

Towards A Startup Friendly Government

Accelerating Startup Growth

Prepared by **ICTA** and **PwC Sri Lanka**
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This report has been prepared solely on the information available up to 31st December 2020 and shall not include any changes in market conditions etc.. and may impact the findings and conclusions contained in the report therefore should not be considered as conclusive.

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Executive summary

List of key impediment areas identified

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Executive summary

Classification of issues faced by startups

Issue No	Impediment	Seed stage?	Startup stage?	Growth stage?	Expansion stage?	Gender Impact?	Product based?	Service Based?	Colombo specific?	Outside Colombo?	Local market?	Export Market?
1	Digitalization of administrative tasks	X	X	X	X	X	X	X	X	X	X	X
2	Foreign exchange	X	X	X	X	X	X	X	X	X	X	X
3	Barriers to foreign investors	X	X	X	X		X	X	X	X	X	X
4	Intellectual property	X	X	X	X		X	X	x		X	X
5	Taxation	X	X	X	X	X	X	X	X	X	X	X
6	Immigration		X	X	X		X	X	X	X	X	X
7	Research and development	X	X				X	X	X		X	
8	Government support for cross border activity	X	X	X	X		X	X	X	X	X	X
9	Data privacy and cyber security	X	X	X	X		X	X	X	X	X	X
10	Digital payments	X	X	X	X		X	X	X		X	X
11	Debt funding	X	X	X	X	X	X	X	X	X	X	
12	Telecommunications regulations	X	X				X	X	X	X	X	X

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Introduction

Overview

“A startup is a company or project initiated by an entrepreneur to seek, effectively develop, and validate a scalable business model” (*Natalie Robehmed (2013), “Forbes: What is a Startup?”*)

“For a Booming Economy, Bet on High Growth Firms, Not Small Businesses” (*Daniel Isenberg, Ross Brown (2014), Harvard Business Review*)

Sri Lanka’s startup ecosystem is growing rapidly with 425 active startups in 2019 (*Startup Genome Country Assessment, 2020*) versus 225 in 2017 (*Global Startup Ecosystem Report, 2017*). The objective of this report is to identify the regulatory and market level barriers that impedes local start-ups and to provide recommendations to overcome them. For the purpose of this report, a start-up is defined as an entity that:

- is technology based
- in active operation for less than ten years
- is established in Sri Lanka, serving domestic and/or international clientele
- has the majority of its workforce and R&D operations in Sri Lanka

During the primary research and information gathering phase, PwC and ICTA focused on engaging with the community covering a range of start-up phases, geographies, target markets (local and international), product/service orientations and founder demographics, along with key stakeholder groups. This was achieved through a digital survey distributed to the local start-up ecosystem and a series of sector specific focus group discussions and in-depth key informant interviews with ecosystem stakeholders to validate preliminary findings and to capture feedback and recommendations from various levels of the local start-up ecosystem.

Methodology

Based on initial proposal shared with ICTA on 16th September 2020, PwC formulated a research plan that narrowed down perceived and reported ecosystem impediments, which took into account startup lifecycle, impact of geography, target markets, product/service orientation, founder demographics and overall ecosystem impact. A steering committee was appointed, including key stakeholders from ICTA, startups and ecosystems stakeholders to help guide the progress and findings of the report. The steering committee continued to engage with PwC on a weekly basis from the 22nd of September 2020 to the 22nd December 2020 to review the progress made and to ensure the presentation of findings and proposed solutions was clear and impactful.

During the primary research phase, PwC surveyed over **110 startups** on operational issues faced, growth inhibitors, funding and capital impediments and market accessibility. In addition, PwC conducted focus group discussions to understand the issues faced by startups working in key specific sectors.

Simultaneously, PwC held key informant interviews with over **25 ecosystem stakeholders** (including private incubators, educational institutes, venture capital funds, legal firms and professional bodies) to validate startup impediments along with identifying challenges faced by stakeholders trying to support startups. During the analysis stage, PwC conducted independent secondary research to verify all impediments identified along with evaluating how peer ecosystems developed and implemented solutions to similar impediments.

All of the research gathered by PwC and the guidance provided by the ICTA steering committee helped narrow down the market and regulatory barriers faced in the Sri Lankan startup ecosystem to **12 key impediment areas**. Each of these impediments were broken down into their constituent issues, each of which provide a remedial course of action that details the steps to be taken, legal requirements and the relevant entities to be engaged.

Methodology (cont'd)

Discussion

PwC conducted inaugural discussions with ICTA and steering committee to narrow down perceived and reported start-up ecosystem barriers based on start-up phases, geographies, target markets, product/service orientations, founder demographics and key ecosystem stakeholder impact.

Research

PwC conducted primary research to gather ecosystem feedback and recommendations across all levels through an in depth digital survey, key informant interviews and sector specific focus group discussions and ecosystem stakeholder conversations to validate preliminary findings.

Analysis

The collected data was analyzed to discern and separate key issues, discoveries and feedback into:

Impediments

Barriers to entry or operation impacting the majority of the ecosystem that could be tackled through government intervention.

Catalysts

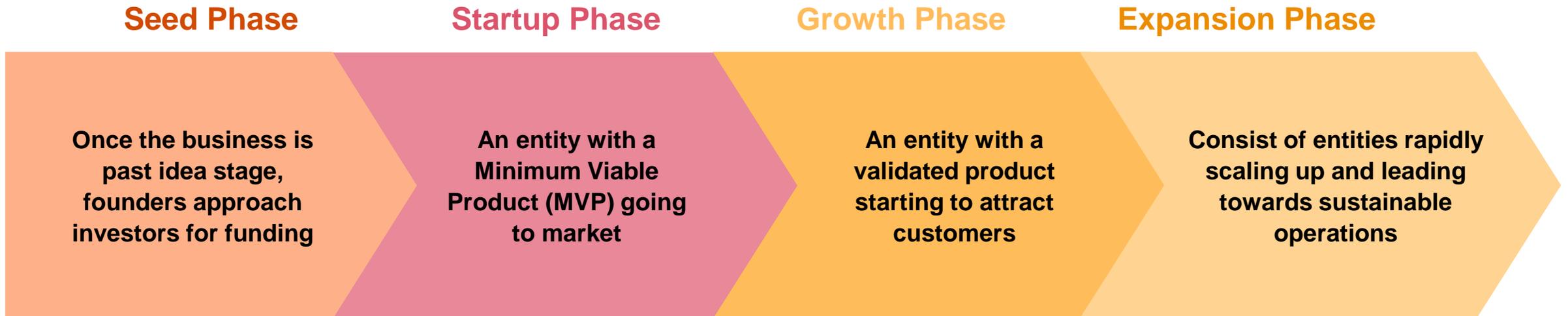
Drivers that would unlock potential growth, positively impact the ecosystem through both public and private sector action. These will be investigated further in Phase 2.

Action

Proposed findings were discussed under the guidance of ICTA and steering committee for review and validation. Upon cross check and approval, feedback was collated into action plans detailing actions required and responsible parties.

Breakdown of startup lifecycle

For the purposes of this report, we have adopted the following definitions for the startup life cycle, which was sourced from PwC Switzerland.



Source: <https://www.pwc.ch/en/services/consulting/startup.html>

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Assessment of
Impediments

1. Impediments related to insufficient digitalization of administrative tasks and requirements

01 **Process of registering a company is time consuming, lacks clarity and has practical issues**

External consultation is required to adhere to processes, relevant public bodies responsible for certain tasks are not easily identifiable and electronic solutions still require physical interactions.

02 **Process of registering a company with foreign shareholders is not outlined**

There are difficulties in identifying the proper procedure to obtain Ministerial approvals resulting in blockages in registration of companies with foreign shareholders.

03 **Lack of clarity on how to file taxes and annual returns due to complicated processes**

Startups and stakeholders have indicated that processes for filing and paying taxes as well as filing annual returns correctly are confusing due to lack of clarity and guidance.

04 **Process of closing down a business lacks information on proper procedures**

There is no official public website or resource detailing the steps required to legally close down a business in the country.

1.1 Process of registering a company is time consuming, lacks clarity and has practical issues

Impacted Party/s: Startups of all stages

Overview

Startups find registering a company to be time consuming as the legal terminology encountered requires professional consultation in order to adhere to certain legal processes.

Additionally, the process lacks clarity in identifying which Government authorities are responsible for which administrative tasks.

Startups also find this process to have practical issues as certain steps accept electronic registrations, but require physical documentation to be submitted/collected from certain offices.

Additional Information

- While most offices post documents and certificates to applicants currently due to the pandemic, it is unclear if these processes will be reverted once the situation normalizes.
- The identified service provider website provides basic guidance on how to use the website/service. However, startups would also like clear guidance on how to complete the necessary legal documentation along with assistance with other administrative tasks required when registering a company (e.g. opening up EPF/ETF accounts)
- For comparison, in Singapore, government run websites detail the entire business registration process and include weblinks to the respective departments whose approvals are required. In addition to this, they offer live chat options to clarify simple queries online.
- 71.8% of survey respondents found the entire process of registering a business to be a time consuming process.

Action Plan

Government collaboration partner: Department of the Registrar of Companies

A single unified government website/resource needs to be launched to manage the processes of registering a company.

The website should handle the entire process and provide detailed guidance for startups and other entities to follow in order to register and begin operations.

1.2 Process of registering a company with foreign shareholders is not outlined

Impacted Party/s: Startups of all stages

Overview

There are discrepancies (with regard to certain tasks) in the registration process for local entities registering with foreign shareholders, which are not clearly explained on the identified collaboration partners' website.

The lack of clarity and guidance on the relevant processes has resulted in delays or roadblocks for several startups with foreign shareholders.

Additional Information

- An example of a discrepancy, as indicated by stakeholders and startups, is the requirement for ministerial approval before commencing operations. Applicants are required to obtain this approval themselves instead of obtaining it through the identified collaboration partner, which has resulted in delays or roadblocks due to the lack of clarity on the relevant procedures to follow and departments to be contacted.
- Sri Lanka does not have a unified Government resource or website that provides comprehensive information on this registration process. Instead, each Government Department/Ministerial website provides information only pertaining to them.
- In comparison, countries such as Hong Kong have Government run websites (such as 'GovHK') which provide in-depth and straightforward literature indicating what approvals are needed to be obtained, how this documentation should be filled out and which departments are responsible for processing these documents.

Action Plan

Government collaboration partner: Department of the Registrar of Companies

As mentioned in 1.1, a common unified website should be launched which clearly identifies and explains the entire process of registering all types of businesses.

This website should indicate which processes are owned by which relevant Departments/Ministries and how to execute them.

