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Sri Lanka

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Introduction

The ICT Agency of Sri Lanka (ICTA), which is a government agency funded by the World Bank and many other donors, was established in July 2003 as a company, fully owned by the Government of Sri Lanka. It is empowered by law to be the policy-making body and executive agency for IT in the country and to take the lead as implementing organisation for the 'e-Sri Lanka Initiative', a multi-programme strategy using IT for economic development and poverty reduction. ICTA functions under the Office of H.E. the President, which provides it with a unique position to deal with inter-ministerial barriers and achieve results.

The importance of the IT industry is very clear: it is about creating jobs, foreign direct investment, elevating the society out of poverty, a vehicle for economic growth in the country, and all the benefits that will come with that. Sri Lanka has a fairly high level of youth unemployment although overall unemployment is quite low, which is great for an industry that needs a lot of young people in its workforce. It is a transition industry in the sense that it creates skilled people who take those skills into other sectors and help those sectors to grow.

In Sri Lanka, the IT industry is a fairly mature one having been around for more than 30 years. For example, the London Stock Exchange Group recently bought out a Sri Lanka company that automates stock exchanges around the world, and we have one of the top three enterprise resource planning (ERP) companies (industry and financial systems). The industry in Sri Lanka is very different to what you find in India or the Philippines: most of their industry is focused on services, whereas most of ours is actually focused on products. We also have more than 300 companies in IT and related services in Sri Lanka.

The ICT agency looks at e-government and societal improvement from a holistic point of view using infrastructure, development, connected government, content development and private sector development. There are a number of other projects that are being implemented in Sri Lanka for automation and for the improvement of society, using IT as a development tool. This chapter looks at how all of these activities are being reflected in some of the statistics and how people perceive them.

Sri Lanka's current position

The Global Information Technology Report, published annually by the World Economic Forum, uses an index called the Network Readiness Index (NRI), which the World Bank uses to measure the relative readiness of countries in terms of IT development. There is no surprise that the top-ranked countries in this index since 2002/2003 are the leaders in the field, namely Denmark, Finland, Iceland, Singapore, Sweden, Switzerland and the US. In that sense, the assumption is that the index is fairly accurate. (From an economics and statistics point of view, what indexes portray and what it actually means is always questionable.)

Table 17.1 shows the relative position of Sri Lanka among other countries in the South Asian Association for Regional Cooperation (SAARC).[1] The percentile rankings show that Sri Lanka has been improving year on year, which means that the country is doing fairly well in terms of its overall strategy – holistic development using IT.

Table 17.1. SAARC readiness in IT development, by country (2002/03 – 2008/09)

Year	*2002/03*	*2003/04*	*2004/05*	*2005/06*	*2006/07*	*2007/08*	*2008/09*
Countries	**82**	**102**	**104**	**115**	**122**	**127**	**134**
India	–	45	39	40	44	50	54
Sri Lanka	**54**	**66**	**71**	**83**	**86**	**79**	**72**
Nepal	–	–	–	–	108	119	127
Bangladesh	–	93	100	110	118	124	130
Bhutan	–	–	–	–	–	–	–
Maldives	–	–	–	–	–	–	–
Pakistan	–	76	63	67	86	84	98
Afghanistan	–	–	–	–	–	–	–
SL – Percentile Ranking	66%	65%	68%	72%	70%	62%	54%

Source: Network Readiness Index (NRI), Global Information Technology Report

Sri Lanka's ranking on the A.T. Kearney index,[2] which looks at industry indicators such as financial attractiveness, people skills and business environment, jumped from 29 in 2007 to 16 in 2009. The data for this was actually collected before the end of the civil conflict in Sri Lanka, so the country's 2011 ranking is expected to rise even higher, depending of course on how well our competitors perform.

In 2010, Sri Lanka's exports of IT and related services stood at about US$300 million. We have set a target of achieving US$1 billion by 2012, although we might fall short of that because of various other factors outside our control (which I mention below). Regarding the workforce, about 25,000 people work in the IT and BPO export industry directly, and about another 25,000 work in government, the private sector and other areas in the domestic industry.

Education

To make all of these developments happen, the education system has to provide the right type of raw material. Sri Lanka invests fairly heavily in education: there are about 15 government-owned universities, about four million students in schools, and, like many other countries in this region, education is 100 per cent free right up to university level. Our main focus is on improving IT literacy around the country and across all age groups. (Sri Lanka's general literacy level is in the mid-1990s, and has been so for many years because of the education system.) According to a report by the Department of Census and Statistics, in 2009 IT literacy for the population (aged between 5 and 69 years) stood at about 28 per cent. Our target is to achieve 50 per cent by 2012, and based on current trends we expect to surpass this number.

With regard to using IT in education, we look at four different areas: access, connectivity, skills development and content. Our emphasis here is on training schoolteachers. About half of the schoolteacher population (100,000 out of 200,000) is already certified in IT skills, and about 10 per cent of the total population who are skilled beyond basic IT training and capacity, are working as masters and technicians and managing their local operations independently. Around US$200 million has gone into setting up infrastructure in schools, connecting schools, and putting school networks and infrastructure in place. Another US$60 million is now going into building content and materials. There are also a lot of smaller development programmes funded by local governments.

However, there are still some critical problems related to some of the ratios and numbers related to school students, teachers and labs in schools. There are about 9,000 schools in the system. About 3,500 already have computer labs and the goal is to increase this figure to 6,000 by 2012. Schools vary in size from small ones with perhaps 200 students to those with about 12,000 students. It varies across the sector, as the number is sometimes not representative of the population that actually has access to computers. Other projects range from children using their own personal computers to providing students with laptops or small PCs.

