



This action is funded by the European Union

ANNEX 2

of the Commission Implementing Decision on the Annual Action Programme 2015 Part III and 2016 Part II in favour of the Asia region to be financed from the general budget of the European Union

Action Document for "Trade Related Assistance in Sri Lanka"

1. Title/basic act/ CRIS number	Trade Related Assistance in Sri Lanka CRIS number: DCI-ASIE/2015/038-042 financed under Development Cooperation Instrument			
2. Zone benefiting from the action/ location	Sri Lanka.			
3. Programming document	Multi-annual Regional Indicative Programme for Asia 2014 – 2020.			
4. Sector of concentration/ Thematic area	Trade Related Assistance.			
5. Amounts concerned	Total estimated cost: EUR 8 000 000. Total amount of EU budget contribution EUR 8 000 000.			
6. Aid modality(ies) and implementation modality(ies)	Project Modality Indirect management with the International Trade Centre – ITC			
7. DAC code(s)	Main DAC code: 33110 – Trade policy and administrative management Sub-code: 25010 – Business support services and institutions			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Trade Related Assistance	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	born and child health			
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Global Public Goods and Challenges (GPGC) thematic flagships	Trade integration for green and inclusive growth			

SUMMARY

The Multi-annual Indicative Programme (MIP) 2014 – 2020 for Sri Lanka focuses on one integral sector – Integrated Rural Development - thus the proposed trade related assistance action will complement the Geographic Cooperation under the Regional Strategy and Indicative Programme (RIP).

The **overall objective** of the proposed EU action is trade related assistance in order to contribute to Sri Lanka's inclusive trade-led growth and regional integration, thereby contributing to poverty alleviation.

The **specific objective** is to increase trade competitiveness of Sri Lankan Small and Medium Enterprises (SMEs) in regional and EU markets.

The **expected results** (ER) are:

- ER 1.** Coherent trade strategy for export competitiveness designed and implemented, including policies, regulatory reforms and trade negotiations as shaped by the World Trade Organisation (WTO), regional integration process, and EU's Generalised Scheme of Preferences (GSP+).
- ER 2.** Enhanced efficiency of cross-border procedures and small and medium enterprises' (SMEs) capacities to comply with them to export to the South Asian Association for Regional Cooperation (SAARC) and EU markets.
- ER 3.** Improved compliance with Sanitary and Phyto Sanitary (SPS) requirements in the regional and EU markets.
- ER 4.** Enhanced value chain performance to improve access to regional and EU markets.

Extensive consultations with all stakeholders including development partners to ensure complementarity with other programmes, took place during the formulation phase led by the Department of Commerce of the Ministry of Industries and the International Trade Centre (ITC). The German Cooperation Agency (GIZ) actively participated during the formulation mission to explore possible areas of cooperation.

The mission recommended that support needs to be provided by adopting a comprehensive approach, aimed at helping Sri Lanka to enhance its competitiveness and be able to meet the test of free international markets, while expanding real incomes at home.

1. CONTEXT

1.1. Sector/Regional context/Thematic area

Sri Lanka is a multi-ethnic, multi-religious, lower middle income island country with 20 million people distributed over 65 610 km² and an annual population growth rate of 0.73%. GDP per capita of USD 3 280 (2013) and an economic annual growth of 6.4 % over the period 2003 to 2012¹ is noted. While this is significantly higher than that of the South Asia region as a whole, it is considerably behind the average for middle-income countries (MICs). With the cessation of the armed conflict in 2009, the country witnessed accelerated growth, which averaged 8% in 2010 and 2011 (Central Bank); this was one of the fastest growth rates in South Asia, spurred largely by private sector demand.

Conversely however, the country's trade deficit is seen to be increasing due to increasing imports and declining export performance. In 2012, exports as a share of GDP at 16.8% were at a record low due to the global financial crisis, but also attributed to losing global competitiveness².