1.3 Lack of clarity on how to file tax and annual returns due to complicated processes

Impacted Party/s: Startups of all stages

Overview

Startups and stakeholders identified the uncertainty surrounding procedures related to taxes and annual returns as an impediment to the ecosystem.

The main issues raised were the lack of clarity of the processes involved in filing documentation necessary for paying taxes and the filing of annual returns. As a result of this, most startups spend extra resources hiring a third party to carry out these administrative tasks.

Additional Information

- In comparison, Singapore's Inland Revenue Authority provides an easy to understand resource for individuals and businesses that demonstrates how to file and pay their taxes step by step. They offer services ranging from an online chat portal providing assistance for detailed queries and support phone lines serving both local and foreign callers that indicate peak periods and waiting times.

Action Plan

Government collaboration partner: Inland Revenue Department

Consideration of providing a grace period of three years on filing Annual Returns for companies earning below LKR 50mn per year.

Promotion of 'e-File' system for taxes and ensure that process overviews and tutorial videos are available.

Include detailed instructions on websites on how to fill out necessary forms (both for filing tax and annual returns).

Implementation of a support service where clarifications on tax matters can be obtained preventing startups from having to engage with expensive tax consultants.

1.4 Process of closing down a business lacks information on proper procedures

Impacted Party/s: Startups of all stages

Overview

Startups and stakeholders have noted a lack of information regarding the proper legal procedures to close down a business. Currently, information on this matter is not available on any Government run websites/resources online and as a result, the only option available to startups is to consult with legal experts.

According to lawyers familiar with the process, there are three methods; 'Striking-off procedures', 'Voluntary wind-up' and 'Liquidation by courts'. Specific information with regard to any of these procedures appear not to be available online on Government run websites.

Additional Information

- In Hong Kong, the Government run 'GovHK' website details the necessary steps required to cancel a business registration, deregistration and wind-up of a business. Singapore (through the Government run Accounting and Corporate Regulatory Authority website) goes a step further and details the process for both local and foreign owned companies.
- Startups have requested information on the process for business closure to be added to the identified collaboration partners' website to provide direction for aspiring entrepreneurs. Increased accessibility and clarity of this information and procedures would help simplify the process of legally closing down a business without having to resort to legal counsel.

Action Plan

Government collaboration partner: Department of the Registrar of Companies

As a part of the previously mentioned common website to be launched (1.1), information with regard to the three different kinds of business closures should be included as a simple and easy to understand resource.

Summary of action plans to overcome impediments related to insufficient digitalization of administrative tasks and requirements

Impediment	Action plan	Relevant act	Collaboration partner
1.1 Process of registering a company is time consuming, lacks clarity and has practical issues	A single unified government website/resource needs to be launched to manage and guide the processes of registering a company.	N/A	Department of the Registrar of Companies
1.2 Process of registering a company with foreign shareholders is not outlined	A unified government resource should indicate which processes are owned by which Department/Ministry and how to execute them.	N/A	Department of the Registrar of Companies
1.3 Lack of clarity on how to file tax and annual returns	Promotion of 'e-File' system for taxes and update process overviews and tutorial videos. Include detailed instructions on how to fill out necessary forms (both for filing tax and annual returns). Implementation of a support service.	N/A	Inland Revenue Department
1.4 Process of closing down a business lacks information on proper procedures	As a part of the action plan for 1.1, information with regard to the three different kinds of business closures should be included as a simple and easy to understand resource.	N/A	Department of the Registrar of Companies

2. Impediments related to foreign exchange

01 Inability to provide sweat equity to foreign collaborators

Sri Lanka's Foreign Exchange Act does not allow provision of sweat equity to foreign co-founders or collaborators, resulting in local startups being unable to benefit from foreign expertise.

02 Time consuming foreign exchange approval process when a local entity plans to set up an overseas office

The applicable regulations and additional approvals that are required result in a time consuming process when local startups attempt to expand operations to foreign markets.

03 Approval process for local investors looking to make investments in foreign entities is cumbersome

If a locally incorporated startup plans to invest in a foreign entity, they are required to undergo a rigorous approval process from the identified collaboration partner, which is time consuming and delays operations.

2.1 Inability to provide sweat equity to foreign collaborators

Impacted Party/s: Early stage startups

Overview

Schedule II of the **Foreign Exchange Act no. 12 of 2017** describes the types of investments that a foreign individual or fund can make in Sri Lanka. However, receipt of sweat equity is not captured under this section.

Thus, early stage startups are affected by the inability to receive expertise and input from an experienced foreign party who would prefer to receive equity for the services they provide. In a similar fashion, local startups are not allowed to provide services in return for sweat equity from foreign startups.

Additional Information

- Sweat equity refers to the non-monetary contribution that the individuals or founders of a company make towards a business venture. Cash strapped early stage startups would prefer to offer sweat equity in return for advice from a seasoned professional.
- An example of an ecosystem that allows the issuance of sweat equity is India, where a startup can take advantage of this benefit up to a decade from its incorporation. This would give startups greater flexibility in terms paying in the form of equity, while allowing them to enjoy the benefits from onboarding a Director or Co-founder who prefers to receive sweat equity for their inputs.

Action Plan

Identified collaboration partner(s): Central Bank of Sri Lanka

Include an amendment to the Foreign Exchange Act, which will:

- Allow local startups less than ten years from incorporation to issue sweat equity to foreign individuals
- Allow local startups to receive sweat equity in return for services provided to foreign startups

2.2 Time consuming process when a local startup plans to set up an overseas office

Impacted Party/s: Growth and expansion stage startups

Overview

The **Foreign Exchange Act no. 12 of 2017** has very specific conditions in the event a local business plans to set up an overseas office.

In the event a startup wants to invest more than the allowed amount when setting up an overseas office, it takes about a year for the approval process to be completed. The time taken could delay a startup's expansion plans and potentially impact their competitiveness, given the highly innovative nature of most startups.

Additional Information

- A local business planning to set up an overseas office is only allowed to take an amount of USD 300,000 per year.
- If they require to invest more than USD 300,000, the process to obtain approval is quite time-consuming, as they need to obtain clearance from the identified collaboration partners.

Action Plan

Identified collaboration partner(s): Central Bank, Inland Revenue Dept

Appoint a staff member from the identified collaboration partner to liaise with technology startups, give more transparency to the approval process and ensure approval process is completed within **one month**.

Collate all information to a format that is easily understandable by all parties to reduce the delays in the approval process.

2.3 Approval process for local startups looking to make investments in foreign entities is time consuming

Impacted Party/s: Growth and expansion stage startups

Overview

As per the **Foreign Exchange Act no. 12 of 2017**, local businesses that are interested in purchasing shares, units or debt securities of foreign entities are subject to certain conditions (Refer additional information). Monetary Board approval is required if a business needs to invest more than these amounts, which is known to take a significant amount of time, sometimes up to a year as per stakeholder feedback.

This could cause growth and expansion stage startups to lose out on valuable investment opportunities.

Additional Information

Type of local entity	Permitted limit
A company not listed in the stock exchange	USD 500,000 or an equivalent amount in any foreign currency designated by the Central Bank, per calendar year
A partnership registered in Sri Lanka	USD 300,000 or an equivalent amount in any foreign currency designated by the Central Bank, for life time.

Action Plan

Identified collaboration partner(s): Central Bank of Sri Lanka

Appoint a staff member from the Exchange Control Department of CBSL to liaise with technology startups, give more transparency to the approval process and ensure approval process is completed within **one month**.

Summary of action plans to overcome foreign exchange related impediments

Impediment	Action plan	Relevant act	Collaboration partner
2.1 Inability to provide sweat equity to foreign collaborators	Include an amendment to the Foreign Exchange Act, which will: <ol style="list-style-type: none"> 1. Allow local startups less than ten years from incorporation to issue sweat equity to foreign individuals 2. Allow local startups to receive sweat equity in return for services provided to foreign startups 	Foreign Exchange Act no. 12 of 2017	Central Bank of Sri Lanka
2.2 Time consuming process when a local startup plans to set up an overseas office	<ol style="list-style-type: none"> 1. Appoint a staff member from the identified collaboration partner to liaise with technology startups, give more transparency to the approval process and ensure approval process is completed within one month. 2. Collate all information to a format that is easily understandable by all parties to reduce the delays in the approval process 	N/A	Central Bank of Sri Lanka, Inland Revenue Department

Summary of action plans to overcome foreign exchange related impediments (cont'd)

Impediment	Action plan	Relevant act	Collaboration partner
2.3 Approval process for local startups looking to make investments in foreign entities is cumbersome	Appoint a staff member from the identified collaboration partners to liaise with technology startups, give more transparency to the approval process and ensure approval process is completed within one month .	N/A	Central Bank of Sri Lanka

3. Regulatory impediments that discourage foreign investors from investing in Sri Lankan startups

01 Lack of options for investors for the formation of investment funds

LLP structures are used globally to set up private equity and venture capital funds. Sri Lanka does not have a LLP Act, which is a legal requirement for most foreign private equity and venture capital funds to invest in a country. At present, Sri Lanka has a Limited Liability Company (LLC) structure, which is limited in terms of the protection required by foreign investment funds.

02 Inaccurate classification of startups under industries that can only receive limited foreign investment in the Foreign Exchange Act

While foreign investors are allowed to hold shares in local companies, there are select industries in which foreigners cannot own more than 40% of the total stated capital. However, there are inconsistencies in the classification of startups into these industries, which results in startups losing out on necessary foreign funding.

3.1 Lack of options for investors for the formation of investment funds

Impacted Party/s: Local and foreign fund managers

Overview

At present, there is a lack of available options in terms of legal structures, as Sri Lankan funds can only be set up through a fund Company, which would need to adhere to the Limited Liability Company (LLC) structure.

Sri Lanka does not have a Limited Liability Partnership (LLP) structure available for investment funds, including private equity and venture capital funds, which discourages foreign entrants. Globally, Limited Liability Partnership (LLP) structures are not required to adhere to stringent regulations, depending on the size of the partnership.

Additional Information

- The current Limited Liability Company (LLC) structure does not provide the benefits for investors that an LLP structure would. Specifically, gains on investments by an LLC are considered regular profits, which leads to double taxation at both the LLC and investors' personal level. In addition, when investing in LLCs, the full capital amount has to be invested upfront due to challenges in making multiple rounds of capital calls. These funds would then remain on the books over the investment period, negatively impacting the internal rate of return for investors. This compares unfavorably to an LLP structure, where only the personal income of partners would be taxed and capital calls could be made as and when needed.
- If Sri Lanka were to introduce an LLP structure, it could be based on examples from other countries like India and Malaysia and should enable easier operational activity for funds when compared to the current LLC structure. However, the risks to investors should be taken into account and the Act should be structured with a level of protection that would attract high net worth investors.

