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Attracting FDI to Sri Lanka The need for investment promotion measures

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Suwendrani Jayaratne

Raveen Ekanayake



By Suwendrani Jayaratne and Raveen Ekanayake

Today almost all countries around the world, in their bid to create jobs and sustain economic growth, compete fiercely to attract foreign investment. In addition to liberalizing trade and investment policies, opening up

sectors to foreign investors and undertaking reforms to create a more business friendly environment, countries are also seen to be undertaking proactive investment promotion measures. Investment promotion and facilitation are also considered to be vital pull factors to attract investment, though not a substitute for having the basics in place. Over the past two decades or so dedicated Investment Promotion Agencies (IPAs) have emerged at both national and sub-national levels to engage in investment promotion. Investment promotion covers a wealth of services, including investor outreach, facilitation, after care, and strategy.

Investment Facilitation Best Practices

Investment Facilitation is widely seen as the most basic and cost effective activity supporting foreign investment promotion. Through investment facilitation, IPAs provide support to prospective investors during the investors' location selection and decision-making processes. Good facilitation can influence an investor's location choice. By providing fast, up-to-date, and accurate information about its location, an IPA can encourage potential investors to consider lesser-known investment destinations and reduce their perceptions of risk. Delivering consistently high-quality facilitation helps to make the location more competitive.

If designed correctly, IPAs can deliver substantial savings in time and costs for investors by providing seamless, integrated and easily accessible points of contact. Many host governments seek to alleviate the administrative burden on potential investors through a one-stop shop, which provides information on the necessary steps to start a business in a country – in effect a 'tourist office for investors'. In addition to helping investors navigate administrative barriers, once investors are seriously interested in investing in a country, the "process of country visits, negotiations, advice, legal and regulatory matters, meeting existing investors, financing, location choice, property, recruitment, training, and post-investment facilitation all play a key role in investment facilitation".

Investment Facilitation in Sri Lanka: What More Can Be Done?

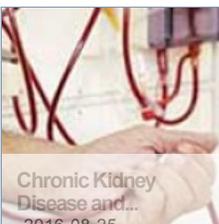
The Board of Investment (BOI) of Sri Lanka is the central facilitation point for investors seeking to invest in Sri Lanka. IPS selectively interviewed a number of BOI facilitated investors to gain in-depth insights into how current services can be improved, in view of attracting more investors and improving post-investment services. The following areas for development were identified based on their feedback and should be considered given that the current Government has placed a significant emphasis on driving FDI and aims to attract FDI amounting to US \$ 5 billion within the next three years.

Limited power and influence of the BOI in mandating the relevant agencies has made the BOI more of an intermediary than a facilitator. Investors are often referred to the relevant ministries/agencies and the investors have to get the relevant approvals from these authorities. More clout over agencies to negotiate on behalf of investors would make services of the BOI more attractive.

Policy stability is crucial for investors as predictability and clarity of policies translate into trust for many. The need for the BOI to negotiate on behalf of the existing investors with the government especially when there are changes to policies affecting the BOI companies, their investments and decision-making was highlighted, as ad-hoc policy changes can be counter-productive.

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The ability of the relevant agencies to provide detailed and comprehensive investment-related information in a short time span was identified to be crucial for potential investors. These information needs are not limited to common macro-economic and other data which are publicly available, but more importantly on project-specific information such as the availability of raw material, availability of related technology, and information on possible joint-venture partnerships. Furthermore, having both the promotional material as well as the supporting documents (i.e., brochures on environment clearance, etc.) in key foreign languages (i.e., Chinese, Japanese) would be beneficial. This applies to the BOI website content as well, which is currently available only in English. The timely publication of Annual Reports would be another source of rich information for potential investors.

The BOI has a contractual obligation of providing employees to some of the companies. However, the BOI job bank is currently not functioning and as a result companies have resorted to alternative sources to hire workers. According to companies, hiring workers is a challenge due to the dearth of workers, new trends in youth employment (i.e., preference for temporary jobs compared to permanent jobs) and preference for desk jobs. The need to restart the BOI job bank as well as the necessity of providing more incentives to attract workers to the zones were underlined as key in attracting more investors.

Consistent feedback on services provided by the BOI and relevant agencies would provide better insights into service areas that can be improved. At least an annual company survey on the BOI services and areas for development would be beneficial. While the operations staff of companies maintain communication with BOI officials especially in the zones in their day-to-day operations, the platform for communication between the managerial staff and the BOI was identified to be minimum and one that was necessary.

There was a perception among some interviewed companies, that in the past, some countries were overlooked due to larger investments offered by others. In the long-term, it would be important for Sri Lanka to consider the geo-politics in the region and offer large projects to a consortium of investors from different countries, where possible.

The need for a well-researched promotional plan, identifying unique methods of attracting investors, having up-to-date and advanced data bases, and continuous and pro-active follow-up with investors are some of the other areas that Sri Lanka's investment promotional agency can focus on. Furthermore, capacity building of officials including proficiency in key languages where business meetings can be carried out with little help from translators, and keeping abreast of investor facilitation services offered by competitor countries would help the agency be more competitive in the services it offers.

(Authors Suwendrani Jayaratne and Raveen Ekanayake are Research Officers at the Institute of Policy Studies of Sri Lanka. To view the article online and comment, visit the IPS blog 'Talking Economics' – www.ips.lk/talkingeconomics)

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