



Cross-border E-commerce Ecosystem in Sri Lanka

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Overview of E- commerce in Sri Lanka

- Domestic e-commerce market is estimated to be around USD 40-70 million, and is expected to grow by 3 percent in the near future
- The local e-commerce market - three categories:

Niche players concentrating on one narrow vertical such as accessories, clothes etc.

Large players offering a variety of goods ranging from electronics to interior décor

Established brick and mortar companies selling through an online storefront

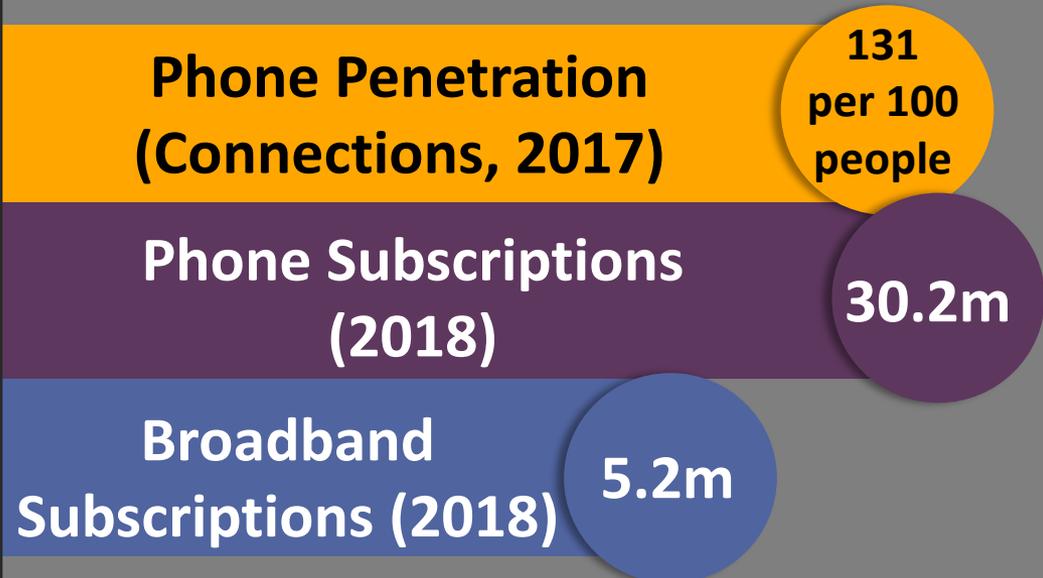
- **Pick up in E-commerce in tourism sector – booking.com, AirBnB**
- **Novel payment gateways, banking services lifestyle apps – FriMi**
- **Social media as an e-commerce platform for MSMEs**
- **Supportive government policy framework under Vision 2025 – Digital Economy**
 - **E-Government initiative**
 - **SWIFT (investment single window), Single window for customs**
 - **National Export Strategy- Focus on IT/BPO sector**