Action Plan

Identified collaboration partner(s): Legal Draftsmen Department, Ministry of Justice, Ministry of Industry and Commerce, Department of the Registrar of Companies, Attorney General's department

Introduce a Limited Liability Partnership Act in Sri Lanka, to promote Sri Lanka as an investor friendly ecosystem.

3.2 Inaccurate classification of startups under the Foreign Exchange Act, which hinders investments in some verticals

Impacted Party/s: Growth and expansion stage startups

Overview

At present, the **Foreign Exchange Act no. 12 of 2017** specifies that while foreign investors can invest in local companies, they are not allowed to hold more than 40% of the stated capital in select industries. If a certain startup requires foreign investment of a higher percentage, they are required to obtain approval from the Board of Investment.

At present, there is no clear guidance on the criteria for these classifications, resulting in certain startups being considered to be in a restricted industry and therefore unable to receive funding from foreign investors who prefer a majority stake in the business.

Restricted Industries

1. Production of goods where Sri-Lanka's exports subject to internationally determined quota restrictions.
2. Growing and primary processing of tea, rubber, coconut, cocoa, rice, sugar and spices.
3. Mining and primary processing of non-renewable national resources.
4. Timber based industries using local timber.
5. Deep sea fishing (as defined by the Ministry assigned the subject of Fisheries).
6. Mass communication.
7. Education.
8. Freight forwarding.
9. Travel agencies.
10. Shipping Agencies.

Action Plan

Identified collaboration partner(s): Board of Investment, Central Bank of Sri Lanka

The identified collaboration partners should clearly identify the nature of businesses categorized in the restricted industries, so that startups can provide clarity upfront to potential investors that they are not restricted as per the aforementioned Act, supporting their capital raising initiatives.

Summary of action plans to overcome impediments discouraging foreign entities from investing in the local ecosystem

Impediment	Action plan	Relevant act	Collaboration partner
3.1 Lack of options for investors for the formation of investment funds	Introduce a Limited Liability Partnership Act on Sri Lanka, to ensure foreign private equity and venture capital funds have the legal framework required to invest in Sri Lanka.	N/A	Legal Draftsmen Department, Ministry of Justice, Ministry of Industry and Commerce, Department of the Registrar of Companies, AG department
3.2 Lack of clarity in classifying startups under the Foreign Exchange Act, which hinders investments in some verticals	The identified collaboration partners should clearly identify the nature of businesses categorized in the restricted industries.	Foreign Exchange Act no. 12 of 2017	Board of Investment, Central Bank of Sri Lanka

4. Impediments related to intellectual property (IP)

01 **Manual application process inhibits start-ups from applying for IP protection**

IP application process is offline and paper based resulting in a time consuming application process inhibiting start ups from applying for patents and copyright protection

02 **Offline patent database inhibits start-ups enforcing their intellectual property rights globally**

Local patents cannot be independently verified or enforced globally due to inaccessible offline Sri Lankan IP database.

03 **No dispute resolution mechanism for IP infringements leading to court litigation for settlement.**

All infringement claims need to undergo court litigation, even for low level offenses such as trademark infringement or domain squatting as there is no dispute resolution framework to settle before going to court.

4.1 Expensive and time consuming application process inhibits start-ups from applying for patents and copyright protection

Impacted Party/s: All stages of startups

Overview

The process of filing, applying and submitting an IP application is paper based, being handled offline manually with the average timeline between applying and receiving patent approval taking between **3-6 years** depending on the complexity of the IP being registered and usage of legal support (per stakeholder insight).

As a result, applying for IP protection is a lengthy and time consuming affair, with the associated legal and operational complexity requiring most startups to get external consultation in order to file successfully, further adding to the costs incurred.

Additional Information

- The establishment of a responsible intellectual property entity, constituent processes and applicable IP laws is handled under the **Intellectual Property Act, No. 36 of 2003**.
- 76.2% of startups surveyed state the time and cost required to register intellectual property is a medium or high impediment they face.
- In comparison, the Intellectual Property Office of Singapore (IPOS) has an entirely digital application filling and submission process with processing times ranging between 1-3 years from the date the application is filed to IP approval.

Action Plan

Identified collaboration partner(s): The National Intellectual Property Office of Sri Lanka

Phase 1 – Implementation of digital submission and online processing of IP applications at NIPO

Phase 2 – Amend existing IP law to digitally revamp and strengthen NIPO facilities and capabilities

Action plan to address impediments related to the manual application process

Action Plan

Phase 1 – Implementation of digital submission and online processing of IP applications at NIPO

- (i) NIPO implements a web-based system to upload and process all submission forms and supporting documentation for IP applications dealing with patents, trademarks, industrial designs, copyright and integrated circuits.
- (ii) Applicants granted a reference number upon successful application submission to track progress and application status online.
- (iii) All NIPO submission and application process documentation must be accessible in Sinhala, Tamil and English.
- (iv) NIPO accepts digital payments as required by application submission and IP publication process.
- (v) IP filings are publicly searchable and accessible online after approval of protection/registration.

Government collaboration partner for above action plan: NIPO
Recommended time for implementation – Six to twelve months

Phase 2 – Amend existing IP law to digitally revamp and strengthen NIPO facilities and capabilities

Amend Chapters V, XIII and XXI of the Intellectual Property Act No. 36 of 2003 to explicitly state documentation and filing requirements for registration of Industrial Design, Patents, Trademarks.

Government collaboration partner for above action plan: NIPO, Ministry of Justice

4.2 Offline and inaccessible patent database inhibits start-ups enforcing their intellectual property ownership globally

Impacted Party/s: All stages of startups

Overview

Successful IP applications are granted a certificate upon approval but verifying their authenticity requires a manual search of the National IP database as there is no digitally accessible database of Sri Lankan patents/IP that can be retrieved or viewed online.

As a result, local startups are unable to easily demonstrate intellectual property ownership to interested foreign parties for verification or to dissuade infringement.

Additional Information

- Stakeholders looking to invest in local startups (especially international) are unable to do verify startup IP claims independently as the current process requires physically visiting NIPO facilities and doing a manual paper search for the relevant documentation. As a result, most international stakeholders request or require local start ups to apply for global IP protection in their preferred jurisdiction before working or supporting them (based on startup and stakeholder feedback).
- Although Sri Lanka is a member of the Patent Cooperation Treaty (PCT), which allows applicants to file for IP protection in multiple partner country jurisdictions simultaneously, NIPO presently does not serve as a receiving office for PCT applications. This requires local startups to either apply directly to the International Bureau of WIPO in Switzerland or via regional receiving offices (such as Singapore) at significant cost and effort.

Action Plan

Identified collaboration partner(s): The National Intellectual Property Office of Sri Lanka

Government collaboration partner to digitize the IP database in compliance with internationally accepted standards with the assistance of global bodies (such as the World Intellectual Property Office) to enable Sri Lankan IP collateral to be searchable and accessible online, by local and international parties.

4.3 No dispute resolution mechanism for IP infringements leading to court litigation for settlement.

Impacted Party/s: All stages of startups

Overview

In the event of intellectual property infringement, **Section 170** of the Intellectual Property Act No. 36 of 2003 prescribes court litigation as the only accepted venue through which infringement is settled in Sri Lanka. Most startups forgo IP protection due to the resources and time required, especially to settle simple offenses such as trademark infringement or web domain squatting.

Though local occurrences of domain squatting and willful trademark infringement are low, stakeholder opinion highlighted **implementing dispute resolution mechanisms** would **improve the reputation** of the local startup ecosystem to investors **internationally**.

Action Plan

Amend Section 170 of the Intellectual Property Act No. 36 of 2003 to offer dispute resolution provisions for selected IP infringements such as trademarks and internet domains to empower NIPO to facilitate dispute resolution mechanisms prior to parties pursuing court litigation.

Additional Information

- Enabling dispute resolution mechanisms for key selected intellectual property infringements (such as trademark logos and web domains) would enable startups to easily resolve issues arising with IP infringement or domain squatting without having to resort to costly court litigation as the first course of action.
- An example of this is the use of **Alternative Dispute Resolution (ADR)** as offered by the Intellectual Property Office of Singapore to settle copyright disputes through mediation and arbitration. Similar to this, The World Intellectual Property Organization's **Uniform Domain Name Dispute Resolution Policy** is an established dispute resolution framework that helps resolve top level web domains disputes between parties. The benefit of these programs is the ability to resolve disputes without resorting to expensive legal processes.

Identified collaboration partner(s): The National Intellectual Property Office of Sri Lanka

Summary of action plans to overcome IP related impediments

Impediment	Action plan	Relevant act	Collaboration partner
4.1 Expensive and time consuming application process inhibits start-ups from applying for patents and copyright protection	Enable NIPO to implement online digital application filing solution by amending IP act to accept digital applications and filing of required documents and articles over two phases	Chapters V, XIII and XXI of the Intellectual Property Act No. 36 of 2003	National Intellectual Property Office of Sri Lanka
4.2 Offline and inaccessible patent database inhibits start-ups enforcing their intellectual property ownership globally	Government collaboration partner to digitize the IP database to internationally accepted standards to enable Sri Lankan IP collateral to be searchable and accessible online, by local and international parties.	Intellectual Property Act, No. 36 of 2003	National Intellectual Property Office of Sri Lanka
4.3 No dispute resolution mechanism for IP infringements leading to court litigation for settlement.	Amend IP act for NIPO to facilitate dispute resolution prior to court litigation for selected IP infringements	Section 170 of the Intellectual Property Act No. 36 of 2003	National Intellectual Property Office of Sri Lanka

5. Impediments related to taxation

01 Startups not classified as “technology companies”

Certain startups are not classified as technology companies and therefore, cannot benefit from income tax exemptions.

02 Import taxes on components hinders export oriented startups

Startups that engage in Research and Development activities or export oriented businesses having to pay import taxes on equipment and components hinders their innovation process by increasing initial costs.

03 Lack of tax benefits for angel and early stage investors

Investors in high risk, early stage startups are not allowed to consider their investments as a deductible or write off such investments against their income tax payable. Therefore, investors do not consider startups when allocating funds for investment.

04 Dividends are taxed at 14%

This tax serves as a deterrent for local investors, and reduces the attractiveness of startups as an investment option.

