'Invest Sri Lanka' initiative can drive the next wave of FDI: BOI Chairman

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BOI Chairman Dinesh Weerakkody

Board of Investment (BOI) new Chairman Dinesh Weerakkody says Sri Lanka's value proposition is key to attract investors that can foster job creation and expansion of the economy. "The National Single Window System is a must and finding the right mix of techniques and organisation to do the promotion is key," emphasises Weerakkody in this interview. Here are excerpts.

Q: What are the measures taken by the BOI to increase FDIs in the country in light of the current economic crisis? What are the bottlenecks stifling foreign investments and how are you addressing them?

If you look at most surveys, the top three factors influencing investment decisions are political stability, macroeconomic stability, and a country's regulatory and business environment. So as a country we need to focus on: Effective economic structures, shorter lead times for approvals, consistent trade policies, ease of doing business indicators and online markets. The BOI value proposition needs to get transformed in order to compete with other FDI destinations. Our digitalisation efforts must offer multiple opportunities for industries to pivot and embrace e-commerce, allowing companies to reach out to new markets but at a lower cost. Essentially, creating new business models to thrive.

We are looking at targeted Initiatives to get from $ 1 billion in 2022 to $ 2 billion in 2023. Specifically, we are looking at: Attracting 100 technology services companies with a new product, a targeted program to get 50 existing BOI companies to reinvest, setting up industry advisory councils for the four thrust sectors for leads, policy tweaking and promotion, digitalisation of key investor services, aggressive promotion of the destination, key account management and modernisation of existing zones to meet with international green standards.

Also there is a large number of new sectors which are emerging, associated with digitalisation and with the new economy. Also the traditional sectors have new elements coming out as sub-sectors. Whilst the larger sectors like petroleum, power, infrastructure, healthcare, manufacturing which bring you the big FDIs. However the sectors of the future will be the new sectors which are now emerging.

Q: President Wickremesinghe recently stated that he is looking at setting up a new institution replacing the BOI and the EDB. What is your opinion? Would that mean new laws and disbanding institutions?

: Certainly we need serious reform. If not we will continue to do more of the same and get the same results. For a start we need an initiative to bring all key agencies involved in country investment promotion to work together to showcase SL talent, products, quality of life, legal framework and location advantages and act as a single window for all investments. And for better use of our limited resources. We are focusing on an Invest Sri Lanka initiative to brand Sri Lanka as an investment destination, improve investor care, access new markets for our products and services, communicate better with the world and grow our market via new trade arrangements.

Q: How is the BOI dealing with market size disadvantages?

Even though Sri Lanka's internal market size is small, with a population of around 22 million, Sri Lanka has signed three free trade agreements with India, Pakistan and Singapore: Sri Lanka-India FTA, Sri Lanka-Pakistan FTA, and Singapore-Sri Lanka FTA, giving 1.5 billion consumer market access on a duty-free basis. Sri Lanka is also a member of South Asian Free Trade Agreement (SAFTA), Asia Pacific Free Trade Agreement (APTA) and the country is eligible for duty free access to 27 EU countries under EU GSP+ and also is eligible for duty free access to UK under UK DCTS.

Q: Sri Lanka needs to offer attractive tax incentives to increase FDI; what is the way forward?

Tax incentives have traditionally been used by governments as tools to promote investments to targeted sectors. They are preferential tax treatments that are offered to selected sectors/locations and take the form of exemptions, tax holidays, credits, investment allowances, preferential tax rates and exemptions from import tariffs (or customs duties), and deferral of tax liability. The generalised use of tax incentives has been justified by the need to correct market inefficiencies associated with the externalities of certain economic activities, target new industries that are subject to tax competition and to subsidise companies during their downturn.

Most developed countries use tax incentives to promote research activities, export activities, and support the competitiveness of their enterprises in the global market; while developing countries use them to attract foreign investment and develop key industries. Tax incentives are still an essential component of the policy mix employed by nations to attract more foreign investment, despite the lack of hard evidence supporting its total effectiveness.

Q: How crucial are tax incentives for a country like Sri Lanka?

Tax incentives have been widely used by the competing countries to promote investment and Sri Lanka is no exception to this. Incentives, especially fiscal incentives have been associated with higher investment in several countries in the region where incentives are granted for selected target sectors. With the new amendments to the Inland Revenue Act in 2022, Sri Lanka has moved away from granting tax holidays, concessionary CIT or Reduced CIT and retained only the Enhanced Capital Allowance that will be available for investments of more than $ 3 million on depreciable fixed assets (ECA for investments less than $ 3 million will be applicable only up to 2024).

Further, a reduced CIT rate of 14% applicable for most of the sectors including exports of manufacturing goods have been increased up to 30% for those who have signed agreement after the enactment of new Inland Revenue Act in 2018. However, most of the peer countries grant tax holidays ranging from 2-20 years in addition to granting concessionary CIT or Reduced CIT. So getting the right mix is crucial for our future success.

Q: Given our forex crisis, what are Sri Lanka's options if overall incentives become uncompetitive?

Some experts are encouraging governments to move away from incentives-based means of competing to attract FDI in favour and focus more on rules-based means of competing. Generally tax incentives appear to entail a revenue loss to the Government, to ascertain the real benefit of granting incentives for investments to attract FDI, all the contributable factors such as export growth, direct and indirect employment generation, infrastructure development and technology needs to be taken into consideration. Enhanced capital allowances will add to the national infrastructure stock and accelerate technology transfer. In order to attract investment. Sri Lanka must use every tool at its disposal.

The competing destinations are still providing a considerable amount of tax incentives; thus, Sri Lanka cannot entirely eliminate tax incentives for investments. However, moving away from broad tax holidays in favour of more focused incentives makes business sense, such as reduced/concessionary CIT rates, accelerated depreciation, reinvestment allowances, allowance for increased exports, incentives for skills development, technology upgrade. However top tier FDI investors want stable, predictable and transparent rules. ESG focused investors is another clear possibility.

Many of the governments that are most successful in attracting FDI are also among those that best meet the requirements for good governance and credibility to incentives programs in the eyes of investors, by making them likely to be seen as sustainable. However, aftercare service, professionally responsive to inquiries and competitive staff possessing the best knowledge of new-age industries and language diversity are key competencies to attract and retain FDI. There are lots of lessons from the banking industry that can be adapted to attract and retain investments.

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