State of Readiness

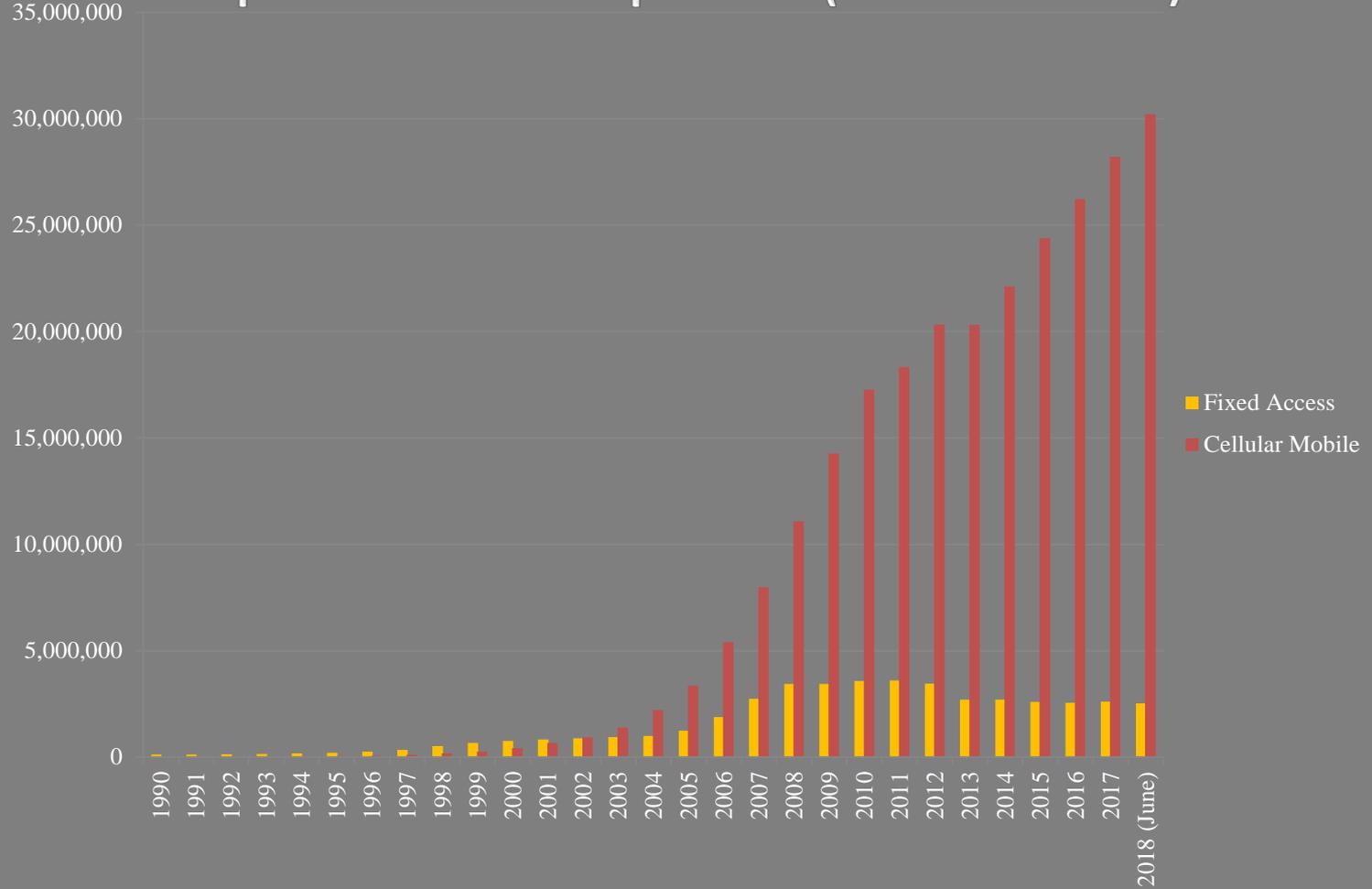


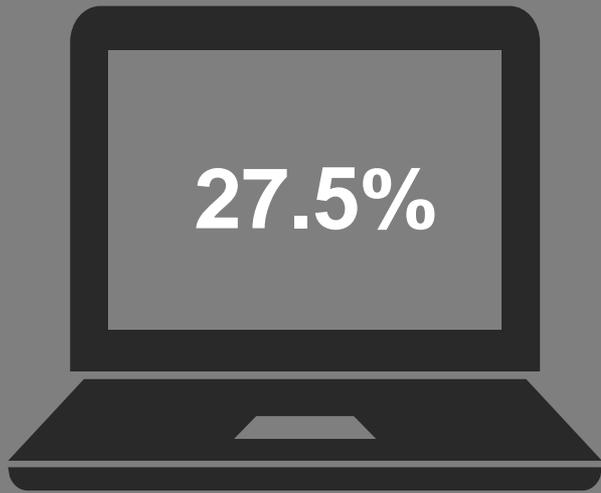
Access and Infrastructure



Telephone penetration is on the rise
but internet usage is low

Telephone Subscriptions (1990 - 2018)





Of the population owns
an internet connection
(2017)

15.8%

Of households have access to the
internet

25%

Of households own a computer

57%

Of internet users use smartphones
to access internet

- WEF's Network Readiness Index 2016; ranking 102nd of 139 countries in the '*individual usage*' sub-index and 103rd in the '*infrastructure and digital context*' sub-index
- The level of internet access varies widely among provinces - Western Province records twice the national average (30.8%)
- Rapid growth of the mobile phone industry signals towards potential for mobile-based e-commerce growth. Affordability of services is an added advantage.
- Room for improvement in delivery services

- **The UNCTAD network readiness index report 2017, places SL's Postal Reliability score at 43%**
- **Integrated Index for Postal Development (2IPD) 2018 scores SL at 36.67 (out of 100), on the basis of postal operational efficiency, competitiveness in main markets, internationalization of services and adaptability of business models**
- **SL's performance in the World Bank's Logistics performance Index has been fluctuating in recent years, currently standing at 94th place in 2018**

Payments

- **Electronic payments in Sri Lanka are governed by:**
 - Monetary Law Act, No. 58 of 1949
 - Payments and Settlements Systems Act No.28 of 2005.
- **The key regulations pertaining to payments:**
 - Money, Payment, Clearing and Settlement Service Providers Regulation No. 1 of 2007
 - Payment Cards and Mobile Payment Systems Regulations No. 1 of 2013
- **All licenses, guidelines and directives pertaining to electronic payments and e-commerce are provided by the CBSL.**
- **In 2018, the CBSL has taken steps to strengthen the regulatory framework governing e-commerce :**
 - directive on 'acquiring payment card based e-commerce transactions from service providers'
 - guidelines on 'Minimum Compliance Standards for Payment related Mobile Applications'.