Since 2015 is an election year, it is also important to flag the recent and on-going political changes which are expected to have a positive impact on trade. A first indication of the new Government's desire to engage with international partners and the EU in particular is the public communication of their wish to comply with the required international conventions in order to re-apply for the Generalised Scheme of Preferences Plus (GSP+). Similarly they indicated their desire to comply with the IUU (Illegal Unreported and Unregulated) fishing requirements so that export of fisheries products to the EU could resume.

1.1.1. Public Policy Assessment and EU Policy Framework

While the political and policy environment of the country is going through a transition period, the 100-day manifesto of the President gives priority to good governance, rule of law, and the re-establishment of good relations with the International Community – especially the EU, US and India. Trade related policies are not expected to change drastically but will continue to integrate into the global economy. At present, attempts to bridge the trade deficit are conducted through the adoption of four main policy moves: (1) import substitution (2) trade liberalisation (3) diversifying exports – markets firstly but also products and (4) investment promotion.

Post war growth has been import driven, as the two main sectors; construction and services – are both associated with import trade. Industrial exports (of which garment exports accounts for over 40%) are also reliant on imported inputs, while tax revenue too is import dependent (25% of tax revenue in 2012). On examining the composition of imports and the major sectors

¹ World Bank Sri Lanka 2013

² Sri Lanka's share of world exports declined from 0.08% in 2000 to 0.06% in 2011 and 0.05% in 2012 (WTO)

contributing to import growth, it is doubtful that import substitution (which at present targets food imports – 7% in 2012), will succeed in reducing the trade deficit.

An early adopter of trade liberalization, Sri Lanka now has several Free Trade Agreements (FTAs) and intends to pursue new ones, China being the first on the immediate horizon, with indications of another with Bangladesh. Additionally, countries within the region are competing with the same product mix often targeting the same markets, which dilutes the effectiveness of FTAs. With Sri Lanka's share in world exports falling, diversification not of markets but of products, together with the ability to cater in the necessary quantities, is seen to be the crux of the problem.

The Government is also keen to expand its international trade and attract Foreign Direct Investments (FDI). The country has a weak FDI record which is heavily concentrated on infrastructure, and despite attractive tax and other concessions, the push to a more diversified export oriented investment strategy has not been successfully implemented. Currently, no performance assessment/monitoring and evaluation frameworks are in place for these policies.

Trade-related assistance falls under the Multi-annual Regional Indicative Programme for Asia (2014 – 2020), as part of the EU's Aid for Trade activities, and includes the strengthening of regulatory systems for non-ASEAN members. The action is in line with EU policies/communications, and specifically Communication on private sector development. The main objective of this support is to ensure that countries can benefit from regional and multilateral trade liberalisation, open markets and the GSP+, tackling their competitiveness gaps.

1.1.2. Stakeholder analysis

Stakeholders	Problems/Issues affecting performance	Capacity and impetus to act as agents of change
Public Sector – in particular Department of Commerce, Export Development Board, Sri Lanka Customs, Sri Lanka Standards Institution, Board of Investment, Department of Export Agriculture	<ul style="list-style-type: none"> • Lack of information to understand complex multilateral, regional and domestic trading environment • Weak institutional and technical capacity to develop, implement, monitor and coordinate policies, thereby fostering an enabling environment that facilitates economic growth 	Strong influence in creating an enabling environment. Strong involvement during the identification phase
Private Sector with a special focus on SMEs	<ul style="list-style-type: none"> • Inadequate knowledge and lack of easy access to information on trade taxes, regulations, compliance requirements • Lack of comprehensive value chain information of coordinated sector-specific support services for exporters and linkages with buyers/ importers in major markets. 	SMEs form a large majority of the business sector and will be the main beneficiaries of the action.

