

Sri Lanka

Budget 2025 Proposal



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Foreword

Sri Lanka stands at a defining juncture in its economic recovery. The path ahead demands bold, strategic reforms to restore confidence, attract investment, and drive sustainable growth. As the world's leading body for public and management accounting, AICPA & CIMA recognises the need for decisive and well-calibrated policies—rooted in transparency, accountability, and long-term vision—that not only stabilise the economy but also unlock its full potential.

Sri Lanka's economy grew by 5% GDP in Q1 2024, signalling early signs of recovery driven by industrial expansion¹. However, sustained progress hinges on predictable fiscal policies, digital transformation, and structural reforms to restore confidence and attract long-term investment. As the government works toward a 2.3% primary surplus to meet IMF commitments this year, tax and revenue reforms are instrumental to fiscal stability².

This budget recommendation report presents a comprehensive set of proposals based on the insights gathered from industry leaders, finance professionals, and policy experts. It underscores the urgency of policy predictability, fiscal discipline, and investment-friendly strategies while ensuring social and economic inclusivity. By implementing the policy measures outlined in this report, Sri Lanka can build a more resilient economy—one that fosters innovation, strengthens public finances, and creates an environment where businesses and individuals thrive.

Over the past 60 years, CIMA has played a pivotal role in advancing management accounting in Sri Lanka. Now, as AICPA & CIMA, we remain committed to continuing this support as our nation embarks on this important journey towards a brighter and more prosperous future.



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¹ <https://www.worldbank.org/en/country/srilanka/publication/sri-lanka-development-update-2024>

² <https://www.reuters.com/world/asia-pacific/imf-release-333-million-crisis-hit-sri-lanka-2024-11-23>

Executive Summary

To support Sri Lanka's recovery, we have identified key policy proposals guided by strategic thrusts in investment, taxation, governance, and digital transformation. This report outlines the most pressing asks, with the Association's linked reports offering additional references for implementation.

Recommendations at a glance



Macroeconomic Priorities

- ▶ Establish a 3–5 year fiscal roadmap with stable tax policies.
- ▶ Digitise tax administration with linked tax files, digital IDs, and automated audits.
- ▶ Remove para-tariffs, streamline trade via a National Single Window, and improve export traceability.
- ▶ Expand broadband, introduce Unique Digital IDs, and drive digital adoption for SMEs & agriculture.
- ▶ Train 200,000 digital professionals by 2030 and enforce cybersecurity laws.



Taxation

- ▶ Shift to progressive income taxation, broaden capital gains tax, and simplify tax filing.
- ▶ Mandate TINs and appoint an independent Tax Ombudsman.
- ▶ Introduce resource taxation (minerals, fisheries, digital services) and redirect subsidies to essential services.



State-owned Enterprises

- ▶ Mandate audited financials, adopt IPSAS accounting standards, and create a central SOE holding company.
- ▶ Classify, privatise, or restructure SOEs based on strategic value.
- ▶ Align SOE reforms with IMF programs and ensure independent oversight.





Information Technology and BPM

- ▶ Prioritise high-value IT/BPM services (KPO, fintech, legal outsourcing).
- ▶ Expand English language, AI, blockchain, and cybersecurity training in universities.
- ▶ Set up IT SEZs with tax perks, lower electricity tariffs for IT firms; develop co-working tech hubs.
- ▶ Launch a national IT branding campaign and increase participation in global summits.



SME and Entrepreneurship

- ▶ Launch a startup investment fund, offer tax incentives for angel investors.
- ▶ Simplify business registration, taxation, and create university-backed incubators, innovation labs, and patent grants.
- ▶ Extend SME loan repayment terms; waive EPF/ETF penalties.



Value-added Exports

- ▶ Facilitate controlled raw material imports and boost private agri investment.
- ▶ Set up Eco-Industrial Parks, strengthen IP laws, and accelerate FTAs.
- ▶ Upgrade port & airport logistics, attract FDI through tax incentives, and reform labour laws to include female labour force participation.



Education

- ▶ Integrate STEAM education and industry-relevant certifications into curricula.
- ▶ Expand low-interest education loans and improve rural digital access.
- ▶ Introduce AI, analytics, behavioural thinking, and modern teaching methods in schools.
- ▶ Boost research funding; attract FDI in education.



Banking and Investment

- ▶ Promote bank mergers and introduce green bonds, REITs, and SME lending incentives.
- ▶ Expand digital transactions, shared KYC systems, and create an Asset Recovery Bank.
- ▶ Establish a government-backed SME lending program and improve financial literacy.

