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# A POLICY TO ATTRACT MORE SOFTWARE DEVELOPMENT INVESTMENTS TO SRI LANKA

By

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# DECLARATION

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***UOM Verified Signature***

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# Abstract

Software development is nothing new to Sri Lanka or for the other regional countries. Software development has become one of the major off shoring opportunity opportunities in the region over the years. India, China, and Philippines are leading the way with software development while software exports have become one of the main exports generating foreign currency to these nations. Many infrastructure developments have been done and are still being done to facilitate the changing demands of software development. Industry giants in software development operate from these countries creating a lot of economic benefits to these countries.

Sri Lanka on the other hand, is also considered a main location for software out sourcing. Over 170 software development companies operate in Sri Lanka. However, due to some issues, these companies face hardships in operating. These factors have also negatively influenced new software development investments to the country. Although software development could be a major export in the country, it still has not reached the expected levels of growth.

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It is the author's aim to find out the real problems faced by the Sri Lankan software companies. Additionally, new measures to attract new software development Investments and ways of eliminating the hardships faced by the companies will be looked in to. By analyzing these, the author's objective is to develop a Policy Document to attract and increase software development investments to the country.

# Executive Summary

Software development is an arena opened with the rapidly growing trend of off-shoring which began decades ago. Software exports, a main revenue generator enriching the economies have opened new horizons for the Asian countries. Sri Lanka software exports account for USD 80 million and the industry employs 7500 employees.

Compared to the other countries in the region, Sri Lanka seems to have a definite advantage in various aspects. Sri Lanka boosts some of the cheapest labor and office rental costs in the region. Sri Lanka possess a competitive & one of the fastest developing telecommunication industries and the island is very poised to deliver any telecommunication needs to its customers. Sri Lanka is considered as the country with the highest literacy level in the region and an unmatched legal framework offers the best for its clients.

Developing software development off-shoring opportunities should be a high priority for a development-oriented country like Sri Lanka. Not only will this development create jobs and export opportunities, it will also enhance incentives on education, technology and knowledge.

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Even though Sri Lanka has taken its initial and most vital steps required for software development, the industry has not reached the expected growth over the years. Software exports have not been considered as a main export of the country. Sri Lanka continues to suffer from relatively high telephone charges and Sri Lankan businesses are said to be paying some of the highest electricity costs in the world, hindering the software development investments to the country. The rigid labor regulations too presents a significant cost where high severance payments further inhibits investors.

Due to the size of the population, the country is not in a position to offer sheer numbers of software development resources. Furthermore Sri Lanka continues to under invest in its education system, and the amount of resources devoted to university education in Sri Lanka stands at 1.58% of the total government expenditure.

A successful strategy to promote software development and to uplift the industry by providing solution to the existing issues prevailing in the industry is the main objective of the following research. Sri Lanka to look into its unfinished agendas in telecommunication and electricity to minimize the cost factor. Better tariff schemes for investors and faster data links may prove vital in this journey. Sri Lanka should work on improving efficiency of its government procedures and should work on resource development with higher budgetary allocations to education. The government should consider mobilizing the Sri Lankan diaspora investing in the country with additional privileges.

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# Abbreviations

| | | |
|---|---|---|
| SLT | - | Sri Lanka Telecom |
| CDMA | - | Code Division Multiple Access |
| GDP | - | Gross Domestic Product |
| LAN | - | Local Area Network |
| SWD | - | Software Development |
| FDI | - | Foreign Direct Investment |
| PCO | - | Public Call Office |
| SME | - | Small and Medium Enterprises |
| VAN | - | Value Added Network |
| NEDFC | - | North East Development Financial Corporation |
| BSP | - | Bangko Sentral ng Pilipinas |
| BOI | - | Board of Investment |
| LDA | - | Less Developed Area |
| ITH | - | Income Tax Holidays |
| NCR | - | National Capital Region |
| MPLS | - | Multi Protocol Label Switching |
| FTTH | - | Fiber To The Home |
| TRC | - | Telecommunication Regulatory Commission |
| VOIP | - | Voice Over Internet Protocol |
| RFID | - | Radio Frequency Identification |
| FOSS | - | Free and Open Source Software |
| IPR | - | Intellectual Property Rights |
| ICT | - | Information and Communication Technology |
| ICTA | - | Information and Communication Technology Agency |
| NASSC | - | National Association of Software and Service Companies |

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