	<ul style="list-style-type: none"> • Low productivity, access to finance, marketing market research, and export management skills 	
National and regional chambers, apex trade organisations (e.g. Spice Council, Sri Lanka Association of Software and Service Companies, Sri Lanka ICT Agency, Sri Lanka Packing Institute etc.)	<ul style="list-style-type: none"> • Limited financial and technical capacity • Human resource constraints • Poor coordination and communication between stakeholders at all levels • Lack of capacity to lobby on behalf of their members 	Potential capacity to interlink regions strengthening economic activities, and lobbying.
Consumers and general population	<ul style="list-style-type: none"> • More job opportunities island-wide through export driven growth, reducing socio-economic disparities & promoting co-existence 	High capacity for change by exercising political pressure
International organisations (including proposed implementing agencies of this project) and other development partners	<ul style="list-style-type: none"> • Build on existing programmes and mechanisms. 	High capacity to aid programme with specialised knowledge base.

1.1.3. Priority areas for support/problem analysis

Four areas identified as hampering Sri Lanka's trade competitiveness in regional and international markets, are addressed as follows:

1. Development of a comprehensive Export Trade Strategy and related regulations -With losing market share, it is important to develop a focussed export strategy, which incorporates the lessons from past export policies. An export policy cannot be developed in isolation from other policies. For example, the fiscal policy (taxes on trade, investment incentives, subsidies), monetary policy (exchange rates, interest rates), agricultural policy, fisheries policy, industrial policy, investment policy, even education and vocational training policies and plans are relevant for the export sector.

As trade policy seems to focus on regionalization, which Sri Lanka considers as a springboard for broader trade liberalization, the regulatory requirements of trade provision in FTAs must also be taken into account in the development of an export strategy. This is quite complex. Implementation will require a detailed identification and description of linkages and synergies, to properly design institutional capacity building of various institutions, primarily public (Department of Commerce, Export Development Board), but also the private sector, to enable the full benefit of opportunities and compliance with market requirements.

2. Trade Facilitation - Over the years vital agencies such as the Sri Lanka Customs and Ports Authority have undertaken several key initiatives to facilitate trade and transport through automation and infrastructure expansion. The World Bank's Logistics Performance Index ranks Sri Lanka in 81st and 89th position from 158 countries (2012, 2014) and is less well performing than India (58), Pakistan (72) and Maldives (81). The country's benchmark is Singapore (5). A recent trade facilitation audit conducted by the Institute of Policy Studies (a think tank and local research organisation) among 121 stakeholders including key government

agencies and the private sector, highlighted *inter alia*, the following issues: inadequacy of available information on total imports/exports and clearance processes, need for an automated single window, and establishing and strengthening national enquiry points. In addition, it is necessary for Sri Lanka to meet procedural and policy obligations associated with international commitments such as the Trade Facilitation Agreement resulting from the Bali Conference in 2013. It must also be noted that while the use of information technology in trade facilitation has great potential to reduce costs the present automated systems are not used by many SMEs due to partial automation and implementation, additional costs associated with lodging documents, and lack of information on the systems.

3. Compliance with quality standard and Sanitary and Phyto-Sanitary (SPS) measures -To benefit from preferential trade agreements with large markets such as the EU's GSP, requires compliance with quality standards and SPS requirement, which in the recent past have become a major issue for Sri Lankan SME competitiveness. Standards, testing and certification is a Non-Tariff Barrier (NTB) where delays and bureaucratic red tape result in demurrage and damage to products, nullifying potential benefits exporters may get under a FTA. The need is to look at mutual recognition agreements/conformity assessments as a practical way forward, together with building the capacity of selected laboratories, inspection and accreditation bodies.

4. Sector Specific Value chain development and SMEs' integration into regional and Global value chains - Despite having around eight FTAs (mainly regional); Sri Lanka's exports have not grown. While on the one hand the FTAs have not been able to negotiate good market access for key exportable products, having a limited number of exports without diversifying the product mix, limits the value of FTAs. Underpinned by a market driven and poverty reduction approach, the food sector, spices and Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO) are seen as crucial areas that will make a positive impact to the trade deficit through export diversification.