5.1 Startups that are not classified as “Technology Companies” are unable to benefit from income tax exemptions

Impacted Party/s: Startups that are currently not classified as “Technology Companies”

Overview

As per the amendments introduced to the **Inland Revenue Act no. 24 of 2017** in November 2019, technology companies are not liable to pay income tax.

However, certain startups that employ technology are not classified as “technology companies” as per identified collaboration partner standards and are therefore, unable to benefit from this exemption.

Thus, these startups report lower profit after tax, which translates into lower returns for investors.

Additional Information

- Technology companies were previously liable to pay tax at a 14% rate, however this was removed with effect from 01 Jan 2020.
- This measure was introduced to encourage individuals to establish technology companies, as well as boost export revenue through services provided by existing companies.
- Startups that are unable to benefit from this exemption may lose out on profits that could be reinvested into the business, hindering their future potential to scale operations.
- Startups indicated facing difficulties when filing taxes due to their inability to easily demonstrate the nature of their business to the Inland Revenue Department.

Action Plan

Identified collaboration partner(s): Registrar of Companies

At the point of registration of a company, ensure that startups employing technology are classified as “Technology Startups” and are provided documentation to prove as such.

5.2 Import taxes on components hinders export oriented startups

Impacted Party/s: Startups that import parts for research and development and export oriented startups

Overview

At present, Value Added Tax (VAT) and Ports and Airport Development Levy (PAL) are charged on imported components and equipment, which presents a cost barrier for businesses and startups engaged in research or product development.

For example, under the relevant tariff code, “Electronic Integrated Circuits” are taxed at 24.5% under various tax categories. As such, any start up or business that is developing a product with this component faces restrictive input costs at the initial stage of the business.

Additional Information

- Local startups that focus on exporting innovative products are at a disadvantage when they are taxed at high rates at the point of clearing imported components and equipment by customs, as startups usually do not have significant cash runway when they launch.
- In comparison, the Malaysian government allows tax exemptions at customs, for certain businesses that focus on the export market, with the aim of encouraging businesses to invest in export driven industries.

Action Plan

Identified collaboration partner(s): Inland Revenue Dept

Allow tax exemptions for export oriented businesses and startups focusing on research and development, where they are not liable for import taxes at customs.

Specifically, allow those startups that have been incorporated for less than five years to be tax exempt at the point of customs, for related machinery, equipment and components.

5.3 Lack of early stage tax benefits render startups less attractive to individual investors

Impacted Party/s: Early stage startups

Overview

In Sri Lanka's ecosystem, angel investment funds and early stage investors have a diverse investor base, including a significant proportion of middle income earners who seek to diversify their investment portfolios and support startups.

However, there are currently no tax incentives for angel investors, dissuading them from investing in high risk, early stage startups.

Additional Information

- Because early stage investors are not allowed to claim any benefits when filing for income taxes, nor deduct these investments as deductible expenses, many potential investors do not consider startups when allocating investments and funds.
- In comparison, the "Angel Investor Tax Deduction Scheme" in Singapore allows individual investors to claim a tax deduction of up to 50% of the cost of qualifying investment, capped at USD 500,000 if the investment is held for a period of two years.
- Additionally, in the United Kingdom, investors are allowed to claim a tax relief of 30% of qualifying investments, up to GBP 1mn under the "Enterprise Investment Scheme". The United Kingdom also has a "Seed Enterprise Investment Scheme", which allows early stage startup investors to receive an initial income tax relief of 50% on investments (up to £100,000 per tax year)

Action Plan

Identified collaboration partner(s): Inland Revenue Dept

Allow investors in early stage startups to claim their investments as an offsetting adjustment to their taxable income. For example: 100% tax credit if you invest (up to a maximum of LKR 5 mn) in a startup under 3 years with less than 10 fulltime employees. This would create a one-off tax benefit to individual investors and increase the investor base available to startups.

5.4 Individual local investors less attracted to invest in startups due to dividend tax limits

Impacted Party/s: Investors and mature stage startups

Overview

As per circular number **SEC/2020/04** issued by the Inland Revenue Department, local shareholders are liable to pay taxation at a rate of 14% on dividends received from a resident entity paid out of the entity's own profits. This taxation has a negative effect on the attractiveness of startups to local investors and limits the available funding options.

While this issue would directly impact investors and mature startups, the impact on the ecosystem as a whole is negative. It would be beneficial to allow startups to return profits to local investors without taxation.

Additional Information

- It should be noted that if an entity pays a dividend using proceeds from dividends from a subsidiary/associate, the end recipient does not pay the dividend tax, to avoid double taxation.
- Additionally, foreign shareholders are exempt from any taxation on dividends received.
- In comparison, as per Singapore's corporate tax policy, dividends paid by resident companies to local investors are tax exempt in the hands of the recipient. Hong Kong also exempts investors from paying withholding taxes on dividends received.
- If Sri Lanka were to introduce similar exemptions for local investors, this would increase incentives for local investors to fund local startups and positively impact new investor portfolios that are currently tax conscious in this arena.

Action Plan

Identified collaboration partner(s): Inland Revenue Dept

Local investors should be exempt from the 14% tax on dividends received from locally incorporated startups.

To enable this the ICTA and the IRD would need to redefine Startups in order to benefit from the proposed tax exemption.

Summary of action plans to overcome tax related impediments

Impediment	Action plan	Relevant act	Collaboration partner
5.1 Startups that are not classified as “Technology Companies” are unable to benefit from income tax exemptions	At the point of registration of the Company, ensure that startups employing technology are classified as “Technology Startups” and are provided documentation to prove as such.	N/A	Registrar of Companies
5.2 Import taxes on components hinders export oriented startups	Allow exemptions for export oriented startups where they are not liable for import taxes at customs. Specifically, allow export oriented startups that have been incorporated for less than five years to be tax exempt at the point of customs, for related machinery and components	N/A	Inland Revenue Department
5.3 Lack of tax benefits for angel and early stage investors	Allow investors in early stage startups to claim their investments as an offsetting adjustment to their taxable income. For example: 100% tax credit if you invest (up to a maximum of LKR 5 mn) in a startup under 3 years with less than 10 fulltime employees	N/A	Inland Revenue Department
5.4 Dividends tax of 14% reduces attractiveness of startups to local individual investors	Local investors should be exempt from the 14% tax on dividends received from locally incorporated startups	Circular number SEC/2020/04	Inland Revenue Department

6. Impediments related to immigration

01 Restrictive visa requirements impedes startups hiring foreign workers to meet tech gaps

High barriers to hiring foreign skilled workers leaves local growth stage deep tech startups being unable to access foreign talent to cover gaps in technology and skills.

02 Limited entry visa schemes restricts foreign remote workers or foreign start-ups from establishing in Sri Lanka

The local startup system would benefit from an influx of global capital, skill, talent and employment generation if more interested foreign entrepreneurs were allowed to establish locally based start-ups or work remotely in Sri Lanka.

6.1 Restrictive visa requirements impedes startups hiring foreign workers to meet tech gaps

Impacted Party/s: Growth and expansion stage startups

Overview

Sri Lankan deep tech startups (especially in the growth stage) are unable to easily pursue hiring skilled workers to meet their technology skill gaps due to restrictive visa regulations and processes, which require extensive supporting documentation, subject line ministry consent and Ministry of Defense security approval.

Simplifying technology skill related visa applications and approvals for registered startups through a online system (similar to the **BOI Visa Management System** offered to registered companies) could benefit the entire local ICT ecosystem by reducing the barriers to hire high skilled talent while preserving government oversight.

Additional Information

- Deep tech start ups operating in cutting edge areas like AI, Blockchain, IoT and robotics require a niche high skilled workforce to support their growth and due to the low number of niche skilled workers available locally, most Sri Lankan startups are restricted in pursuing these fields. Startups in successful tech hotspots such as **Silicon Valley** (USA) and **Shenzhen** (PRC) hire foreign skilled talent to meet their technology skill gap when they are unable to source required talent locally. In doing so, they strengthen their market offering and are able to upskill existing staff through knowledge sharing and networking.
- Globally, the **H-1B visa** (USA) to employ foreign workers in designated specialty occupations, has long been cited as key driver for the rapid growth of Silicon Valley with the upcoming **Tech.Pass** program in Singapore adopting a similar approach to attract and hire high skilled tech talent.

Action Plan

Identified collaboration partner(s): Department of Immigration and Emigration

Department of Immigration and Emigration to offer registered deep tech startups/ICT stakeholders a unified visa application portal similar to the BOI's Visa Management System to simplify and expedite the visa application process.

6.2 Limited entry visa schemes restricts foreign remote workers or foreign start-ups from establishing in Sri Lanka

Impacted Party/s: Growth and expansion stage startups

Overview

The present **Resident Guest Scheme Visa** Programme has a rigorous documentation process requiring approval from multiple government entities and mandatory local sponsorship, restricting adoption by potential global remote workers and entrepreneurs.

Many countries offer specialized **digital nomad** and **entrepreneur visas**, which incentivize foreign entrepreneurs to work remotely or set up local ventures, benefiting the local startup ecosystem through the inflow of foreign capital, international talent access and increased employment, learning and networking opportunities for locals.

Additional Information

- Global initiatives such as **Start-Up Chile** (which encourages international startups to use Chile as a test platform to go global), the Singaporean **EntrePass** (that prioritizes local employment generation through international startup talent) or the UK's **Tier-1 entrepreneur visa** target and attract international entrepreneurs to setup local businesses.
- Post COVID-19, as remote work culture becomes the norm globally, countries such as Estonia (**Digital Nomad Visa**), Dubai (**Remote Work Visa**) and Indonesia (**Multiple Business Visa / D-212**) are attracting digital nomads for short to medium stays (6 months - 2 years) through easy immigration schemes catering to their needs to the benefit of their local economies and work environments.

Action Plan

Identified collaboration partner(s): Department of Immigration and Emigration, Board of Investment

Identified collaboration partners work together to offer remote working or entrepreneurship visas to actively encourage foreign talent to work remotely or setup operations in Sri Lanka, initially through a pilot scheme, the success of which can lead to amending the Immigrants and Emigrants Act No. 20 of 1948 to formalize such agreements.

