

NEW FOREIGN INVESTMENT STRATEGY

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Introduction

The Board of Investment of Sri Lanka (BOI) was established in 1978 to stimulate and broad base the growth of the Sri Lankan economy. Its specific objectives were to create employment, generate net foreign exchange earnings, and accelerate skills transfer.

In the years since, BOI enterprises have exported goods to the value of 2.25 trillion rupees, in order to do which 1.67 Trillion rupees worth of Capital Goods and Raw Material were imported. There are currently around 1750 commercially active BOI projects, effecting over 65% of the country's exports, and providing employment for 434,000 direct and 651,000 indirect workers. Cumulative FDI stock at end 2004 stood at 209 Billion rupees equivalent, which when combined with 111 Billion rupees of local investment, yields 320 Billion rupees equivalent of Total Investment stock.

Despite this substantial contribution, considerable work still needs to be done to address the continuing challenges and needs of the nation. Added to the deepening fiscal deficit and rising inflation are the post-tsunami effect, the phasing out of the Multi Fibre Arrangement, and the mounting pressure of lower pricing from China in the marketplace.

Under these conditions, Total Investment will need to swell from a current 24% of GDP to nearly 35% to keep pace with a GDP growth target of 8% by 2008. This sets us an FDI target of around \$ 600 million in 2008 (assuming a constant exchange rate, and proportion of FDI to domestic private and public investment). The required compound growth rate of around 35% per annum of FDI from 2004 will result in an increase of FDI inflow as a percentage of GDP from 1.2% to around 1.6%.

In addition to attracting and facilitating the projects required to meet the above goal, the BOI will also address its role in increasing State revenue collection and strengthening macro-economic fundamentals. A study done by the Board recently estimates over 200 Billion rupees revenue foregone through fiscal incentives offered by the Board to promote investment, mainly in the form of duty concessions on raw materials and capital goods, followed by CIT holidays. The principle effect of these concessions has been to increase domestic private investment to the level of approximately twice that of FDI inflow on an annual basis, while their impact on FDI itself, however, has been debatable. The Board is cognizant of the many studies and country examples where good governance, high quality infrastructure, efficient and transparent public service, strong legislation and speed of action have had a dominant effect over fiscal incentives in the investment decisions of major international companies, and has adopted a completely revised strategy aimed at enhancing the climate for the type of investments Sri Lanka needs at this time of her development.

ACTION PLAN FOR 2005 - 2008

BOI Re-positioning

As the country's apex Investment Management Agency, the BOI needs to re-define its strategic position in the country's development programme, leveraging on its acknowledged strengths and working on areas in which the organization has lost effectiveness, either through internal inefficiencies or changes in the surrounding legislative and procedural framework.

Competitiveness is of paramount importance in the global context and one of the building blocks in achieving a competitive edge is to develop and maintain a strong service culture. This was taken into consideration in evaluating the role the organization needs to play to achieve its broader objectives, and the key elements that will drive the BOI's contribution are briefly discussed below;

Revised Act 2005

This act will address contain several improvements and updates to the prevailing GCEC Act of 1978 and 2002 Bill, and will achieve the following;

- Give the BOI increased commercial and fiscal autonomy and improved effectiveness. It will ensure that the Board is a stakeholder in all policy decisions that may impact on the country's investment climate
- Clearly define the organisation's Regional Strategy, with an emphasis on ruralisation of industry, linking global and local economies through commercial partnerships, and the transfer of knowledge and skills to foster local entrepreneurship.

New Regulations & Policies

Existing Regulations will be re-visited in the context of current socio-economic needs and aim to achieve the following;

- Promote sector/region specific investment by a structured incentives matrix. A new segment of local micro-investor will be introduced in line with the Government's Economic Policy Framework objectives
- Reduce revenue loss to the state by revisiting the mechanisms of the incentives offered

- The Board will adopt new Investment Policies that accommodate the changing trends of business and provide more opportunity for growth, while at the same time reducing the opportunity for commercial misuse.

New Structure

The Board itself will be structurally re-aligned to achieve the following;

- Efficiency, transparency, stakeholder-aware
- Provide improved service to existing investors
- Drive more effectively the implementation of nationally important projects

New Strategy

The BOI has adopted a completely new marketing and promotional strategy. However, the implementations of the other elements of the 3 years plan above are needed to ensure its success.

From mid 2004, we placed a moratorium on all general promotion missions overseas because studies showed that in 2003, only 6% of projects commenced as a direct result of the BOI's own promotional campaigns and missions. 67% of FDI in 2003 came as a result of expansions of existing investors, and the rest was a result of individual companies' own research and local linkages. This policy will continue into 2005, in which a more focused approach has been put in place, targeting investors down to specific companies.