The proposed project has a two-pronged approach – 1) addressing the specific needs of the Sri Lankan Government and its private sector - to achieve significant gains as measured by investment, growth, productivity, profitability, rural development, employment (specifically targeting women and youth); and 2) bridging the trade gap by promoting exports. It will support priority sectors while strengthening governmental and business support associations.

2. RISKS AND ASSUMPTIONS

Risks	Risk Level (H/M/L)	Mitigating measures
Lack of capacity and fragmentation of the private sector to engage constructively.	L	It is expected that economic benefits will act as an incentive to engage in the project. The project will actively build the capacity of chambers of commerce and apex sectoral bodies to enable good coordination.
Lack of sustainability of interventions at the	M	Buy-in of the relevant authorities will be secured through continuous dialogue while ensuring their capacity is well developed. The interventions will seek to bridge the gaps

end of the project period.		identified rather than be off-the-shelf solutions the agencies may have implemented in other countries.
<p>Main Assumptions: 1) It is assumed that expanded trade will subscribe to the ultimate goal of poverty reduction via higher economic growth, and through the enhancement of social and economic security. 2) It is assumed that the private sector will be able to play a key role in the definition of needs and constraints affecting the development of a sound business environment and overall competitiveness, and to contribute towards overcoming the major obstacles faced by Sri Lanka in achieving its long-term trade potential. 3) Continued governmental commitment to trade liberalization and maintenance of an open economy is assumed.</p>		

3. LESSONS LEARNT, DONOR COORDINATION AND CROSS-CUTTING ISSUES

3.1. Lessons learnt

The EU has allocated substantial human and financial resources to support implementation of trade-related assistance in Sri Lanka. Past support through EU's 'Trade Development Project' implemented by ITC in 2008 showed that development through trade is very effective in creating jobs and promoting growth that aid alone cannot generate. A final evaluation report confirmed overall "value for money". The project aimed to:

- Assist in modernizing the regulatory framework for Trade and Investment
- Encourage wider EU-Sri Lanka business linkages and investment.

While most trade related assistance programmes target the public sector, inclusion of private sector greatly enhances effectiveness. Private trade associations have a better track record in providing and disseminating information than governmental agencies and are more responsive to their members' needs. However, human resources are a challenge, and research capacity is low. On trade facilitation, services delivery by public and private institutions have been relevant to the needs of SMEs but are scattered and fragmented, leading to various gaps and duplications. The project will provide a focused, integrated and coordinated approach to improve the range and quality of the trade support services offered by trade support and policy making institutions, for the benefit of Sri Lankan SMEs.

The current national export policy does not have a proper monitoring system, nor assigns responsibility to specific entities to carry out tasks. It is also important to ensure that proper institutional linkages are made in developing trade related actions, as these go beyond a single entity or border. Linked to this are the lessons on the value of existing FTAs and market access, especially with regards to food products. Market diversification without product diversification has not been successful in bridging the trade deficit. The EU's 2008 "Trade Development Project" focused on strengthening two export sectors – apparels, and gems and jewellery. Yet these exports are reliant on imported inputs (textile and diamonds). The selection of areas of support must keep in mind the real benefit to the balance of trade, as well as a pro poor approach, a lesson this project will build on through its focus on value chain development in selected sectors.

The main lesson learnt on successful implementation of a programme in Sri Lanka, especially when focussing on policy, is the need to secure Government commitment/ownership. In this case, the Ministry of Industries is actively involved in the set-up of the programme. It is

expected that the combination of these two organisations, with the strong involvement of the Government will produce sound results and strong ownership.

3.2. Complementarity, synergy and donor coordination

The project seeks to ensure complementarities and synergies with other initiatives, specifically with on-going and past ITC and UNIDO projects. Particular attention is given to an on-going project on improving the safety and quality of Sri Lankan fruits and vegetables, funded by the WTO, where ITC implemented certain components, as well as UNIDO projects for strengthening international certification capacity in social accountability and food safety, as well as the on-going work in promoting the cinnamon value chain, and the establishment of a national Standard, Metrology, Testing and Quality (SMTQ) system in Sri Lanka..