Talent pool

In the school system, every year about 400,000 students go into 10th Grade and about 200,000 students reach advanced level. The universities turn out only about 20,000 graduates, which is a problem for us: every potential investor wants to know about the number of graduates when they are looking at locations. Substantial resources are going into external programmes including the setting up of a business education network with 40 centres across the country, each with a minimum of 10 Mbps links, and online university training courses and certifications. Sri Lanka has the largest population of CIMA qualified accountants outside the UK, where it originated. CIMA is a management accountancy qualification that is also applied to the legal profession

and various other professions, mostly aligned with the British and European systems. Talent is available, but we have problems with the number of graduates coming out of our system.

Social infrastructure

Telecoms

Sri Lanka has a very vibrant telecommunications industry. Most software companies provide services and products for the telecoms industry, and some run networks – such as billing, network operations, Short Message Service (SMS) gateways, value-added services and infrastructure platforms – in Cambodia, India, Pakistan and parts of Africa. Telecoms are very strong in Sri Lanka, with almost 100 per cent coverage of the population mostly driven by mobile, as with most other developing countries.

Bandwidth

In terms of international bandwidth, there is a maze of five cables in Sri Lanka. This has created extremely high competition and low revenues per user (RPU) for the telecoms operators. Even in the mobile segment, the telecoms RPU for a mobile operator is at about US$3 per person per month. This is probably even lower than in India, which has a population of a billion. The provision of telecoms as a commodity in this way is not ideal in Sri Lanka, but that is the situation at the moment.

Broadband

Currently, broadband rates are fairly compatible and competitive in Sri Lanka. For domestic use wired Asymmetric Digital Subscriber Line (ASDL) broadband is less than US$5 per month and High-Speed Downlink Packet Access (HSDPA) is about US$2.4 per month. Corporate rates are also coming down, although not as low as in India, where broadband is basically a commodity.

The government is building the National Backbone Network, for which the ICT Agency and the Telecoms Regulator have the lead. The network entails taking a glass fibre backbone into the deep rural areas. Due to the telecoms density and wide coverage in Sri Lanka, the telecoms companies have already built metro-Ethernets and glass fibre networks, but the National Backbone Network goes beyond them into the areas considered to be commercially unviable. This project, by taking broadband to another level, will bring down the cost of broadband even further as the number of users goes up.

The latest technologies are commercially available in Sri Lanka. Many telecoms operators use the country as a test site for new technologies because it is a very compact place and the whole exercise – from infrastructure to deployment to marketing – can

be more easily managed. Some of the IT companies have benefitted because they provide products and services to this industry.

Facilities

Most of Sri Lanka's IT industry is not centralised in a particular IT park or location: it is dispersed all over the country. Various facilities are available including a private IT park with about 600,000 feet already being occupied. It projects that about 1.2 million square feet will come into operation by 2012, and by 2015 this will more than double to about 3 million square feet. This IT park is a wholly commercially driven exercise.

Power is not an issue in Sri Lanka. There is a good supply of hydropower and thermal power, and the government is adding 300 gigawatts of coal power. The government is also commissioning several clean energy projects.

Incentives

The problem of large corporations moving from place to place and exploiting populations in search of more and more incentives is one that happens mainly in developing countries but also takes place in developed countries. For instance, Nokia moved from a city in Germany because some incentives were stopped after a certain period. A few countries, like South Africa, do not give tax breaks but Sri Lanka does have incentives, which are on offer through the Board of Investment. The ICT Agency manages the ICT Capacity Building Programme, which looks at financing or subsidising companies based on their capacity, quality improvement, business development and other such factors. About 200 companies have benefitted from these programmes. We are seeking to target and focus our efforts in these areas going forward.

Conclusion

In the context of outsourcing potential and the amount of work that is available, the dynamics of the game changed in the global economic crisis of 2008. There were companies that went bust and companies that downsized; jobs were lost, unemployment rose and poverty increased in the developed world. Situations arose in which the global majors were moving down into different customer segments; people who previously did not touch contracts below a certain value started moving further down and developing their capabilities in servicing those segments. There is now an increasing focus on targeting SMEs and niche segments on platform-based BPOs, to which they are trying to sell their service offering.

Recently things have been much better and the talk is about 'green shoots of recovery'. Investment promotion agencies need to look at where these recoveries are taking place;

where and in which segments the job creation and growth is happening. This has direct implications for the way they promote and market the industry going forward. On the other hand, according to TPI magazine (2009)[3], in the fourth quarter of 2009 the BPO-ITES industry shrank by 40 per cent globally and discretionary spending on IT projects virtually froze. Intense competition is a reality right now.

This does not mean that all is doom and gloom; it is an opportunity to take a fresh look at both new and old customers. Companies are looking at less complexity in their servicing operations. The teams that work in IT operations, and who are sourcing operations within the companies, are increasing their maturity in that particular space. The role of advisors to companies in outsourcing operations is shifting. Innovations like multi-sourcing and cloud sourcing are creating a different spin in all of this. Captive versus third-party companies is another area that people who try to promote this industry should look at. Also bear in mind that government debt in developed countries is rising while unemployment is still not coming down. This means policy shifts can be expected regarding government incentives and the way that they try to stimulate their economy (and create jobs). These are factors to look at when formulating and marketing our strategies.

The good news is that cost cutting is still king. If we are able to cut costs for the customer – which means we need to understand the customer and offer value year on year – then we still have a place. It is a case of finding that right mix to offer to the right set of customers, and to be able to cater to their specific requirements. That will determine our success as investment promoters in this particular space.

Notes

1. SAARC members are: Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.
2. Online available: http://www.atkearney.com/index.php/Publications/globalization-index.html
3. TPI (Trade Production International). 2009. Fourth quarter. Available online: http://www.tpimagazine.com/