Contents

Executive Summary	3
Abbreviations	6
Macroeconomic Priorities	8
Taxation	12
Education	15
Banking and Investment	18
Information Technology and Business Process Management	21
SME and Entrepreneurship Development	24
Value-added Exports	28
State-owned Enterprises	30
Further Reading	33
Acknowledgements	34

Abbreviations

AI	Artificial Intelligence
BPM	Business Process Management
CAGR	Compound Annual Growth Rate
CBSL	Central Bank of Sri Lanka
CSE	Colombo Stock Exchange
EIPs	Eco-Industrial Parks
EPF	Employees' Provident Fund
ETF	Employees' Trust Fund
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GSP+	Generalised System of Preferences Plus
ICT	Information and Communications Technology
ID	Information Identity
IMF	International Monetary Fund
IP	Intellectual Property
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
KPO	Knowledge Process Outsourcing
KYC	Know Your Customer
LLPs	Limited Liability Partnerships

M&A	Mergers and Acquisitions
MSME	Micro, Small, and Medium Enterprises
NBFC	Non-Bank Finance Company
NPA	Non-Performing Asset
PPP	Public-Private Partnership
REIT	Real Estate Investment Trust
R&D	Research and Development
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SOE	State-Owned Enterprise
STEAM	Science, Technology, Engineering, Arts, and Mathematics
SVAT	Simplified Value-Added Tax
TIN	Tax Identification Number
VAT	Value-Added Tax

Macroeconomic Priorities

Policy consistency and economic stability

Economic instability is often exacerbated by inconsistent fiscal and monetary policies. Frequent and unpredictable changes in excise duties, import taxation, and fiscal strategies deter private sector investment and long-term business planning.

Proposal

- ▶ Establish a medium- to long-term fiscal strategy with clear, predictable policies to maintain macroeconomic stability. This should include a 3–5-year roadmap for taxation policies to prevent mid-year alterations.
- ▶ Create independent institutions, such as a “Tax Policy Unit”, to analyse and recommend consistent, data-driven tax strategies.
- ▶ Implement transparent pricing formulas for State Owned Enterprises (SOEs) to ensure accountability and sustainability while avoiding politically motivated pricing anomalies.
- ▶ Strengthen governance frameworks by adopting a “common minimum framework” agreed upon by political parties to safeguard long-term policy continuity beyond election cycles.

Revenue mobilisation and tax administration

The tax-to-GDP ratio remains below potential due to inefficiencies in tax administration and significant revenue leakages. Despite efforts to broaden the tax base, the informal economy and reliance on cash transactions limit compliance and progress. High leakage rates in sectors such as alcohol and tobacco reduce the effectiveness of tax measures.

Proposal

- ▶ Digitise tax administration by linking tax files with EPF/ETF registrations and implementing digital national IDs to improve tracking and compliance.
- ▶ Address tax evasion through stricter enforcement measures and monitoring mechanisms, especially for high-leakage sectors like alcohol, tobacco, and imports.
- ▶ Incentivise digital payments by introducing targeted taxes on large cash withdrawals, as successfully demonstrated in countries like India.

- ▶ Streamline the tax code to minimise complexity and reduce opportunities for evasion while ensuring efficient administration.
- ▶ Support economic growth in key sectors (e.g., SMEs and agriculture) to organically grow tax revenue through higher VAT collection.

Export-led growth and anti-export bias

Heavy reliance on domestic demand and debt-financed growth increases economic vulnerability. Tariff protections and inefficient customs processes create an anti-export bias, reducing competitiveness and hindering integration into global value chains. Initiatives like phasing out para-tariffs have been slow to materialise, limiting export diversification.

Proposal

- ▶ Phase out para-tariffs and reduce anti-export biases by adhering to commitments under Free Trade Agreements (FTAs).
- ▶ Establish a “National Single Window” to streamline customs and border procedures, significantly reducing clearance times and costs.
- ▶ Implement traceability mechanisms for agricultural and fisheries exports to comply with international standards, such as EU deforestation regulations.
- ▶ Promote industrial policies that support sectors with high compound annual growth rates (CAGR) and proven competitiveness, guided by data-driven assessments.

Digitalisation and infrastructure development

The absence of foundational digital infrastructure hampers economic progress. Rural areas face limited broadband access, while the lack of a robust digital information Identity (ID) system hinders financial inclusion and efficient service delivery. Key sectors like agriculture and SMEs remain underserved by digital technologies.

Proposal

- ▶ Expedite the implementation of a “Unique Digital ID” to enable efficient welfare distribution, enhance tax compliance, and promote digital inclusion.
- ▶ Invest in nationwide broadband expansion to bridge the urban-rural digital divide, facilitating access to education, business, and government services.

- ▶ Foster innovation and digitisation in agriculture by developing platforms for real-time data on crop cultivation and market needs, reducing inefficiencies and oversupply.
- ▶ Introduce a “Digital Maturity Index” for SMEs, linked to incentives such as lower interest rates on loans, encouraging digital transformation.

Sustainable social welfare programs

Social welfare programs such as *Samurdhi* and *Aswesuma* face inefficiencies in targeting and delivery. Cash-based systems create opportunities for resource wastage, while beneficiaries in remote areas struggle to access support due to logistical challenges.