Aid for trade activities in Sri Lanka funded by EU Member States is limited. Currently, the UK, Italy, Netherland and France, as well as GIZ (German Cooperation Agency), support trade related activities or have facilities under which Sri Lanka can qualify for government supported loans, export funding and support for programmes targeting SME's to improve their export potential and productivity. GIZ also supports the SAARC Trade Promotion Network and Trade Information Network. The Asian Development Bank, World Bank and IFC (International Finance Corporation) implement programmes which focus on various trade related issues, advisory service initiatives for SMEs, as well as access to finance and skills development. The European Investment Bank (EIB) is currently financing a EUR 90 million loan in Sri Lanka, where 70% of the loan is designed to support the SMEs' development in the country and 30% to promote the use of renewable energy. The World Bank together with WTO are currently formulating a project funded through the GPGC 'EU contribution to the World Bank Trade Facilitation Agreement Support Programme' to assist Sri Lanka design and implement policies alongside necessary reform to its customs laws, procedures and processes. Close coordination will be necessary to ensure synergies and avoid duplication/overlaps.

3.3. Cross-cutting and other issue

The proposed action directly targets poverty reduction, as trade can directly contribute to economic growth, unemployment and sustainable development. The action will also build synergies with the on-going SWITCH-Asia National Policy Support Project and incorporate potential solutions in the technical assistance offering (including mainstreaming environment in trade strategies, climate change adaption and mitigation, promotion of green/organic products, eco packaging designs and eco labelling schemes that would minimize the adverse effect of packaging on the environment, training and coaching on Green House farming) under ER1 and ER4. As a lesson learned, adopting a programming approach that relies solely on an indirect trade-poverty linkage is clearly not sufficient to impact poverty. Reform must be pro-poor and carefully implemented in parallel with complementary policies that ensure new opportunities are maximised while minimizing risks, especially for the poorest. It will also mainstream good economic governance.

Sri Lankan women enjoy a much better social position than most of their South Asian counterparts. They have access to income and employment opportunities, but they are mainly employed in semi-skilled labour-intensive industries. Economic growth by means of development of the private sector will create employment opportunities from which Sri Lankan women can expect to benefit significantly, and the value chains targeted in this

programme will enable women at semi-skilled and higher levels of education (especially in the IT Business Processing Organisation sector – IT BPO), to be engaged. The project will also indirectly target crosscutting issues such as environmental effects of trade and mainstreams good governance.

4. DESCRIPTION OF THE ACTION

This action has been prepared closely with the Department of Commerce of the Ministry of Industries. EU assistance aims to help Sri Lanka reap the benefits of further integration into the global and regional trading system, through policy development, improved market access and competitiveness, compliance with standards, value chain development, increased export diversification, improved investment climate and compliance with international trade commitments.

4.1. Objectives/results³

The **overall objective** of the EU assistance is to contribute to Sri Lanka's inclusive trade-led growth and regional integration, thereby contributing to poverty alleviation. The **specific objective** is to increase trade competitiveness of Sri Lankan SMEs in regional and EU markets.

The **expected results** (ER) are:

- ER 1.** Coherent trade strategy for export competitiveness designed and implemented, including policies, regulatory reforms and trade negotiations as shaped by the WTO, regional integration process and EU GSP+ scheme.
- ER 2.** Enhanced efficiency of cross-border procedures and SMEs' capacities to comply with them, to export to SAARC and EU markets.
- ER 3.** Improved compliance with SPS requirements in the regional and EU markets.
- ER 4.** Enhanced value chain performance to improve access to regional and EU markets.