Summary of action plans to overcome immigration related impediments

Impediment	Action plan	Relevant act	Collaboration partner
6.1 Restrictive visa requirements impedes start ups hiring skilled foreign technology workers to meet tech gaps	Department of Immigration and Emigration to offer registered deep tech startups/ICT stakeholders a unified visa application portal similar to the BOI's Visa Management System to simplify and expedite the visa application process.	N/A	Department of Immigration and Emigration
6.2 Limited entry visa schemes restricts foreign remote workers or foreign start-ups from establishing in Sri Lanka	Identified collaboration partners work together to offer remote working or entrepreneurship visas to actively encourage foreign talent to work remotely or setup operations in Sri Lanka, initially through a pilot scheme, the success of which can lead to amending the Immigrants and Emigrants Act No. 20 of 1948 to formalize such agreements.	Immigrants and Emigrants Act no 20 of 1948	Department of Immigration and Emigration Board of Investment

7. Impediments related to Research and Development (R&D)

01 **Concessions for R&D are hard to understand and claim**

Current concessions offered by the Government are not clear due to complexity and ambiguous wording, making it difficult for startups to successfully obtain available concessions.

02 **Policies on university resource usage and IP ownership impedes research commercialization**

Currently, the intellectual property rights for research carried out using university resources is owned by the Universities. This discourages R&D from being carried out at public institutions as innovators do not want to lose ownership of their research.

7.1 Concessions for R&D are hard to understand and claim

Impacted Party/s: Startups in all stages operating in industries requiring significant investments in R&D

Overview

According to **section 15 of the Inland Revenue Act, No. 24 of 2017**, the Government specifies that it will provide tax concessions on R&D expenditure. Startups and stakeholders consulted were completely unaware of this facility granted by the Government.

After consulting with tax experts, it was revealed that there are certain limitations to claiming this concession as this law was noted to be ambiguously worded, with different tax experts having varying interpretations of it.

Additional Information

- According to tax consultant feedback, if R&D is carried out by third parties, the industry restriction does not apply to the startup. However, if the startup itself carries out the R&D, it has to be related to agriculture in order for tax concessions to be applicable.
- In foreign nations such as those in the Organization for Economic Co-operation and Development (OECD), the European Union and their partner countries, tax concessions for spending on R&D are clearly defined. These benefits range from tax allowances on R&D, tax credits for R&D (which if unused can be refunded or carried forward) and accelerated depreciation provisions for R&D capital.

Action Plan

Identified collaboration partner(s): Inland Revenue Department

Extend the current benefits indicated under Section 15 of the Inland Revenue Act, No. 24 of 2017 upon its expiration 31.3.2021.

Clear up uncertainty regarding this tax concession by rewording/clarifying the relevant section and consider extending it to all industries.

7.2 Policies on university resource usage and IP ownership impedes research commercialization

Impacted Party/s: Startups of all stages and established businesses, especially those using University resources for R&D

Overview

As a part of current University policies at most public institutions, IP created using University resources and equipment are technically owned by the University. While there are exemptions to this clause, the result is that most R&D carried out using University facilities would result in the University owning the IP, restricting their uptake by startups or businesses.

The University of Moratuwa's (UoM) Business Linkage cell recently had revised UoM policies to encourage use of University resources for R&D to drive commercialization by startups and interested businesses.

Additional Information

- Previously, the University of Moratuwa's Intellectual Property Policy, under 'Ownership' stated that the University of Moratuwa (UOM) "...shall be the owner of all invention(s) including software, designs and integrated circuit layouts created by UOM personnel and/or non-UOM personnel, associated with any activity of UOM,". As of 31st December 2020, these policies have been revised to enable use of university resources for R&D by startups or businesses pursuing commercialization.
- The recent policy changes at UoM should serve as a template for technology transfers to drive the commercialization of research that is for the public's benefit without discouraging the participation of startups and businesses.

Action Plan

Identified collaboration partner(s): Ministry of Education, University Grants commission

Actions taken by the University of Moratuwa should be replicated in all public Universities in Sri Lanka in order to drive commercialization of research.

Summary of action plans to overcome R&D related impediments

Impediment	Action plan	Relevant act	Collaboration partner
7.1 Concessions for R&D are hard to understand and claim	Extend benefits upon its expiration on 31.3.2021 and extend these benefits across all industries while clearly stating tax concession requirements.	Inland Revenue Act, No. 24 of 2017 (Section 15)	Inland Revenue Department
7.2 Policies on university resource usage and IP ownership impedes commercialization	Actions taken by the University of Moratuwa should be replicated in all public Universities in Sri Lanka in order to drive commercialization of research.	N/A	Ministry of Education – Higher Education, University Grants commission

8. Impediments related to Government support for cross border activity

01 Lengthy processes and lack of awareness impedes cross border market entry for local and foreign startups

Process to register and appear on the identified collaboration partner website takes too long and there is a lack of awareness on BOI initiatives to ease the registration process.

02 Unable to provide co-working space addresses for export registration at Sri Lankan customs

Start-ups based out of co-working spaces are unable to use them as an official business address if they are seeking to apply for export registration.

8.1 Lengthy processes and lack of awareness impedes cross border market entry for local and foreign startups

Impacted Party/s: Startups with foreign clients and foreign ownership

Overview

Startups and stakeholders stated that while the registration process with the collaboration partner is fairly straightforward, the process and time taken for registered entities to be shown on the respective website is too long.

Startups and stakeholders have indicated that the process is a lengthy and convoluted process. The collaboration partner has also outlined the full registration process for a foreign entity looking to start operations in Sri Lanka; however, while this outline is comprehensive, it is not easy to understand for startups or general readers.

Additional Information

- Over 50% of the startups surveyed indicated they support foreign clients and as a result, would benefit from access to identified collaboration partner support in order to carry out day-to-day operations, particularly with regard to accessing information and expertise on cross-border operations and trade agreements
- It should be noted that the identified collaboration partner has provided several facilities to all interested parties in an attempt to make its registration process as straightforward as possible. Specifically, startups are unaware of facilities the service provider provides to obtain approvals across multiple Government departments.

Action Plan

Identified collaboration partner(s): Export Development Board, Board of Investment

The identified collaboration partner should implement processes to limit application processing times in order to cut down on the time taken from submission of documents to appearing on the respective website. Specifically, they should aim to process an application in a month at most.

The identified collaboration partner should actively feature and improve the visibility of its services provided on its website with descriptions of its services on the homepage as well as restructuring its investment guide to be easier to understand and more reader friendly.

8.2 Unable to provide co-working space addresses for export registration at Sri Lankan customs

Impacted Party/s: Startups working out of co-working spaces

Overview

The identified collaboration partner does not accept co-working spaces as a valid business address for entities aiming to register themselves as an exporter.

As most early stage startups opt for cheaper co-working memberships as their physical place of business instead of leasing or renting expensive commercial real estate, this restriction impedes startups who are looking to expand into export markets.

Additional Information

- This restriction bars impacted startups from being able to export goods valued over USD 100.
- Customs regulations requires businesses to provide a proof of a lease agreement in a traditional commercial space with stamp duty paid in order to apply as an exporter. Co-working membership agreements currently do not meet this criteria.

Action Plan

Identified collaboration partner(s): Sri Lanka Customs

Identified collaboration partner to accept registered co-working spaces as the official business address of registered startups seeking to export goods to international markets.

Summary of action plans to overcome cross border impediments

Impediments	Action plan	Relevant act	Collaboration partner
8.1 Lengthy processes and lack of awareness impedes cross border market entry for local and foreign startups	Limit processing times of registration.	N/A	Export Development Board
	Cut down time taken from registration to appearing on website.		
	Increase visibility of services provided by the identified collaboration partner.	N/A	Board of Investment
	Make documents easier to understand.		
8.2 Unable to provide co-working space addresses for export registration at Sri Lanka customs	Accept registered co-working spaces as the official business address of registered startups seeking to export goods to international markets.	N/A	Sri Lanka Customs

9. Lack of regulations in data privacy and cyber security

01 Legal bills for data privacy and cyber security have not been enacted into law resulting in customer trust barriers for startups

Whilst bills have been drafted for both of these areas, they have not yet been presented in Parliament and approved for enactment. The lack of regulations in these spaces is an impediment for startups operating both locally and abroad, due to a lack of trust in startups since data security and privacy are not mandated under law.

9.1 Legal bills for data privacy and cyber security have not been enacted into law resulting in customer trust barriers for startups

Impacted Party/s: Start ups of all stages

Overview

When evaluating Sri Lanka's ecosystem in this regard, there is a noted lack of cyber security and data privacy regulations when compared to other developed and emerging markets.

This has an impact on startups operating in Sri Lanka and abroad, since the lack of regulations and laws creates concerns from customers on how safe it is to use the startups services/products.

By implementing such laws, consumers would have more trust in startups, thereby enabling startup ecosystem growth.

Additional Information

- A key challenge for new startups is establishing credibility and trust with customers and consumers. Specifically, startups typically have limited operational history and a reputation for being 'young' compared to traditional competitors. As a result, many customers are concerned about operational stability and the robustness of internal processes and practices. Focusing on technology startups, many startups do come into contact and handle personal information when providing their products or services. In this digital age, data privacy and cyber security are key concerns for customers due to the prevalence of hacking and cyber crime.
- Based on our primary research, we understand that bills for both data privacy and cyber security have been drafted as at September 2019 for data privacy and January 2020 for cyber security.

Action Plan

Identified collaboration partner(s): Sri Lanka Computer Emergency Readiness Team, Legal Draftsmen Department

The approval and enactment of both bills should be prioritized by the relevant Ministries and presented to Parliament for approval.

Summary of action plans to overcome impediments related to data privacy and cyber security

Impediment	Action plan	Relevant act	Collaboration partner
9.1 Legal bills for data privacy and cyber security have not been enacted into law resulting in customer trust barriers for startups	The approval and enactment of both bills should be prioritised by the relevant Ministries and presented to Parliament for approval.	N/A	Sri Lanka Computer Emergency Readiness Team, Legal Draftsmen Department

10. Impediments related to digital payments regulations

01 **Requiring institutional partners to gain access to the regulator's fintech sandbox impedes startup participation**

Startups face a challenge in accessing the collaboration partner's fintech sandbox due to the requirement to have to work through a regulator registered financial entity, which limits access for formation stage startups seeking to provide innovative digital payment and eFinance solutions.

02 **Limited communication channels for startups to engage with regulator on financial technology regulation issues**

Start-ups working in monetary and financial ICT solutions have difficulty sourcing policy or regulatory information from the identified collaboration partner as there is no specific tech-related resource point or public department overseeing FinTech.

10.1 Requiring institutional partners to gain access to the regulator fintech sandbox impedes startup participation

Impacted Party/s: Seed stage startups, especially those involved in FinTech innovation

Overview

The identified collaboration partner has implemented a **Financial Technology Regulatory Sandbox** which acts as a live controlled market environment for startups to operate with limited regulatory controls for a fixed period of time to demonstrate positive market impact. As highlighted in startup group discussions, entry requires startups to partner with a regulator licensed financial institution (Feb 2020 Sandbox framework, Section 5.4). Established players are cautious in partnering with startups due to the potential for market disruption, restricting participation by individual startups pursuing FinTech innovation in digital payments and e-Finance platforms.