Proposal

- ▶ Leverage the digital ID system to improve targeting and delivery of welfare programs, ensuring benefits reach intended recipients.
- ▶ Integrate digital payments in welfare distribution to minimise leakage and promote financial inclusion for underprivileged populations.
- ▶ Conduct regular audits and utilise big data analytics to monitor and refine welfare programs.

Human capital development and capacity building

As global economies evolve, there is a risk of falling behind due to a mismatch between available human capital and the demands of high-value industries. Limited training in areas like AI, cybersecurity, and digital design hampers competitiveness in the global digital economy.

Proposal

- ▶ Establish a national program to train 200,000 digitally skilled professionals by 2030, focusing on high-value IT sectors such as AI, design, and cybersecurity.
- ▶ Incentivise private sector participation in training programs through public-private partnerships.
- ▶ Develop specialised programs for upskilling workers in export-oriented industries and sectors requiring digital innovation.

Trust in digital systems and governance

Public mistrust in digital systems, driven by cybersecurity breaches and inadequate data protection, undermines adoption of digital platforms. The lack of comprehensive data protection laws leaves individuals and businesses vulnerable to misuse of information.

Proposal

- ▶ Enforce robust data protection laws to safeguard privacy and build trust in digital systems.
- ▶ Establish a national cybersecurity task force to address vulnerabilities and respond to threats in real-time.
- ▶ Launch public awareness campaigns to educate citizens on the benefits and security of digital platforms, building confidence in the government's digital agenda.

Taxation

Tax structure reforms

Overreliance on indirect taxes, such as VAT and excise duties, disproportionately impacts low- and middle-income households. These taxes place an undue financial burden on the most vulnerable populations, leading to social inequities and reduced purchasing power.

Proposal

- ▶ Introducing tiered income taxes with higher rates for high-income earners can ensure that those with greater financial capacity contribute more to national revenue. Expanding the scope of capital gains tax to include a broader range of financial and real estate assets will enable a fairer distribution of tax responsibilities while increasing government revenue.
- ▶ Shift the revenue focus to direct taxes to ease the burden on low-income groups and create a fairer tax system. Direct taxes are more equitable as they align with individuals' ability to pay.

Expansion of the taxpayer base

A significant portion of the workforce operates within the informal economy, which accounts for substantial economic activity but remains outside the tax net. This limits the government's ability to generate revenue and creates an uneven playing field for formal businesses.

Proposal

- ▶ Simplify tax regimes tailored for small businesses and self-employed individuals to encourage formal registration. Offer benefits like access to affordable credit, grants, and social security schemes to incentivise compliance.
- ▶ Make Tax Identification Numbers (TIN) mandatory for all citizens and businesses to ensure transparency and accountability. Combine this with technology-driven monitoring, penalties for non-compliance, and incentives for timely filing.

Tax policy consistency

Frequent and unpredictable changes in excise duties, import taxation, and fiscal strategies deter private sector investment and long-term planning for the community.

Proposal

- ▶ Establish a 3–5-year roadmap for taxation policies to prevent mid-year alterations.
- ▶ Create independent institutions, such as a “Tax Policy Unit”, to analyse and recommend consistent, data-driven tax strategies.

Tax administration

Outdated tax administration systems and weak enforcement mechanisms significantly hamper efficient revenue collection. These inefficiencies erode public trust in the tax system and lead to revenue losses.

Proposal

- ▶ Deploy advanced tax management systems, including automated filing and data analytics, to reduce administrative bottlenecks, minimise errors, and optimise revenue collection.
- ▶ Conduct regular training programs for tax officials to equip them with the skills needed to manage complex compliance issues, identify tax evasion, and engage with taxpayers.
- ▶ Appoint an independent Tax Ombudsman to address taxpayer grievances and resolve disputes impartially. This office will mediate between taxpayers and the tax administration, reducing the judiciary's burden and fostering trust in the system. Ensuring fair treatment will improve voluntary compliance and strengthen the overall tax framework.

Revenue streams diversification

High reliance on external borrowing to fund budget deficits creates fiscal vulnerabilities and increases national debt. Diversifying revenue sources is essential to reduce dependency on debt financing and ensure long-term economic resilience.

Proposal

- ▶ Encourage private sector participation in infrastructure development and social projects to distribute fiscal responsibilities and attract investment.
- ▶ Tax natural resources such as minerals, fisheries, and agricultural lands transparently and efficiently to provide a stable revenue stream. Implement a well-regulated resource taxation framework to ensure these industries contribute their fair share to national development.
- ▶ Implement a tax on digital services provided by non-residents, targeting foreign entities with significant transactions. Set a minimum threshold to exempt small transactions, following models like Singapore's. Start with purely digital services such as software, subscriptions, and transaction facilitation. Then expand to online learning and marketplaces. Businesses meeting the tax criteria should be required to register to ensure effective compliance and revenue collection.

Tax equity and social welfare

Economic disparities have widened due to regressive tax policies and inadequate social safety nets. Addressing these inequities is critical for fostering social cohesion and economic stability.