The new focused strategy has also resulted in the creation of several regional "pre-packaged projects, where land has been identified and released, market studies have been performed and all clearances have been obtained. These allow the products to come to the market much sooner, increase the quality of the bids, and accelerate rural development

The final element of the new strategy is to leverage Sri Lanka's natural advantages, both geographically and resource-wise. We have been positioning Sri Lanka as a logistics hub for years, but much work is yet to be done, particularly in infrastructure, before we can justify this claim. If this work, together with the legislative and policy steps required to make Sri Lanka a true logistical hub are accelerated, we could develop along the lines of one of the 10 major logistic hubs in the world, located in the USA, Brazil, UK, Europe, Israel, Dubai, South Africa, Hong Kong and Singapore. As there is currently no such hub in South Asia, the time to act is now.

Priority areas of the BOIs 3-year Development Strategy

- Investment Marketing & Retention
 - Maximize expansions, ensure investment quality, seek appropriate technology for Sri Lanka
- Infrastructure Maintenance & Expansion
 - Stimulate overall economic growth (CKE, CK Rail, CM highway, power)
 - Stimulate Regional Growth – Structured Projects
- Image Building & Positioning of Sri Lanka
 - Maximise post-tsunami exposure
 - Target brand name investors
 - Overseas stock market – listing
 - Invest Sri Lanka Campaign (quality & compliance)
 - Logistics Hub

I. Investment Marketing & Retention

The BOI's investment retention and marketing will focus on:

INDUSTRY SECTORS

- Thrust manufacturing sectors
- Natural Resource Development / Value Addition
- Knowledge Based (Biotech/ Pharmaceutical / Medical etc)
- Service Industry (Theme tourism / BPOs etc)
- Location Based (Infrastructure/Logistics hub/ Entrepot Trade)
- Structured projects (New BOI initiative to take development to the regions)

TARGET COMPANIES

- Existing Enterprises – Reinvestment & Expansions (Current projects)
- Fortune & Forbes 500 companies (Greenfield)
- UN Global Compact Companies (Good practices /Policies) (Greenfield)
- Companies in target sectors (Value addition / technology transfer) (Current & Greenfield)
- Local companies capable of expanding to service the export market (Current & Greenfield)

- Backward & forward linkage companies of existing industries (Current & Greenfield)

STRATEGIES

- International Events (Outbound Activities)
 - ✓ 6% of investment from missions in 2003
 - ✓ Target Specific
- Visitor programmes / Missions (Inbound activities)
 - ✓ High Profile
 - ✓ Event Oriented
- Reinvestment Campaign
 - ✓ contented investors
 - ✓ improved labour/industrial relations
- Regional Awareness / promotional programmes (Mobilization of local Investment)
 - ✓ Regional Booklets
 - ✓ National Investors Handbook
- Industry Specific Campaigns (Target sectors)
 - ✓ Local investors
 - ✓ Foreign investors
- Tapping the Diaspora
 - ✓ Policy & Awareness Campaign
 - ✓ Attraction Campaign
- Corporate Alliances / Sponsorships (Financial Institutes / Bilateral chambers / International Organizations)
- Promotional Publications & Translations.
- E- Strategies
 - ✓ Web-based
 - ✓ E-Research
 - ✓ E-Targeting
 - ✓ E-Marketing
 - ✓ E-Servicing
- Business Intelligence Unit
 - ✓ Overseas & local company research

II. Infrastructure maintenance & development

Infrastructure is the key driver of economic growth and the BOI will aggressively pursue this area of focus. AN IPA

- Improving service to existing investors
- Facilitate key national projects

- CKE, CME, CKRail, Power etc

- Establish of offshore shopping villages
 - Peliyagoda & Katunayake
- EPZs in the Regions to stimulate growth
 - Trincomalee/Kappalthurai, Jaffna, Hambantota etc
- Dedicated Backward Linkage Zones
 - Horana, Biyagama
- Structured Infrastructure Projects for the Regions
 - Hospitals, vocational training institutes, agriculture
- Semi polluting industry zone
 - Puttalam Buffer zone
- Global Logistics Hub – Colombo, Fort

III. Image building & positioning of Sri Lanka

New activities of positioning and creating a positive international image of Sri Lanka as a destination for investment, tourism and trade are envisaged as part of the BOI's new vision.

- Attracting Quality (brand name investors)
- Promote Sri Lanka's Compliance (Labour, environment, IPR & Copyright)
- Overseas Stock Market listing
- InvestSri Lanka Campaign
- Positioning of Sri Lanka as the Trading & Logistics Hub for South Asia (Leveraging on ILFTA, PLFTA & CEPA)

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