South Asian Free Trade Area (SAFTA) process, as well as market access in the framework of the EU's GSP.



European Union

### Government of Sri Lanka

The project is a project with the Government of Sri Lanka in the lead.

The project has been designed and will be implemented jointly with the Government of Sri Lanka, in collaboration with the Sri Lankan Department of Commerce.

A Steering Committee co-chaired by the Ministry of National Policies and Economic Affairs, the Ministry of Industry and Commerce and the Delegation of the European Union to Sri Lanka will provide overall direction. Competent national level agencies and apex business entities will support work-plan development and implementation of activities.



### ITC

The International Trade Centre (ITC) is the only United Nations development agency fully dedicated to supporting the internationalization of SMEs. ITC enables SMEs in developing and transition economies to become more competitive and connect to international markets for trade and investment, thus raising incomes and creating job opportunities, especially for women, young people and poor communities. Established in 1964, ITC is the joint agency of the United Nations and the World Trade Organization.

ITC is the lead implementing agency of the project.



### UNIDO

The United Nations Industrial Development Organization (UNIDO) is a UN specialised agency that promotes industrial development for poverty reduction, inclusive globalization and environmental sustainability. UNIDO's mission is to promote and accelerate inclusive and sustainable industrial development in developing countries and economies in transition.

UNIDO is responsible for implementing parts of the project related to strengthening the National Quality Infrastructure and improving compliance with quality and sanitary and phytosanitary requirements in the spice and food sector value chains.



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Ms. Sonali Wijeratne  
Director General of Commerce  
Department of Commerce  
Tel.: +94 11 243 0068  
Email: dgc@doc.gov.lk  
Ministry of Industry and Commerce  
4th Floor, “Rakshana Mandiraya”,  
21 Vauxhall Street, Colombo-2,  
Sri Lanka



Mr. Dayaratna Silva  
National Project Coordinator  
EU – Sri Lanka Trade-Related Assistance  
Tel.: +94 11 231 4236  
Email: dsilva@intracen.org  
CWE Secretariat Building, 9th Floor,  
27 Vauxhall Street, Colombo-02,  
Sri Lanka  
www.intracen.org



Ms. Sylvie Bétemps Cochin  
Trade Promotion Officer  
Office for Asia and the Pacific  
Tel.: +41-22 730 0111  
Email: betemps@intracen.org  
International Trade Centre  
Palais des Nations, 1211 Geneva 10,  
Switzerland  
www.intracen.org