Proposal

- ▶ Redirect subsidies to essential services and vulnerable populations to mitigate the regressive impact of indirect taxes. For example, target subsidies for healthcare, education, and food security to ensure resources reach those who need them most.
- ▶ Evaluate the distributional effects of tax reforms on different demographic groups to identify unintended consequences and ensure policies promote inclusivity. Conduct regular assessments to guide adjustments, ensuring tax policies remain equitable and effective over time.

Education

Education and industry alignment

The current education system produces graduates with outdated knowledge and skills that do not align with modern job market demands. The rote-learning approach dominates, limiting critical thinking and adaptability. Employers require internationally accredited qualifications, yet access remains limited.

Proposal

- ▶ Encourage universities to integrate industry-relevant certifications by forming strategic partnerships with global accreditation bodies.
- ▶ Establish public-private partnerships to align academic programs with industry needs and provide hands-on experience through internships and apprenticeships.
- ▶ Promote vocational and technical education by investing in specialised training centres that cater to industry needs, making such education appealing and accessible while addressing critical skill shortages in key sectors.
- ▶ Develop a comprehensive education policy for the next decade, aligned with global trends, incorporating STEAM education reforms.

Equitable access to education

Only 42,000³ students gain entry to public universities annually, leaving many without tertiary education opportunities. Affordability remains a major challenge for students seeking non-state education. Rural and underprivileged students face barriers in accessing quality education, including a lack of digital infrastructure and accredited institutions.

Proposal

- ▶ Educational loans provided by banks are currently offered at market rates, making them unaffordable for many students. Enhance the existing loan system by offering low-interest education loans with flexible repayment terms, ensuring that students from lower-income backgrounds can access higher education.
- ▶ Introduce merit-based and need-based scholarships to aid disadvantaged students, prioritising STEAM fields and other areas critical for national development.

³ University Grant Commission (UGC)

- ▶ Expand accredited educational institutions in rural areas.
- ▶ Develop digital literacy programs targeted at underserved communities.
- ▶ Implement a monitoring framework to ensure policy reach and effectiveness.

Teacher training and development

Teachers lack modern teaching methodologies, particularly in digital and STEAM education. Continuous professional development opportunities are minimal.

Proposal

- ▶ Allocate funds for nationwide teacher training programs focused on digital literacy, AI-based teaching tools, and innovative pedagogical techniques.
- ▶ Create incentives such as career advancement opportunities, recognition programs for teachers who undergo continuous professional development.
- ▶ Establish STEAM training centres across the country to provide specialised education for teachers, ensuring they are equipped to teach future-ready subjects effectively.

Digitalisation and STEAM education

Digital literacy among students is low, and the curriculum is archaic and lacks sufficient integration of AI and analytical thinking skills. Sri Lanka lags behind regional counterparts in digital education.

Proposal

- ▶ Introduce STEAM topics into the curriculum from early learning years, fostering creativity and interdisciplinary out-of-the-box thinking.
- ▶ Increase investment in digital infrastructure by equipping schools with high-speed internet, smart classrooms, and interactive learning tools that integrate AI-powered educational resources.
- ▶ Partner with global tech leaders to implement best practices in digital education, ensuring students are exposed to emerging technologies and innovative learning approaches.
- ▶ Modernise vocational training programs to include ICT-focused courses, creating a skilled workforce.
- ▶ Strengthen the quality assurance framework to improve the effectiveness of school education.

Fund allocation and distribution

Education funding is insufficient and often directed towards outdated programs rather than future-oriented initiatives. The private sector lacks incentives to invest in education. Education funds are often allocated without a clear mechanism to assess their impact, leading to inefficiencies. There is a need to ensure funds contribute to long-term educational improvements and knowledge application in practical scenarios.

Proposal

- ▶ Prioritise education spending on digital transformation, STEAM, research, behavioural skill development.
- ▶ Encourage foreign direct investment (FDI) in education by providing tax concessions to foreign universities based on investment scale. This approach will not only attract international educational institutions but also enhance competition, improve quality, and reduce student migration by creating more higher education opportunities locally.
- ▶ Establish a national education R&D fund to drive innovation in teaching methods.
- ▶ Develop a comprehensive education policy for the next decade, aligned with global trends.
- ▶ Establish measures to monitor the efficiency and effectiveness of programs funded by the government.
- ▶ Shift budget allocations towards development initiatives rather than only maintaining current operations.
- ▶ Address the salary structure of government teachers to ensure motivation and retention.

Banking and Investment

Consolidation of financial institutions

Economic challenges have weakened financial institutions, including banks and non-banking finance companies (NBFCs), due to increased non-performing assets and weakened capital buffers. This could create instability in the financial system if weaker institutions fail.

A resilient financial system is crucial for economic growth and for absorbing both internal and external shocks. Recent amendments to the Banking Act have introduced legal provisions to facilitate mergers and acquisitions of licensed banks.