The Action will take a flexible approach as detailed activities per expected result will be further defined on annual basis and annual workplans will be submitted to the Project Steering Committee Meetings for approval. Main indicative activities will include:

4.2. Main indicative activities

ER 1:

- Build capacity of public and private stakeholders to formulate trade policies (including business advocacy) and thereby elaborate a National Trade Strategy.
- Build capacity of national public and private stakeholders to manage and coordinate the implementation of the National Trade Strategy.
- Build and increase the capacity of stakeholders for the formulation of trade policies, its implementation and promotion.
- Build capacity of the staff of the Department of Commerce to establish and sustain a Trade Remedy Unit.

³ Logical framework attached

- Build capacity of the private sector to engage in business advocacy for coherent trade policy formulation and implementation.
- Facilitate the organization of public-private sector dialogue on key pressing trade policy, regulatory and negotiation issues.

ER 2:

- Strengthening the capacity of the National Trade Facilitation Committee.
- Designing a roadmap for the implementation of a Single Window and obtaining the endorsement of the government and trading community.
- Establishment of a sustainable national trade facilitation portal with enquiry point facility.
- Strengthen SME capacity (particularly from spice and food sectors) to manage cross-border procedures and comply with EU and SAARC market requirements.

ER 3:

- Elaboration of an action plan for implementing of National Quality Policy and strengthening of the legal and institutional framework for its implementation.
- Support Sri Lanka Accreditation Board to achieve international recognition relating to new areas including personnel, certification and certified reference material (CRM) providers.
- Improving the competence and upgrading of infrastructure of National Metrology System.
- Strengthening the technical capacity of Sri Lanka Standards Institute (SLSI) in agro standards development and promotion.
- Strengthen the national capacity for conformity assessment and inspection services in selected sectors.
- Strengthening of the national SPS legal and institutional framework.

ER 4: Activities will aim to strengthen value chains in the sectors of spices, food and IT BPO. Some activities are as follows:

Cinnamon sector

- Supporting the design and implementation of "Pure Ceylon Cinnamon" Geographic Indication roadmap by building required capacity of public and private stakeholders.
- Support value chain performance and market compliance – pilot applications in selected value chains.
- Support the establishment of a training and capacity building facility servicing the spice sector (Cinnamon Training Academy).

Food Sector

- Establishment of testing services for packaging materials for SMEs in the food sector.
- Enhance the capacity of SMEs to comply with export market requirements in the food/spices sectors.
- Facilitate SMEs to enhance market opportunities in the food sector.

IT BPO Sector

- Facilitate improved industry coordination and integration in the IT BPO sector through assistance to develop a multi-year sector positioning strategy.
- Develop the capacity of Sri Lanka Association for Software and Service Companies (SLASSCOM) in the areas of market research and business to business linkages for the benefit of SMEs.
- Build capacity of IT and BPO SMEs to develop and implement export marketing plans and help them thereby take advantage of the industry-wide brand.

- Facilitate the creation of new business partnerships among IT and BPO SMEs with EU companies