The majority of SL's electronic payments take place through traditional instruments such as ATMs/cheques, with mobile/internet banking lagging behind

Cheque Clearing System	
Volume of transactions ('000)	51,963.30
Value of transactions (Rs. bn)	10,481.90
Credit Cards	
No. of cards in use	1,486,545
Volume of transactions ('000)	36,964.20
Value of transactions (Rs. bn)	198.5
Debit Cards	
No. of cards in use	19,702,875
Volume of transactions ('000)	46,963.80
Value of transactions (Rs. bn)	134.5
ATM Terminals	
No. of terminals	4,203
Volume of transactions ('000)	238,249.90
Value of transactions (Rs. bn)	2,395.70

POS Terminals	
No. of terminals	48,828
Volume of transactions ('000)	83,988.30
Value of transactions (Rs. bn)	432.7
Mobile Phone Banking	
Volume of transactions ('000)	3,799.40
Value of transactions (Rs. bn)	31.4
Internet Banking	
Volume of transactions ('000)	23,065.60
Value of transactions (Rs. bn)	2100.6

Mobile Money

- Currently two licensed mobile payments operators – Dialog EZ Cash and Mobitel M-cash
- As of Q1 2018, bulk of e-money transactions were for utility bill payments (89.4%), while mobile money is barely used for purchasing products (0.8%) or for internet transactions (0.1%)



Regulations

- **The primary statute in Sri Lanka's e-commerce regulatory framework - Electronic Transactions Act No. 19 of 2006 (UNCITRAL model).**
- **The 2006 statute was amended in 2017 under the UN Electronic Communication Convention (UN ECC) standards.**
- **Enables more legal certainty for e-business and e-commerce providers**
- **Enhance SL's ability to fast-track move towards paperless trade facilitation through a single window platform**
- **Electronic government transactions will help improve efficiency (eg: e-visa at Immigration and Emigration Department, e-revenue licenses at Motor Traffic Department, online payments at Municipal Councils, etc)**

Cyber Security

- **No comprehensive framework to deal with cyber security and customer protection for e-commerce users.**
- **Consumer Affairs Authority (CAA) Act No. 9 of 2003 - primary regulation in Sri Lanka through which consumers are granted protection and are able to address grievances, does not cover e-commerce related grievances.**
- **Low level of awareness on cyber threats by consumers. Awareness of cyber security threats such as spam and cyber bullying is below 15% across households.**



Skills

- Sri Lanka's digital literacy has reached 39% in 2017.
- no data available to assess skill gaps and job market information for SL's e-commerce sector as a whole.
- Labour Demand Survey 2017:



ICT operations technicians were one of the top 40 jobs with vacancies that are classified as 'hard-to-fill' in Sri Lanka's formal sector, with 1103 vacancies in 2017.



ICT operations technicians are among the top 20 job categories which are expected to have the most hires in 2018, with 3,568 expected vacancies at the time of the survey.

- ICT/BPO sector has displayed steady growth over the years and has become SL's 5th largest export revenue earner.

Potential for Cross Border E-Commerce





Limited to sites such as Amazon, e-bay, Alibaba

The Daraz logo, featuring the word "daraz" in white lowercase letters on a black rounded rectangular background, with a colorful circular graphic to the right.

Domestic e-commerce websites have established global partnerships that accommodate the import of goods through websites in order to supply to the domestic market. Eg: Alibaba bought the entire share capital of Rocket Internet's South Asian e-commerce platform, Daraz Group



Export oriented firms increasingly accessing markets like China and other South East Asian markets through cross-border e-commerce - recently signed Singapore- Sri Lanka FTA is expected to provide a significant boon to cross-border e-commerce trade between the two countries.



SL is currently negotiating similar FTAs with India, China, and Thailand. These agreements are expected to include chapters on e-commerce transactions



Concurrent liberalization and development of the logistics sector in SL to establish itself as a regional logistics hub will undoubtedly complement these movements.



Challenges and Recommendations

Challenge	Solution
<p><u>Regulatory Framework</u>: Provisions for customer protection are still in inception stages and, as such, e-commerce users do not trust the system enough for large-scale uptake</p>	<p>Inclusion of amendments to existing CAA act coupled with an increase in the number of CAA officials available to address and mediate consumer issues</p>
<p><u>Payments</u>: Internet usage is still low in Sri Lanka and consumers prefer more traditional payment methods</p>	<p>As internet and mobile payment platforms are gaining traction, providers should offer incentives for consumers to use mobile e-commerce platforms (similar to the models of PickMe and Uber that have caught on in Sri Lanka)</p>
<p><u>Access and Awareness</u>: There are wide disparities between the Western Province and the rest of Sri Lanka in terms of usage and access to ICT facilities. Awareness among people on existing e-commerce platforms are poor</p>	<p>Awareness and promotional campaigns should be part of the business strategy of ecommerce service providers. Localization, by offering these services in Sinhala and Tamil, will be a key factor in terms of uptake in these regions .</p>
<p><u>Data</u>: There is insufficient data available on e-commerce for policymakers to make evidence-based decisions</p>	<p>Developing capacity and improving uniformity of data collection at government, sub-government, and private sector</p>



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