Additional Information

- The **MAS FinTech Regulatory Sandbox** (Singapore), the **SECP Regulatory Sandbox** (Pakistan) and the **Financial Conduct Authority's Regulatory Sandbox** (United Kingdom) permit open sandbox participation by interested parties without stringent licensed partnership requirements.
- Following global standards, the identified collaboration partner should relax this particular entry requirement to encourage sandbox participation and explore granting **FinTech specific licenses** to regulate successful independent startups who graduate from the sandbox, similar to the **Electronic Money Institute regulation framework** used by the State Bank of Pakistan.

Action Plan

Identified collaboration partner(s): Central Bank of Sri Lanka

The **regulator** to remove the entry requirement to partner with a regulator registered entity to be granted access to the FinTech regulatory sandbox.

The **regulator** to issue FinTech specific licenses to regulate successful startups who aim to remain independent after exiting the sandbox.

10.2 Limited communication channels for startups to engage with regulator on financial technology regulation issues

Impacted Party/s: Start ups of all stages

Overview

Multiple startups consulted during primary research expressed complications in locating and communicating with appropriate personnel at the regulator on financial regulatory matters with regards to FinTech and ICT application.

The lack of accessible communication channels impedes early phase startups to get accurate regulatory and monetary policy information impeding innovation and adding operational friction, especially for FinTech's in the formation or validation stages.

Additional Information

- The regulator is currently in the process of recruiting an official to oversee FinTech expansion and should consider using this resource to serve as a **publicly accessible liaison** to the FinTech community to address concerns, receive feedback and provide guidance on the regulators FinTech roadmap and regulatory sandbox.
- The Monetary Authority of Singapore has **MAS Review Officials** who provide operating directions to interested parties and process feedback on highlighted issues via official email.
- The Securities & Exchange Commission of Pakistan operates a web portal specifically serving startups (**Startup.SECP**) which allows them to easily register online, connect with other participants, offers FinTech resources and serves as a platform to receive feedback and share updates with the startup community.

Action Plan

Identified collaboration partner(s): Central Bank of Sri Lanka

Identified collaboration partner to designate an authority on FinTech monetary regulation by assigning specialized official(s) who interact and provide guidance to the startup community, both digitally and in person, to serve as a liaison between the regulator and startup community.

Summary of action plans to overcome digital payments regulations related impediments

Impediment	Action plan	Relevant act	Collaboration partner
10.1 Requiring institutional partners to gain access to the regulator fintech sandbox impedes startup participation	<p>The regulator to remove the entry requirement to partner with a regulator registered entity to be granted access to the FinTech regulatory sandbox.</p> <p>The regulator to issue FinTech specific licenses to successful startups who aim to remain independent after exiting the sandbox.</p>	Financial Technology Regulatory Sandbox Framework	Central Bank of Sri Lanka
10.2 Limited communication channels for startups to engage with regulator on financial technology regulation issues	Regulator to designate a point of authority on monetary regulation in relation to FinTech by assigning a specialized official(s) who interact and provide guidance to the startup community, both digitally and in person, to serve as a liaison between the Central Bank and startup community.	N/A	Central Bank of Sri Lanka

11. Challenges in accessing debt funding for startups

01

Lack of physical collateral at technology startups makes debt funding from banks challenging to obtain

Banks are currently risk-averse and require borrowers to provide collateral when obtaining a loan. This is highly challenging for technology startups who are traditionally asset-light and would not have significant assets to offer as collateral.

11.1 Lack of physical collateral at technology startups makes debt funding from banks challenging to obtain

Impacted Party/s: Startups in all stages

Overview

Technology startups by nature are asset light and do not possess significant capital when starting and growing their business. When seeking funding, Sri Lankan startups typically seek equity for most funding requirements, even when the need is short-term and could be repaid using medium-term revenues.

This choice in funding type exposes startup founders to dilution at an early stage, when debt financing could be a preferred option.

Additional Information

- In speaking to startups and banks, we understand that the primary challenge for startups is the **requirement from banks for the provision of physical collateral** before providing the loan. This is primarily due to the banks' view that startups are high-risk borrowers, and therefore collateral is required to reduce the default risk to the bank. Additionally, startups found that most Government loan programmes were targeted at small-and-medium enterprises and not tailored for technology startups.
- When looking at other countries, we noted that there are unsecured loan schemes that are available to startups. For example, the United Kingdom has a startup loan program which is operated through a state-owned bank (British Business Bank). This loan scheme not only provides startups with early stage funding at fixed interest rates, but also offers mentoring and business planning support for startups.
- Over **20%** of survey respondents believe that access to concessionary debt funding should be within top three priorities for the startup ecosystem

Action Plan

Identified collaboration partner(s): Central Bank of Sri Lanka, Ministry of Finance, ICTA

Implementation of a Government program to provide startup loans using an alternative credit risk evaluation methodology and backed by a credit guarantee scheme. The program should incorporate mentoring support to improve the quality and success rate of startups.

StartupSL website to add a page with summary of available loan schemes for startups, with summary of eligibility criteria, quantum of capital available and approved uses of funds, and a connecting link/email for startups who wish to pursue a specific scheme.

Development of a long-term solution to more accurately evaluate credit risk of startups to enable banks to price loans more efficiently.

Summary of action plans to overcome impediments related to access debt funding

Impediment	Action plan	Relevant act	Collaboration partner
<p>11.1 Lack of physical collateral at technology startups makes debt funding from banks challenging to obtain</p>	<ol style="list-style-type: none"> 1. Implementation of a Government program to provide startup loans through state-owned banks. The program should include external support to improve the quality and success rate of startups through activities such as mentoring and acceleration. 2. Development of a long-term solution to more accurately evaluate credit risk of startups to enable banks to price loans more efficiently. 3. StartupSL website to add a page with summary of available loan schemes for startups, with a summary of eligibility criteria, quantum of capital available and valid purposes, and a connecting link/email for startups who wish to pursue a specific scheme. 	<p>N/A</p>	<p>Central Bank of Sri Lanka, Ministry of Finance, ICTA</p>

12. Impediments related to telecommunication regulations

01 **Current legislation inhibits startups from accessing the radio frequency (RF) spectrum for telecommunication innovation**

IoT application start-ups (especially in the validation and growth stages) are unable to access the radio frequency spectrum to run pilot projects or test new solutions due to lack of legislation allowing them to do so.

02 **Lack of awareness and slow processing time for regulator approval for customs clearance of networking equipment**

Most early stage start-ups are unaware of the process and necessary requirements for clearing telecommunication and networking equipment through customs.

12.1 Current legislation inhibits startups access to the radio frequency spectrum for telecommunication innovation

Impacted Party/s: Startups of all stages, especially those engaged in networking and telecommunication innovation

Overview

As governed by the **Radio Frequency License Regulations No.2 of 1996**, there are no legal provisions that allow the regulator to allow startups sandbox or test access to the public radio frequency spectrum to conduct pilot projects or test new telecom technologies and equipment in a controlled and limited manner. This restricts local innovation in emerging networking applications in Internet of Things (IoT) applications such as AgriTech, Smart cities and LoRaWAN implementations.

Additional Information

- The identified collaboration partner regulates the development, deployment and application of telecommunication equipment/systems. Amending the Radio Frequency License regulation to allow registered startups **controlled and supervised sandbox access to designated test frequencies** on the public spectrum to conduct research and development would drive telecom network and IoT innovation.
- For example, the National Broadcasting and Telecommunications Commission of Thailand implemented a telecom regulatory sandbox to drive 5G adoption by interested parties. It was created to conduct controlled testing of new network solutions, telecommunication equipment and check for spectrum interference in preparation for commercial use.

Action Plan

Regulator to allocate test frequencies on public spectrum and grant registered startups controlled and supervised sandbox access to encourage telecommunications innovation on pilot basis through amending the Radio Frequency License Regulations No.2 of 1996.

Identified collaboration partner(s): Telecommunications Regulatory Commission of Sri Lanka

12.2 Lack of awareness and slow processing time for regulator approval for customs clearance of networking equipment

Impacted Party/s: Seed and startup phase startups, especially those engaged in telecommunications innovation

Overview

As per startup feedback, there is a lack of awareness and clarity surrounding the necessity of obtaining regulator approval to process customs clearance of imported networking and telecommunications devices, especially for early stage startups unfamiliar with the process.

This approval is necessary for all radio frequency equipment capable of communicating with other devices and requires 10-15 days to process on average.

Additional Information

- As highlighted during focus group discussions, **most startups are unaware of this requirement until they apply** for equipment clearance at Sri Lanka customs. The application process for regulator approval requires manual submission of supporting documentation and the associated processing times take close two weeks, resulting in higher expenses for startups as they have to incur **cost penalties to store their goods at customs while awaiting approval**.

Action Plan

Identified collaboration partner(s): Telecommunications Regulatory Commission of Sri Lanka, Sri Lanka Customs

Identified collaboration partners to collaborate to define the approval requirements to clear telecommunication equipment and publish this information on their respective web portals.

Regulators allows startups to submit approval documentation digitally and prior to shipments arriving in the country.

Summary of action plans to overcome telecommunication regulations related impediments

Impediment	Action plan	Relevant act	Collaboration partner
12.1 Current legislation inhibits startups access to the radio frequency spectrum for telecommunication innovation	TRCSL to allocate test frequencies on public spectrum and grant registered startups controlled and supervised sandbox access to encourage telecommunications innovation on pilot basis through amending the Radio Frequency License Regulations No.2 of 1996.	Radio Frequency License Regulations (1996)	The Telecommunications Regulatory Commission of Sri Lanka
12.2 Lack of awareness and slow processing time for TRCSL approval for customs clearance of networking equipment	(i) Sri Lanka Customs to coordinate with TRSL to define the approval requirements to clear telecommunication equipment and publish this information on their respective web portals. (ii) TRCSL to allow startups to submit approval documentation digitally and prior to shipments arriving in the country.	N/A	TRCSL Sri Lanka Customs

Impediments faced by startup enablers and stakeholders

Category	Definition	Impediments faced
Investors and Investment firms	Private funding entities that provide seed or venture capital to startups.	2, 3, 4, 5, 6, 7, 12
Incubation/ accelerator managers	Private enterprises that provide business acceleration or incubation support to startup in the early stages.	1, 2, 5, 12
Industry associations	Industry associations focused on supporting technology companies and other related sectors	1, 2, 4, 7
Research Institutes, Universities	Organizations or educational entities that are involved in research and development activities.	4, 7
Community building organizations	Ecosystem networking and mentoring organizations that aim to foster relationships between startups and stakeholders.	1, 3, 12
Co-working spaces	Entities that offer shared work and office spaces.	1, 2, 4
Legal firms/ Legal professionals	A private entity that offers legal advice and support to its clientele.	1

4

Sector specific
discussions

Impediments faced by Mature Technology Startups

For the purpose of this report, “Mature Technology Startups” are those startups which have scaled their operations beyond Sri Lanka, and have a sustainable business model in place.

