

CAN THE GLOBAL BUSINESS AND HUMAN RIGHTS DISCOURSE PROMOTE INTERNATIONAL TRADE AND INVESTMENT IN SRI LANKA?



The growing global trend towards promoting and protecting human rights in the business community represents a unique opportunity for Sri Lanka to integrate human rights principles into private sector operations to attract foreign trade and investment to counteract the country's economic downturn.



Sri Lanka's economic outlook

- Downgraded back to a lower-middle-income country in 2020
- Growing trade deficit - US\$7.997 billion in 2019
- The COVID-19 pandemic caused the economy to contract by 3.6% in 2020¹



Potential of Sri Lanka's export sector

- Export sector figures on an upward trajectory in 2019 - US\$16.4 billion of exports, a 5.1% YoY increase
- Main contributor: Apparel sector - US\$5.3 billion worth of exports, mainly to US and EU markets.
- Improved trade performance attributed to the restoration of the EU's Generalized System of Preferences Plus (EU - GSP+)



Growing global trend for Business and Human Rights (BHR)

- Increased commitment towards placing BHR at the centre of rebuilding economies following COVID-19
- Clear and long-term trend towards ethical consumption: 45% of consumers said they're making more sustainable choices when shopping²
- 75% of respondents said that a trusted brand is an important purchasing factor³

¹ World Economic Outlook Report, April 2021, IMF

² COVID-19: How consumer behavior will be changed, 2020 Research Report by Accenture. Survey of more than 3,000 consumers in 15 countries across 5 continents

³ Granskog et al, 2020

- * Attracting Foreign Direct Investments (FDIs) and increasing exports is a key strategy for Sri Lanka to minimize the economic slowdown
- * Increased global momentum towards responsible and sustainable business practices in line with the United Nations Guiding Principles on Business and Human Rights (UNGPs). Sri Lanka's key export markets are looking for ethical and sustainable business partners.

- Opportunity for the Government of Sri Lanka to align its strategy with the requirements of key trading partners to attract investment and grow export markets by adopting the UNGPs and integrating best practices on protecting human rights and the environment from business-related harm.

Analysis of BHR practices in key private sector industries

• Apparel Sector



Strengths

- Early champion of ethical labour practices – “**Garments without Guilt**” campaign launched in 2006, promoted the need for adopting ethical labour and responsible environmental practices by global apparel brands

Problems

- Poor labour conditions: minimum wages, confined living spaces, restrictions on unionizing and lack of social security are key areas which need to be addressed
- COVID-19 highlighted the vulnerabilities of workers in Free Trade Zones

Current Position

- Slowing growth due to key players moving supply chains overseas and risk of 700 SMEs losing markets as a result

Recommendations

- Adopt the UNGPs and streamline due diligence processes to appeal to premium brands
- Enable SME's access to global markets directly to cater for growing demands for ethical and responsive suppliers

• Tourism Sector



Strengths

- Private companies and SMEs have adopted globally recognised sustainable tourism practices

Problems

- Difficulty in enforcing labour laws and ethical practices: 90% of the tourism industry belongs to the informal sector
- Exploitation of children as sex workers
- Wildlife exploitation

Current Position

- Industry severely impacted by 2019 Easter bombings and the COVID-19 pandemic - The number of tourist arrivals have fallen by 78% between 2018 and 2020⁴

Recommendations

- Position Sri Lanka as the global destination for Sustainable Tourism by adopting and implementing the UNGPs
- Recognize sustainable businesses through schemes such as the Sri Lanka Tourism Development Authority-led National Sustainable Certification project for SMEs

⁴ Tourism Growth Trends - 1985 to 2020, Sri Lanka Tourism Development Authority

• Smallholder farming-led agriculture



Strengths

- 80% of the country's annual food production is attributed to around 1.65 million smallholder farmers (cultivate less than 2 hectares on average)

Problems

- Lack of land ownership: difficulty in accessing loans or investment to increase scale
- Lack of essential technical and support services
- Poor access to markets

Current Position

- Contributes only 7% to the country's GDP, although employing ¼ of the labour force
- Improved technical support and market opportunities for smallholder farmers through social enterprises pioneering organic farming

Recommendations

- Explore new agriculture models that safeguard farmers, promote biodiversity and food security
- Opportunity to raise awareness among smallholder farmers on protecting forests by engaging with value chain networks
- Adopt the UNGPs at the national level and safeguard the rights of smallholder farmers

• SME sector



Strengths

- Organized networks equipped to ensure ESG standards (e.g.: Good Market with >1300 vetted enterprises)
- Large percentage of SMEs accredited by the World Fair Trade Organisation and Fair Trade International

Problems

- Largely informal and excluded by policy interventions (45% of micro enterprises and 11% of SMEs are informal)
- Women-led enterprises are unable to expand due to poor access to finance and markets

Current Position

- Untapped potential: 3,000 SMEs, but contribute only 5% of Sri Lanka's exports (30% in other Asian countries)

Recommendations

- Integrate the UNGPs into existing or new policies to formally recognise best practices and help increase global market linkages

Overall recommendations to promote the UNGPs in the private sector

1. **Build a clear business case for implementing the UNGPs** focusing on quantitative research to highlight the return on investment
2. **Increase awareness of the Government of Sri Lanka and the private sector on the UNGPs** through a customized communications plan
3. **Drive greater public sector engagement** by developing more research and opinion pieces to spotlight BHR best practices in mainstream media
4. **Strengthen the capacity of the private sector** on human rights due diligence, impact measurement and reporting on BHR initiatives
5. **Support global accreditation of enterprises** by facilitating linkages with international bodies such as Fair Trade International or the World Fair Trade to help further increase access to networks and marketplaces



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