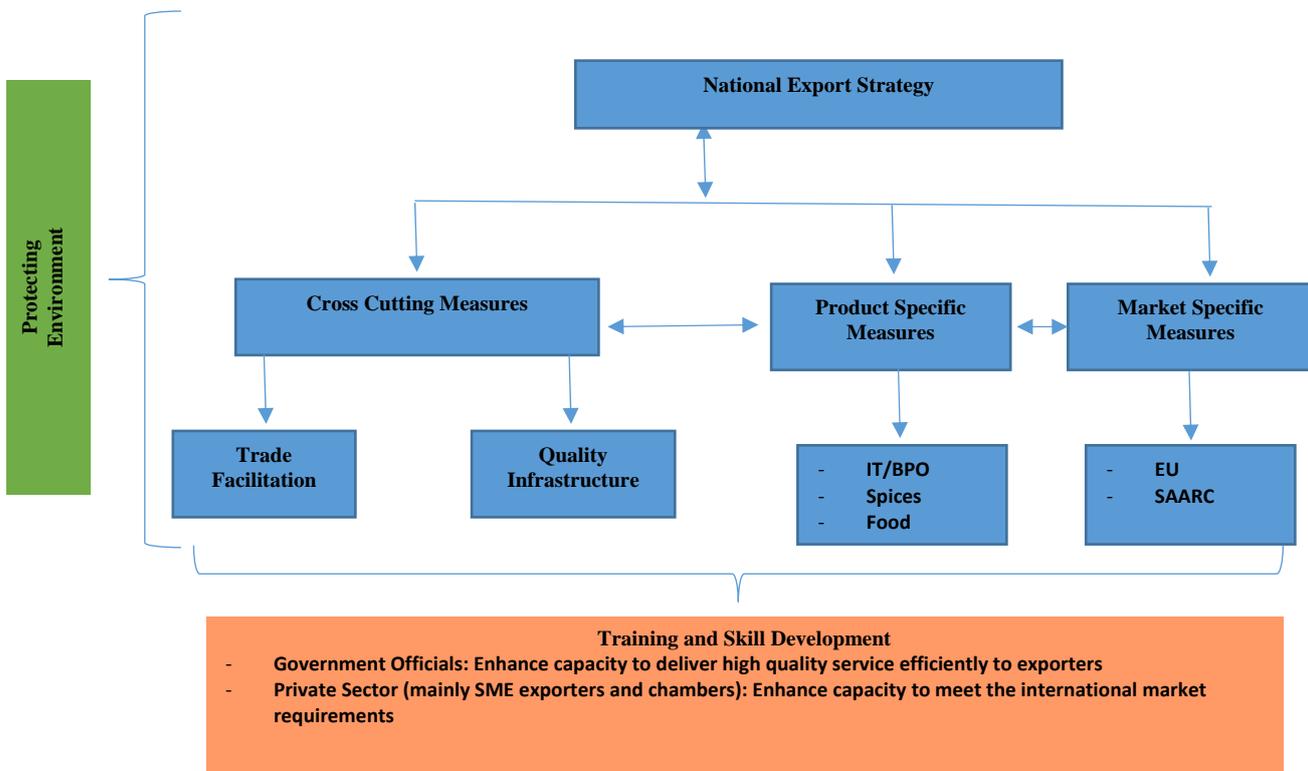
4.3. Intervention logic

The logical framework is attached.

As shown through the diagram illustrated below, trade competitiveness will be improved through interventions that address constraints impeding trade development both at national and sectoral levels.

First is to assist development of a national export strategy, including policies, regulatory reforms and trade negotiations as shaped by the WTO, regional integration process and EU GSP+ scheme. Second is to help the country to implement some of the key areas that have a high likelihood of being part of the strategy. For ease of implementation the project is broken down into 4 expected results but these are not silos which operate in isolation, but are highly connected and complement each other. For example:

- trade facilitation measures will address both national level key constraints that undermine competitiveness of all exports and also have specific focus on addressing constraints that undermine competitiveness of identified products and services and have measures to facilitate access of exports to identified markets; EU and SAARC
- quality infrastructure (i.e. compliance with standards) measures will address both national level key constraints as well as product specific and market specific constraints
- market access to EU and SAARC will address cross cutting constraints that undermine access to all exports as well as product specific constraints



Each intervention will give special attention to two areas: 1) environment compliance & protection and 2) training & skills development of relevant public and private stakeholders.

5. IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.4 Implementation modalities

5.4.1 Indirect management with an international organisation

This action may be implemented in indirect management with International Trade Centre (ITC) in accordance with Article 58(1) (c) of Regulation (EU, Euratom) No 966/2012. This implementation entails the design and implementation of coherent trade strategy for export competitiveness; enhanced efficiency of cross-border procedures and small and medium enterprises' (SMEs) capacities to comply with them; improved compliance with SPS requirements in the regional and EU markets; and enhanced value chain performance to improve access to regional and EU markets.