During the focus group discussions with these startups, we identified several common areas where most founders believed improvements could be made. They included lack of data privacy and cyber security laws, difficulty in hiring foreign talent and lack of international payment gateways. These are all discussed in impediments 9, 7, 4 and 10 respectively. Other specific challenges that were brought up are as follows:

01 Insufficient funding options
Given the difficulty in obtaining bank loans and the lack of active venture capital funds in Sri Lanka, startups are limited in terms of funding options, especially when they reach the expansion stage. Several stakeholders suggested that the government should launch a matching capital ‘fund of funds’ similar to those in Malaysia and Singapore.

02 Difficulty in hiring foreign skilled workers for international expansion
As highlighted in 6.1, mature scaleups face a difficulty in hiring foreign skilled workers during expansion. These foreign workers are crucial in gaining an understanding of the respective foreign markets that local scaleups are looking to expand into.

Impediments faced by Female Entrepreneurs

A discussion with several female entrepreneurs at different stages of the startup life cycle highlighted lack of digitalization of administrative tasks (1), taxation (5) and debt financing (11) as the key impediments faced in addition to societal pressures and expectations faced by women. We identified the following main challenge that affects female entrepreneurs.

01

Availability of funding catering to women led businesses

There is a lack of female centric funding available in the ecosystem, which discourages women from taking on a risk in an entrepreneurial venture. This could be achieved through specific government led funding programmes, done in partnership with private sector agencies that aim to drive women's involvement in entrepreneurship.

Impediments faced by Health Technology Startups

A startup focus group discussion was held with stakeholders in order to identify impediments in the health technology sector in Sri Lanka. While a mix of impediments and improvement areas such as a lack of updated data privacy guidelines were noted, following were highlighted as key impediments .

- 01 Additional approvals required for products that already have international approvals**

Stakeholders indicate that the requirement by the identified collaboration partner to obtain additional approvals (when they already have international certifications such as FDA approvals which are accepted in the US and across the EU) slows down doing business within the country and request an expedited approval process for products already having some sort of certification.
- 02 Grant schemes are inaccessible to entities due to outdated mandates**

Stakeholders have indicated that they are unable to access certain grant schemes available as mandates had been originally designed for more traditional companies. Health technology companies specifically mentioned that due to the nature of their operations (where the manufacturing of products is outsourced to third parties) they do not qualify for concessionary schemes. This is due to grants requiring applicants to have minimum investments in infrastructure which health technology startups intentionally try to cut down to focus on innovation. For an example one health technology startup was not eligible for a grant as it did not have a lease for its office for more than one year.
- 03 Lack of updated regulation result in lapses in quality of services provided**

Stakeholders have indicated there are no clear guidelines with regard to regulations of providing services. The most recent guidelines applicable are those that were published by the identified collaboration partner in 2016. As these guidelines are not updated, new industries such as telehealth have no guidelines resulting in services being provided at the cheapest cost instead of the safest option.

Impediments faced by Deep Technology Startups

Deep tech can be described as tackling problems through the innovative use of 'cutting edge' technology solutions based on new scientific discoveries or engineering breakthroughs achieved through extensive R&D like those observed in Artificial Intelligence, robotics and block chain applications. Below are sector specific impediments highlighted by startups during focus group discussions beyond general impediments such as the lack of data privacy regulations.

01 **Difficulty in accessing debt/equity funding due to a long period of initial R&D before MVP showcase**

Deep tech startups require long periods of intensive R&D (~2-3 years) before they are able to demonstrate a minimum viable product compared to conventional startups (1-2 years). This makes it difficult to apply for external capital (debt or equity) which generally requires showcasing a tangible product/service to investors/financial stakeholders prior to funding.

02 **Limited data access impedes ability to test machine learning solutions for big data and artificial intelligence applications**

Due to the lack of data privacy and sharing laws in Sri Lanka which govern how third parties can access the data of consenting partners, private and public data tends to be siloed and closed off to external access. As a result, AI and Big Data deeptech startups working on machine learning solutions requiring access to large datasets for analysis and product testing tend to be restricted during their R&D phase.

Impediments faced by Agri Technology Startups

AgriTech is defined as using technology solutions to improve the yield, productivity and efficiency of agriculture. Below are sector specific impediments highlighted by startups during focus group discussions as impacting players in this space beyond general impediments such as the difficulty in importing and registering low power network devices for use in IoT applications.

- 01 The identified governing act doesn't consider controlled environment usage for seed importation**
The relevant act (which regulates the importation and usage of seeds in traditional open farming) does not consider enclosed controlled farming environments and impedes import and use of new seeds varieties designed specifically for such use.
- 02 Unable to import devices to operate Low Power Networks**
Startups requiring mass scale sensor grids to be effective are forced to use existing cellular networks instead of cost competitive low power wide range networks (e.g. LoRaWAN) as the required devices cannot be imported and operated due to lack of regulation supporting testing on public frequencies (Refer Section 12.1) without TRCSL approval and certification, a process which can be resource intensive for early stage startups.
- 03 Lack of awareness of modern farming techniques and technologies on national and provincial level**
General sector feedback highlighted a lack of awareness and knowledge of modern farming techniques and technologies (such as hydroponics, aquaponics, new seed varieties) due to lack of communication and education between relevant government bodies on both national and provincial levels. This has led to poor availability of support infrastructure such as lack of interconnected cool rooms, produce shelf life monitoring mechanisms or local seed innovation centers that would complement such enterprises island wide.

Impediments faced by Education Technology Startups

Edutech aims to innovate educational content delivery and learning process through the use of technology. Below are sector specific impediments highlighted by startups during focus group discussions focused on this space.

01 Lack of public education collateral procurement process for eLearning platforms

There is not any standardized procurement process for eLearning platforms to officially purchase and access **public** educational collateral (e.g. past public exams and answer keys) which puts eLearning platforms at a disadvantage.

02 Lack of educational content standard for eLearning platforms

Unavailability of an approved/designed educational content standard for digital distribution has lead to fragmentation among eLearning platforms, which restricts widescale adoption and usage.

5

Appendix

Glossary

- **Artificial Intelligence:** The development and usage of computer systems that are able to independently perform tasks that would otherwise require human intelligence and input.
- **Big data:** the study of analyzing and extracting information from data sets that are too large or complex to be handled by traditional data-processing methods.
- **Blockchain:** A digital decentralized, distributed database or ledger that stores data entries in interlinked records called blocks.
- **CEA:** Controlled environment agriculture, a technology based approach to crop cultivation using a combination of engineering and plant science in a closed farming environment.
- **IoT:** Internet of Things, this refers to a network of devices containing embedded technology to communicate, sense and interact with each other.
- **LLP:** Limited Liability Partnership is a form of business structure that provides liability protection for its owners (referred to as 'partners') while allowing access to potential tax breaks and other operational advantages.
- **LLC:** Limited Liability Company is a business structure that provides limited liability for the owners' assets where liability is limited to investment in the business.

Glossary

- **LoRaWAN:** a Low Power, Wide Area (LPWA) networking protocol designed to wirelessly connect powered units to the internet in regional, national or global networks for use in Internet of Things (IoT) applications.
- **Machine Learning:** application of artificial intelligence (AI) that enables digital systems to learn and improve from experience without being explicitly programmed to do so.
- **MVP:** Minimum Viable Product, an early release version with enough features for early adopter use who can provide feedback for future product development.
- **Sandbox:** A segregated operating environment to allow controlled operation and experimentation.
- **Sweat equity:** refers to the non-monetary contribution that the individuals or founders of a company make towards a business venture.

6

Summary of action
plans

Summary of action plans

Impediment	Action Plan / Recommendation	Relevant Act	Collaboration partner
1.1 Process of registering a company is time consuming, lacks clarity and has practical issues	A single unified government website/resource needs to be launched to manage and guide the processes of registering a company.	N/A	Department of the Registrar of Companies
1.2 Process of registering a company with foreign shareholders is not outlined	A unified government resource should indicate which processes are owned by which Departments/Ministries and how to execute them.	N/A	Department of the Registrar of Companies
1.3 Lack of clarity on how to file tax and annual returns	Promotion of 'e-File' system for taxes and update process overviews and tutorial videos. Include detailed instructions on how to fill out necessary forms (both for filing taxes and annual returns). Implementation of a support service.	N/A	Inland Revenue Department
1.4 Process of closing down a business lacks information on proper procedures	Unified government website/resource launched by the Department of Registrar of Companies should include information on how to close down a business.	N/A	Department of the Registrar of Companies

Summary of action plans

Impediment	Action Plan / Recommendation	Relevant Act	Collaboration partner
2.1 Inability to provide sweat equity to foreign collaborators	<p>Include an amendment to the Foreign Exchange Act, which will:</p> <ol style="list-style-type: none"> 1. Allow local startups less than ten years from incorporation to issue sweat equity to foreign individuals. 2. Allow local startups to receive sweat equity in return for services provided to foreign startups. 	Foreign Exchange Act no. 12 of 2017	Central Bank of Sri Lanka
2.2 Time consuming process when a local startup plans to set up an overseas office	<ol style="list-style-type: none"> 1. Appoint a staff member from the collaboration partner to liaise with technology startups, give more transparency to the approval process and ensure approval process is completed within one month. 2. Collate all information to a format that is easily understandable by all parties to reduce the delays in the approval process 	N/A	Central Bank of Sri Lanka, Inland Revenue Department
2.3 Approval process for local startups looking to make investments in foreign entities is cumbersome	Appoint a staff member from the collaboration partner to liaise with technology startups, give more transparency to the approval process and ensure approval process is completed within one month .	N/A	Central Bank of Sri Lanka

Summary of action plans

Impediment	Action Plan / Recommendation	Relevant Act	Collaboration partner
3.1 Lack of options for investors for the formation of investment funds	Introduce a Limited Liability Partnership Act in Sri Lanka, to ensure foreign private equity and venture capital funds have the legal framework required to invest in Sri Lanka	N/A	Legal Draftsmen Department, Ministry of Justice, Ministry of Industry and Commerce, Department of the Registrar of Companies, AG department
3.2 Lack of clarity in classifying startups under the Foreign Exchange Act, which hinders investments in some verticals	The identified collaboration partner should clearly identify the nature of businesses categorized in the restricted industries.	Foreign Exchange Act no. 12 of 2017	Board of Investment, Central Bank of Sri Lanka