Proposal

- ▶ Promote market-driven mergers through tax incentives, such as making merger costs 200% tax deductible. Take lessons from past finance company merger benefits and apply them to banking institutions. Ensure governance and independence in the consolidation process to maintain financial stability.
- ▶ Restructure medium and small state banks to boost efficiency and economic impact. Implement consolidation mechanisms to attract capital, improve management expertise, and drive technological advancement.

Capital market and investment framework

The capital market has a limited range of financial instruments, with reliance on bank lending as the primary source of business financing. Regulatory requirements, including stamp duties and taxation policies, impact the development of Real Estate Investment Trusts (REITs), green bonds, and other financial products. The availability of alternative investment options remains limited. Additionally, the demutualisation of the Colombo Stock Exchange (CSE), which could improve market efficiency and attract foreign investment, has yet to be implemented.

Proposal

- ▶ Expand the range of financial instruments by introducing sustainability bonds (green, blue, and social bonds), sukuks, infrastructure bonds, asset-backed securities, and derivatives. Provide tax incentives to encourage the issuance and adoption of these instruments.

- ▶ Improve liquidity by incentivising new listings of large-cap companies, SOEs, and SMEs through targeted financial and regulatory support.
- ▶ Establish a framework to facilitate REITs, including tax exemptions on property transfers to REITs and defining clear policy guidelines to encourage adoption and investment.
- ▶ Expedite the demutualisation of the Colombo Stock Exchange to attract strategic foreign partners and improve market efficiency.
- ▶ Reclassify gains from SME equity investments as capital gains instead of trading profits and exempt them from financial services VAT to encourage long-term equity funding.
- ▶ Set up a facility in the Port City to enable foreign currency issuances through the capital market, enhancing access to international investors and deepening the financial sector.

Digital infrastructure and financial transactions

The adoption of digital financial solutions is affected by infrastructure limitations and funding availability. Banks remain cautious about financing digital projects due to their intangible nature, and a significant portion of transactions continue to be cash-based. The reliance on cash affects efficiency and security in financial transactions.

Proposal

- ▶ Establish a dedicated digital infrastructure fund to support financial technology and banking innovations.
- ▶ Mandate digital payments for high-value transactions.
- ▶ Encourage banks to develop credit assessment mechanisms based on digital transaction data.
- ▶ Encourage financial institutions to provide solutions like contactless and mobile-based payments.
- ▶ Promote digital payments in unorganised sectors, including street vendors, through banking incentives.
- ▶ Require digital payment systems for government transactions, including tax payments and public service fees.
- ▶ Expand the use of digital IDs and shared Know Your Customer (KYC) systems for financial services.

Establishment of an Asset Recovery Bank

Non-performing assets (NPAs) continue to weigh heavily on financial institutions, affecting their ability to lend and maintain financial stability.

Proposal

- ▶ Establish an Asset Recovery Bank to manage and dispose of troubled assets efficiently.
- ▶ Seek participation from international development agencies for capital investment and expertise.
- ▶ Ensure proper legal, financial, and operational frameworks for effective management of distressed assets.

Access to finance for SMEs

Many SMEs face challenges in accessing formal financing due to inadequate financial documentation and poor tax compliance. A significant portion of businesses operate in the informal sector, limiting their ability to attract investment and scale operations. Additionally, a large unbanked population restricts financial sector participation and overall economic inclusion, reducing opportunities for business growth and formal employment.

Proposal

- ▶ Offer tax incentives to SMEs that maintain proper financial records and demonstrate tax compliance.
- ▶ Establish a government-backed lending fund to provide financing for SMEs with limited collateral.
- ▶ Promote digital lending solutions that assess creditworthiness based on transaction history and digital records.
- ▶ Expand financial literacy initiatives to help SMEs improve bookkeeping, credit management, and financial transparency.
- ▶ Encourage businesses to adopt digital payment systems by providing tax benefits for electronic transactions.

Information Technology and Business Process Management

Competitiveness in the global market

The global IT/BPM market is highly competitive, with countries like India and the Philippines offering cost-effective, large-scale solutions supported by extensive infrastructure and a highly skilled workforce. Sri Lanka, with its comparatively smaller talent pool and market presence, faces challenges in attracting international business.

Proposal

- ▶ To differentiate from cost-driven competitors, the sector should focus on niche, high-value services such as knowledge process outsourcing (KPO), fintech solutions, legal process outsourcing, and specialised BPM services, particularly in industries such as healthcare and finance. Enhancing expertise in these areas and investing in technology will create a reputation for high-quality outsourcing services.
- ▶ Encourage the sector to develop products with global potential, using Sri Lanka's intellectual talent to position the country as a tech hub and attract foreign revenue.

Talent and skills development

There is a gap between academic curricula and evolving market demands. Employers frequently note a shortage of professionals skilled in emerging technologies such as artificial intelligence, blockchain, cloud computing, and cybersecurity. Additionally, extensive training is often required for graduates to become job-ready, increasing costs for businesses.