This implementation is justified because ITC is the focal point within the UN system for trade related technical assistance and has experience in Sri Lanka and regionally in trade policy/strategy development. Furthermore, given positive past experience in project management, the Ministry of Industries particularly requested the expertise and services of ITC to lead the project.

ITC is the joint agency of the World Trade Organization and the United Nations. Its joint mandate combines a focus on expanding trade opportunities with the aim of fostering sustainable development. ITC's mission is to foster sustainable economic development and contribute to transition economies through trade and international business development.

The entrusted entity would carry out the following budget-implementation tasks: launching and evaluation of calls for tenders, definition of eligibility, selection and award criteria, acting as contracting authority concluding and managing contracts, carrying out payments.

The entrusted International Organisation is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. The Commission's authorising officer responsible deems that, based on the compliance with the ex-ante assessment based on Regulation (EU, Euratom) No 1605/2002 and long-lasting problem-free cooperation, the international organisation can be entrusted with budget-implementation tasks under indirect management.

5.5 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realization of this action impossible or exceedingly difficult.

5.6 Indicative budget

Module	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
5.4.1 Indirect Management with an international organisation (ITC)	7 850 000	N.A
5.9 Evaluation, 5.10 Audit	150 000	
Totals	8 000 000	

5.7 Organisational set-up and responsibilities

The project's governance structure comprises of several layers and its design is geared to promote national ownership, accountability, capacity development and sustainability. The first and highest level of the governance structure is a Project Steering Committee (PSC) co-chaired by the Ministry of Policy Planning and Economic Affairs (directly under the Prime Minister) and the EU Delegation. The involvement of this Ministry will ensure strategic guidance to the project, while facilitating coordination and communication between a wide range of stakeholders (comprising of several ministries, government agencies, sectoral apex bodies, civil society and private sector), thereby enhancing the probability of success. The detailed Terms of Reference (TOR) of the PSC shall be elaborated during the inception phase. The PSC will meet at least twice a year and ITC will ensure the functioning of the Secretariat of the PSC.

At implementation level, working groups will be established per result area and will be chaired by the appropriate local counterpart agencies, both government and private sector apex organisations/chambers of commerce. Overall coordination will be facilitated by the Department of Commerce which is designated the country focal point.

The rapidly changing political landscape and structures which may affect the implementation response involving many Government Agencies, Donors, Private Sector and CSOs is factored in. The lessons learned highlight the need for a flexible approach to make this action a success. This will be ensured through the Project Steering Committee that will as approve

annual work plans and secondly through the expert working groups. These structures will be re-confirmed during a 6-month inception phase following signature of the Delegation Agreement.

ITC will establish a field based Programme Coordination Unit (PCU), within the premises of the Ministry of Industries/Department of Commerce. This Unit will assume coordination and day-to-day management and will also extend technical support to project implementation. An important function of the PCU will be the outreach, communication and development of working relations with provincial stakeholders.

5.8 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix (for project modality) or the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation. The reports will include the implementation of communication activities and will highlight how EU visibility and communication on the project are ensured.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9 Evaluation

Having regard to the importance of the action, a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission. It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that it will align with commitments to the Doha Development Agenda. The ITC will in addition carry out a mid-term review to assess the overall progress and appropriate implementation of the project.

The Commission shall inform the implementing partner at least 2 months in advance of the dates foreseen for the final evaluation mission. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and *inter alia* provide them with all necessary information and documentation, as well as access to the project premises and activities. Indicatively, one contract for evaluation services will be concluded under a framework contract in the final year of implementation.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and

recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded under a framework contract in the first quarter of the third year of implementation.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation based on Communication and Visibility Manual for European Union External Action and in line with the Joint Visibility Guidelines for EU-UN Actions in the Field; which will be approved by the EU Delegation.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.