Summary of action plans

Impediment	Action Plan / Recommendation	Relevant Act	Collaboration partner
4.1 Expensive and time consuming application process inhibits start-ups from applying for patents and copyright protection	Enable collaboration partner to implement an online digital application filing solution by amending IP act to accept digital application and filing of required documents and articles over two phases	Chapters V, XIII and XXI of the Intellectual Property Act No. 36 of 2003	National Intellectual Property Office of Sri Lanka
4.2 Offline and inaccessible patent database inhibits start-ups enforcing their intellectual property ownership globally	Collaboration partner to digitize the IP database to be in line with internationally accepted standards to enable Sri Lankan IP collateral to be searchable and accessible online, by local and international parties.	Intellectual Property Act, No. 36 of 2003	National Intellectual Property Office of Sri Lanka
4.3 No dispute resolution mechanism for IP infringements leading to court litigation for settlement.	Amend IP act for NIPO to facilitate dispute resolution prior to court litigation for selected IP infringements	Section 170 of the Intellectual Property Act No. 36 of 2003	National Intellectual Property Office of Sri Lanka

Summary of action plans

Impediment	Action Plan / Recommendation	Relevant Act	Collaboration partner
5.1 Startups that are not classified as “Technology Companies” are unable to benefit from income tax exemptions	At the point of registration of the Company, ensure that startups employing technology are classified as “Technology Startups” and are provided documentation to prove as such.	N/A	Registrar of Companies
5.2 Import taxes on components hinders export oriented startups	Allow exemptions for export oriented startups where they are not liable for import taxes at the identified collaboration partner. Specifically, allow export oriented startups that have been incorporated for less than five years to be tax exempt at the point of customs, for related machinery and components	N/A	Inland Revenue Department
5.3 Lack of tax benefits for angel and early stage investors	Allow investors in early stage startups to claim their investments as an offsetting adjustment to their taxable income. For example: 100% tax credit if you invest (up to a maximum of LKR 5 mn) in a startup under 3 years with less than 10 fulltime employees	N/A	Inland Revenue Department
5.4 Dividends tax of 14% reduces attractiveness of startups to local individual investors	Local investors should be exempt from the 14% tax on dividends received from locally incorporated startups	Circular number SEC/2020/04	Inland Revenue Department

Summary of action plans

Impediment	Action Plan / Recommendation	Relevant Act	Collaboration partner
6.1 Restrictive visa requirements impedes start ups hiring skilled foreign technology workers to meet tech gaps.	Collaboration partner to offer registered deeptech startups/ICT stakeholders a unified visa application portal similar to the BOI's Visa Management System to simplify and expedite the visa application process.	N/A	Department of Immigration and Emigration
6.2 Limited entry visa schemes restricts foreign remote workers or foreign start-ups from establishing in Sri Lanka	Identified collaboration partners to offer remote working or entrepreneurship visas to actively encourage foreign talent to work remotely or setup operations in Sri Lanka, initially through a pilot scheme, the success of which can lead to amending the Immigrants and Emigrants Act No. 20 of 1948 to formalize such agreements.	Immigrants and Emigrants Act no 20 of 1948	Department of Immigration and Emigration Board of Investment
7.1 Concessions for R&D are hard to understand and claim	Extend benefits upon its expiration on 31.3.2021 and extend these benefits across all industries while clearing stating tax concession requirements.	Inland Revenue Act, No. 24 of 2017 (Section 15)	Inland Revenue Department
7.2 Policies on university resource usage and IP ownership impedes commercialization	Actions taken by the University of Moratuwa should be replicated in all public Universities in Sri Lanka in order to drive commercialization of research.	N/A	Ministry of Education – Higher Education, University Grants commission

Summary of action plans

Impediment	Action Plan / Recommendation	Relevant Act	Collaboration partner
8.1 Lengthy processes and lack of awareness impedes cross border market entry for local and foreign startups	Limit processing times of registration Cut down time taken from registration to appearing on website	N/A	Export Board Development
8.1 Lengthy processes and lack of awareness impedes cross border market entry for local and foreign startups	Increase visibility of services provided by BOI Make documents easier to understand	N/A	Board of Investment
8.2 Unable to provide co-working space addresses for export registration at identified collaboration partner	Accept registered co-working spaces as the official business address of registered startups seeking to export goods to international markets.	N/A	Sri Lanka Customs
9.1 Legal bills for data privacy and cyber security have not been enacted into laws resulting in reputational barriers for startups	The approval and enactment of both bills should be prioritised by the relevant Ministries and presented to Parliament for approval.	N/A	Sri Lanka Computer Emergency Readiness Team, Legal Draftsmen Department

Summary of action plans

Impediment	Action Plan / Recommendation	Relevant Act	Collaboration partner
<p>10.1 Requiring institutional partners to gain access to the regulator fintech sandbox impedes startup participation</p>	<p>The regulator to remove the entry requirement of partnering with a regulator registered entity to be granted access to the FinTech regulatory sandbox.</p> <p>The regulator to issue FinTech specific licenses to regulate successful startups who aim to remain independent after exiting the sandbox.</p>	<p>Financial Technology Regulatory Sandbox Framework</p>	<p>Central Bank of Sri Lanka</p>
<p>10.2 Limited avenues to facilitate communication with the regulator on financial technology regulation issues</p>	<p>Regulator designates a point of authority on monetary regulation in relation to FinTech by assigning a specialized official(s) who could interact and provide guidance to the startup community, both digitally and in person, to serve as a liaison between the regulator and startup community.</p>	<p>N/A</p>	<p>Central Bank of Sri Lanka</p>

Summary of action plans

Impediment	Action Plan / Recommendation	Relevant Act	Collaboration partner
<p>11.1 Lack of physical collateral in technology startups makes debt funding from banks challenging to obtain</p>	<ol style="list-style-type: none"> 1. Implementation of a Government program to provide startup loans through state-owned banks. The program should incorporate external support to improve the quality and success rate of startups through activities such as mentoring and acceleration. 2. Development of a long-term solution to more accurately evaluate credit risk of startups to enable banks to price loans more efficiently. 3. StartupSL website to add a page with a summary of available loan schemes for startups, with eligibility criteria, quantum of capital available and valid purposes, and a connecting link/email for startups who wish to pursue a specific scheme. 	<p>N/A</p>	<p>Central Bank of Sri Lanka, Ministry of Finance, ICTA</p>

Summary of action plans

Impediment	Action Plan / Recommendation	Relevant Act	Collaboration partner
12.1 Current legislation inhibits startup access to the radio frequency spectrum for telecommunication innovation	Regulator to allocate test frequencies on public spectrum and grant registered startups controlled and supervised sandbox access to encourage telecommunications innovation on a pilot basis through amending the Radio Frequency License Regulations No.2 of 1996.	Radio Frequency License Regulations (1996)	The Telecommunications Regulatory Commission of Sri Lanka
12.2 Lack of awareness and slow processing time for regulator approval for customs clearance of networking equipment	<ol style="list-style-type: none"> 1. Identified collaboration partners to define the approval requirements to clear telecommunication equipment and publish this information on their respective web portals. 2. Regulator to allow startups to submit approval documentation digitally and prior to shipments arriving in the country. 	N/A	TRCSL Sri Lanka Customs

7

Summary of acts and regulations to be changed

Summary of Acts and Regulations to be changed

Impediment	Act / Regulation to be changed	Recommended change	Collaboration partner
2.1 Inability to provide sweat equity to foreign collaborators	Foreign Exchange Act No. 12 of 2017	Include an amendment to allow startups to issue and receive sweat equity from foreign startups	Central Bank of Sri Lanka
3.2 Lack of clarity in classifying startups under the Foreign Exchange Act, which hinders investments in some verticals	Foreign Exchange Act No. 12 of 2017	The identified collaboration partners should clearly identify the nature of businesses categorized in the restricted industries.	Board of Investment, Central Bank of Sri Lanka

Summary of Acts and Regulations to be changed

Impediment	Act / Regulation to be changed	Recommended change	Collaboration partner
4.1 Expensive and time consuming application process inhibits start-ups from applying for patents and copyright protection	Chapters V, XIII and XXI of the Intellectual Property Act No. 36 of 2003	Amend IP act to accept digital application and filing of required documents and articles during phase two.	National Intellectual Property Office of Sri Lanka
4.2 Offline and inaccessible patent database inhibits start-ups enforcing their intellectual property ownership globally	Intellectual Property Act, No. 36 of 2003	Update Act to allow for digital storage and retrieval of IP records	National Intellectual Property Office of Sri Lanka
4.3 No dispute resolution mechanism for IP infringements leading to court litigation for settlement.	Section 170 of the Intellectual Property Act No. 36 of 2003	Amend IP act for NIPO to facilitate dispute resolution prior to court litigation for selected IP infringements	National Intellectual Property Office of Sri Lanka

Summary of Acts and Regulations to be changed

Impediment	Act / Regulation to be changed	Recommended change	Collaboration partner
5.4 Dividends tax of 14% reduces attractiveness of startups to local individual investors	Circular number SEC/2020/04	Revise to exempt dividend tax for local investors.	Inland Revenue Department
6.2 Limited entry visa schemes restricts foreign remote workers or foreign start-ups from establishing in Sri Lanka	Immigrants and Emigrants Act no 20 of 1948	Amend Act to allow for remote working and entrepreneurship visa categories.	Department of Immigration and Emigration Board of Investment
7.1 Concessions for R&D are hard to understand and claim	Inland Revenue Act, No. 24 of 2017 (Section 15)	Extend benefits upon its expiration on 31.3.2021 and extend these benefits across all industries while clearly stating tax concession requirements.	Inland Revenue Department
10.1 Requiring institutional partners to gain access to the regulator fintech sandbox impedes startup participation	Financial Technology Regulatory Sandbox Framework	Revise to remove entry requirement to partner with a regulator registered entity to be granted access to the FinTech regulatory sandbox.	Central Bank of Sri Lanka

Summary of Acts and Regulations to be changed

Impediment	Act / Regulation to be changed	Recommended change	Collaboration partner
12.1 Current legislation inhibits startup access to the radio frequency spectrum for telecommunication innovation	Radio Frequency License Regulations (1996)	Amend regulations to allow for controlled sandbox access to the public spectrum.	The Telecommunications Regulatory Commission of Sri Lanka



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