Proposal

- ▶ Encourage collaboration between the government, educational institutions, and industry stakeholders to modernise curricula and integrate hands-on training. Identify the "right skills" for the future, considering AI's rapid growth and its impact on tech jobs. Expand and scale English language education nationwide to ensure talent across the island can embrace digital technology and contribute to the industry.

- ▶ Industry-specific certification programs, boot camps, and fast-track training in high-demand technology fields should be introduced to bridge the skills gap.
- ▶ Continuous learning initiatives and employer-led training programs should be supported to enhance workforce readiness.
- ▶ Digital is a good fit for the differently abled community where mobility and physically demanding work are not an option. Empowering them with the right tools will help them become contributors to the economy and expand the skilled digital workforce.
- ▶ Language-specific training should be incorporated into school curricula from an early age to ensure that graduates possess strong communication skills in global business languages.

Policy framework and industry support

The IT/BPM sector faces bureaucratic and regulatory hurdles, including unclear taxation policies, complex registration processes, and a lack of targeted incentives. These factors discourage both local startups and foreign investment, creating uncertainty and hindering long-term business planning.

Proposal

- ▶ A business-friendly policy framework tailored to the IT/BPM sector should be established. Key measures should include tax incentives, streamlined registration processes, and policies that encourage investment. Special Economic Zones (SEZs) with dedicated infrastructure for IT firms, grants for technology research, and the establishment of a one-stop regulatory body for approvals should be implemented to improve the ease of doing business.
- ▶ A centralised platform to be introduced to serve as an information and support hub for investors looking to establish IT/BPM businesses. This hub should provide clear guidelines on regulatory requirements, funding, and market entry strategies to simplify and encourage business formation.

Market expansion and global positioning

The outsourcing market remains underrepresented in the global landscape. Many international firms are unaware of the available capabilities, limiting business opportunities and potential growth. The absence of a coordinated branding and marketing strategy further restricts visibility.

Proposal

- ▶ A comprehensive national branding campaign should be launched to position the sector as a preferred outsourcing destination.
- ▶ Participation in international trade fairs, hosting industry summits, and forming strategic partnerships with multinational corporations should be prioritised.
- ▶ Strengthening diplomatic and trade relationships with key markets, such as North America, Europe, and the Middle East, should be pursued to open new business opportunities.
- ▶ Success stories should be showcased, and digital marketing efforts should be leveraged to increase global recognition.

Infrastructure and operational efficiency

High operational costs, including electricity tariffs, inconsistent internet connectivity, and expensive commercial real estate, pose significant challenges for IT/BPM firms. These factors impact overall profitability and the attractiveness of the sector as an outsourcing destination.

Proposal

- ▶ Infrastructure inefficiencies should be addressed through targeted policy interventions. Reduced electricity rates for IT/BPM firms, enhancements to broadband infrastructure, and support for remote work solutions should be implemented to lower operational costs.
- ▶ The development of shared office spaces and IT parks with state-of-the-art facilities should be encouraged to promote efficiency and collaboration.

SME and Entrepreneurship Development

Access to funding

Startups in Sri Lanka face significant difficulties in securing funding due to the absence of a well-structured venture capital ecosystem. Unlike other economies with mature investment networks, Sri Lanka lacks the necessary incentives for angel investors and venture capitalists, leading to a scarcity of risk capital. SMEs are burdened with accumulated debt from past moratoriums, making repayment difficult and restricting their ability to reinvest in growth. Additionally, the absence of a Development Bank concept results in banks failing to assess projects accurately, often rejecting viable businesses due to risk-averse lending practices.

Proposal

- ▶ Establish a government-backed investment fund, such as the “fund of fund”, that provides matching capital to private investors supporting startups. Provide tax benefits for angel investors and venture capitalists to attract more risk capital.
- ▶ Introduce a development bank ecosystem with “lending engineers” to assess project viability and provide structured financing.
- ▶ Implement a structured debt relief program that allows SMEs to repay loans over extended periods with reduced interest rates.

Business growth and market access

Startups and SMEs struggle to access larger markets, both domestically and internationally. Government procurement processes create significant barriers, as current tendering policies favour large, established businesses with high capital reserves, effectively excluding startups from participating. Additionally, there is minimal government or institutional support for startups seeking to expand into global markets, limiting their ability to showcase innovations and attract international investors. Large enterprises also lack incentives to procure from startups and SMEs, making it harder for small businesses to establish a steady customer base. The absence of an Industrial Zone Strategy further limits sector-specific infrastructure development, reducing competitiveness.

Proposal

- ▶ Allocate a percentage of government contracts to startups and SMEs with adjusted entry criteria.

- ▶ Provide funding for selected startups to attend international trade and investor events.
- ▶ Introduce tax credits for large businesses that source products or services from local startups and SMEs.
- ▶ Develop a data-driven country profile showcasing high-potential industrial sectors for foreign investors.
- ▶ Identify and allocate land banks for industrial zones in every district, creating sector-specific industrial zones for better resource allocation.

Regulatory environment and taxation

Sri Lanka's regulatory landscape poses significant challenges for startups and SMEs, with complex, time-consuming business registration and compliance processes. Entrepreneurs face bureaucratic hurdles that delay operations and discourage investment. Additionally, the tax system lacks sufficient incentives for startup investors, limiting private sector funding. Double taxation on investment funds further hampers venture capital formation, restricting the growth of a strong investment ecosystem.

Proposal

- ▶ Establish a digital one-stop platform linking all relevant government agencies to streamline business licensing, approvals, and compliance.
- ▶ Assign dedicated case officers to guide entrepreneurs through the approval process.
- ▶ Develop a centralised National Entrepreneur Database to track active entrepreneurs, for real-time insights, and prevent data duplication.
- ▶ Introduce Limited Liability Partnerships (LLPs) or a similar model to remove double taxation on venture capital investments.
- ▶ Implement tax exemptions or credits for investors supporting early-stage startups.

Innovation and infrastructure support

Sri Lanka's startup ecosystem lacks strong infrastructure support for innovation and commercialisation. Universities do not have structured programs or KPIs to encourage student-led startups. This leads to a weak pipeline of new businesses emerging from academic research and development. Additionally, startups in manufacturing, biotech, and hardware industries face significant challenges due to the lack of accessible prototyping and R&D facilities. Without these resources, local innovators struggle to develop and refine products, limiting their competitiveness in both domestic and international markets. High costs associated with Intellectual Property (IP) registration further restrict startups from protecting and scaling their innovations globally.

Proposal

- ▶ Introduce performance-based funding to universities that successfully incubate a minimum number of startups annually.
- ▶ Establish shared innovation labs and/or industrial research centers accessible to startups and SMEs for product design, prototyping, and testing.
- ▶ Align university and vocational training programs with industry demands to promote entrepreneurial mindsets from an early stage.
- ▶ Provide grants or subsidies to cover a portion of patent application and Intellectual Property (IP) registration costs.

Financial stability and working capital access

Many SMEs that relied on previous government moratoriums are now struggling with high-interest payments, doubling their debt burden. These businesses are unable to secure new working capital loans due to poor credit scores resulting from accumulated debt and delayed repayments. Additionally, SMEs face severe penalties for non-compliance with employment-related payments such as EPF/ETF, adding to their financial strain.

Proposal

- ▶ Offer extended repayment plans with lower interest rates to ease the financial burden on SMEs.
- ▶ Allow a grace period for businesses to improve credit ratings before applying for new loans.
- ▶ Implement a structured approach to remove or reduce fines on overdue EPF/ETF payments.

Value-added Exports

Raw material availability and supply solutions

The coconut-based value-added export sector is struggling due to a significant drop in coconut production, declining by 10%–15%⁴ in recent years. Import restrictions on raw materials such as coconut shell charcoal exacerbate the issue.

Proposal

- ▶ Allow controlled imports of coconuts and coconut-based raw materials while following international quarantine and disease prevention best practices.
- ▶ Improve coconut and rubber yields through enhanced agricultural practices, better fertiliser policies, and targeted replanting initiatives.
- ▶ Incentivise large-scale private sector investment in seedling production.
- ▶ Expand access to land for high-value plantations through investment zones.

Industrial infrastructure, innovation, and development

The lack of well-equipped industrial zones hinders manufacturing growth. Essential facilities such as water supply, waste management, and effluent treatment are insufficient. Limited access to international trademarks and patent registration discourages innovation and brand development for exporters. Additionally, inadequate e-commerce policies and logistics support hinder digital trade expansion.

Proposal

- ▶ Establish new industrial hubs with modern infrastructure to support high-value manufacturing, textile production, and food processing. Upgrade existing facilities with shared waste treatment and landfill solutions.
- ▶ Facilitate the creation of Eco-Industrial Parks (EIPs) to support sustainable manufacturing.

⁴ Coconut Development Authority

- ▶ Fast-track accession to the Madrid Protocol for trademarks and improve IP protection mechanisms.
- ▶ Develop a national e-commerce strategy to enhance cross-border digital trade facilitation and integrate digital payments with global platforms.

Market access and trade competitiveness

Competing nations such as Bangladesh and Vietnam enjoy duty-free access to major markets like the EU and the UK, while Sri Lanka faces a 12% duty disadvantage.

Proposal

- ▶ Accelerate FTA negotiations with key markets (especially the EU and UK), to plan for potential phase out or non-renewal of the GSP+ scheme. Meanwhile, continue to negotiate for more relaxed rules of origin on the existing scheme.
- ▶ Implement a structured branding initiative to position Sri Lanka as a hub for ethical and high-quality exports.
- ▶ Simplify import tariffs and removal of para tariffs to improve competitiveness for exporters.
- ▶ Encourage green certifications, provide incentives for sustainable manufacturing practices, and support exporters in meeting international environmental compliance standards.
- ▶ Improve collection and dissemination of Micro, Small and Medium Enterprises (MSME) data to facilitate market linkages, provide capacity-building programs, and support MSMEs in meeting international trade standards.

Logistics and supply chain optimisation

Logistics infrastructure lags behind competitors, increasing transaction costs for exporters. Digital trade facilitation remains weak, and the National Single Window for trade remains unimplemented.

Proposal

- ▶ Fast-track the National Single Window for trade, invest in logistics performance improvements, and enhance port and airport efficiency to reduce handling costs and improve global connectivity.
- ▶ Establish a national logistics policy to streamline sector-wide improvements and enable multi-country consolidation services.

Investment climate and labour reforms

Attracting Foreign Direct Investment (FDI) in value-added exports remains a challenge due to restrictive policies and outdated labour laws. Additionally, low female labour force participation exacerbates workforce shortages.

Proposal

- ▶ Develop a more attractive FDI framework with tax incentives and streamlined approvals. Modernise labour laws to provide flexibility for export-oriented industries while maintaining worker protection.
- ▶ Reintroduce tax allowances for research and development to encourage technological advancements in manufacturing and value addition.
- ▶ Implement policies to support female workforce participation, such as subsidised maternity leave and improved childcare services.
- ▶ Maintain the Simplified VAT (SVAT) system until a functional refund mechanism is in place and consolidate para tariffs to improve cost predictability.

State-owned Enterprises

Financial and operational performance

Many SOEs operate at a loss due to inefficiencies, outdated business models, and reliance on government subsidies—an unsustainable burden given the country's challenging fiscal conditions. The government can no longer afford to fund SOE losses; instead, these enterprises should contribute to public revenue through taxes and dividends under more efficient management. Delayed or absent financial reporting makes it difficult to assess their true performance. Additionally, many SOEs follow cash-based accounting, limiting transparency and financial accountability. Large asset holdings, including land, are often undervalued or not reflected in financial statements.

Proposal

- ▶ Mandate annual audited financial statements for all SOEs by June 30.
- ▶ Require all—starting with the top 100—to adopt International Public Sector Accounting Standards (IPSAS) to enhance financial transparency and accountability.
- ▶ Implement performance-based management with clear efficiency and financial targets.
- ▶ Encourage cost-cutting measures and streamline operations to improve sustainability.
- ▶ Conduct asset valuation audits to assess the real worth of SOE-owned land and infrastructure.

Governance and oversight

Oversight of SOEs is fragmented, with multiple government agencies involved, leading to inefficiencies. Frequent political appointments disrupt continuity and decision-making.

Proposal

- ▶ Establish a centralised holding company to manage key SOEs, improving oversight and minimising political interference.
- ▶ Ensure board appointments are based on professional qualifications and relevant experience.
- ▶ Separate regulatory functions from SOE operations to enhance governance.

Leadership, stakeholder confidence, and reform implementation

Frequent leadership changes due to political influence disrupt long-term business planning and execution. Many SOEs face resistance to reform from political leaders, government-appointed officials, and unions, while public concerns about privatization and job security create further obstacles.

Proposal

- ▶ Conduct a nationwide awareness campaign to communicate the benefits of SOE reform.
- ▶ Engage unions, business leaders, and civil society in discussions to build consensus.
- ▶ Implement phased restructuring to minimise disruptions and manage public expectations.

Classification and strategic focus

There is no clear classification between strategic and non-strategic SOEs, making it difficult to determine which should be retained, restructured, or privatised.

Proposal

- ▶ Develop a tiered classification system for SOEs based on strategic importance and financial viability.
- ▶ Begin privatisation or restructuring of non-essential SOEs, while maintaining public control over critical services.

Market structure and competition

Several SOEs operate as monopolies, limiting efficiency and private sector participation.

Proposal

- ▶ Introduce Public-Private Partnerships (PPPs) in selected sectors to improve efficiency.
- ▶ Encourage competition by allowing private firms to enter markets currently dominated by SOEs.

Leadership stability and independence

Frequent changes in SOE leadership due to political influence disrupt business planning and execution.

Proposal

- ▶ Establish a policy where SOE chairpersons serve as non-executive leaders, while CEOs are career professionals appointed through a transparent recruitment process.
- ▶ Ensure board members are selected based on expertise rather than political affiliations.

Sustainability of reform measures

Past reform efforts have struggled to maintain momentum, with pricing adjustments and restructuring often reversed due to political pressure.

Proposal

- ▶ Link SOE reform milestones to IMF economic recovery programs to ensure long-term policy commitment.
- ▶ Establish an independent oversight body to track progress and prevent reversal of key reforms.

Further Reading

- ▶ CGMA Competency Framework
- ▶ Emergence of AI in the Public Sector
- ▶ Transparency: The future of improving local government performance-expanding on ESG and DEI
- ▶ Talent strategies for the future
- ▶ Technology: The future of improving local government performance – open data
- ▶ Technology: The future of improving local government performance – strategy, communication, and cybersecurity
- ▶ The changing role and mandate of finance

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